

BIOLOGICAL CONTAMINATION CONTROL TECHNOLOGIES

LIFE SCIENCES: ASEPTIC FACILITIES FOR BIOLOGICS/BIOTECHOLOGY
HEALTHCARE: COMBATING HOSPITAL ACQUIRED INFECTION AND ANTIBIOTIC RESISTANCE
DEFENCE: SPECIALIST CHEMICAL, BIOLOGICAL, RADIOLOGICAL & NUCLEAR FILTRATION SYSTEMS

BIOQUELL PLC
ANNUAL REPORT AND ACCOUNTS 2014

bioquell

CREATING ASEPTIC ENVIRONMENTS

The Bioquell Group sells biological contamination control services and equipment into the International Life Sciences, Healthcare and Defence markets.

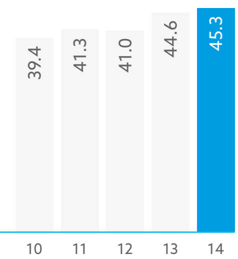
2014 HIGHLIGHTS

- Proposed disposal of TRaC for £44.5 million in cash was announced on 12 March 2015; the majority of the net cash proceeds will be returned to shareholders in due course
- Group revenues increased by 2% to £45.3 million (2013: £44.6 million) – TRaC up 7% to £18.0 million; Bio division down 2% to £27.3 million (up 1% in constant currency)
- Pre-tax profits before previously announced non-cash exceptional costs were £2.5 million (2013: £3.1 million)
- Exceptional items comprise a pre-tax £3.9 million non-cash impairment charge relating to capitalised product development and patent costs
- Pre-tax loss (including non-cash exceptional costs) of £1.4 million (2013: profit of £3.1 million)
- Basic pre-exceptional earnings per share of 4.9p (2013: 7.3p)
- Proposed dividend per share of 3.3p (2013: 3.3p)
- Net cash at the year end was £1.1 million (2013: £2.0 million)
- Strong revenue growth in Healthcare and Defence markets was offset by a decline in Life Sciences revenues in the Bio division

REVENUE (£M)

£45.3m

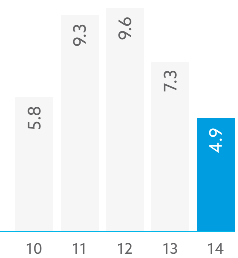
+2%



PRE EXCEPTIONAL EARNINGS PER SHARE (P)

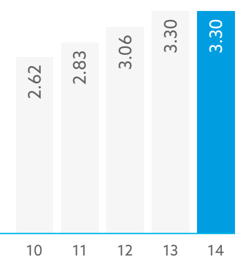
4.9p

−33%



DIVIDEND PER SHARE (P)

3.30p



Learn more online at:
BIOQUELLPLC.COM

OUR HISTORY

INFECTION CONTROL EXPERTS SINCE 1730

In 1730 at No. 260 The Strand (London) William Dent and Lancelot Burton founded a sanitation (clean water and sewage disposal) business, thereby setting in train Bioquell's long standing involvement in infection control.

(A number of experts attribute the provision of clean water and sewage systems as having had the single most significant impact on increasing life expectancy.)

In 1862 Stevens Hellyer joined the firm which was subsequently re-named in 1874 as 'Dent & Hellyer'.

By the 1960s Dent & Hellyer had branched out from its original sanitation business into steam sterilisers and was manufacturing, among other things, autoclaves for hospitals to sterilise surgical instruments.

In 1982 Microflow - a manufacturer of biological safety cabinets and other HEPA filtration equipment - merged with Dent & Hellyer to create Microflow, Dent & Hellyer with a strap-line of "Contamination & Environmental Health Control". The company name was subsequently shortened to "MDH".

In 2000 MDH Limited was re-named Bioquell (UK) Limited and to this day is still the principal operating company of the Bioquell Group with its headquarters in Andover, Hampshire.Some 285 years after the business was founded, Bioquell is still involved in infection control – albeit with completely different technology and a much larger geographical footprint, with businesses in America, China, Singapore, France and Ireland.

Today Bioquell has world leading expertise in hydrogen peroxide vapour bio-decontamination technology which, for example, was selected for a US military programme to eradicate biological warfare agents and has been shown in independent published scientific research to reduce Hospital Acquired Infection. In addition, Bioquell continues to draw upon its expertise in HEPA and activated carbon air filtration which it uses to breakdown hydrogen peroxide vapour as well as to protect military vehicles and facilities from biological, chemical, radiological and nuclear contamination.

Together these peroxide and filtration technologies combine to form the core of Bioquell's current range of products and services used to provide biological contamination control - including the Qube, Pod, BQ-50 as well as the Z, C and L ranges of equipment and associated consumables.

Who knows what the future will bring – but certainly in the short to medium term, Bioquell looks forward to working closely with international biologics and biotechnology companies to provide them with aseptic (i.e. sterile) research and production facilities as well as assisting acute care hospitals around the world eradicate the increasingly problematic antibiotic resistant bacteria which cause 'Hospital Acquired Infection'.

CHAIRMAN'S STATEMENT

WHILST 2014 WAS A CHALLENGING YEAR FOR OUR BIO DIVISION, WE HAVE MADE A NUMBER OF IMPORTANT CHANGES THAT PUT US IN A STRONG POSITION TO DELIVER GROWTH IN 2015

SUMMARY

- → Consolidated revenues increased by 2% to £45.3 million
- → TRaC revenues increased by 7% to £18.0 million
- → Bio declined by 2% to £27.3 million
- → Gross margin for the Group declined 1%
- → Group's service revenues totalled £29.3 million (65% of Group revenue)

FUTURE OF THE GROUP AFTER THE SALE OF TRAC

Last week, on 12 March, we announced the proposed disposal of our subsidiary TRaC Global Limited ("TRaC") for £44.5 million in cash. The transaction is expected to complete at the end of April 2015 and is expected to give rise to an exceptional profit before expenses of approximately £35.4 million. The Board expects that the majority of the net cash proceeds arising from the disposal will be returned to shareholders in due course.

The timing of the disposal reflects, among other things: (i) a desire by the Board to address Bioquell's weak share price which did not reflect the underlying value of our two core businesses; (ii) recent strong interest from trade and financial buyers in TRaC; and (iii) improving prospects for our Bio division – and our belief that it represents an attractive standalone business with interesting prospects.

The Bio division comprises a business with revenues in 2014 of £27.3 million and EBITDA of £3.9 million (2013: £4.1 million), selling biological contamination control services and equipment into the international Life Sciences, Healthcare and Defence markets. (EBITDA means pre-exceptional earnings before interest, tax, depreciation and amortisation.)

The year saw significant changes being made to the business, including targeted cost reductions and the completion of a substantial new product development programme. These changes coupled with improving market conditions in its core sectors mean that the Bio division is now well placed to deliver growth through the sale of an innovative and modern range of products and services.

In some respects the division's business model is becoming increasingly similar to TRaC: with service businesses – required by customers who need to meet onerous, international regulations – which require specialist equipment and highly trained technicians.

By necessity, this document refers to the historic financial performance of both the TRaC and Bio division; however, we are, of course, now totally focused on driving forwards the strategy and financial results for the Bio division or 'pure Bioquell'.

FINANCIAL PERFORMANCE IN 2014

Consolidated revenues increased by 2% to £45.3 million (2013: £44.6 million). TRaC revenues increased by 7% to £18.0 million (2013: £16.8 million) and Bio declined by 2% to £27.3 million (2013: £27.9 million), held back largely by operational difficulties in our US and Asian operations. In constant currency, Group revenues increased 3%, TRaC increased 7% and Bio increased 1%. (Constant currency revenue is calculated by retranslating current period revenues at the average exchange rate ruling in the comparative period.)

The Group's service revenues totalled £29.3 million (2013: £26.9 million), representing 65% of total Group revenues (2013: 60%). Overseas sales amounted to £23.3 million representing 51% of total revenues (2013: 55%).

Within our Bio division, 2014 revenues were split 54% (2013: 56%) equipment sales, 41% (2013: 39%) services and 5% (2013: 5%) consumables. We are actively seeking to drive up the proportion of our service revenues. Overseas sales in the Bio division were 79% (2013: 81%).

Gross margin for the Group declined 1% to 45% (2013: 46%) and pre-exceptional operating expenses totalled £17.6 million (2013: £17.7 million).

As announced in the Group's pre-close statement on 15 January, 2015, the Board has reviewed the Group's portfolio of capitalised product development and patent costs and has decided that an aggregate non-cash impairment charge of £3.9 million should be made. This is presented as an exceptional item in the information below.

CHAIRMAN'S STATEMENT CONTINUED

FINANCIAL PERFORMANCE IN 2014 continued

Pre-tax profits (before exceptional items) were £2.5 million (2013: £3.1 million). The pre-tax loss including exceptional items was £(1.4) million (2013: profit £3.1 million). Basic earnings per share pre-exceptional items were 4.9p (2013: 7.3p).

In cash terms, expenditure on research & development declined in the year by 37% to £1.9 million (2013: £3.0 million). Capital expenditure on tangible fixed assets declined by 39% to £2.4 million (2013: £3.9 million).

The Group continues to have a strong balance sheet. Net cash at the year end was £1.1 million (2013: £ 2.0 million) and has subsequently increased to £3.4 million at the end of February 2015. Shareholders' funds were £31.1 million (2013: £33.3 million.)

The Board is recommending the payment of a dividend of 3.3 pence (2013: 3.3 pence) per share on 2 July, 2015 to shareholders on the register on 5 June 2015. Following the proposed disposal of TRaC the Board intends to rebase its dividend payout. Accordingly next year the Board will consider, among other things, an appropriate dividend cover and associated payout for the refocused Group.

ACTIVITIES

2014 was a year of mixed fortunes. Our TRaC division performed strongly and finished the year with good momentum. In contrast, our Bio division encountered significant headwinds in its Life Sciences business activities – particularly in Asia and the USA – and a number of significant management changes were made during the year to address certain operational issues.

In the Bio division, our Healthcare revenues increased by 26% to £4.3 million (2013: £3.4 million), assisted by our new single patient room Pod product as well as increased interest in our hydrogen peroxide vapour ("HPV") technology as a result, in part, of our decontamination service activities during the global Ebola outbreak.

Our Defence revenues more than doubled to £4.1 million (2013: £1.7 million). However, our Life Sciences revenues, particularly from equipment sales, reduced by approximately 17% to £18.9 million (2013: £22.7 million).

In TRaC, revenues were strong across substantially all of our services – with particularly good results from our environmental and EMC (electromagnetic compatibility) services helped by high levels of aerospace activity.

EMPLOYEES

On behalf of the Board, I would like to thank all the employees within the Group for their hard work and commitment during 2014.

OUTLOOK

In the future the Group will comprise a focused biological contamination control business selling into the international Life Sciences, Healthcare and Defence markets.

In the Life Sciences sector growth is expected due to increased sales of, and investment in, biologics and biosimilars, which require the use of aseptic principles during research as well as the manufacturing process.

The imposition of more demanding regulations and compliance requirements in the Life Sciences and Healthcare sectors is also expected to increase demand for products and services such as ours.

Within the Healthcare sector hospitals face increasing difficulties treating patients who contract bacterial infections which no longer respond to antibiotics. (The first O'Neill report, published in December 2014, estimated that by 2050 more people will die as a result of antimicrobial resistance than cancer – and the loss in world GDP would be some US$100 trillion.) Bioquell's technology has been shown in published scientific studies to reduce hospital acquired infection rates. The imminent launch into the healthcare sector of the BQ-50 – a new, small, fully automated product to rapidly eradicate pathogens from surfaces in hospitals – should also help drive revenues in this sector.

Tensions in Eastern Europe and the Middle East are creating opportunity for our Defence business.

During the past year we reduced the cost base in our Bio division substantially, particularly in relation to our engineering resources, and also made significant changes to the management of our American and Asian subsidiaries. The results of these changes will be seen in the financial performance of the Bio division in 2015.

The year has started well for both our Bio and TRaC divisions. We are looking forward, post the disposal of TRaC, to our business becoming a focused biological contamination control group serving clients in three large, international sectors with demanding regulatory requirements. Given the changes we have made to the Bio division during last year and the attractive valuation we were able to secure for TRaC, we believe that we are well positioned to deliver further significant value to shareholders in 2015.

NIGEL KEEN

Chairman
Bioquell PLC
18 March, 2015

THE GROUP HAS DEVELOPED A UNIQUE AND WORLD CLASS RANGE OF TECHNOLOGIES FOR THE MARKETS IT SERVES

This report should be read in conjunction with the Chairman's statement which provides information on the proposed disposal of TRaC Global Limited as well as the financial performance of the Group in 2014.

Following the disposal of TRaC, the Group will comprise a biological contamination control business with a business model which benefits from stringent regulatory standards and which incorporates the sale & rental of equipment, consumable sales and the provision of a range of speciality services to the international Life Sciences, Healthcare & Defence markets.

The Board believes that the Group has developed a unique and world class range of technologies for the markets it serves. The primary strategic objective for the business is now to increase its revenues via improved and more effective selling of its market-leading range of products & services which meet the bio-decontamination needs of its Life Sciences and Healthcare customers.

Given the complexity of the Bio division – and the significant changes that we have made to the business over the last year – the Board monitors progress on its strategy by reference to only two key performance indicators at the current time: revenues and pre-tax profit.

KEY STRATEGIC DRIVERS

Microorganisms – bacteria, viruses and fungi – are ubiquitous and cause significant problems across a number of sectors around the world. Bioquell's strategy is to generate revenues from the provision of novel, cost-effective technology-based solutions, which are supported by increasingly onerous regulations, for contamination control and microorganism eradication in the Life Sciences, Healthcare and Defence sectors. Historically our product offerings for Life Sciences and Healthcare were based solely around hydrogen peroxide vapour ("HPV") – but over recent years we have added a number of complementary products and services which enable us to offer a more holistic or application-based solution to our customers.

Increasing antibiotic resistance – and problems for hospitals worldwide

Antibiotic resistance is a growing problem. The issue of antibiotic resistance was highlighted during 2014 by a number of high profile individuals or organisations including: the World Health Organisation, the US President and the UK Prime Minister who subsequently commissioned Jim O'Neill to chair a review on the antimicrobial resistance (the first O'Neill report was published in December 2014: amr-review.org). This report estimated that antimicrobial resistant infections will result in an additional 9.3 million deaths per year by 2050 with a loss in world GDP of US$100 trillion. Although relatively well known pathogens such as MRSA and *C.difficile* are still responsible for a significant proportion of Hospital Acquired Infection ("HAI"), there are a number of classes of antibiotics which can be used to treat them. However, over recent years highly antibiotic resistant – and increasingly 'untreatable' (i.e. resistant to all antibiotics) – Gram-negative organisms such as *Klebsiella pneumoniae, Pseudomonas aeruginosa* and *Acinetobacter baumannii* have been creating major clinical issues for hospitals, particularly intensive care units ("ICUs"), around the world. In short, the 'superbug' problem is getting worse as the antibiotics are ceasing to work for certain bacteria, principally the Gram-negatives – and there is no obvious, feasible solution. For example, earlier this year, 11 patients were reported to have died in a German hospital from an antibiotic resistant bacteria and two US hospitals on the West coast have admitted to patient deaths from the highly resistant CRE strain of Gram-negative bacteria.

Significant role of the regulators

Bioquell's Life Science and Healthcare customers operate in highly regulated markets. In many areas the regulators are becoming more concerned about the adverse consequences of microbial contamination and the regulations are becoming more onerous.

Biologics and biosimilars

Biological products are generally derived from a living organism. They can come from many sources, including humans, animals, microorganisms or yeast.

Biological products include a wide range of products such as vaccines, blood and blood components, allergenics, somatic cells, gene therapy, tissues and recombinant therapeutic proteins. Biologics are isolated from a variety of natural sources – human, animal, or microorganism – and may be produced by biotechnology methods and other cutting-edge technologies. For example, gene-based and cellular biologics are often at the forefront of biomedical research, and may be used to treat a variety of medical conditions for which no other treatments are currently available.

In contrast to most conventional drugs that are chemically synthesized and their structure known, most biologics are complex mixtures that are not easily identified or characterised. Biological products, including those manufactured by biotechnology, tend to be heat sensitive and susceptible to microbial contamination. As a result it is necessary to use aseptic principles during research and throughout the manufacturing process (in contrast to most conventional drugs which are often terminally sterilised). This requirement for aseptic processing is a powerful driver of demand for Bioquell's products and services.

A biosimilar product is a biological product that is approved based on showing that it is highly similar to an already-approved biological product, known as a reference product. The biosimilar must also show it has no clinically meaningful differences in terms of safety and effectiveness from the reference product. Only minor differences in clinically inactive components are allowable in biosimilar products.

STRATEGIC REPORT CONTINUED

CASE STUDY

POD DEPLOYMENT

IN SAUDI ARABIA

Bioquell deployed twenty Pods, in conjunction with four suites of HPV equipment, in a Saudi Arabian intensive care unit in advance of the annual Hajj pilgrimage at Mecca. This was our first substantial Pod deployment outside the UK. It is anticipated that this reference site will help generate further Pod and HPV bio-decontamination revenues from the Middle East.

KEY STRATEGIC DRIVERS continued

Biologics and biosimilars continued

The Biologics Price Competition and Innovation Act of 2009 (BPCI Act) was passed as part of the Affordable Care Act (often referred to as 'Obamacare') that President Obama signed into law in March 2010. The BPCI Act created a shortened and less stringent regulatory approval pathway for biological products shown to be "biosimilar" to or "interchangeable" with an FDA-licensed biological product (i.e. the "reference product"). This shortform regulatory pathway enables a biosimilar product to be licensed based on less onerous preclinical and clinical data although the facilities where biosimilars are manufactured must also meet the FDA's standards for biologics production. This shortform approach was designed to encourage investment in biosimilars by bio-pharmaceutical companies to reduce the cost of these treatments.

In the Life Sciences sector the US Food & Drug Administration ("FDA") continues to influence heavily biologics and biosimilar drug research, production and sales around the world. For example, on 6 March 2015, the FDA approved the launch of the first biosimilar onto the US market. (There are already a number of biosimilars approved for the European market.) We anticipate that regulatory oversight in these areas is likely to increase, in part due to the greater number of biologics and biosimilar drugs coming onto the market. The increased numbers of biologics and biosimilars on the markets should drive demand for Bioquell's products and services.

In the Healthcare sector the relevant regulators, such as the Joint Commission in the USA and the CQC in the UK, are becoming increasingly sensitised to the threat to patient safety from, as well as the concomitant costs of, HAI. These regulators are able to impose economic sanctions on hospitals which have inadequate measures for the prevention of HAI. For example, the US Affordable Care Act imposes financial penalties starting in 2017 on hospitals with poor HAI performance.

Evolving business model

Until recently Bioquell's business model, particularly in the Life Sciences sector, was largely predicated on equipment sales – with limited associated consumable or service revenues. However, since 2010 we have been developing products and services for this sector which generate, directly or indirectly, a higher proportion of recurring revenues.

All our new HPV-related products have been engineered to incorporate the use of captive hydrogen peroxide consumable cartridges. We made good progress during the year in increasing the number of regulatory approvals for our hydrogen peroxide consumables around the world. Moreover, we extended our supply chain to enable us to supply consumables cost effectively to a greater proportion of international customers.

We have also taken a number of steps to repackage certain of our technologies to enable us to migrate from an equipment-based offering to increase, directly or indirectly, the provision of specialist decontamination services. This should help improve our quality of earnings and increase the proportion of recurring revenues.

Historically our strategy and growth was developed around the use of HPV to eradicate microorganisms. However, over the last three years we have reduced our dependency on HPV by developing complementary products such as the QUBE (for Life Sciences) and the Pod (for Healthcare). These products incorporate novel manufacturing techniques developed at our facilities in Andover.

We are in the process of launching a new HPV product: the BQ-50. This product is designed both for use in hospitals and for the provision of decontamination services by our network of international distributors. This novel product draws heavily on certain of the technologies and components which we developed for a US military development programme a few years ago, including fast cycles, smaller size, reduced weight and sophisticated automated cycle calculations. We anticipate that this product will help us increase our equipment and service revenues in the Healthcare sector in 2015.

Defence sector

We produce specialist chemical, biological, radiological and nuclear ("CBRN") filtration systems and environmental control equipment for military vehicles and fixed systems. We have taken a number of steps to try and reduce the 'lumpiness' of our defence orders, in large part by extending the range of applications for our products.

Interest in our CBRN products has been helped over the last year by increased sectarian conflicts in the Middle East as well as instability in Eastern Europe close to the Russian border. In addition, the use of chemical weapons by the Assad regime was a stark reminder that chemical warfare agents still exist; and are used.

Principal challenges

Our strategy is to promote the use of Bioquell's technology to solve a broad range of microorganism-related problems for customers in the Life Sciences and Healthcare sectors. The strategy for our Defence Business is to increase the number of customers selecting our CBRN systems. Our prospective markets are large, international and growing. Microorganism-related problems are becoming more challenging, largely due to increasing antimicrobial resistance and a better appreciation of the role of biofilms. Many new, on-patent biologics drugs are susceptible to bioburden contamination which can create patient safety and regulatory compliance problems. Moreover, the international regulators are becoming more demanding in terms of enforcing the relevant regulations.

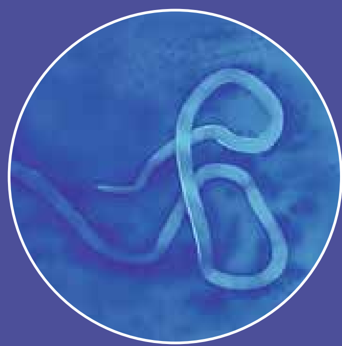
In implementing this strategy we encounter a number of challenges, including:

- our markets are international – with the UK representing a relatively small proportion of global spend. Accordingly, we are required to establish, expand and manage an extensive network of sales distributors around the world which is expensive and requires significant resources. Further, different selling partners are usually needed for our two different target sectors (Life Sciences & Healthcare) in each territory;
- many of our customers are highly conservative, adopt new technologies slowly, can be difficult to engage with at a senior level and are generally resistant to change. Accordingly it can take some time and substantial sales and marketing investment to see increased revenues linked to the launch of a new product or service;
- some customers, particularly in large organisations, find it easier, and at times lower risk, to 'do nothing';
- in order to supply the breadth of products as well as the short response times for our services, we require a large facility in the UK which has high fixed costs and associated operational gearing. This facility currently has significant under-utilised capacity which could be used to generate high margin incremental revenues;
- in the Life Sciences sector, the research market is becoming more fragmented as 'big-pharma' does less research itself and it can be harder, or require different sales & marketing strategies, to access the smaller research organisations, "spin-offs" and "start-ups" now becoming more prevalent in this sector; and
- in the Healthcare sector, many customers are extremely reluctant to discuss the scale of their antibiotic resistance problems due to the potentially substantial adverse effect such disclosure could have on their hospitals (i.e. a reduction in revenues from lower patient numbers). In addition, some customers have, to date, been reluctant to acknowledge the severity of the antibiotic resistance challenge and have adopted a 'good enough' or 'do nothing' approach. This can create significant marketing and selling challenges for us.

CASE STUDY

EBOLA OUTBREAK

IN WEST AFRICA



The recent outbreak of Ebola in West Africa has created significant interest in the Bio division's equipment and services – and a modest increase in revenues for such products. Bioquell's hydrogen peroxide vapour ("HPV") technology has been used to decontaminate Ebola patient rooms in three hospitals in the USA as well as in hospitals in the UK, France and Holland. Moreover, Bioquell has been talking to hospitals in Europe and the USA about helping them with Ebola emergency preparedness and, via their Pod technology, isolation surge capacity.

STRATEGIC REPORT CONTINUED

ACTIVITIES BY SECTOR

Life Sciences sector

Demand for pharmaceutical products continues to grow, driven by an aging population and the increasing wealth of the middle classes in the emerging markets. This underlying growth in demand is being seen in research & development, clinical trials and production in the Life Sciences sector.

Aseptic manufacture of biologics and biosimilar products

The need for aseptic manufacture of biologics has resulted in heightened, international regulatory oversight. For example, the regulators require manufacturers to introduce sterility test procedures which are used to help demonstrate that a given product batch has been manufactured under sterile conditions. Bioquell's innovative QUBE aseptic work station is able to incorporate market-leading sterility test equipment. The requirement for sterility testing was an important driver of the growth we saw for QUBE sales in 2014.

Bioquell's products and technologies for the Life Sciences sector

Over recent years it has become clear that having novel and highly efficacious HPV-based bio-decontamination technology represents only part of the solution needed by our Life Science customers. Increasingly our customers' requirements are focused around satisfying the relevant regulators that they have put in place appropriately validated and documented contamination control processes. In order to help our customers achieve rapid regulatory approval, we have developed HPV-optimised biological indicators ("BIs") and chemical indicators ("CIs"). We have also developed hydrogen peroxide consumable cartridges ("HP consumables") to optimise our HPV decontamination process, including the use of our BIs and CIs.

The development of BIs, CIs, HP consumables and associated validation documentation has also been aligned with our strategic decision to reduce our reliance on capital equipment sales and to increase, wherever possible, the proportion of recurring revenues, by the sale of services or consumables. We saw strong growth in our consumable revenues in the Life Sciences sector in 2014.

Healthcare sector

Bioquell's healthcare strategy is to provide technology-based solutions which help hospitals reduce their HAI rates and combat the significant issues associated with antibiotic resistance.

Background

Bioquell has invested substantial time and resources working with a number of leading international hospitals and associated Key Opinion Leaders ("KOLs") to demonstrate that the bacteria responsible for HAI can survive in the inanimate hospital environment for many months. Equally, we have worked collaboratively with a number of hospitals to show that the eradication of bacteria from the hospital environment can result in a reduction in the HAI rate. A research paper (Passaretti C.L. et al., Clinical Infectious Diseases 2013;56(1):27–35) from a group at Johns Hopkins Hospital in Baltimore, one of America's top hospitals, showed that patients who were admitted into rooms that had been 'bioquelled' were 64% less likely to become infected with a multi-drug resistant organism.

Pod: single patient rooms

Notwithstanding the numerous academic publications supporting the use of Bioquell's HPV technology to reduce HAI rates, it has become clear that a significant number of hospitals outside the United States encounter practical difficulties using our HPV technology (or indeed any form of automated room disinfection technology) due to the widespread use of open-plan, multi-bed units. Multi-bed units are common in the UK and also in the emerging markets, particularly within ICUs. In the United States and France substantially all hospital beds, particularly in high acuity units such as ICUs, are located in single patient rooms. Open plan multi-bed units are a problem for managing HAI as they have been shown to have higher HAI rates than equivalent units with single patient rooms.

In order to facilitate the 'bioquelling' of bed-spaces, at the beginning of 2013 we launched the Bioquell Pod, initially as a rental-only product, focused on the UK (NHS) market. The Pod system comprises a bespoke single patient room which can be easily and quickly installed around a pre-determined bed space in an open plan unit. We have worked closely and collaboratively with early adopters in the NHS to understand better how the Pod can be used optimally within UK hospitals. We have also invested in hardware and software to help the rapid design, production and deployment of Pods.

Following feedback from prospective customers – particularly from overseas – we now offer the Pod as a product which can be purchased or rented. For example in 2014 we sold 20 Pods into an ICU in Saudi Arabia. We believe that customers in the emerging markets will be keener to purchase the Pod whilst hospitals in the UK are typically keener to rent the Pod. We are now focusing on maximising the number of Pod units deployed around the world irrespective of payment method.

Increasing antibiotic resistance – and the specific threat from CRE

Emerging markets in Asia, Latin America and the Middle East are facing substantial clinical challenges associated with antibiotic resistant bacteria, particularly in ICUs and principally from highly resistant Gram-negative bacteria, especially the CREs (known as CPEs in the UK) – or carbapenem-resistant *Enterobacteriaceae*. The Director of the US Centers for Disease Prevention and Control (CDC), Dr Tom Frieden, has described CRE as being "nightmare bacteria".

In most countries in the emerging markets there has been poor stewardship (and hence misuse) of antibiotics for many years which has resulted in the emergence of widespread antibiotic resistance. Particularly dangerous is the growing pan-resistance of some Gram-negative organisms such as *Klebsiella pneumoniae* or *Acinetobacter baumannii*. In addition, air travel has resulted in patients, originating in the emerging markets, being admitted to North American or European hospitals – and consequently introducing highly resistant strains of bacteria to these hospitals.

The clinical consequences of such problems are becoming far more severe. In the past, pan-drug resistance was perceived to be an academic and somewhat notional threat. Today we are seeing patients being admitted to acute care hospitals in a number of US and European cities contracting, or bringing with them, strains of highly drug resistant bacteria with high associated mortality rates and costs.

The economics and financial consequences of antibiotic resistance

Although some of the latest antibiotics can be expensive, the principal cost associated with HAI is the extended length of stay in hospital for patients who contract such an infection. Numerous academic studies have shown that patients who contract an HAI tend to stay in hospital significantly longer than those who do not – particularly in the case of ICU patients.

ICUs are both expensive and critical for the revenues of most large, acute care hospitals. Complex surgery and advanced cancer treatments typically require access to ICU facilities. Moreover, such complex surgery is often high profile and generates significant fee income for surgeons (and associated attending physicians) as well as substantial revenues for the hospital.

Accordingly, an ICU which is contaminated with highly resistant bacteria can severely and adversely affect patient care, which in turn can result in reduced revenues for the hospital and its medical professionals. There is also the associated risk of substantial reputational damage with concomitant loss of revenues if the hospital becomes linked publicly to high HAI rates.

Even in the emerging markets where labour costs are still relatively low, a single bed-day in an ICU in a private hospital can cost, on a fully loaded basis, several thousand US dollars. Hence an extended length of stay for a patient who contracts an HAI in an ICU setting can readily cost the healthcare system tens of thousands of US dollars. The debate is ongoing as to who should pay for these substantial costs. Typically the hospitals try to pass the costs onto the patients or their insurers. However, the insurers are becoming more sensitised to this issue and are increasingly reluctant to pay for the additional costs associated with HAI.

The 2014 Ebola outbreak and use of Bioquell's technology

Bioquell's HPV technology was used by a significant number of hospitals in the United States and Europe during the 2014 Ebola outbreak. In short, when hospitals wanted to be absolutely sure that there were no viable Ebola viral particles left in the hospital then they turned to Bioquell's technology and services. We were pleased that many years of careful research enabled us to demonstrate the efficacy of our decontamination technology against the Ebola virus. The Ebola outbreak in West Africa is not yet over. In March 2015 we are still seeing healthcare workers with Ebola being repatriated to Europe or the US – and we are currently 'bioquelling' hospitals where suspected Ebola patients have been admitted.

We believe that the widespread adoption of Bioquell's technology by hospitals in the USA and Europe during the Ebola crisis will make it easier for us to sell services to hospitals encountering other severe bacterial or viral problems in the future.

BioxyQuell – novel, topical treatment of wounds

Bioquell has been developing BioxyQuell ("BxQ"), Bioquell's novel peroxy-chemistry based wound treatment technology for a number of years. The technology has regulatory approval in the EU and we have been working on the commercialisation of BxQ in the UK.

Over recent years the bio-chemistry of wound healing has become better understood. In particular, it is increasingly clear that biofilms can significantly hinder wound healing or cause major clinical issues in certain procedures. Moreover, biofilms have been shown to stop wounds healing, giving rise to chronic wounds.

Given the increasing issues with antimicrobial resistance, we believe that there are substantial opportunities for our BxQ technology – as it appears to be efficacious against biofilms and assists in the treatment of chronic wounds. However, unfortunately we have found it difficult to commercialise this technology in the current hospital funding environment and we have decided to 'mothball' the technology as we believe we have better commercial opportunities within our portfolio of products and services. Accordingly the Board has decided to impair the value of the capitalised development costs of this technology (which was announced at the beginning of 2015). Notwithstanding this (non-cash) impairment, we continue to believe that as antimicrobial resistance becomes more problematic our BxQ technology may have an important role to play.

STRATEGIC REPORT CONTINUED

DEFENCE

Our Defence business uses specialist filtration systems and other engineering solutions to provide customers with CBRN filtration systems as well as environmental control systems. Together these are referred to as collective protection ("COLPRO").

As we announced in our interim results, during the year we ceased working on a contract to develop COLPRO solutions for a new vehicle for the British Army. Subsequent to the cessation of this contract we essentially halved the size of our engineering team. This was a difficult decision and we estimate that the contract cessation alone cost us some £0.3 million. Due to the self-evident risks associated with such programmes, we have taken the decision not to carry out large defence-related development contracts in the future.

We did manage to secure other COLPRO contracts relating to our standard CBRN equipment from customers in the Middle East and Eastern Europe. A proportion of these contracts was delivered in 2014 and, based on the orders already on our order book, they will continue to generate revenues into 2015.

CONCLUSION: THE GROUP

The Group has robust strategies in place to generate attractive organic growth – which has been demonstrated in recent years by its TRaC division. Moreover, the substantial and 'extraordinary' phase of significant capital investment in new products and services in the Bio division (e.g. QUBE, Pod, BQ-50, consumables) is essentially over. Going forwards we would expect to see product line extensions and technology updates but a markedly lower requirement for capital expenditure. Accordingly we would expect the Bio division to start to generate cash.

Sales into the Life Sciences sector currently remain key to the profitability of the Bio division – and we have taken clear and robust steps to address the specific issues we encountered in 2014, particularly in the US and Asian Life Science markets. At the same time the increasing problems that hospitals are facing with hospital acquired infection and antibiotic resistance – as well as the lack of single patient rooms in many critical care units in hospitals around the world – represent a substantial and immediate opportunity for our new Healthcare sales teams to focus on. Our Defence business is well positioned with a significant order book already covering most of our planned 2015 defence-related shipments.

NICHOLAS ADAMS

Group Chief Executive
18 March 2015

CASE STUDY

HEALTHCARE-ASSOCIATED INFECTION:

Summary overview of market trends and Bioquell's research data

Over the last decade, the rate of MRSA and *C. difficile* infection (CDI) in the UK has fallen dramatically.[1,2] At the peak of the MRSA epidemic in the early 2000s, there were more than 2000 MRSA bloodstream infections in England; now there are 10-fold less.[2] It is not certain how this has been achieved, but a combination of factors, including increased governmental focus, are likely to be responsible. Whilst MRSA is now rare in the UK – and is therefore no longer a strong driver of adoption for Bioquell's technology in the UK – this is not the case in other European countries, and in many other parts of the world, where MRSA remains common.[3]

In recent years, a new and more problematic bacterial threat has emerged: carbapenem-resistant Enterobacteriaceae (CRE).[4] CRE present the "triple threat" of:

- high levels of antibiotic resistance (including pan-drug resistant strains against which no antibiotics are left);
- severe clinical consequences (around half of patients with a CRE bloodstream infection will die); and
- the potential for rapid regional and national spread (illustrated by national outbreaks in Italy, Greece and Israel).[4-6]

CRE have been described as "nightmare bacteria" by the US CDC and have prompted unprecedented action from CDC, Public Health England (PHE) and other public health agencies, including a national Patient Safety Alert and a letter to all hospital Chief Executives in the UK to ensure that new CRE guidelines are implemented.[7,8]

Bioquell is extremely well positioned to tackle the threat of antibiotic resistant bacteria in hospitals. Bioquell's hydrogen peroxide vapour (HPV) technology has been shown to eliminate all pathogens from hospital surfaces (including MRSA, CRE and *C. difficile*), and studies by leading hospitals and universities have demonstrated that Bioquell HPV reduces the transmission of key hospital pathogens.[9-11]

For example, research undertaken by Johns Hopkins in the USA in collaboration with Bioquell has shown that patients admitted to rooms decontaminated using Bioquell HPV are 64% less likely to acquire clinically significant hospital pathogens than patients admitted into rooms which have been disinfected using conventional methods.[11]

Single rooms are in chronic short supply in the NHS and in many hospitals worldwide.[3] Data from ECDC shows a surprising lack of single rooms in some European countries. For example, around 20-30% of hospital beds in the UK are in single rooms, 5-10% in Germany, and <5% in Portugal.[3] This lack of single rooms presents considerable problems in the management of patients who are infected or colonised with hospital pathogens, and results in difficult choices for staff to prioritise a limited stock of single patient rooms.

The Bioquell Pod offers hospitals increased flexibility in managing the placement of patients known, or suspected, to be infected or colonised with pathogens. For example, the latest CRE guidelines in the UK recommend screening a wider group of patients along with pre-emptive isolation for those suspected to be carriers.[7] This will place an additional strain on the limited single patient rooms available in the NHS – which is a strong driver of demand for the Pod.

The problems associated with increasing antibiotic resistance are only going to getlarger, particularly in relation to the Gram-negative bacteria. Bioquell's technology has by far the highest efficacy in the market place supported by strong clinical evidence that HPV works; no competitor can match this. The Bioquell Pod provides a compelling and complementary single patient room technology to Bioquell HPV in providing hospital staff with the tools they need to prevent the transmission of antibiotic-resistant bacteria.

REFERENCES

1. Hughes GJ, Nickerson E, Enoch DA et al. Impact of cleaning and other interventions on the reduction of hospital-acquired Clostridium difficile infections in two hospitals in England assessed using a breakpoint model. J Hosp Infect 2013; 84: 227-234.
2. Miller CE, Batra R, Cooper BS et al. An association between bacterial genotype combined with a high-vancomycin minimum inhibitory concentration and risk of endocarditis in methicillin-resistant Staphylococcus aureus bloodstream infection. Clin Infect Dis 2012; 54: 591-600.
3. Zarb P, Coignard B, Griskeviciene J et al. The European Centre for Disease Prevention and Control (ECDC) pilot point prevalence survey of healthcare-associated infections and antimicrobial use. Euro Surveill 2012; 17:
4. Curran ET, Otter JA. Outbreak Column 15: Carbapenemase-producing Enterobacteriaceae. J Infect Prevent 2014; 15: 193-198.
5. Schwaber MJ, Carmeli Y. An ongoing national intervention to contain the spread of carbapenem-resistant enterobacteriaceae. Clin Infect Dis 2014; 58: 697-703.
6. Munoz-Price LS, Poirel L, Bonomo RA et al. Clinical epidemiology of the global expansion of Klebsiella pneumoniae carbapenemases. Lancet Infect Dis 2013; 13: 785-796.
7. PHE. Acute trust toolkit for the early detection, management and control of carbapenemase-producing Enterobacteriaceae. 2013.
8. CDC. CRE Toolkit – Guidance for Control of Carbapenem-resistant Enterobacteriaceae (CRE). 2012.
9. Boyce JM, Havill NL, Otter JA et al. Impact of hydrogen peroxide vapor room decontamination on Clostridium difficile environmental contamination and transmission in a healthcare setting. Infect Control Hosp Epidemiol 2008; 29: 723-729.
10. Manian FA, Griesnauer S, Bryant A. Implementation of hospital-wide enhanced terminal cleaning of targeted patient rooms and its impact on endemic Clostridium difficile infection rates. Am J Infect Control 2013; 41: 537-541.
11. Passaretti CL, Otter JA, Reich NG et al. An evaluation of environmental decontamination with hydrogen peroxide vapor for reducing the risk of patient acquisition of multidrug-resistant organisms. Clin Infect Dis 2013; 56: 27-35.

RISKS AND UNCERTAINTIES

The Group faces a number of risks and uncertainties associated with its activities. It has put in place formal risk-review structures and mechanisms to help assess and monitor such risks and uncertainties; and, as appropriate, has taken steps to mitigate the identified risks and/or uncertainties to the extent practicable. However, it is not possible to identify or anticipate all risks and uncertainties; nor is it possible to mitigate all such identified risks and uncertainties.

Set out below is a summary of the principal risks and uncertainties which the Board believes the Group faces, over and above those which are inherent with carrying out commercial activities. The description of these principal risks and uncertainties should be read in conjunction with, and considered taking into account of, the description of the activities of the Group set out elsewhere in this document and on the Group's websites.

A summary of how the Group seeks to mitigate some or all of these principal risks and uncertainties is also set out in the table below. Given the nature of these risks and uncertainties – as well as the general nature of risk implicit in any commercial activities – investors should be aware that there can be no assurances that the mitigation of the risks summarised below will be effective, in whole or in part.

	RISK AND/OR UNCERTAINTY	MITIGATION
COMMERCIAL	Ultimately in order to prosper the Group needs to sell its products and services to sufficient customers at an appropriate margin. This requires good marketing and effective selling of attractive products & services into large and increasingly international markets. Some of these markets are at different stages of maturity – or have different requirements due to, among other things, different levels of wealth or funding available to the market participants or differing regulatory requirements. In addition, some of the market requirements can change rapidly. Taken together it is non-trivial – and can be expensive – to have attractive products & services designed at the right price point for the different markets into which the Group sells.	The Group is spending more time talking with actual and prospective customers to try and anticipate market trends – and is working with customers to develop new products and services attractive to such customers. It is also constantly looking at ways in which it can exploit new lower cost digital marketing techniques to access new customers in a cost effective manner. Further, it is also examining ways to reduce the prime costs of its equipment and services to increase margins and benefit from inherent price elasticity in the market. Where possible the Group is seeking to simplify its operations and product offerings.
COMPETITION	Some of the Group's competitors are substantially larger than the Group and have, among other things, greater financial, selling and political lobbying resources. Accordingly there is a risk that the Group's business could be adversely affected by actions undertaken by these large competitors. Further, although Bioquell has a number of granted or pending patents internationally, which should help to protect the key components of its intellectual property from copying, there is a risk that competitors operating from territories with poorly enforced patent law/patent protection could copy, in part or in whole, Bioquell's products or services. In addition, in certain markets in which the Group operates there is the risk that 'doing nothing' or finding something 'good enough' is the preferred course of action taken by prospective customers for a number of reasons including apathy, management challenges, budget allocations, or a disinclination to acknowledge the severity of specific issues. Accordingly 'doing nothing' or 'doing a little' represents a form of competitive risk for some of the Group's products or services.	The Group monitors the activities of existing, new and potential competitors closely and is constantly reviewing and, as appropriate, refining its strategies, business models, sales and marketing activities, execution plans and new product development depending on, among other things, competitor activities. The Group seeks to educate the relevant regulatory bodies or other governmental organisations responsible for the drafting or enforcement of regulations. The Group has a significant portfolio of pending and granted patents and other intellectual property which is available to it to invoke, as appropriate. The Group has developed specialist manufacturing skills which should help protect its market share and prospects. The Group has detailed sales and marketing initiatives which are designed to, among other things, increase awareness of the Group's products and services – and make it harder for prospective clients to decide to 'do nothing'; or opt for 'good enough' or 'do a little'.
REGULATORY	Regulatory. The Group operates in a number of countries and sectors which are highly regulated. There is a risk that the relevant regulations, or their interpretation, could be changed and such changes could significantly adversely affect the Group's business in that country or sector. Further, given the specialist nature of its activities there is a risk of jurisdictional dispute by the different regulators in a territory, as it may not always be clear which regulator has, or should have, jurisdiction over the Group's activities.	The Group endeavours to work closely and establish a dialogue, either directly or through its third party distribution partners and/or clients, with the relevant regulators in the territories in which it operates. In addition the Group may, from time to time, engage consultants or legal advisers to help with its discussions with, or strategic approach to, the regulators.

	RISK AND/OR UNCERTAINTY	MITIGATION
POLITICAL	The regulatory risks and uncertainties summarised above can be closely linked to prevailing policies or strategies being pursued by politicians or civil servants. These policies or strategies can be affected by effective lobbying, including lobbying by the Group's competitors or customers, which could adversely affect the Group.	Generally the Group adopts a cautious, low profile and conservative approach with its activities, particularly with those where there may be a political dimension. When considered necessary, the Group may seek to develop relationships, either directly or indirectly, with politicians and civil servants to assist with its dialogue with governments and counter the risk posed by competitor lobbying.
GROWTH FROM INTERNATIONAL OPERATIONS	The Group is experiencing significant growth in a number of the overseas territories in which it sells its products and services. There are a number of specific risks and management challenges associated with growth in overseas territories, including the preservation of high levels of customer service and support, margins and cash collection and repatriation.	In many overseas territories the Group uses third party distributors to sell and support its products which helps reduce its direct exposure to the territory – and hence helps reduce certain risks. The financial standing and credit limits of these distributors are, to the extent practicable, closely monitored. In overseas territories where the Group has a wholly owned subsidiary and/or employees, the Group uses a standardised approach to establish and monitor the trading activities, cash balances and delegated management authorities of these overseas subsidiaries.
TECHNOLOGICAL	The Group is dependent on its technology – and products and services – continuing to be efficacious, cost effective and attractive to the marketplace. There is the risk that new technologies, products or services are developed by competitors which perform better, are easier to use or are more cost effective than those of the Group. Further, there is a risk that it takes longer, or costs more, than anticipated to complete the development of new technologies and/or new products.	The Group provides focused products and services within its markets and accordingly is able to monitor relevant technological developments carefully – whether by competitors or third party research organisations, including universities. The Group takes into account such technological developments when reviewing and adjusting its strategy. It also uses a structured approach to new, different but complementary technologies to de-risk the Group's exposure to specific technologies.
UNCERTAIN ADOPTION RATES OF NEW PRODUCTS OR SERVICES	The Group is constantly developing new products and services around which there is inherent risk. Moreover, in both its principal divisions (Bio & TRaC) it is changing elements of its business model – and there is uncertainty as to how successful these new business models will be. Further, the associated product development and business model migration is expensive, requires resources and contains inherent uncertainty. For example, there is uncertainty as to how quickly new products or services will be adopted by the market – and hence concomitant uncertainty with revenue, profit and cash generation. Note that this uncertainty and risk relates to both slow and rapid adoption rates. Accordingly the Group needs to balance carefully the amount it invests in new product development and its manufacturing capabilities whilst ensuring it retains appropriate profitability and cash balances (or access to other sources of finance) in order to fund high levels of growth.	The Group undertakes 'Voice of the Customer' market research and seeks to develop new products and services closely with existing or potential customers. The close involvement of customers helps increase the Group's confidence that such new products will be well received by the market and also provides a good basis for forecast adoption rates (and revenues). However, in reality actual adoption rates can only ever be established after a product launch. The Group helps mitigate, in part, the financial uncertainty associated with new product launches by ensuring that it retains large cash balances and access to debt finance so that it is able to mitigate the effect of unexpected high or low adoption rates.

RISKS AND UNCERTAINTIES CONTINUED

	RISK AND/OR UNCERTAINTY	MITIGATION
FINANCIAL	The Group has a number of international subsidiaries and trades with companies located throughout the world. The international nature of many of its business activities results in elevated financial risk, including, but not limited to: foreign exchange exposure, credit risk and cash collection/retention/management (together "Key Financial Risks").	The Group has standardised, detailed monthly management reporting packs which all of its subsidiaries are required to complete. These submissions are reviewed centrally and the key points discussed at regular subsidiary or divisional management meetings. As appropriate, foreign exchange hedging is undertaken centrally. In addition, there are detailed delegated management authority levels which cover, among other things, Key Financial Risks.
LEGAL LIABILITIES	Given its international activities, the Group could be subject to litigation in a number of different jurisdictions. By its very nature, such litigation could be related to a broad number of issues, including alleged patent infringement, problems relating to the Group's technology, contravention of anti-bribery legislation or alleged incorrect completion of documentation associated with its service activities.	Generally the Group adopts a cautious, low-profile and conservative approach with its activities. It has put in place a number of policies which employees are required to follow in order to reduce to the extent practicable these risks. Further the Group actively seeks to build a close relationship with its customers in order to resolve, as appropriate, any issues that may arise without the need for litigation.
RELIANCE ON SUPPLIERS	Due to the complexity of many of its manufactured products, the Group is dependent on a number of key suppliers. These suppliers could supply components late, supply poor quality components, refuse to supply or cease trading. Such disruptions to the Group's supply chain could cause major issues to the trading activities of the Group.	The Group seeks to work closely and in partnership with its key suppliers. It also has a key supplier review/audit programme which helps the Group make strategic decisions about working more closely with a given supplier or, if appropriate, take the decision to identify an alternative supplier.
RELIANCE ON CUSTOMERS WITHIN A GIVEN SECTOR	Although the Group is not significantly dependent upon one single customer, changes within a sector or sub-sector could adversely affect the trading performance of the Group. For example, the pharmaceutical industry is currently facing significant challenges as a number of drugs lose patent protection or from the trend towards the marketing of disposable, single-use drug delivery systems, and accordingly there is a risk that such changes could affect the revenues that the Group generates from companies within this sector.	The Group monitors carefully the revenue it generates from any single customer (or customer group) and if appropriate takes proactive steps to reduce the proportion of such revenues within the subsidiary or division – or seeks to sell other product lines to such customers in order to diversify this risk.
RETENTION OF KEY EMPLOYEES	The Group has a number of key employees working for it. The loss of certain of these employees could be problematic for the Group.	The Group has in place a number of measures which are designed to optimise key employee retention including, but not limited to ensuring that their work is stimulating and interesting; their remuneration is competitive; and the work place environment and culture is attractive. Additionally, employees have the opportunity, as appropriate, to participate in equity upside from employee share option schemes.
DEPENDENCE ON KEY EMPLOYEES	As with any Group of its size, the Group is dependent on certain key employees. Their sudden or unexpected departure from the Group can have a disruptive effect upon the Group's activities.	The Group actively seeks to highlight key employees and to consider ways in which the Group can reduce its dependence upon them by developing other employees' skills or, where necessary, hiring in supplementary employees with the necessary skill sets. Additionally, the Group's remuneration structure is designed so as to foster employee loyalty.

DIRECTORS AND ADVISERS

NIGEL KEEN, FCA* FIET
Chairman

Joined the Board in March 2008 and was appointed Chairman in 2009. He gained a degree in Engineering from Cambridge University and also qualified as an accountant with Deloitte. He has pursued a career encompassing industry, venture capital and banking. He is Chairman of Oxford Instruments Plc and Deltex Medical Group Plc.

NICHOLAS ADAMS
Chief Executive

Joined the Board in May 1997 and was appointed Chief Executive in May 1998. Previously he was a Director of Corporate Finance at Barings, an investment bank, having spent nine years in Barings' Corporate Finance Department both in the UK and continental Europe. He read chemistry at Durham University.

MICHAEL ROLLER, ACA
Group Finance Director

Joined the Board in March 2014. He has previously been Finance Director of a number of quoted companies, most recently Corin Group PLC, has significant experience within the Life Sciences sector and is a non executive director of Filtronic plc. He qualified as an accountant with KPMG.

TONY BOURNE*
Non-executive Director

Joined the Board in March 2009. He is currently a non-executive director at various companies including Barchester, one of the UK's largest residential care home businesses, Spire Healthcare, the leading UK listed (FTSE 250) private hospital and healthcare provider (Chair of the Remuneration Committee), and Chelsea and Westminster Health Charity (Chair), one of the largest NHS charities. For nearly nine years up to late 2013, he was Chief Executive of the British Medical Association. Prior to joining the BMA as Chief Executive, Tony was in investment banking for over 25 years.

SIMON CONSTANTINE, ACA*
Non-executive Director

Joined the Board in November 1999. Previously he held a number of financial and operational positions at Board level within Life Sciences International PLC. He is also Chairman of Capstone Foster Care Ltd and Northern Venture Trust PLC.

SIR IAN CARRUTHERS, OBE*
Non-executive Director

Joined the Board in August 2010. He is former Chief Executive of the NHS South of England and has extensive experience of the UK and international healthcare systems. He is a Chairman of Portsmouth Hospitals NHS Trust, Chancellor of the University of West of England and Chair of Healthcare UK.

CHRISTOPHER MILLS**
Non-executive Director

Joined the Board in December 2012. He is Chief Executive and Investment Manager of North Atlantic Smaller Companies Investment Trust PLC, a director of Oryx International Growth Fund Ltd and is the Chief Investment Officer and a member of Harwood Capital LLP.

* Member of the Audit, Remuneration and Nominations Committees.

** Member of the Remuneration Committee.

SECRETARY
Georgina Pope, ACMA

REGISTERED OFFICE
52 Royce Close
West Portway
Andover
Hampshire SP10 3TS

AUDITORS
Deloitte LLP
Chartered Accountants
Reading

STOCKBROKERS
Investec Limited

BANKERS
Royal Bank of Scotland PLC

REGISTRARS
Capita IRG Plc

CORPORATE GOVERNANCE

INTRODUCTION BY THE CHAIRMAN

The Board is committed to upholding the highest standards on corporate governance, protecting and growing our shareholders' assets, and engaging in a fair and transparent manner with all of our stakeholders. We take responsibility for approving the Group's long-term goals and strategies, and provide overall financial and organisational control. We have also put in place appropriate internal control and risk management systems across the Group. The detailed statement below sets out how the Company has applied the main and supporting principles of good governance set out in the UK Corporate Governance Code issued in September 2012 by the Financial Reporting Council ("the Code").

NIGEL KEEN

Chairman

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

The Company is committed to the principles of corporate governance contained in the Code. The Board is accountable to shareholders for applying these principles.

The Directors consider that throughout the year ended 31 December 2014 the Company has been in compliance with the code provisions set out in the Code, except for code provision A.4.1 as the Board has not nominated a senior independent Director other than the Chairman, because the Board is small; and code provision D.2.1 as Nigel Keen is Chairman of the Remuneration Committee and also Chairman of the Company.

THE CHAIRMAN

Nigel Keen is Chairman of the Nomination and Remuneration Committees as the Board considers that for a SmallCap company the Chairman's prime roles are: to procure an excellent strategy for the business; to recruit and retain the best available management team to execute this strategy; to put in place a Board of independent directors whose experience can add value to the work of the management; and to ensure that the business maintains the highest standard of corporate governance. Taking into consideration the size of the Company, the Board believes that in order to fulfil these obligations it is appropriate and necessary for the Chairman of the Board to also be Chairman of the Nomination Committee and the Remuneration Committee.

THE BOARD

The Board comprises two executive and five non-executive Directors who possess the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively. The non-executive Directors are considered by the Board to be independent in character and judgement other than Christopher Mills who is not judged to be independent under the criteria set out in the Code as he represents shareholders controlling 29.6% of the Company's ordinary shares; the Board does not consider the fact that the other non-executive Directors hold shares in the Company impairs their independence. In the case of Simon Constantine, who has served on the Board for more than nine years, the Board is satisfied that he remains free from any relationship with the executive management of the Company which could interfere with the exercise of his independent judgement and that he continues to provide a rigorous challenge to management; he is proposed for re-election in accordance with the Code.

The non-executive Directors are required to submit themselves for re-election at regular intervals. Before re-election the Chairman will confirm to the shareholders that the individual's performance continues to be effective and the individual continues to demonstrate their commitment to the role. This composition satisfies the Code's Principles and Provisions that the Board should have a balance of executive and non-executive Directors in terms of number and relevant experience to enable it to have effective leadership and control of the Company and its subsidiaries. The Directors have access to all information and, if required, independent professional advice at the expense of the Company. The Board met twelve times during the year, Christopher Mills was absent from three meetings and Tony Bourne was absent from two meetings.

The Board has formally adopted a schedule of matters which are specifically reserved for its decision and retains full control over key strategic, financial and organisational issues within the Group. The Board has agreed a written statement which sets out the division of responsibilities between the Chairman and the Chief Executive. The Board has established Audit, Remuneration and Nominations Committees.

For the year ended 31 December 2014 the Board has completed its annual effectiveness evaluation exercise. This was an internal exercise under the control of the Chairman. Each Director has discussed the results of this review with the Chairman at the individual one-to-one interviews which the Chairman holds with the directors. The Chief Executive is also involved in the process by giving his input on the way the Board helps him in his role. The output from these evaluations allows the Chairman to review objectively the overall balance of the Board.

DIRECTORS' CONFLICTS OF INTEREST

All directors have a duty, under the Companies Act 2006 ("the Act") to avoid a situation in which a direct or indirect interest conflicts or possibly may conflict with the interests of the Company. The Company's Articles of Association include provisions for dealing with directors' conflicts of interest in accordance with the Act.

COMMUNICATION WITH SHAREHOLDERS

The Board attaches a high priority to communications with shareholders. The Group's annual Report and Accounts are sent to all shareholders. The Group meets regularly with its shareholders and there is an opportunity for shareholders to question the Chairman and the Directors at the Annual General Meeting.

THE AUDIT COMMITTEE

The Audit Committee is chaired by Simon Constantine. It consists of all the non-executive directors with the exception of Christopher Mills and oversees the proper observation of accounting standards, the application of the Group's accounting policies, its systems of internal financial controls and all issues relating to the preparation and approval of the Group's annual and half-yearly Reports and Accounts. The Committee also considers the effectiveness of the audit process, objectivity and independence of the Group's auditors by a process of assessment and keeps the scope of non-audit services provided by the auditors and the level of non-audit fees under review.

In addition it is involved in the approval of the audit fees and the auditors' terms of engagement. The Audit Committee acknowledges its responsibility to investigate any reports of impropriety or potential fraud. The report of the Audit Committee is included on pages 34 to 37.

THE REMUNERATION COMMITTEE

The Remuneration Committee consisted of all the non-executive Directors and was chaired by Nigel Keen. The Committee, which met once during the year, is responsible for recommending to the Board the terms of service and remuneration of the Executive Directors. It also has oversight of the remuneration levels of the senior members of the management teams. The Committee is responsible for the allocation of share options throughout the Group. The Report of the Remuneration Committee is included on pages 26 to 28. The Board as a whole, determines the remuneration of the Chairman and the terms of his appointment and the remuneration of the other non-executive Directors. No Director is involved in deciding his own remuneration.

THE NOMINATIONS COMMITTEE

The Nominations Committee consisted of all the non-executive directors with the exception of Christopher Mills and is chaired by Nigel Keen. The Committee met once during 2014. This Committee is responsible for nominating candidates for appointment to the Board having regard to the overall skills balance and composition of the Board. It also recommends to the Board the composition of the Board committees.

RISK MANAGEMENT AND INTERNAL CONTROL

A risk management policy is in place which sets out the Board's overall approach to management and acceptance of risk. The Directors and senior managers of each Group business are required to undertake their own risk identification and assessment according to the individual circumstances of the business which they manage, and this risk assessment is then reviewed and evaluated by the Group Finance Director and submitted to the Board for consideration.

This system has been in place since 1 January 2014 and up to the date of approval of the Report and Accounts. This risk management process is regularly reviewed by the Board and accords with "Internal Control: Guidance for Directors on the Combined Code" produced by the Turnbull working party.

The Directors have overall responsibility for the system of internal control throughout the Group and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, as it can only provide reasonable, but not absolute, assurance against material misstatement or loss. The Board has conducted a review of the effectiveness of the system of internal control for the year ended 31 December 2014 and the period up to 18 March 2015. In carrying out this review the Board takes account of material developments through reports by the Chief Executive, the Group Finance Director and the Audit Committee. No significant issues were found during this review.

The Board has established an organisation structure with clear lines of accountability. Formalised processes are in place for the preparation, review and approval of business plans, budgets and investment proposals for the Group as a whole and for the individual divisions. Financial results and other key business monitors are reported to the Board regularly and variances from approved budgets identified and used to initiate action. The Board has published, internally, management rules which include financial and operating control procedures with which the management of each subsidiary or division is required to comply.

CORPORATE SOCIAL RESPONSIBILITY

Corporate responsibility is at the heart of the way the Group conducts its business.

DIVERSITY

The Group recognises the importance and benefit of ensuring diversity throughout the business. We strive to create a culture which recruits and promotes on the basis of ability, irrespective of gender, ethnicity or national origin. The Group has policies in place designed to counter the possibility of discrimination of all kinds.

The Company is committed to ensuring that all employees have the right to work in an environment that is free from any form of harassment or bullying.

HUMAN RIGHTS

Bioquell supports the principles defined within the United Nations Universal Declaration of Human Rights and the International Labour Organisation Core Conventions including the conventions in relation to child labour, forced labour, non-discrimination, freedom of association and collective bargaining.

The specific circumstances of the Group are such that the very large majority of its employees are in developed countries, all its manufacturing is carried out in the UK and most of its key suppliers are located in the UK and Europe. The inherent risk associated with either the Group's employees or its suppliers as regards potential human rights violations is therefore considered by the Directors to be low. That said the Group is fully committed to good practice in respect of human rights and in the event that the Group develops in such a way as to encompass a greater level of geographical diversity, either by itself or through its supply chain, would seek to put in place appropriate protections to ensure best practice is adhered to.

RATIO OF MEN AND WOMEN

At 31 December 2014 there were 82 women employed across our Group making 18% of our Group-wide employee base. With fewer than 40 employees in any single geographical location outside the UK, this ratio is evaluated on a Group-wide basis only.

Under the definition of senior managers as those reporting directly to Executive Directors, 3 of 13 such reports are women.

There is presently no female representation on the Group Board. The Board is satisfied that it has the appropriate balance of skills, experience and expertise necessary, it gives due regard to diversity in the event of further changes to both its own membership and/or the membership of the senior management team.

THE ENVIRONMENT

Care for the environment is an integral part of the Group's business activities. It is the Group's policy to ensure its facilities are safe and the Group is committed to ensuring that its impact on the environment is minimised. The Group supports and trains its personnel to act responsibly in matters relating to the environment.

The Group takes account of relevant legislation and regulations and analyses its practices, processes and products to reduce their environmental impact, and works with its customers and suppliers to achieve a high standard of product stewardship.

HEALTH AND SAFETY

The Board is committed to ensuring the health and safety of the Group's employees and applies high standards throughout the Group in the control and management of its operations. All companies across the Group comply with relevant legislation and the Group communicates its health and safety policy to all employees. The Group has put preventative measures in place that aim to continue to reduce major injuries and lost time accidents. In the UK, during the year ended 31 December 2014, there were no fatalities, 1 reportable (RIDDOR) injury (2013: none) and 41 minor injuries (2013: 25).

AUDIT COMMITTEE

During the year the audit committee comprised four independent non-executive Directors:

Simon Constantine (Chairman), Tony Bourne, Sir Ian Carruthers and Nigel Keen (Chairman of the Company).

The Audit Committee's terms of reference include the following roles and responsibilities:

- monitoring and making recommendations to the Board in relation to the Company's published financial statements and other formal announcements relating to the Company's financial performance;
- advising the Board on whether the committee believes the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- monitoring and making recommendations to the Board in relation to the Company's internal financial controls and financial risk management systems;
- periodically considering the need for an internal audit function;
- making recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- monitoring the extent to which the external auditor is engaged to supply non-audit services; and
- ensuring that the Company has arrangements in place for the investigation and follow-up of any concerns raised confidentially by staff in relation to the propriety of financial reporting or other matters.

The committee reviews its terms of reference and its effectiveness annually and recommends to the Board any changes required as a result of the review. The terms of reference are available on request from the Company Secretary and on the Company website, www.bioquellplc.com. The audit committee meets at least three times a year and has direct access to Deloitte LLP ("Deloitte"), the Company's external auditor. The Board considers that the members of the committee are independent and collectively have the skills and experience required to discharge their duties effectively, and that the chairman of the committee meets the requirements of the UK Corporate Governance Code as to recent and relevant financial experience.

The Board has considered the need to introduce an independent Group internal audit function but has decided that the current control mechanisms incorporating the Finance and Quality teams are appropriate in the context of the size and complexity of the business. The Board reviews this position at least annually.

During the year ended 31 December 2014 the audit committee met three times and discharged its responsibilities by:

- reviewing and approving the external auditor's terms of engagement, remuneration and independence;
- reviewing the external auditor's plan for the audit of the Company's financial statements, including identification of key risks;
- reviewing the Company's internal financial controls operated in relation to the business and assessing the effectiveness of those controls in minimising the impact of key risks;
- reviewing the appropriateness of the Company's accounting policies;
- reviewing the Company's draft annual report and accounts and interim report prior to Board approval;
- in particular reviewing the annual report and accounts with reference to its knowledge of the activities of the Group during the year, concluding that they are fair, balanced and understandable; and
- reviewing the external auditor's detailed report to the committee on the annual financial statements.

The following key areas of risk and judgement have been identified and considered by the audit committee in relation to the business activities and financial statements of the Company.

- The carrying value of intangible assets and in particular the value held in respect of the development of the Company's BioxyQuell technology, which has yet to generate any significant revenues.
- Revenue recognition and in particular the timing of recording of revenue in respect of products dispatched around the year end, given the significant volume of trade in December.

These issues were discussed with management and the auditor, in particular at the pre-year end audit planning meeting and at the conclusion of the audit of the financial statements.

Carrying value of capitalised development costs in respect of BioxyQuell technology: the decision was taken at the end of the year to write off all £1.9m of accumulated capitalised development costs, net of amortisation, in respect of this intangible asset. The committee reviewed with management and the auditor the progress made during 2014 against plans and projections prepared at the beginning of the year together with current expectations in respect of market adoption of the technology and concluded that these are not sufficiently certain either in time or quantum to justify continuing to hold this asset on the balance sheet.

AUDIT COMMITTEE CONTINUED

Carrying value of other capitalised development costs and patent costs: the committee received and reviewed reports from management outlining the basis for the assumptions used in arriving at and the justification for retaining the carrying values of all other intangible assets. The committee reviewed the costs capitalised during the year, the amounts charged to the income statement by way of amortisation and the resulting net carrying values and compared these to sales and gross margins generated and forecast to be generated from the respective assets. In addition, this area is an area of higher audit risk and accordingly Deloitte provided detailed reporting to the committee on this matter. The committee concurs with the writing off of the balance of £0.8m of development costs of a number of older assets where a decision has been taken to discontinue them; in respect of capitalised patent costs, the committee concurs with the results of management's review of patent costs which concluded that the company should focus on a narrower range of core patents and should cease to maintain a number of other patents which were costing more to maintain than could be justified by reference to their future potential to the Company, resulting in a write down of £1.2m to the value of capitalised patent costs. The committee is satisfied that the carrying values of retained assets are appropriate.

Revenue recognition and in particular the timing of recording of revenue in respect of products dispatched around the year end, given the significant volume of trade in December: the committee received a report from management on the principles, processes and calculations used to determine the revenue included in the financial statements for the year with particular reference to shipments of products and services provided around the year end. After detailed review, the committee concluded that the controls around year end shipping and invoicing of products and services remained in place and that shipments around the year end had been included in the correct accounting period. Deloitte also reported on their work on cut-off and noted no errors. The audit committee therefore was satisfied that the sales figure for the year included in the annual report and accounts fairly reflected the year's business.

The Company's management and auditor confirmed to the audit committee that they were not aware of any material misstatements in the financial statements. Having reviewed the reports received from management and the auditor, the committee is satisfied that the key areas of risk and judgement have been appropriately addressed in the financial statements and that the significant assumptions used in determining the value of assets and liabilities have been properly appraised and are sufficiently robust.

AUDITOR INDEPENDENCE

As part of the review of auditor independence, Deloitte has confirmed that it is independent of the Company and has complied with applicable auditing standards. Deloitte has held office as auditor for 13 years; in accordance with professional guidelines the engagement partner is rotated after at most five years and the current partner has served for four years.

In assessing the auditor's effectiveness, the committee:

- → challenged the work done by the auditor to test management's assumptions and estimates in the key risk areas;
- → reviewed reports received from the auditor on these and other matters;
- → received and considered feedback from management; and
- → held private meetings with the auditor that provide the opportunity for open dialogue and feedback between the Committee and the auditor without management being present.

In addition, the Chairman of the Committee has discussions by telephone and in person with the audit lead partner outside the formal committee process throughout the year.

Having completed its review, the audit committee is satisfied that Deloitte remained effective and independent in carrying out its responsibilities up to the date of signing this report and believes that it would not be appropriate to put the audit appointment out to tender at the present time although this is kept under review. Accordingly, Deloitte LLP will be proposed for re-appointment as auditor at the annual general meeting.

REMUNERATION COMMITTEE

DEAR SHAREHOLDER

As Chairman of the Remuneration Committee ("the Committee"), I am pleased to present our Directors' Remuneration Report for the year ended 31 December 2014. This report has been compiled in line with the Large and Medium-sized Companies and Groups Regulations 2013 (the "Regulations") and describes how the Board has applied the Principles of the UK Corporate Governance Code relating to Directors' remuneration. As required by the Regulations this report will be split into two parts:

- → The Directors' Remuneration Policy sets out the policy for 2015 and the key factors that were taken into account in setting the policy. The Directors' Remuneration Policy will be subject to a binding shareholder vote for a period of 12 months at the AGM to be held on 18 May.
- → The Annual Report on Remuneration sets out payments and awards made to the Directors and details the link between Company performance and remuneration for the 2014 financial year. The Annual Report on Remuneration is subject to an advisory shareholder vote at the AGM.

The Remuneration Committee defines the Company's policy on remuneration, benefits and terms of employment. As part of this process, it provides a forma framework for the development of remuneration policy for Executive Directors and for fixing the remuneration packages of individual Directors. The Committee also reviews and approves general increases in salaries and bonus arrangements for staff. The remuneration policy and practice for employees are taken into account when setting remuneration for Executive Directors.

In addition, the Committee has reviewed the remuneration packages of the Executive Directors to ensure these continue to attract, retain and motivate talented people, while recognising wider shareholder interest. The Committee reviews all incentive-based rewards before they are awarded and has full discretion to adjust awards downwards if deemed appropriate.

The terms of reference of the Remuneration Committee are available at www.bioquellplc.com.

The Committee made no major changes to the elements of the Executives' remuneration packages during the year as it believes they continue to achieve the objectives of attracting and retaining high calibre individuals. Changes within each element of remuneration are discussed in the Remuneration Report.

NIGEL KEEN

Chairman, Remuneration Committee
18 March 2015

REMUNERATION POLICY

The Remuneration Policy will come into effect from the date of the AGM in 2015 and remain in place for a period of one year. The main aim of the Group's remuneration policy is to align the interest of Executive and Non-Executive Directors with the Group's business strategy and the long-term creation of shareholder value. The policy aims to pay the Directors competitively, whilst considering the remuneration practices of other international companies of similar size and scope, the current economic climate, the regulatory and governance framework and the need to ensure that the Directors are remunerated appropriately, whilst ensuring the Group pays no more than is necessary.

Element of remuneration	Purpose of this element	Operation	Maximum potential benefit	Performance measures
Basic salary	To provide the basis of a market competitive overall remuneration. Takes account of the role, skills and contribution of the individual.	Basic salaries are normally reviewed annually in March with any changes usually taking effect from 1st April. The review includes a comparison with other companies of similar size and complexity whilst taking into account a number of critical factors such as individual responsibility, performance and experience.	Executive Director salaries as at 1st January 2015 are set at the following levels: Nicholas Adams CEO £307,000 Michael Roller GFD £192,000 Increases in salary are made in relation to Group and individual performance at the discretion of the Remuneration Committee.	n/a
Pension	To provide post-retirement remuneration to ensure that the overall remuneration package is competitive.	Executive Directors are entitled to an employer pension contribution of 15%. It is the Group's policy that only basic salary is pensionable.	Pension contributions to a maximum of 15% of base salary.	n/a
Other benefits	To provide market typical benefits to ensure that the overall remuneration package is competitive.	Executive Directors currently receive a car allowance and health insurance. The Group would consider payment of relocation expenses on an individual basis.	There are no set maximums for these benefits but they are set in line with other wider employee remuneration.	n/a
Annual bonus	To support the business strategy by incentivising the delivery of annual financial targets as well as the achievement of personal and strategic objectives. To provide market competitive reward opportunities for the achievement of strong financial performance. To align the interests of Executives and shareholders.	A cash bonus award paid after the publication of the financial results for the year.	100% of salary.	75% of the award is based on financial targets (50% Group EBITDA and 25% on Group turnover) and 25% on personal and strategic objectives.

Element of remuneration	Purpose of this element	Operation	Maximum potential benefit	Performance measures
Long-term incentives	To create alignment between the interest of Executives and shareholders through the delivery of rewards in Company shares. To incentivise Executives to deliver long-term shareholder value creation and the achievement of financial targets.	An award of share options under the Group's Executive Share Option ("ESO") Scheme that vests subject to EPS growth of RPI+ 7.5% compounded over three years. There is no retesting if the performance condition is not met at the end of the three year vesting period.	Awards up to 100% of salary can be made each year. During 2014 actual awards were made at 100% of salary.	Vesting over three years subject to compound EPS growth at RPI+ 7.5% p.a.
The Bioquell SAYE scheme	The scheme is an HM Revenue and Customs "approved" scheme the purpose of which is to allow all UK employees the chance to invest in the Company.	Invitations are issued to all permanently employed UK staff, including Executive Directors to invest a maximum of £250 per month over a three year period to obtain shares the options for which are granted at a 20% discount to market value.	Maximum benefit depends on share price growth during the vesting period. Options cannot be exercised until the third anniversary of grant is reached, after which the participant has six months in which to exercise the option before it expires.	n/a

POLICY ON NON-EXECUTIVE DIRECTORS

Non-Executive Directors receive fixed fees agreed by the full Board after reference to similar roles in an appropriate comparator group of companies, and reimbursement of expenses incurred in attending Board and other meetings. It is the Board's policy for the Non-Executive Directors to be paid a level of fee that reflects the time commitment and responsibilities of the role and is sufficient to attract individuals with appropriate knowledge and experience.

No increase was made during 2014.

PERFORMANCE MEASURES AND TARGETS

Short and long-term performance measures have been selected as the Committee believes they provide a direct link to the Company's strategy as set out in more detail in the Strategic Report. The Committee believes that the commercial sensitivity of the targets and performance measures set against annual bonuses are such that disclosing precise details of those targets would not be in shareholders' interests. In terms of the ESO scheme awards the Committee has set a target of EPS growth at RPI +7.5% compounded over three years. If this target is not met after three years the share options lapse. The Committee believes this most clearly aligns the motivation of the Executive Directors with shareholder benefit.

REMUNERATION POLICY FOR EMPLOYEES

All employees of Bioquell can be considered for the same six components of pay as detailed for Executive Directors. The maximum opportunity available is based on the seniority and responsibility of the role and the individual.

CHANGES TO REMUNERATION POLICY

There have been no changes to the operation of, maximum potential benefit of or performance measures in relation to the six elements of remuneration defined in the table above during the past year.

REMUNERATION POLICY CONTINUED

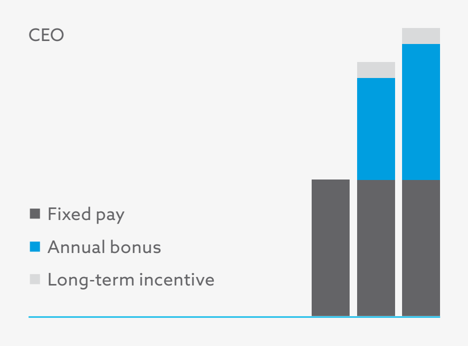
REMUNERATION SCENARIOS

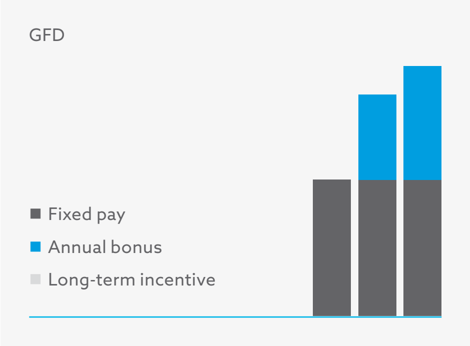
The Committee believes that the remuneration arrangements in place for 2015 and beyond provide an appropriate balance between fixed and variable pay linked to short and long-term strategic objectives. The charts below illustrate the current value and composition of the Executive Directors' remuneration opportunity in minimum, "on-target" and maximum performance scenarios.

Minimum: No bonus payout
No vesting under the ESO scheme

On target: 75% of maximum annual bonus payment
100% of maximum vesting under the ESO scheme

Maximum: 100% of maximum annual bonus payment
100% of maximum vesting under the ESO scheme





The percentages attributable to each element of remuneration at the three scenarios are shown below:

	Minimum		On-target		Maximum	
	CEO	GFD	CEO	GFD	CEO	GFD
Fixed pay	100%	100%	53%	62%	47%	50%
Annual bonus	—	—	40%	38%	47%	50%
Long-term incentives	—	—	7%	—	6%	—

RECRUITMENT POLICY

The Committee's approach to remuneration with regard to recruiting staff is to pay no more than is necessary to attract candidates of the appropriate calibre and experience needed for the role. The table sets out the Committee's approach to recruitment of new Executive Directors in regard to each element of remuneration.

Remuneration element	Policy on recruitment
Basic salary	The Committee will offer salaries in a range appropriate for comparative roles while also considering the experience of the individual, the wider economic climate and pay and conditions throughout the Group, in line with its policy for existing Executive Directors.
Benefits	The Committee will offer a benefits package that will be set in line with its policy for existing Executive Directors. This includes, but is not limited to, a car allowance and private health insurance.
Pension	Maximum contributions will be set in line with the Company's policy for existing Executive Directors.
Bonus	The Committee will offer the ability to earn a bonus appropriate for comparative roles in line with its policy for existing Executive Directors. The maximum bonus paid will be 100% of the individual's base salary.
Long-term incentives	The normal maximum annual grant is up to 100% of salary per annum in line with the Company's policy for existing Executive Directors.

EXIT PAYMENTS

When determining any loss of office payment for a departing individual the Committee will ensure that a consistent approach is adopted so that there is no reward for poor performance and the liabilities of the Group are minimised where appropriate.

No amount is payable if an Executive Director is dismissed for serious breach of contract, serious misconduct or under-performance or acts that bring the Executive Directors, or Group, into serious disrepute.

The table below sets out the policy on exit payment in relation to each element of remuneration for Executive Directors.

Remuneration element	Approach
Basic salary, benefits and pension	In the event of termination by the Company, there will be no compensation for loss of office due to misconduct or normal resignation. In other circumstances the Executive Directors may be entitled to receive payment in lieu of notice.
Annual bonus	Whether a bonus payment is made is entirely at the discretion of the Remuneration Committee dependent on the circumstances of the termination and, if a bonus is paid, it may be pro-rated to the time employed in the year of cessation.
Long-term incentives	Awards under the ESO scheme are governed by the rules of the scheme and therefore will usually lapse when the Executive Director gives notice of termination of his employment. However in case of death, disability or injury, retirement or redundancy, change of control events or at the discretion of the Committee and with regard to the circumstances it may be decided that the leaver is a "Good Leaver" and grants under the ESO Scheme will remain active for a set period after cessation up to but not exceeding the original expiry date.

SERVICE CONTRACTS AND NOTICE PERIODS

The Executive Directors have service contracts with an indefinite term with notice periods of 12 months in respect of Nicholas Adams and six months in respect of Michael Roller. In the case of Nicholas Adams a change of control in the Company extends his notice period to two years and the change of control may be treated by him as a terminating event. The Committee considers these notice periods to be reasonable and proper and in the interests of both the Company and the Directors, having regard to market conditions and current practice. In the event of early termination, the Directors' contracts provide for compensation up to a maximum of basic salary for the notice period.

The Chairman's appointment can be terminated by the Company on six months' notice.

Non-executive Directors are appointed for an initial period of three years with subsequent reviews. They do not have a contract of employment and their appointment can be terminated without notice.

The service contracts for the Chairman, the Executive and Non-Executive Directors are held at the head office of the Group at Royce Close, Andover.

REMUNERATION REPORT

The Remuneration Report constitutes the audited part of the reports of the Remuneration Committee.

The Committee consists of four independent Non-Executive Directors: Nigel Keen (Chairman), Tony Bourne, Sir Ian Carruthers and Simon Constantine and Christopher Mills. Nigel Keen is also Chairman of the Company and, as has been described in the Corporate Governance introduction above, the Board considers that it is appropriate that he is also Chairman of the Committee. The Committee defines the Company's policy on remuneration, benefits and terms of employment. As part of this process, it provides a formal framework for the development of remuneration policy for Executive Directors and for fixing the remuneration packages of individual Directors. The Board, as a whole, is responsible for fixing the remuneration of the Non-Executive Directors, including the Chairman. The Committee has access to independent, external advisers when required but did not seek external advice during the year ended 31 December 2014. The Committee sought input from the Chief Executive on remuneration of senior staff. The Chairman maintains contact with principal shareholders regarding remuneration policy.

SINGLE TOTAL FIGURE OF REMUNERATION FOR EACH DIRECTOR

The single total figure of remuneration, executive pension costs, annual bonus, Directors' options over shares and statements of Directors' share interests have been audited by Deloitte LLP.

2014	Salary & fees £'000	Benefits* £'000	Annual bonus £'000	Long-term incentives £'000	Pension contribution £'000	SAYE £'000	Total £'000
Executive Directors							
Nicholas Adams	305	11	—	—	46	—	362
Mark Bodeker**	61	2	—	—	3	—	66
Michael Roller	150	7	—	—	26	—	183
	516	20	—	—	75	—	611
Non-Executive Directors							
Nigel Keen	63***	—	—	—	—	—	63
Tony Bourne	30	—	—	—	—	—	30
Sir Ian Carruthers	30	—	—	—	—	—	30
Simon Constantine	30	—	—	—	—	—	30
Christopher Mills	30	—	—	—	—	—	30
	183	—	—	—	—	—	183
Total	699	20	—	—	75	—	794

* Benefits paid to Executive Directors were a car allowance and private health insurance.

** Mark Bodeker resigned as a Director on 19 March 2014, Michael Roller started working for the Group on 10 February 2014 and took up the role of Group Finance Director on 19 March 2014.

*** The Chairman is paid a fee of £55,000 plus a payment equivalent to national insurance contributions.

SINGLE TOTAL FIGURE OF REMUNERATION FOR EACH DIRECTOR continued

2013	Salary & fees £'000	Benefits* £'000	Annual bonus £'000	Long-term incentives £'000	Pension contribution £'000	SAYE £'000	Total £'000
Executive Directors							
Nicholas Adams	291	11	60	—	45	6	413
Mark Bodeker	243	8	20	—	36	6	313
	534	19	80	—	81	12	726
Non-Executive Directors							
Nigel Keen	63**	—	—	—	—	—	63
Tony Bourne	30	—	—	—	—	—	30
Sir Ian Carruthers	30	—	—	—	—	—	30
Simon Constantine	30	—	—	—	—	—	30
Christopher Mills	30	—	—	—	—	—	30
	183	—	—	—	—	—	183
Total	717	19	80	—	81	12	909

* Benefits paid to Executive Directors were a car allowance and private health insurance.
** The Chairman is paid a fee of £55,000 plus a payment equivalent to national insurance contributions.

CHAIRMAN

Under an agreement between the Company and Imperialise Limited, Nigel Keen is retained to act as Chairman of the Company and he must account to Imperialise Limited for his services. In addition Imperialise Limited is paid a sum equivalent to the employer's national insurance contributions on these fees and it is responsible for the cost of national insurance on payments to Nigel Keen.

EXECUTIVE DIRECTOR PENSION ARRANGEMENTS

Under the terms of their service contracts the Executive Directors can ask the Company to contribute to a pension plan of their own choice. The Company contributed a maximum of 15% during the year ended 31 December 2014. Bonus payments are excluded from the contribution calculations. During the year the Company contributed £46,000 (2013: £45,000) into a retirement savings scheme in respect of Nicholas Adams, £26,000 (2013: n/a) in respect of Michael Roller and £3,000 (2013: £36,000) in respect of Mark Bodeker.

REMUNERATION REPORT CONTINUED

OUTCOME OF THE ANNUAL BONUS AWARD FOR THE YEAR ENDED 31 DECEMBER 2014

In determining the awards for 2014, the Committee took into account the profit before tax, the Group's turnover and the individual objectives of each Executive Director. The performance targets, actual performance achievement and resulting bonus payments are summarised below:

		Nicholas Adams			Michael Roller		
Performance measures	Weighting	% of target achieved	Maximum opportunity £'000	Bonus receivable £'000	% of target achieved	Maximum opportunity £'000	Bonus receivable £'000
Profit before tax	50%	—	153	—	—	96	—
Group turnover	25%	—	77	—	—	48	—
Personal objectives	25%	—	77	—	—	48	—
Total	**100%**	**—**	**307**	**—**	**—**	**192**	**—**

PAYMENT FOR LOSS OF OFFICE

During 2014 a payment of £37,000 was made to Mr Mark Bodeker for loss of office.

DIRECTORS' OPTIONS OVER SHARES

During the year the following grants of options were made to Directors of the Company:

	Type of scheme award	Basis of award	Face value	% of award vesting for minimum performance	Length of vesting period	Summary of performance measures
Nicholas Adams	Share option	Under Executive Share Option Scheme	296,960	100%	3 years	EPS growth of RPI +7.5% compounded over three years
Michael Roller	Share option	Under Executive Share Option Scheme	192,000	100%	3 years	EPS growth of RPI +7.5% compounded over three years

Share options issued under the ESO Scheme and held by Directors of the Company are as follows:

Director	1 January 2014	Granted/ (exercised)	Lapsed	**31 December 2014**	Exercise price (p)	Date from which exercisable	Expiry date
Nicholas Adams	257,000	—	(257,000)	—	104.0	23.03.14	23.03.18
	225,000	—	—	**225,000**	122.5	29.03.15	29.03.19
	194,000	—	—	**194,000**	146.5	19.04.16	19.04.20
	—	232,000	—	**232,000**	128.0	24.03.17	24.03.21
Michael Roller	—	150,000	—	**150,000**	128.0	24.03.17	24.03.21
				801,000			

All the options held during the year were subject to performance conditions. No options vested during the year. The Executive Directors did not exercise any options during the year.

All Directors and their connected persons are required to notify the Company in writing of any transaction conducted on their own account in the shares of the Company.

STATEMENT OF DIRECTORS' SHARE INTERESTS

	31 December 2014	% Share capital	1 January 2014
Christopher Mills*	**12,610,000**	29.6%	11,500,000
Nicholas Adams	**1,000,843**	2.4%	985,843
Simon Constantine	**470,000**	1.1%	470,000
Nigel Keen	**127,270**	0.3%	127,270
Michael Roller	**19,245**	—%	—
	14,227,357		13,083,113

* Mr Mills is Chief Investment Officer and a member of Harwood Capital LLP which owns 29.6% of the share capital.

The following table details the change in remuneration for the Chief Executive over the previous five years:

		CEO single figure of total remuneration £'000	Annual bonus awarded as a % of the maximum opportunity %	LTIP awards vesting as a % of the maximum award %
2014	Nicholas Adams	362	—%	—
2013	Nicholas Adams	407	21%	—
2012	Nicholas Adams	382	16%	—
2011	Nicholas Adams	489	60%	—
2010	Nicholas Adams	425	30%	100%

PERCENTAGE CHANGE IN REMUNERATION OF CEO AND EMPLOYEES

The percentage change in remuneration between 2014 and 2013 for the CEO and for all employees in the Group was:

	Salary % change	Taxable benefits % change	Bonus % change
CEO	4.8%	—%	(100)%
All employees	3%	3%	5%

RELATIVE IMPORTANCE OF SPEND ON REMUNERATION

The following table shows the increase in actual expenditure on remuneration across the Group between 2013 and 2014 in comparison to movement in dividends:

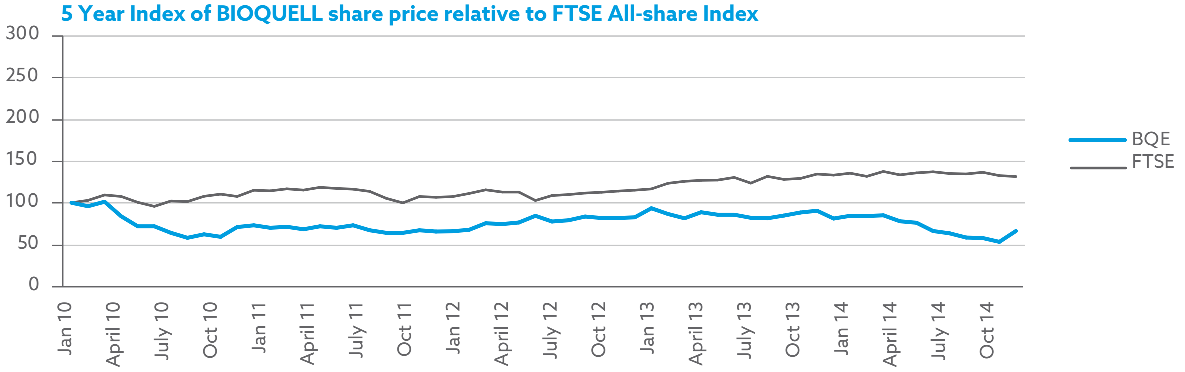
	2014 £'000	2013 £'000	Change %
Dividend	**1,404**	1,400	—%
Remuneration	**19,577**	19,988	(2)%

REMUNERATION REPORT CONTINUED

PERFORMANCE GRAPH

The following graph shows the Company's performance, measured by TSR, compared with the performance of the FTSE All-share Index also measured by TSR. The graph is prepared on the basis of constituent companies in the Index at a point in time.

5 Year Index of BIOQUELL share price relative to FTSE All-share Index



STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN THE FOLLOWING FINANCIAL YEAR

The salaries for 2015 are set out below:

	From 1 April 2014	From 1 April 2015
Nicholas Adams	£307,000 p.a.	£307,000 p.a.
Michael Roller	£192,000 p.a.	£198,000 p.a.

Annual bonus will be based around the criteria outlined in the Remuneration Policy (on page 22). Individual strategic targets are considered to be commercially sensitive and therefore not disclosed.

STATEMENT OF CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE COMPANY

Remuneration arrangements throughout the Group are based on the same remuneration principles, i.e. individuals are rewarded based on their contribution to the Group and to the success of the Group, and that reward should be competitive in the market without paying more than is necessary to recruit and retain individuals. Reward packages differ taking into account location, seniority and level of responsibility, but they are all built around these common reward objectives and principles.

STATEMENT OF CONSIDERATION OF SHAREHOLDER VIEWS

The Remuneration Committee, through the Chairman, continues to have a dialogue with shareholders. The views of all shareholders are considered, in addition the Chairman meets with the major shareholders.

STATEMENT OF VOTING AT ANNUAL GENERAL MEETING

The table below shows the advisory vote on the 2013 Directors' Remuneration Report.

	Votes for and at discretion	% of votes cast	Votes against	% of votes cast	Votes withheld	% of votes cast
2013 Remuneration Report	14,373,629	75.3%	4,706,871	24.7%	—	—%

The votes on the Annual Report on Remuneration and the Directors' Remuneration Policy are due to take place at the 2015 AGM to be held on 18 May.

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2014. The Corporate Governance Statements set out on pages 17 to 18 forms part of this report.

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position, and the risks and uncertainties which affect the business, are set out in the Strategic Report on pages 6 to 11. The Group has sufficient financial resources to cover budgeted future cashflows, together with contracts with its customers and suppliers across different geographic areas and industries. The Directors, having taken due account of the proposed disposal of the TRaC business referred to in note 35 to the accounts, believe that the Group is well placed to manage its business successfully despite the current uncertain economic outlook.

In accordance with the Corporate Governance requirements and the Statement of Directors' responsibilities on page 33, the Directors confirm that they have a reasonable expectation that the Group has adequate financial resources to continue to trade for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the financial statements.

DIRECTORS AND DIRECTORS' INTERESTS

The Directors of the Company are shown on page 16. All of them served throughout the year and through to the signing of the financial statements. The interests of the Directors in ordinary shares and options to acquire ordinary shares in the Company are set out in the Directors' Remuneration Report on pages 26 to 30.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders.

Tony Bourne and Simon Constantine retire by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election. Biographical information on all directors can be found on page 15.

RESEARCH AND DEVELOPMENT EXPENDITURE

The Group's policy is to develop new and improve existing products and services to meet the needs of its customers. The amount charged to the income statement in the year on research and development under IFRS amounted to £2,340,000 (2013: £1,613,000) – the total expenditure was £1,884,000 (2013: £3,038,000).

SUBSTANTIAL SHAREHOLDINGS

On 31 December 2014 the Company had been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the following voting rights as a shareholder of the Company.

During the period between 31 December 2014 and 18 March 2015 the Company did not receive any notifications under chapter 5 of the Disclosure and Transparency Rules.

DIVIDENDS

The Board is recommending the payment of a final dividend of 3.3 pence per ordinary share to be paid on 2 July 2015 to ordinary shareholders on the register on 5 June 2015, representing a total payment of £1,404,000 (2013: £1,400,000).

CAPITAL STRUCTURE

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 26. The Company has one class of ordinary shares. Each share carries the right to one vote at general meetings of the Company and carries no right to fixed income.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. Details of employee share schemes are set out in note 34. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Under its Articles of Association, the Company has authority to issue 2,121,621 ordinary shares.

Ordinary shareholders	Number	Percentage of issued ordinary share capital
Harwood Capital LLP*	12,610,000	29.6%
Liontrust Investments Partners LLP*	4,217,938	9.9%
A.H.J. Muir	2,207,175	5.2%

* The registered owners of shares in which these holders have an interest may be subsidiaries and associated companies and/or pension funds, unit trusts or investment trusts under that holder's management.

DIRECTORS' REPORT CONTINUED

CAPITAL STRUCTURE continued

The Company meets the definition of a qualifying entity under FRS 100 issued by the Financial Reporting Council (FRC).Accordingly, in the year ending 31 December 2015, the Company intends to transition the Company only accounts to report under FRS 101 as issued by the FRC. The Company intends to take advantage of the disclosure exemptions available under that standard. Any shareholder who objects to this proposal should write to the company secretary at the Registered Office.

SCOPE OF THE REPORTING IN THE ANNUAL REPORT AND ACCOUNTS

For the purposes of LR 9.8.4C R, the information required to be disclosed by LR 9.8.4 R in relation to long term incentive schemes can be found in the Remuneration Policy & Report (pages 22 to 30) and in Note 34 to the accounts on page 63.

EQUAL OPPORTUNITIES

The Group aims to ensure there are equal opportunities for all employees with no discrimination on accounts of race, age, gender, sexual orientation, disability and political or religious beliefs.

DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should as far as possible, be identical to that of other employees.

EMPLOYEE COMMUNICATION

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings and other forms of communication.

CORPORATE CARBON REPORTING

The table below sets out the Corporate Carbon footprint of the Group.

	2014 Tonnes of CO_2e	2013 Tonnes of CO_2e
Scope 1 (direct emissions – boilers & vehicles)	**546**	705
Scope 2 (energy indirect – purchased electricity)	**1,679**	1,789
Total emissions	**2,226**	2,494
Intensity Ratio – tonnes of CO_2e per £m revenue	**49**	56

We have reported on the emission sources required under the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013. Scope 1 comprises gas used in heating and for the rotomoulding oven plus fuel used in Company vehicles (calculated using the average mileage per annum). Scope 2 comprises purchased electricity for use at the Group's facilities worldwide be they owned or leased. The reporting boundary used for collation of the above data is consistent with that used for consolidation purposes in the financial statements. Data collated from all of the Group's subsidiaries has been converted using factors from the UK Government's GHG Conversion Factors for Company Reporting.

The Group uses "tonnes per £m revenue" as its intensity ratio as this combines the aims of growing revenue whilst maintaining overhead levels.

DISCLOSURE OF INFORMATION TO THE AUDITORS

Each of the persons who is a Director at the date of approval of this report confirms that:

(1) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(2) the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors, and signed on behalf of the Board.

GEORGINA POPE

Secretary
18 March 2015

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the directors are required to:

- → select suitable accounting policies and then apply them consistently;
- → make judgements and accounting estimates that are reasonable and prudent;
- → state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- → prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- → properly select and apply accounting policies;
- → present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- → provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- → make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- → the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- → the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- → the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board

NICHOLAS ADAMS

Chief Executive Officer
18 March 2015

MICHAEL ROLLER

Group Finance Director
18 March 2015

INDEPENDENT AUDITORS' REPORT
to the members of Bioquell PLC

OPINION ON FINANCIAL STATEMENTS OF BIOQUELL PLC

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2014 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes 1 to 35 for the consolidated financial statements and 1 to 14 for the parent company financial statements. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

GOING CONCERN

As required by the Listing Rules we have reviewed the directors' statement contained within the directors' report that the group is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and direction of the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
Impairment risk of R&D intangible assets	
Management are required to assess the carrying value of goodwill and other non-current assets and perform an impairment review under IAS 36 "Impairment of Assets" on an annual basis and whenever an indication of impairment exists. At 31 December 2014 the net book value of intangible assets (including patents) was £9.0m (2013: £13.3m). Assessment of the carrying value of intangible assets and possible impairment is a significant risk due to the quantum of the balance recorded on the consolidated balance sheet, the number of judgements involved in assessing impairment, the continuing challenging economic conditions and the fact that an impairment was recorded in the period in relation to the BioxyQuell intangible asset and the patent portfolio. The Audit Committee has included their assessment of this risk on page 20 and it is included in the key accounting estimates and judgements in note 3.	Our audit work assessed the adequacy of the design and implementation of controls over management review of the impairment review of intangible assets. We have obtained and reviewed a paper from management that sets out their impairment review of BioxyQuell and the facts supporting the Board approved decision to impair the intangible asset. We have assessed this paper by considering BioxyQuell revenues for 2014 and examining management's revised forecast of likely revenue for 2015 onward in the light of commercial realisation efforts in the year. We have examined the patents that have been impaired on a sample basis and assessed whether they will no longer deliver future economic benefits as they either relate to discontinued products or will not be renewed. We also examined, on a sample basis, the patents to be retained. We have reviewed and challenged management's impairment review in relation to the remaining intangible assets. We have determined whether such assets are in use and focussed our assessment on forecast future cash-flows taking into account the recent sales history and orders for the products and services. We also assessed the discount rate applied to the forecast cash flows.
Revenue recognition	
Bioquell has a history of achieving significant revenue in the last month of the year which increases the risk of revenue recognition error at the year-end date. In December 2014, sales of £6.1m were recorded by the group. We have assessed this as a significant risk relating to the timing of revenue recognition on product sales with respect to terms of delivery and location in the Bio division, and the valuation of accrued and deferred income in the TRaC business. The Group's revenue recognition policy is disclosed in note 2 and revenue recognition is included in the key accounting estimates and judgements in note 3. The Audit Committee has included their assessment of this risk on page 19.	Our audit work assessed the adequacy of the design and implementation of controls over the recognition of revenue. We tested, in detail, a sample of completed orders around the year end date. We assessed the transfer of risk and reward to the customer by reviewing the agreed contract terms to ascertain whether the revenue had been recorded in the correct period. We have reviewed sales orders for significant contracts with unusual or non-standard terms and conditions.

We discussed these risks with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the Financial Statements is set out on page 19.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

INDEPENDENT AUDITORS' REPORT CONTINUED
to the members of Bioquell PLC

OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the group to be £175k (2013: £231k), which is below 7.5% (2013: 7.5%) of profit before tax and exceptional items, and below 1% (2013: 1%) of equity. Profit before tax is adjusted as it is materially affected by the exceptional write down of intangible assets and the pre-exceptional profit is the key performance measure reviewed by the market.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £10k (2013: £10k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, we focused our group audit scope primarily on the audit work at 5 (2013: 5) locations being the UK, France, Ireland, Singapore and the US, covering a total of 7 (2013: 7) trading entities. 5 (2013: 5) of these entities were subject to a full audit, whilst the remaining 2 (2013: 2) were subject to specified audit procedures where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the group's operations at those locations. These 7 (2013: 7) entities represent the principal business units and account for 100% (2013: 99%) of the group's net assets, 98% of the group's revenue (2013: 98%) and 94% of the group's profit before tax before exceptional items (2013:100%). They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the 7 entities was executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from £15k to £175k.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or to audit of specified account balances.

The Group audit team continued to follow a programme of planned visits that has been designed so that the Senior Statutory Auditor or another senior member of the Group audit team visits the locations where the Group audit scope was considered the most significant at least once a year. Every year, regardless of whether we have visited or not, we include the component audit partner and other senior members of the component audit team in our team briefing, discuss their risk assessment and review documentation of the findings from their work.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION continued

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

JOHN CLENNETT FCA (SENIOR STATUTORY AUDITOR)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, UK
18 March 2015

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2014

	Notes	2014 £'000	2013 £'000
Revenue	4	**45,268**	44,637
Cost of sales		**(25,005)**	(24,034)
Gross profit		**20,263**	20,603
Gross profit margin		**45%**	46%
Operating expenses:			
Sales & marketing costs		**(8,483)**	(8,329)
Administration costs		**(5,306)**	(6,344)
R&D and engineering costs		**(7,702)**	(3,027)
Profit from operations before exceptional Items		**2,638**	2,903
Impairment of intangible assets		**(3,866)**	—
Operating (loss)/profit	6	**(1,228)**	2,903
Investment revenues	8	**—**	302
Finance costs	9	**(131)**	(124)
(Loss)/profit before tax		**(1,359)**	3,081
Tax	10	**342**	(30)
(Loss)/profit for the year	31	**(1,017)**	3,051
Earnings per share – basic	11	**(2.4)p**	7.3p
– diluted		**(2.4)p**	7.2p
Pre-exceptional basic earnings per share		**4.9p**	7.3p

Movements in reserves are set out in notes 26, 27, 28, 29, 30 and 31.

All amounts are derived from continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2014

	2014 £'000	2013 £'000
Net (loss)/profit for the year	**(1,017)**	3,051
Exchange differences on translation of foreign operations*	**(4)**	(37)
Total recognised (loss)/income	**(1,021)**	3,014

* May be reclassified subsequently to profit and loss in accordance with IFRS.

CONSOLIDATED BALANCE SHEET
as at 31 December 2014

	Notes	2014 £'000	2013 £'000
Non-current assets:			
Goodwill	13	**691**	691
Other intangible assets	14	**9,023**	13,318
Property, plant & equipment	15	**14,257**	14,788
Deferred tax assets	21	**175**	175
		24,146	28,972
Current assets:			
Inventories	17	**3,358**	2,512
Trade and other receivables	18	**11,790**	9,832
Derivative financial instruments	20	**—**	293
Cash and cash equivalents		**2,840**	3,550
		17,988	16,187
Total assets		**42,134**	45,159
Current liabilities:			
Trade and other payables	23	**(6,648)**	(7,370)
Derivative financial instruments	20	**(2)**	—
Current tax liabilities		**(581)**	(75)
Obligations under finance leases	22	**(104)**	—
Borrowings	19	**(224)**	(224)
Provisions	24	**(88)**	(77)
Net current assets		**10,341**	8,441
Non-current liabilities:			
Deferred tax liabilities	21	**(1,997)**	(2,845)
Other non-current liabilities	25	**(1,433)**	(1,309)
Total liabilities		**(11,077)**	(11,900)
Net assets		**31,057**	33,259
Equity:			
Share capital	26	**4,254**	4,243
Share premium account	27	**801**	712
Equity reserve	28	**1,995**	1,892
Capital reserve	29	**255**	255
Translation reserve	30	**(117)**	(113)
Retained earnings	31	**23,869**	26,270
Equity attributable to equity holders of the Company		**31,057**	33,259

The financial statements of Bioquell PLC, registered number 00206372, were approved by the Board of Directors and authorised for issue on 18 March 2015.

They were signed on its behalf by:

NICHOLAS ADAMS
Director
18 March 2015

MICHAEL ROLLER
Director
18 March 2015

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2014

	2014 £'000	2013 £'000
(Loss)/profit for the year	**(1,017)**	3,051
Exchange differences	**(4)**	(37)
Total comprehensive (loss)/income in the year	**(1,021)**	3,014
Other movements in the year:		
Issued share capital	**11**	64
Issued share premium	**89**	502
Credit to equity reserve for share-based payments	**123**	231
Movement in deferred tax charged to equity	**—**	—
Final dividend for year ended 31 December 2013/2012	**(1,404)**	(1,282)
Net (decrease)/increase in equity shareholders' funds	**(2,202)**	2,529
Equity shareholders' funds at beginning of year	**33,259**	30,730
Equity shareholders' funds at end of year	**31,057**	33,259

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Net cash from operating activities	32	**3,750**	7,506
Investing activities			
Proceeds on disposal of property, plant and equipment		**53**	24
Purchases of property, plant and equipment		**(2,418)**	(3,940)
Expenditure on product development		**(1,009)**	(2,270)
Purchase of intangible asset		**(6)**	(494)
Net cash used in investing activities		**(3,380)**	(6,680)
Financing activities			
Proceeds on issue of ordinary shares		**100**	566
Dividends paid on ordinary shares		**(1,404)**	(1,282)
Repayment of borrowings		**(328)**	(135)
New finance lease obligations		**556**	—
New bank loans raised		**—**	595
Net cash used in financing activities		**(1,076)**	(256)
Net (decrease)/increase in cash and cash equivalents		**(706)**	570
Cash & cash equivalents at beginning of year		**3,550**	3,010
Effect of foreign exchange rate changes		**(4)**	(30)
Cash & cash equivalents at end of year		**2,840**	3,550

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2014

1. GENERAL

Bioquell PLC (the "Company") is a public limited company incorporated in the United Kingdom. The address of the registered office is given on page 16. The financial statements are presented in pounds sterling (£) since that is the currency in which the majority of the Group's transactions are denominated.

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements:

IFRS 10	Consolidated Financial Statements
IFRS 12	Disclosure of Interest in Other Entities
IFRS 11	Joint Arrangements
IAS 27 (revised)	Separate Financial Statements
IAS 28 (revised)	Investments in Associates and Joint Ventures
IFRS 7 (amended)	Financial instruments: disclosures
IAS 32 (amended)	Financial instruments: presentation
IAS 39 (amended)	Financial instruments: recognition and measurement

Annual Improvements to IFRSs (2009 – 2011)

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9	Financial Instruments
IFRS 10 (amended)	Consolidated Financial Statements
IFRS 11 (amended)	Joint Arrangements
IFRS 15	Revenue from contracts
IAS 1 (amended)	Disclosure initiatives
IAS 16 and IAS 38 (amended)	Depreciation and amortisation
IAS 19 (amended)	Employee contributions
IAS 27 (amended)	Separate financial statements

The Directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Group in future periods, but it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed, any impact is likely to relate to additional disclosures.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have also been prepared in accordance with the IFRS adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain properties and financial instruments. The principal accounting policies adopted are set out on the following pages.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (and its subsidiaries) made up to 31 December each year. All intragroup transactions, balances, income and expenses are eliminated on consolidation.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Strategic Report on pages 5 to 10 and the Directors' Report on pages 31 to 32.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit and loss as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2014

2. SIGNIFICANT ACCOUNTING POLICIES continued

Business combinations continued

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the delivery of the goods takes place in accordance with the contracted terms of sale;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Transactions are recorded as revenue when the delivery of goods takes place in accordance with the contracted terms of sale.

Revenue from long-term contracts is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined by reference to costs incurred as a proportion of contract costs and revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses incurred. Revenue for pre-paid maintenance contracts is recognised on a pro rata basis over the contract period.

Our distribution partners operate as principals and accept inventory risk from the point of delivery. Revenue relating to goods sold to distribution partners is recognised when the delivery of goods takes place in accordance with the contracted terms of sale to the distribution partner.

Revenue from externally funded research and development is recognised as costs are incurred on a cost plus basis determined by the terms of the contract.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Profit from operations

Profit from operations is stated after charging restructuring costs and after the share of results of associates but before investment income and finance costs.

Property, plant and equipment

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method, on the following bases:

Property	25 years
Short-term leasehold improvements	10 to 15 years
Fixtures and equipment	3 to 8 years

Freehold land is not depreciated.

Properties or assets in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

2. SIGNIFICANT ACCOUNTING POLICIES continued

Inventories

Inventories are stated at the lower of cost, calculated as standard cost based on latest purchase cost, and net realisable value. Cost comprises direct materials and, where applicable, direct labour cost and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded as the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government grants towards staff retraining costs are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

Government grants relating to property, plant and equipment are treated as deferred income and released to profit or loss over the expected useful lives of the assets concerned.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually and whenever there is an indication that it may be impaired, any impairment is recognised immediately in profit or loss and is not subsequently reversed.

Goodwill arising on acquisitions prior to the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2014

2. SIGNIFICANT ACCOUNTING POLICIES continued

Internally generated intangible assets – research & development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group's development activity is recognised only if all of the following conditions are met:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- there is an intention to complete the intangible asset and use or sell it;
- the intangible asset can be used or sold;
- it is probable that the asset created will generate future economic benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives which is deemed to be 15 years. Where no internally-generated intangible asset can be recognised, development expenditure is expensed in the period in which it is incurred.

Intangible assets – customer relationships

Customer relationship intangible assets, acquired in a business combination are initially measured at fair value, based on discounted cash flows, and amortised over their estimated useful lives of five years on a straight-line basis.

Patents and trademarks

Patents and trademarks are measured initially at cost which includes all costs directly attributable to acquiring the patent or trademark including the registration, documentation, and other legal fees associated with the application. They are amortised over their estimated useful lives, which is between 5 and 15 years, although patent protection extends to 20 years.

Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Provision is made for any impairment and immediately expensed in the period.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Nonmonetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Nonmonetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

2. SIGNIFICANT ACCOUNTING POLICIES continued

Foreign currencies continued

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under derivative financial instruments); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

Leasing

Leases are classified as finance leases wherever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see page 43).

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

Financial assets are recognised and derecognised on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time-frame established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as fair value through profit or loss which are initially measured at fair value.

Other financial assets are classified into the following specified categories: financial assets as "at fair value through profit and loss" and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2014

2. SIGNIFICANT ACCOUNTING POLICIES continued

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For loans and receivables the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed but does not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade payables

Trade payables are not interest-bearing and are stated at their nominal value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangement entered into.

Debt and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

Financial liabilities are classified as either financial liabilities "at fair value through profit or loss" ("FVTPL") or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the "other gains and losses" line item in the income statement. Fair value is determined in the manner described in note 20.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group uses foreign exchange forward contracts to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors which provides written principles on the use of financial derivatives. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Derivatives not designated into an effective hedge relationship are classified as a current asset or a current liability.

2. SIGNIFICANT ACCOUNTING POLICIES continued

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions for warranty costs are recognised at the date of sales of the relevant products, at management's best estimate of the expenditure required to settle the Group's liability.

Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005. The Group is able to issue Equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the Equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Conditions for recognition are as set out in the Group's accounting policies in note 2.

Internally generated intangible assets

Internally generated intangible assets arising from the Group's development activity are recognised when certain conditions are met. Management applies certain assumptions in measuring development activity cost and in assessing future economic benefits. Analysis is carried out and management remains confident that the carrying amount of the asset will be recovered in full. An adjustment has been made during the year ended 31 December 2014 and adjustments will be made in future periods if future market activity indicates that such impairments are appropriate.

Impairment of other intangible assets

Management applies certain assumptions in assessing the impairment of other intangible assets. The key assumptions include future growth rates and the discount rate applied. These assumptions are subject to annual impairment review, the assumptions for which are disclosed in note 13.

Revenue recognition

Judgement is required to identify when it is appropriate to recognise revenue on contracts and the point at which the significant risks and rewards of ownership of goods transfers.

4. REVENUE

An analysis of the Group's revenue is as follows:

	2014 £'000	2013 £'000
Sales of goods	**16,004**	17,704
Revenue from the rendering of services	**29,264**	26,933
	45,268	44,637

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2014

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

For management purposes, the Group is currently organised into two divisions – Bio-decontamination ("BIO") and Testing, Regulatory and Compliance ("TRaC"). These divisions are consistent with the internal reporting as reviewed by the Chief Executive. Segment information about these businesses is presented below:

Year ended 31 December 2014	BIO £'000	TRaC £'000	Consolidated £'000
Revenue			
Total revenue	27,266	18,002	45,268
Result			
Segment result before exceptional item	949	3,450	4,399
Impairment of intangibles	(3,866)	—	(3,866)
Segment result	(2,917)	3,450	533
Unallocated head office costs			(1,761)
Profit from operations			(1,228)
Finance costs and investment revenue			(131)
Profit before tax			(1,359)
Tax			342
Profit for the year			(1,017)
Other information			
Capital additions	2,031	1,379	3,410
Unallocated corporate additions			—
Total capital additions			3,410
Depreciation and amortisation	2,960	1,218	4,178
Unallocated corporate depreciation			44
Total depreciation and amortisation			4,222

Assets and liabilities are allocated to reportable segments.

Balance sheet as at 31 December 2014	BIO £'000	TRaC £'000	Consolidated £'000
Assets			
Segment assets	24,353	15,372	39,725
Unallocated corporate assets			2,409
Consolidated total assets			42,134
Liabilities			
Segment liabilities	6,787	3,071	9,858
Unallocated corporate liabilities			1,219
Consolidated total liabilities			11,077

Unallocated corporate assets include cash held by the parent company, derivative valuations and fixed assets, unallocated corporate liabilities include a loan held by the parent company.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS continued

Year ended 31 December 2013	BIO £'000	TRaC £'000	Consolidated £'000
Revenue			
Total revenue	27,866	16,771	44,637
Result			
Segment result	1,045	3,363	4,408
Unallocated head office costs			(1,505)
Profit from operations			2,903
Finance costs and investment revenue			178
Profit before tax			3,081
Tax			(30)
Profit for the year			3,051
Other information			
Capital additions	3,815	2,894	6,709
Unallocated corporate additions			—
Total capital additions			6,709
Depreciation and amortisation	3,009	1,204	4,213
Unallocated corporate depreciation			43
Total depreciation and amortisation			4,256

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. Segment profit represents the profit earned by each segment without allocation of central administration costs including Directors' salaries, investment revenue and finance costs and income tax expense. This is the measure reported to the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance.

Balance sheet as at 31 December 2013	BIO £'000	TRaC £'000	Consolidated £'000
Assets			
Segment assets	27,792	12,887	40,679
Unallocated corporate assets			4,480
Consolidated total assets			45,159
Liabilities			
Segment liabilities	7,309	3,244	10,553
Unallocated corporate liabilities			1,347
Consolidated total liabilities			11,900

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2014

5. BUSINESS AND GEOGRAPHICAL SEGMENTS continued

Geographical segments

The Group's bio-decontamination equipment is manufactured within the UK and sold into the UK, Europe and Rest of World markets. The TRaC segment offers services from bases within the UK and the majority of its revenue is generated within the UK.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods or services:

Sales revenue by geographical market	**Year ended 31 December 2014 £'000**	Year ended 31 December 2013 £'000
UK	**21,995**	20,165
Rest of Europe	**8,593**	8,816
Rest of World	**14,680**	15,656
	45,268	44,637

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000	**Year ended 31 December 2014 £'000**	Year ended 31 December 2013 £'000
UK	**21,601**	26,259	**3,183**	6,313
Rest of Europe	**2,100**	2,249	**81**	65
Rest of World	**445**	464	**146**	331
	24,146	28,972	**3,410**	6,709

6. PROFIT FROM OPERATIONS

(Loss)/profit from operations has been arrived at after charging/(crediting):

	2014 £'000	2013 £'000
Research & development costs	**2,340**	1,613
Impairment of intangible assets	**3,866**	—
Depreciation of property, plant and equipment	**2,757**	2,906
Amortisation of development costs	**1,238**	1,127
Amortisation of trademarks, patents and licence fees	**251**	223
Cost of inventories recognised as an expense	**8,749**	6,933
Cost of inventory written off in the year	**50**	—
Staff costs (see note 7)	**19,577**	19,988
Loss on disposal of property, plant and equipment	**129**	55
Net foreign exchange (gain)/loss	**(98)**	107

6. PROFIT FROM OPERATIONS continued

A more detailed analysis of auditors' remuneration is provided below:

	2014 £'000	2013 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**30**	30
Fees payable to the Company's auditors for the audit of the subsidiaries pursuant to legislation	**105**	104
Total audit fees	**135**	134
Audit related assurance services	**5**	6
Taxation compliance services	**—**	17
Total non-audit fees	**5**	23

A description of the work of the audit committee is set out in the Corporate Governance section on pages 19 to 20 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

7. STAFF COSTS

The average monthly number of employees (including Executive Directors) was:

	2014 Number	2013 Number
Production shopfloor	**133**	130
Engineering directs	**138**	142
	271	272
Sales and marketing	**102**	99
Administration	**52**	53
Other	**19**	25
	173	177
	444	449

Their aggregate remuneration comprised:

	2014 £'000	2013 £'000
Wages and salaries	**16,655**	17,007
Social security costs	**1,884**	1,948
Other pension costs	**915**	802
Share-based payments	**123**	231
	19,577	19,988

Details of Directors' remuneration, share options and pension contributions are included in the element of the Directors' Remuneration Report, marked as audited, on pages 24 to 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2014

8. INVESTMENT REVENUES

	2014 £'000	2013 £'000
Change in fair value of derivative financial instruments	—	302
	—	302

9. FINANCE COSTS

	2014 £'000	2013 £'000
Interest on bank loans and overdrafts	131	124
	131	124

10. TAX

	2014 £'000	2013 £'000
UK corporation tax current year	(500)	(184)
UK corporation tax prior year	(6)	24
Deferred tax credit current year	844	227
Deferred tax adjustment prior year	4	(97)
	342	(30)

Corporation tax is calculated at 21.5% (2013: 23.5%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2014 £'000	2013 £'000
(Loss)/profit before tax	(1,359)	3,081
Tax at the UK corporation rate of 21.5% (2013: 23.5%)	292	(724)
Adjusted for:		
Tax effect of expenses not deductible in determining taxable profit	(93)	(108)
Effect on deferred tax asset of movement in share price	(121)	(39)
Effect of research and development relief	338	671
Tax effect of different tax rate of subsidiaries operating in other jurisdictions	35	10
Deferred tax not recognised on other timing differences	—	(159)
Prior year adjustment	(2)	(73)
Utilisation of tax losses not recognised	(42)	—
Effective change in tax rate	(65)	392
	342	(30)

Nothing was charged directly to equity (2013: charge to equity of £nil).

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
(Loss)/earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	(1,017)	3,051

11. EARNINGS PER SHARE continued

Number of shares	**Year ended 31 December 2014**	Year ended 31 December 2013
Weighted average number of ordinary shares for the purposes of basic earnings per share	**42,512,990**	41,920,410
Effect of dilutive potential ordinary shares:		
– share options	—	576,681
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**42,512,990**	42,497,091

12. DIVIDENDS

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2013 of 3.30p per share (2012: 3.06p)	**1,404**	1,282
Proposed final dividend for the year ended 31 December 2014 of 3.3p per share (2013: 3.30p)	**1,404**	1,400

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

13. GOODWILL

	£'000
Cost	
As at 1 January 2013, 1 January 2014 and **31 December 2014**	**705**
Accumulated impairment	
As at 1 January 2013, 1 January 2014 and **31 December 2014**	**14**
Carrying amount	
As at 31 December 2014	**691**
As at 31 December 2013	691

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	2014 £'000	2013 £'000
Bio-decontamination segment	—	—
TRaC segment	**691**	691
	691	691

The Group tests goodwill annually for impairment, based on estimated future cash flows and discounted at a rate reflecting current market assessments of the time value of money and the risks specific to the business segments, or more frequently if there are indications that goodwill might be impaired. The Group prepares discounted cash flows using the most recent financial budgets approved by the management and assumes an estimated extrapolated growth rate of 2% (2013: 2%) per year over three (2013: three) years. The cash flows are discounted at a rate of 12.5% (2013: 12%).

Management believes that no reasonable potential change in any of the above assumptions would cause the carrying value of goodwill to exceed its recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2014

14. OTHER INTANGIBLE ASSETS

	Customer relationships £'000	Development costs £'000	Trademarks licences and patents £'000	Total intangible assets £'000
Cost				
As at 1 January 2013	619	15,236	3,076	18,931
Additions	—	2,270	490	2,760
Effect of foreign exchange	—	—	4	4
As at 1 January 2014	619	17,506	3,570	21,695
Additions	—	881	139	1,020
Impairment recognised	—	(5,972)	(1,559)	(7,531)
Effect of foreign exchange	—	—	(5)	(5)
As at 31 December 2014	**619**	**12,415**	**2,145**	**15,179**
Amortisation				
As at 1 January 2013	619	5,653	753	7,025
Charge for the year	—	1,127	223	1,350
Effect of foreign exchange	—	—	2	2
As at 1 January 2014	619	6,780	978	8,377
Charge for the year	—	1,238	251	1,489
Impairment recognised		(3,349)	(358)	(3,707)
Effect of foreign exchange	—	—	(3)	(3)
As at 31 December 2014	**619**	**4,669**	**868**	**6,156**
Carrying amount				
As at 31 December 2014	**—**	**7,746**	**1,277**	**9,023**
As at 31 December 2013	—	10,726	2,592	13,318

The amortisation period for development costs incurred on the Group's product development is 15 years. Trademarks are amortised over their estimated useful lives, which is on average five years. Patents are amortised over 15 years which is considered prudent even although patent protection extends to 20 years. Customer relationships are amortised over five years.

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £'000	Short-term leasehold improvements £'000	Fixtures and equipment £'000	Total £'000
Cost				
As at 1 January 2013	5,294	1,883	22,934	30,111
Additions	961	146	2,842	3,949
Disposals	—	—	(171)	(171)
Effect of foreign exchange	—	(4)	(5)	(9)
As at 1 January 2014	6,255	2,025	25,600	33,880
Additions	—	141	2,260	2,401
Reclassification	—	(278)	(2,616)	(2,894)
Disposals	—	—	(264)	(264)
Effect of foreign exchange	—	1	16	17
As at 31 December 2014	**6,255**	**1,889**	**24,996**	**33,140**
Accumulated depreciation				
As at 1 January 2013	1,357	940	13,997	16,294
Charge for the year	422	195	2,289	2,906
Disposals	—	—	(90)	(90)
Effect of foreign exchange	—	(3)	(15)	(18)
As at 1 January 2014	1,779	1,132	16,181	19,092
Charge for the year	372	222	2,163	2,757
Reclassification	—	(278)	(2,616)	(2,894)
Disposals	—	—	(82)	(82)
Effect of foreign exchange	—	1	9	10
As at 31 December 2014	**2,151**	**1,077**	**15,655**	**18,883**
Carrying amount				
As at 31 December 2014	**4,104**	**812**	**9,341**	**14,257**
As at 31 December 2013	4,476	893	9,419	14,788

The Group had no capital expenditure contracted but not provided for at the year end (2013: £nil).

Freehold land and buildings with a carrying amount of £1.8m (2013: £1.8m) have been pledged to secure borrowings of the Group (see note 19). The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2014

16. SUBSIDIARIES
A list of the significant investments in subsidiaries, including name and country of incorporation, is given in note 5 to the Company's separate financial statements.

17. INVENTORIES

	2014 £'000	2013 £'000
Raw materials, spare parts and consumables	**1,979**	1,758
Work in progress	**256**	242
Finished goods and goods for resale	**1,123**	512
	3,358	2,512

18. TRADE AND OTHER RECEIVABLES

	2014 £'000	2013 £'000
Trade debtors	**9,681**	7,666
Other debtors	**504**	208
Prepayments and accrued income	**1,605**	1,958
	11,790	9,832

All trade and other receivables are short-term and non-interest bearing. The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

	2014 £'000	2013 £'000
Trade receivables	**9,769**	7,727
Allowance for doubtful debts	**(88)**	(61)
	9,681	7,666

The debtor days on sales of goods is 61 days (2013: 63 days). Included in the Group's trade receivable balance are debtors with a carrying amount of £1,934,000 (2013: £1,404,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the Group believes that the amounts are recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 74 days (2013: 74 days).

Credit risk management
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by senior management on a regular basis.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Ageing of past due but not impaired receivables

	2014 £'000	2013 £'000
Not yet due	**7,835**	6,323
Up to one month overdue	**1,366**	891
Greater than one month overdue	**568**	513
Total	**9,769**	7,727

18. TRADE AND OTHER RECEIVABLES continued

Movement in the allowance for doubtful debts

	2014 £'000	2013 £'000
Balance at 1 January	**61**	40
Amounts written off during the year	**—**	—
Increase in the allowance recognised in the year	**27**	21
Balance at 31 December	**88**	61

In determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors believe that there is no further need for a credit provision in excess of the allowances for doubtful debts.

19. BANK OVERDRAFTS AND LOANS

	2014 £'000	2013 £'000
Bank loans	**1,309**	1,533
The borrowings are repayable as follows:		
Amount due for settlement within twelve months	**224**	224
Amount due for settlement after twelve months (see note 24)	**1,085**	1,309
	1,309	1,533

Analysis of borrowings by currency:

31 December 2014	**Total £'000**	**Sterling £'000**
Bank loans	**1,309**	**1,309**

Analysis of borrowings by currency:

31 December 2013	Total £'000	Sterling £'000
Bank loans	1,533	1,533

The weighted average interest rates paid were as follows:

	2014 %	2013 %
Bank loans	**2**	2

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and cash balances. The Group continually monitors forecast and actual cash flows. The Group has a revolving credit facility of £6,000,000 which was unused at the end of the year. In addition the Group had committed overdraft facilities available at 31 December 2014 of £1,500,000 (2013: £1,500,000), the facilities were undrawn at the end of the year. The facilities are reviewed each year.

Capital risk management is summarised in the Directors' Report.

The Group has two bank loans secured on the long lease property in Andover, UK which was purchased in 2009 and the freehold property in Malvern, UK purchased in 2013. The loan on the Andover property was taken out with an interest rate of 1.25% over base rate, repayable over 15 years, the loan on the Malvern property was taken out with an interest rate of 2% over LIBOR. With the exception of the bank loan all of the Group's financial liabilities mature in one year or less or on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2014

20. DERIVATIVE FINANCIAL INSTRUMENTS – CURRENCY DERIVATIVES

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts within 70 to 80% of the exposure generated. The Group also enters into forward foreign contracts to manage the risk associated with anticipated sales and purchase transactions out to six months within 40 to 50% of the exposure generated. Forward exchange contracts are carried at fair value through profit and loss.

At the balance sheet date, the total notional amount of outstanding forward foreign exchange contracts that the Group has committed are as below:

	2014 £'000	2013 £'000
Forward foreign exchange contracts	**1,023**	6,059

At 31 December 2014, the fair value of the Group's currency derivatives is estimated to be a liability of approximately £2,000 (2013: asset £293,000). The fair value has been calculated as the present value of future expected cash flows at market related rates, which are current at the balance sheet date. The value is calculated using readily available market data and represents a level 2 measurement in the fair value hierarchy under IFRS 7.

Other financial assets/liabilities

	2014 £'000	2013 £'000
Financial (liabilities)/assets carried at fair value through profit and loss	**(2)**	293

Foreign currency risk management

The Group is mainly exposed to US Dollars and Euros. The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts. The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Liabilities		Assets	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
USD	**(1,641)**	(1,342)	**4,263**	4,881
Euro	**(991)**	(846)	**6,277**	5,147
Sing$	**(789)**	(599)	**2,052**	2,405

Market risk exposure to foreign currency is measured using sensitivity analysis as described below.

Foreign currency sensitivity

The following table details the Group's sensitivity to a 10% change in pounds sterling against the respective foreign currencies. The 10% is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end got a 10% change in foreign currency rates. A positive number indicates an increase in profit or loss and other equity where the pound sterling strengthens against the respective currency.

	Sing$ impact		USD impact		Euro impact	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000	**2014 £'000**	2013 £'000
Profit or loss	**(12)**	12	**(109)**	(370)	**(73)**	(320)
Equity	**35**	47	**70**	77	**(217)**	28

The Group has considered its sensitivity to interest rate fluctuations and does not believe that a change in interest rates would have a material impact on the financial statements.

21. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	Deferred development costs £'000	Tax losses £'000	Accelerated capital allowances £'000	Other timing differences £'000	Total £'000
At 1 January 2013	(2,706)	263	(412)	55	(2,800)
Prior year adjustment	—	139	(274)	38	(97)
(Credit)/charge to income	68	6	153	—	227
Net (charge)/credit to income statement	(2,638)	408	(533)	93	(2,670)
At 1 January 2014	(2,638)	408	(533)	93	(2,670)
Prior year adjustment	—	58	(35)	(19)	4
(Credit)/charge to income	856	—	78	(90)	844
Net credit/(charge) to income statement	856	58	43	(109)	848
At 31 December 2014	**(1,782)**	**466**	**(490)**	**(16)**	**(1,822)**

	2014 £'000	2013 £'000
Deferred tax assets	**175**	175
Deferred tax liabilities	**(1,997)**	(2,845)
	(1,822)	(2,670)

At the balance sheet date, the Group had an unrecognised deferred tax asset of £68,000 (2013: £159,000). At 31 December 2014 a net deferred tax liability of £1,822,000 (2013: £2,670,000) has been recognised.

22. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments	
	2014 £'000	2013 £'000
Amounts payable under finance leases:		
Within one year	**125**	—
In the second to fifth years inclusive	**377**	—
After five years	**—**	—
	502	
Less: future finance charges	**(50)**	
Present value of lease obligations	**452**	—

OVERVIEW
BUSINESS REVIEW
CORPORATE GOVERNANCE
FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2014

22. OBLIGATIONS UNDER FINANCE LEASES continued

	Present value of minimum lease payments 2014 £'000	2013 £'000
Amounts payable under finance leases:		
Within one year	**104**	–
In the second to fifth years inclusive	**348**	–
After five years	**–**	–
Present value of lease obligations	**452**	–
Analysed as:		
Amounts due for settlement within 12 months (shown under current liabilities)	**104**	–
Amounts due for settlement after 12 months	**348**	–
	452	–

During the year the Group established a finance lease for the purchase of equipment. The lease is for a five year term. For the year ended 31 December 2014 the effective borrowing rate was 5%. The interest rate is fixed for the term of the lease. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The lease is denominated in sterling. The fair value of the Group's lease obligations is approximately equal to its carrying amount.

23. TRADE AND OTHER PAYABLES

	2014 £'000	2013 £'000
Trade creditors	**1,921**	3,400
Other creditors	**1,237**	954
Accruals and deferred income	**3,490**	3,016
	6,648	7,370

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 52 days (2013: 54 days). The Directors consider that the carrying amount of trade payables approximates to their fair value. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time-frame.

24. PROVISIONS

	Warranty provision £'000
At 1 January 2014	77
Additional provision in the year	88
Utilisation of provision	(77)
At 31 December 2014	**88**
Included in current liabilities	88
Included in non-current liabilities	–
	88

The warranty provision represents management's best estimate of the Group's liability under twelve month warranties granted on products and services, based on past experience.

25. OTHER NON-CURRENT LIABILITIES

	2014 £'000	2013 £'000
Bank loans (see note 19)	**1,085**	1,309
Finance leases	**348**	—
	1,433	1,309

The fair value of the financial liabilities is approximately equal to book value due to the short maturity of the liabilities or because they bear interest at rates similar to the market rate.

26. SHARE CAPITAL

	2014		2013	
	Number	**£'000**	Number	£'000
Authorised				
Ordinary shares of 10p each	**55,947,780**	**5,595**	55,947,780	5,595
Redeemable deferred ordinary shares of £1 each	**255,222**	**255**	255,222	255
		5,850		5,850
Called up, allotted and fully paid				
Ordinary shares of 10p each	**42,535,363**	**4,254**	42,432,427	4,243
		4,254		4,243

During the year the Company issued a total of 102,936 ordinary shares of 10p each for £100,000 on the conversion of options under the executive share option schemes and the Save-as-you-earn scheme.

27. SHARE PREMIUM ACCOUNT

	£'000
Balance at 1 January 2013	210
Premium arising on issue of equity shares	502
Balance at 31 December 2013	712
Premium arising on issue of equity shares	89
Balance at 31 December 2014	**801**

28. EQUITY RESERVE

	£'000
Balance at 1 January 2013	1,736
Credit to equity for share-based payments	231
Charge to equity on exercise of options	(75)
Balance at 31 December 2013	1,892
Credit to equity for share-based payments	123
Charge to equity on exercise of options	(20)
Balance at 31 December 2014	**1,995**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2014

29. CAPITAL RESERVE

	£'000
Balance at 1 January 2013 and 1 January 2014	255
Additions	—
Balance at 31 December 2013 and 31 December 2014	**255**

30. TRANSLATION RESERVE

	£'000
Balance at 1 January 2013	(76)
Effects of foreign exchange in the period	(37)
Balance at 31 December 2013	(113)
Effects of foreign exchange in the period	(4)
Balance at 31 December 2014	**(117)**

31. RETAINED EARNINGS

	£'000
Balance at 1 January 2013	24,426
Net profit for the year	3,051
Payment of dividend	(1,282)
Exercised share options	75
Balance at 1 January 2014	26,270
Net loss for the year	(1,017)
Payment of dividend	(1,404)
Exercised share options	20
Balance at 31 December 2014	**23,869**

32. NOTES TO THE CASH FLOW STATEMENT

	2014 £'000	2013 £'000
(Loss)profit from operations	**(1,228)**	2,903
Adjustments for:		
Depreciation of property, plant and equipment	**2,776**	2,888
Amortisation and impairment losses of intangible assets	**1,486**	1,351
Impairment of intangible assets	**3,824**	—
Share-based payments	**123**	231
Loss on disposal of property, plant and equipment	**129**	55
Increase in provisions	**11**	1
Operating cash flows before movements in working capital	**7,121**	7,429
(Increase)/decrease in inventories	**(828)**	240
(Increase)/decrease in receivables	**(1,628)**	99
Decrease in payables	**(784)**	(288)
Cash generated by operations	**3,881**	7,480
Interest paid	**(131)**	(124)
Income taxes received	**—**	150
Net cash from operating activities	**3,750**	7,506

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

33. OPERATING LEASE ARRANGEMENTS

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of four years and rentals are generally fixed for the period of the lease. There are no options to purchase within the agreements.

	2014 £'000	2013 £'000
Minimum lease payments under operating leases recognised in income for the year	**1,203**	1,274

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2014 £'000	2013 £'000
Within one year	**1,007**	1,130
In the second to fifth years inclusive	**2,476**	2,756
After five years	**2,141**	2,606
	5,624	6,492

34. SHARE-BASED PAYMENTS

Equity-settled share option schemes

The Company has a share option scheme for all employees of the Group. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest except in certain circumstances in accordance with the Scheme Rules.

Special options with market-based conditions, have also been granted to certain Directors (as disclosed in the Directors' Remuneration Report) and senior members of staff.

Details of the share options outstanding during the year are as follows:

	2014		2013	
	Number of share options	Weighted average exercise price pence	Number of share options	Weighted average exercise price pence
Outstanding at beginning of period	**5,297,200**	**130.5p**	5,485,687	126.8p
Granted during the period	**989,500**	**128.0p**	1,012,000	146.5p
Lapsed during the period	**(2,092,500)**	**126.6p**	(1,015,756)	129.0p
Exercised during the period	**(60,000)**	**105.8p**	(184,731)	107.3p
Outstanding at the end of the period	**4,134,200**	**132.4p**	5,297,200	130.5p
Exercisable at the end of the period	**1,638,600**	**132.3p**	1,777,600	141.0p

The weighted average share price at the date of exercise for share options exercised during the period was 123.5p. The options outstanding at 31 December 2014 had a weighted average exercise price of 132.4p, and a weighted average remaining contractual life of 4.67 years. In 2014, 989,500 options were granted on 24 March. The aggregate of the estimated fair values of the options granted on that date was £217,298. In 2013, 1,012,000 options were granted on 19 April. The aggregate of the estimated fair values of the options granted on that date was £363,716.

The Black-Scholes model has been adopted as the Directors believe it provides a reasonable approximation to the fair values of the options concerned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2014

34. SHARE-BASED PAYMENTS continued

Equity-settled share option schemes continued

The inputs into the Black-Scholes model are as follows:

	2014	2013
Weighted average share price	**128.0p**	146.5p
Expected volatility	**30%**	30%
Expected life	**4.5yrs**	4.5yrs
Risk free rate	**2.33%**	2.16%
Expected dividends	**1.5%**	1.5%

Each tranche of share options was valued separately using the actual exercise price.

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous five years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Outstanding at the beginning of the period were options awarded in tranches of 160,000 (March 2007) and 167,200 (May 2008) which were granted at an exercise price of 128.0p and 174.5p respectively, to certain senior members of staff again conditional upon the market-based condition. The tranche granted in March 2007 lapsed during the year. The inputs into the Black-Scholes model are as set out in the table above, adjusted by a factor based on the probability of meeting the market-based condition.

The Group recognised total expenses of £123,000 and £231,000 related to Equity-settled share-based payment transactions in 2014 and 2013 respectively.

35. POST BALANCE SHEET EVENT

On 12 March 2015, the Group announced the proposed disposal, subject to shareholder approval, of the TRaC division for a cash consideration of £44.5 million.

36. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are therefore not disclosed.

Remuneration of key management personnel

The total remuneration for all of the Directors of Bioquell PLC, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 26 to 30.

	2014 £'000	2013 £'000
Short-term employee benefits	**719**	816
Post-employment benefits	**75**	81
Share-based payments	**17**	79
	811	976

FIVE YEAR SUMMARY

	IFRS				
	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Revenue	**45,268**	44,637	40,995	41,256	39,403
Operating (loss)/profit	**(1,228)**	2,903	4,198	5,022	3,237
(Loss)/profit for the year before tax	**(1,389)**	3,081	3,953	5,001	3,261
Equity	**31,057**	33,259	30,730	27,599	24,613
Earnings per share	**(2.4)p**	7.3p	9.6p	9.3p	5.8p
Dividend per share	**3.30p**	3.30p	3.06p	2.83p	2.62p

COMPANY BALANCE SHEET
as at 31 December 2014

Results for the Company are presented under UK GAAP	Notes	2014 £'000	2013 £'000
Fixed assets:			
Investments	5	**8,874**	8,840
Property, plant and equipment	4	**795**	839
		9,669	9,679
Current assets:			
Debtors			
– due within one year	6	**1,821**	2,330
– due after one year	6	**3,741**	3,026
Cash at bank and in hand		**1,057**	2,844
		6,619	8,200
Creditors: amounts falling due within one year	7	**(607)**	(528)
Net current assets		**6,012**	7,672
Total assets less current liabilities		**15,681**	17,351
Creditors: amounts falling due after more than one year	7	**(758)**	(863)
Net assets		**14,923**	16,488
Capital and reserves:			
Called up share capital	8	**4,254**	4,243
Share premium account	9	**801**	712
Equity reserve	10	**2,102**	1,979
Capital reserve	11	**255**	255
Profit and loss account	12	**7,511**	9,299
Shareholders' funds		**14,923**	16,488

The financial statements of Bioquell PLC, registered number 00206372 were approved by the Board of Directors and signed on its behalf by:

NICHOLAS ADAMS

Director
18 March 2015

MICHAEL ROLLER

Director
18 March 2015

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 December 2014

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

The principal accounting policies are summarised below. They have been applied consistently throughout the current year and the preceding year.

Going concern

Going concern has been applied on a Group basis. Refer to page 41 of the Group accounts.

Derivative financial instruments

The Company enters into derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in the profit and loss account. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than twelve months and it is not expected to be realised or settled within twelve months. Other derivatives are presented as current assets or current liabilities.

Investments

Fixed asset investments in subsidiaries and associates are shown at cost less provision for any impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and provision for any impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Plant and equipment	3 to 8 years
Property	25 years

Residual value is calculated on prices prevailing at the date of acquisition or revaluation.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on material timing differences at the rate of tax anticipated to apply when these differences crystallise. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. A deferred tax asset is only recognised where it is more likely than not that it will be recoverable in the future. Deferred tax assets and liabilities are not discounted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Share-based payments

Refer to the policy statement in note 2 to the Group accounts.

2. PROFIT FOR THE YEAR

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. Bioquell PLC has reported a loss after tax and the cost of share-based payments (£17,000; 2013: £89,000) for the financial year ended 31 December 2014 of £73,000 (2013: profit of £216,000).

The auditors' remuneration for audit services to the Company was £29,000 (2013: £29,000).

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2014

3. STAFF COSTS

The average monthly number of employees (including Executive Directors) of the Company was:

	2014	2013
Administration	**4**	4

Their aggregate remuneration comprised:

	2014 £'000	2013 £'000
Wages and salaries	**814**	721
Social security costs	**109**	105
Other pension costs	**57**	88
	980	914

4. FIXED ASSETS

	Property £'000	Plant and equipment £'000	Total property, plant and equipment £'000
Cost			
As at 1 January 2014	1,054	57	1,111
Additions	—	—	—
As at 31 December 2014	**1,054**	**57**	**1,111**
Accumulated depreciation			
As at 1 January 2014	222	50	272
Charge for the year	42	2	44
As at 31 December 2014	**264**	**52**	**316**
Net book value			
As at 31 December 2014	**790**	**5**	**795**
As at 31 December 2013	832	7	839

5. FIXED ASSET INVESTMENTS

The companies listed below are wholly owned subsidiaries of the Company, incorporated in Great Britain, unless otherwise stated.

	Location
Bioquell UK Ltd	Andover, UK
Bioquell Holding SAS	Paris, France
TRaC Global Ltd	Warwick, UK
Bioquell Global Logistics (Ireland) Ltd	Limerick, Republic of Ireland
Bioquell Asia Pacific Pte Ltd	Singapore
Bioquell Technology (Shenzhen) Ltd	Shenzhen, China
Bioquell Hong Kong Ltd	Hong Kong
Bioquell Inc	Pennsylvania, USA
Bioquell Defense Inc	Pennsylvania, USA
Bioquell Professional Services Inc	Pennsylvania, USA

The principal activities of the above companies include the design, manufacture and supply of bio-decontamination and containment equipment, related products and services to the pharmaceutical, healthcare, food and defence industries, and testing services to the aerospace, telecoms, defence and other industries.

5. FIXED ASSET INVESTMENTS continued

	Investment in subsidiaries		
	Shares £'000	Loans £'000	Total £'000
Cost			
As at 1 January 2014	111	9,388	9,499
Foreign exchange differences	—	(20)	(20)
Waiver of loans to dormant subsidiaries	—	(99)	(99)
Additions – capital contribution made to subsidiaries	—	106	106
As at 31 December 2014	**111**	**9,375**	**9,486**
Provision for impairment			
As at 1 January 2014	103	556	659
Waiver of loans to dormant subsidiaries	—	(47)	(47)
As at 31 December 2014	**103**	**509**	**612**
Net book value			
As at 31 December 2014	**8**	**8,866**	**8,874**
As at 31 December 2013	8	8,832	8,840

6. DEBTORS

	2014 £'000	2013 £'000
Debtors due within one year:		
Amounts due from subsidiary undertakings	**1,465**	1,695
Corporation and other tax	**131**	136
Derivative financial instruments (see note 20 of the Group accounts)	**—**	293
Prepayments and accrued income	**225**	206
	1,821	2,330
Debtors due after one year:		
Amounts due from subsidiary undertakings	**3,741**	3,026
Total debtors	**5,562**	5,356

7. CREDITORS

	2014 £'000	2013 £'000
Amounts falling due within one year:		
Accruals and deferred income	**217**	140
Bank loan	**105**	105
Derivative financial instruments	**2**	—
Deferred tax	**283**	283
	607	528
Amounts falling due after one year:		
Bank loan	**758**	863
	758	863

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2014

8. CALLED UP SHARE CAPITAL

	2014		2013	
	Number	**£'000**	Number	£'000
Authorised				
Ordinary shares of 10p each	**55,947,780**	**5,595**	55,947,780	5,595
Redeemable deferred ordinary shares of £1 each	**255,222**	**255**	255,222	255
		5,850		5,850
Called up, allotted and fully paid up				
Ordinary shares of 10p each	**42,535,363**	**4,254**	42,432,427	4,243
		4,254		4,243

During the year the Company issued a total of 102,936 ordinary shares of 10p each for £100,000 on the conversion of options under the executive share option schemes and the Sharesave scheme, which is being used to provide additional working capital.

9. SHARE PREMIUM ACCOUNT

	£'000
Balance at 1 January 2013	210
Premium arising on issue of equity shares	502
Balance at 1 January 2014	712
Premium arising on issue of equity shares	89
Balance at 31 December 2014	**801**

10. EQUITY RESERVES

	£'000
Balance at 1 January 2013	1,748
Credit to equity for share-based payments	89
Credit to equity for share-based payments to subsidiary employees	142
Balance at 1 January 2014	1,979
Credit to equity for share-based payments	17
Credit to equity for share-based payments to subsidiary employees	106
Balance at 31 December 2014	**2,102**

11. CAPITAL RESERVES

	£'000
Balance at 1 January 2013 and 1 January 2014	255
Additions	—
Balance at 31 December 2014	**255**

12. PROFIT AND LOSS ACCOUNT

	£'000
Balance at 1 January 2013	8,840
Profit for the financial year	216
Dividends paid in the year	(1,282)
Dividends received in the year	1,500
Exchange gain	25
Balance at 1 January 2014	9,299
Loss for the financial year	(73)
Dividends paid in the year	(1,404)
Waiver of debts from dormant subsidiaries	(224)
Exchange loss	(87)
Balance at 31 December 2014	**7,511**

13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	£'000
Balance at 1 January 2013	15,232
Issue of equity shares	566
Equity reserve – share-based payments	89
Credit to equity for share-based payments to subsidiary employees	142
Profit for the financial year	216
Dividends paid in the year	(1,282)
Dividends received in the year	1,500
Exchange gain	25
Balance at 1 January 2014	16,488
Issue of equity shares	100
Equity reserve – share-based payments	17
Credit to equity for share-based payments to subsidiary employees	106
Profit for the financial year	(73)
Dividends paid in the year	(1,404)
Waiver of debts from dormant subsidiaries	(224)
Exchange gain	(87)
Balance at 31 December 2014	**14,923**

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2014

14. SHARE-BASED PAYMENTS

Equity-settled share option schemes

The Company's employees are able to participate in the Group's share option schemes. Details of these schemes are given in note 34 of the Group's accounts.

Details of the share options outstanding with employees of the Company during the year are as follows:

	2014		2013	
	Number of share options	Weighted average exercise price pence	Number of share options	Weighted average exercise price pence
Outstanding at beginning of year	**1,458,550**	**123.2**	1,423,387	123.8
Granted during the year	**402,000**	**128.0**	379,000	146.5
Lapsed during the year	**(875,000)**	**116.9**	(333,387)	152.9
Exercised during the year	**—**	**—**	(10,450)	97.0
Outstanding at the end of the year	**985,550**	**182.3**	1,458,550	123.2
Exercisable at the end of the year	**114,550**	**129.5**	103,550	135.5

Note 33 of the Group accounts describes the valuation method for share options.

BIOQUELL GROUP DIRECTORY

BIOQUELL UK
52 Royce Close
West Portway
Andover SP10 3TS
UK
T:+44 (0)1264 835835
F:+44 (0)1264 835836

BIOQUELL INC
702 Electronic Drive
Suite 200
Horsham PA 19044
USA
T:+1 215 682 0225
F:+1 215 682 0395

BIOQUELL FRANCE
153 Quai du Rancy
94380 Bonneuil sur Marne
Paris
France
T:+33 1 4378 1594
F:+33 1 4378 1584

BIOQUELL IRELAND
Unit E4
Eastway Business Park
Ballysimon Road
Limerick
Republic of Ireland
T: +353 61 603622
F:+353 61 603627

BIOQUELL ASIA PACIFIC
207 Henderson Road #01–05
Henderson Industrial Park
159550
Singapore
T:+65 6592 5145
F:+65 6227 5878

BIOQUELL CHINA
Room 416
Kingson Building
No. 1 Chuangsheng Road, Xili
Nanshan District, Shenzhen
T:+86 755 8631 0348
F:+86 755 8631 0211

MALVERN
100 Frobisher Business Park
Leigh Sinton Road
Malvern
Worcestershire WR14 1BX
UK
T:+44 (0)1684 571700
F:+44 (0)1684 571701

HULL
Unit E
South Orbital Trading Park
Hedon Road
Hull HU9 1NJ
UK
T:+44 (0)1482 801801
F:+44 (0)1482 801806

NORTH WEST
Unit 1
Pendle Place
Skelmersdale
West Lancs WN8 9PN
UK
T:+44 (0)1695 556666
F:+44 (0)1695 557077

WARWICK
Rothwell Road
Warwick CV34 5JX
UK
T:+44 (0)1926 478478
F:+44 (0)1926 478479

SOUTH
74–78 Condor Close
Woolsbridge Industrial Park
Three Legged Cross
Wimborne
Dorset BH21 6SU
UK
T:+44 (0)1202 811700
F:+44 (0)1202 811701

WATFORD
8 Century Court
Tolpits Lane
Watford
Hertfordshire WD18 9RS
UK
T:+44 (0)1923 229818
F:+44 (0)1923 2262

consultancy, design and production by
designportfolio
design-portfolio.co.uk @WeAre_DP
Design Portfolio plants ten trees for each of its corporate report projects, in association with Trees for Cities.

bioquell

BIOQUELL PLC

52 Royce Close
West Portway
Andover
Hampshire SP10 3TS
UK

T: +44 (0)1264 835900
F: +44 (0)1264 835901
E: enquiries@bioquellplc.com
W:www.bioquellplc.com