

9 February 2010

**Velosi Limited (“Velosi” or the “Group”) announces that it has acquired
the Velosi trading name in Malaysia and entered into a
licensing agreement with Velosi Malaysia
and
trading update**

Highlights

- Velosi has acquired the Velosi trading name in Malaysia for £4.34 million, to be satisfied by the issue of up to 4.76 million ordinary shares.
- Simultaneously, Velosi has also signed a licensing agreement with Velosi Malaysia under which it will receive an annual license fee
- Under the License Agreement Velosi Malaysia will continue to operate under the ‘Velosi’ name and will henceforward be able to draw upon Velosi’s more extensive expertise, services and accreditations
- The two businesses will now be able to work closely together, offering clients in Malaysia a significantly broader range of services under the one brand
- The License Agreement will be immediately earnings enhancing for the Group and is expected to be mutually beneficial to both the Group and Velosi Malaysia
- Trading in line with expectations for 2009; anticipate continued growth in 2010

Introduction

Velosi Limited, the AIM listed provider of asset integrity, quality assurance, quality control, engineering and HSE services to major national and multinational oil and gas companies, is pleased to announce that it has today entered into an agreement to acquire the Velosi trading name in Malaysia (the “**Trade Name**”) from Mohamed Ashari Bin Abas (“**Mohd Ashari**”) and Dato Mohd Jai Bin Suboh (“**Mohd Jai**”) (together the “**Vendors**”) for a consideration of up to RM23.3m (£4.34m) (the “**Consideration**”) (the “**Trade Agreement**”), to be satisfied by the issue of up to 4.76m new ordinary shares of US0.02 each (the “**Consideration Shares**”) based on the weighted average closing middle market price of 91.25 pence per share for the three business days prior to date of the Trade Agreement dated today.

In addition, the Group has also entered into a separate agreement with Velosi (M) Sdn. Bhd. (“**Velosi Malaysia**”) under which the Group will license, on an ongoing basis, the Trade Name and intellectual property of the Group to Velosi Malaysia, in return for Velosi Malaysia paying an annual licensing fee to the Group (the “**License Agreement**”). As a result, Velosi Malaysia will continue to use the ‘Velosi’ name. The annual licensing fee payable to Velosi is based on a percentage of Velosi Malaysia’s audited annual profit before tax from operating activities (“**PBT**”), which the directors of Velosi (the “**Directors**”) estimate will be in the range of approximately 5.0 to 7.0 per cent. of Velosi Malaysia’s annual revenue.

Background to and reasons for the agreements

Velosi Malaysia was incorporated in April 1982 and was historically the parent company of the wider Velosi group. Whilst Velosi Malaysia concentrated on building strong client relationships and further securing its place as a leading provider of quality assurance and quality control services to its clients within the Malaysian oil and gas sector, the Group expanded globally and went on to acquire majority stakes in several specialised industry players, thereby increasing its existing market share and expanding its service

offering. In their pursuit to fulfil their respective agendas, the Group and Velosi Malaysia have nevertheless continued to maintain a close working relationship on a number of client projects.

The Group and Velosi Malaysia are now in a position to further strengthen their relationship by eradicating the restrictions that once limited the geographical boundaries to which Velosi and Velosi Malaysia operated. The License Agreement will provide Velosi Malaysia with access to the Group's global market network and, in turn, will enable the Group to extend its network to the Malaysian oil and gas sector.

The relationship will open up new markets for both parties within Malaysia and the Group will be able to utilise Velosi Malaysia's experience and insight on the Malaysian market, as well as to expand via Velosi Malaysia's extensive list of well known clients. Velosi Malaysia will also be able to expand its geographical reach and further be in a position to offer a range of services over and above its present capability. As a consequence, we believe the License Agreement will benefit both parties.

Velosi will, amongst other things bring specific expertise such as: technical information; business and operating systems; and, engineering and specialist software systems (e.g. specialized NDT, Asset Integrity Management Tools, and Assignment Management Information System). In addition, Velosi Malaysia will be able to take advantage of international licenses and worldwide accreditations registered to Velosi. These will all be immediately available to Velosi Malaysia.

Information on Velosi Malaysia

Velosi Malaysia, which is controlled and owned by the Vendors, is the recognised market leader in third party inspection and non-destructive testing services in the oil and gas sector in Malaysia.

As detailed in Velosi Malaysia's audited accounts, for its financial year ended 31 December 2008, it generated revenues of RM100.20m (£18.65m), an operating profit of RM3.71m (£0.69m) and a profit before tax of RM3.53m (£0.66m). As at 31 December 2008, Velosi Malaysia also had net assets of RM26.94m (£5.02m).

Commenting on the announcement Dr. Nabil Abdul Jalil, CEO of Velosi said: "Over the last 18 months, the two companies have increasingly been working jointly on new projects. We therefore felt that this is the right time to combine the expertise of both companies. The licensing agreement ensures we will have the opportunity to work with the market leader in Malaysia and Velosi Malaysia will gain access to the Group's wider skill base and technical capabilities. As a result we believe this is a highly beneficial deal for all parties."

Trading update

Results for the 12 months to 31 December 2009 are expected to be in line with market expectations, and we expect the business to continue to grow in 2010. While investment in some regions is slowing as expected, there remain a number of key regions which continue to attract high levels of investment, such as Australia, Brazil and Kazakhstan. We are confident of benefiting from these areas of activity and our current order book is well placed for 2010.

During the year ended 31 December 2009, Velosi continued to experience a good level of demand across the 36 countries we now operate in. New contract wins in South Africa, the middle east and elsewhere, in addition to signing contract extensions, ensured we have been able to continue to expand the business. As anticipated, customers have sought to trim expenditure where practical whilst still looking to achieve their original plans on new projects; we have looked to assist them in this and have streamlined our own cost base, to help mitigate any impact on us.

Our cash generation and level of cash reserves remain strong, placing us in a secure financial position.

Velosi will report its results for the 12 months to 31 December 2009 on 14 April 2010.

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Summary of the key terms of the agreements

Under the terms of the Trade Agreement, the Group has undertaken to pay the Vendors the Consideration, of up to RM23,333,333 to be satisfied by the issue of up to 4,760,814 Consideration Shares based on the weighted average closing middle market price of 91.25 pence per share for the three business days prior to date of the Trade Agreement dated today. The Consideration is subject to Velosi Malaysia achieving a cumulative PBT of at least RM25.0m (£4.65m) ("Guaranteed Income") in the three year period from 1 July 2009 to 30 June 2012 (the "Guaranteed Period"). The Consideration will be paid in three instalments, with the Group paying the Vendors an initial consideration of RM7,933,333, to be settled by the issue of 1,618,677 Consideration Shares on completion of the Trade Agreement (the "Initial Consideration") scheduled to be on 15 February 2010. Subject to the achievement of certain performance criteria, the Group will pay the Vendors a further RM7,933,333 to be settled by the issue of 1,618,677 Consideration Shares (the "Deferred Consideration"), which the Directors anticipate being towards the end of the third quarter of 2011. If Velosi Malaysia achieves the Guaranteed Income of RM25.0m at the end of the Guaranteed Period, the Group will pay the Vendors the full Consideration of RM23.33m by the issue of up to 4.76m Consideration Shares less any consideration already paid to the Vendors as Initial or Deferred Consideration. In the event that Velosi (M) has not achieved the Guaranteed Income at the end of the Guaranteed Period, the Consideration due will be reduced on a pro-rata basis.

In addition, in the event that Velosi Malaysia reports a loss in the final year of the Guaranteed Period, such that the cumulative PBT for the Guaranteed Period is less than the cumulative PBT achieved in the two year period from 1 July 2009 to 30 June 2011, the Vendors shall be liable to pay compensation to the Group of an amount equivalent to the shortfall in cash, subject to a maximum amount being the value of the Initial and Deferred Consideration received by the Vendors.

On the basis that Velosi Malaysia achieves the Guaranteed Income at the end of the Guaranteed Period, the full Consideration will be due to the Vendors, which will be satisfied by the issue of 4,760,814 Consideration Shares representing approximately 10.18 per cent. of the Company's current issued share capital and 9.24 per cent. of the Company's then enlarged share capital.

Under the terms of the License Agreement, Velosi will license, on an ongoing basis, the Trade Name and the intellectual property of the Group to Velosi Malaysia in return for an annual licensing fee. The annual licensing fee payable to Velosi is based on a percentage of Velosi Malaysia's audited annual PBT, which the Directors estimate will be in the range of approximately 5.0 to 7.0 per cent. of Velosi Malaysia's annual revenue.

In addition, Dr Nabil Abdul Jalil will be joining the board of Velosi Malaysia.

Vendors' shareholdings and number of shares in issue

Prior to the issue and allotment of the Consideration Shares in relation to the Initial Consideration, the Vendors were interested in, in aggregate, 9,701,460 ordinary shares of US0.02 each ("Ordinary Shares"), being 6,736,955 Ordinary Shares held by Velosi Malaysia, 2,235,030 Ordinary Shares held by Mohd Ashari and 729,475 Ordinary Shares held by Mohd Jai, representing in aggregate approximately 20.74 per cent. of Velosi's current issued share capital. Following the issue and allotment of the Consideration Shares in relation to the Initial Consideration, the Vendors will be interested in, in aggregate, 11,320,137 Ordinary Shares, being 6,736,955 Ordinary Shares held by Velosi Malaysia (representing 13.92 per cent. of Velosi's enlarged issued share capital), 3,331,923 Ordinary Share held by Mohd Ashari (representing 6.89 per cent. of Velosi's enlarged issued share capital) and 1,251,259 Ordinary Share held by Mohd Jai (representing 2.59 per cent. of Velosi's enlarged issued share capital), representing in aggregate approximately 23.40 per cent. of Velosi's enlarged issued share capital.

The Consideration Shares will rank *pari passu* in all respects with the existing Ordinary Shares and application will be made for the Consideration Shares to be admitted to trading on AIM. Admission is expected to become effective and dealings in the Consideration Shares is expected to commence at 8.00 a.m. on 11 March 2010 following which Velosi's issued share capital will consist of 48,384,548 Ordinary Shares, with each Ordinary Share carrying the right to one vote. Velosi does not hold any shares in treasury.

Accordingly, following admission of the initial Consideration Shares the figure of 48,384,548 Ordinary Shares may therefore be used by shareholders in Velosi as the denominator for the calculations by which they will determine if they are required to notify their interest in, or a change to their interest in, Velosi under the FSA's Disclosure and Transparency Rules.

On the basis that the full Consideration is payable under the terms of the Trade Agreement, the Company would have 51,526,685 Ordinary Shares in issue based on 46,765,871 Ordinary Shares currently in issue and the Vendors would be interested in, in aggregate, 14,462,274 Ordinary Shares, being 6,736,955 Ordinary Shares held by Velosi Malaysia (representing 13.07 per cent. of Velosi's enlarged issued share capital), 5,461,186 Ordinary Share held by Mohd Ashari (representing 10.60 per cent. of Velosi's enlarged issued share capital) and 2,264,133 Ordinary Share held by Mohd Jai (representing 4.39 per cent. of Velosi's enlarged issued share capital), representing in aggregate approximately 28.07 per cent. of Velosi's enlarged issued share capital.

The Vendors confirm that they currently have no intention to dispose of any Ordinary Shares currently held by them or to be issued to them in accordance with the Trade Agreement and that any future transfer or disposal of Ordinary Shares by them, will be subject to standard orderly market arrangements.

Options in Velosi Malaysia

As previously disclosed, Dr Nabil Abdul Jalil holds an option to acquire 26.02 per cent. of Velosi Malaysia ("Option"), but as of 31 December 2009, he agreed to cancel this Option and will accordingly no longer have an option to acquire an interest in Velosi Malaysia.

Related party transactions

In accordance with AIM Rule 13, the Trade Agreement and License Agreement are deemed to be related party transactions due to the Vendors (due to their aggregated shareholdings in Velosi) and Velosi Malaysia respectively, being substantial shareholders in the Group. Accordingly, the Directors consider, having consulted with the Company's Nominated Adviser, Strand Hanson Limited, that the terms of Trade Agreement and License Agreement are fair and reasonable insofar as Velosi's shareholders are concerned.

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