

BiOQ **BIOQUELL**
Bio-decontamination solutions

Annual Report 2003

The BIOQUELL Group in summary

BIOQUELL: bio-decontamination solutions

BIOQUELL has developed the Clarus™ range of unique and patent protected bio-decontamination technology which uses hydrogen peroxide vapour to bio-deactivate micro-organisms such as bacteria (including anthrax), viruses and fungi. At the end of the bio-decontamination process, hydrogen peroxide is catalytically converted to water and oxygen – hence the technology is “residue-free”.

BIOQUELL is fast developing the service side to its business via the provision of a Room Bio-Decontamination Service (“RBDS”) and an Equipment Bio-Decontamination Service (“EBDS”). Preliminary discussions are ongoing as to the licensing of these services internationally. BIOQUELL also sells and manufactures Clarus bio-decontamination equipment. BIOQUELL’s equipment and services are used in the pharmaceutical, bio-technology, healthcare, laboratory, food and defence sectors.

In addition to the pharmaceutical and biotechnology market, BIOQUELL is developing bio-decontamination solutions for (i) the increasing level of Hospital Acquired Infection – such as MRSA - which is being exacerbated by antibiotic resistance (so-called “superbugs”); and (ii) the rapid, “infinitely scalable” bio-decontamination of buildings following a bio-terrorism attack. The Group also designs and manufactures specialist filtration equipment, principally for the laboratory sector, using HEPA filtration to filter particulates, including bacteria, and activated carbon to absorb chemicals. In addition, it designs and manufactures a range of Nuclear, Biological and Chemical (“NBC”) filtration systems used in the defence and civil defence sectors. Full after-sales service, including preventative maintenance contracts and bio-decontamination, is provided on all the equipment sold in UK and Europe via a team of 40 specialists. BIOQUELL has a direct sales force in UK and sales offices in France and US, where a network of sales and service organisations have been put in place to cover the important US market.

CAPE: environmental stress testing services

Cape Engineering provides specialist environmental stress testing services to a broad range of “blue chip” companies in the aerospace, automotive, defence, rail and telecoms sectors. Cape also provides software-based stress analysis services.

Cape is seeing increasing opportunities to grow its business by expanding the services it offers as well as taking on, via outsourcing, the stress testing of development products currently undertaken in-house by many large engineering groups.

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Chairman's Statement

Overview

BIOQUELL's technology is effective against bacteria, viruses and fungi. The Group is placing increased emphasis on bio-decontamination services using its technology in addition to equipment sales.

In 2003 BIOQUELL launched its new and unique Room Bio-Decontamination Service ("RBDS") which is beginning to generate revenues in the pharmaceutical and healthcare sectors. During the year further successful research was carried out on the bio-deactivation of MRSA and other hospital acquired infection ("HAI") with a leading London teaching hospital; the first research paper is expected to be published next month. HAI continues to grow, is exacerbated by increasing antibiotic resistance and is an international problem. BIOQUELL is also discussing with a number of UK and overseas government departments the deployment of its technology in the event of a bio-terrorism attack. Successful anthrax bio-deactivation results carried out on behalf of the US National Homeland Security Research Centre will be published later this year.

A good level of demand is being seen for the Group's Equipment Bio-Decontamination Service ("EBDS") which was launched in February 2004; EBDS is highly complementary to BIOQUELL's existing aftersales (preventative maintenance) service business. In addition to growth in its bio-decontamination service businesses, BIOQUELL is also experiencing increasing demand for its bio-decontamination products, particularly in its fast-growing US subsidiary, BIOQUELL Inc., which was established last year. However, the laboratory equipment business which was the original business of the Group remains challenging and highly competitive.

Cape Engineering, the Group's environmental testing service business experienced strong revenue growth in 2003. There are a number of opportunities for Cape to expand the business which we are actively pursuing.

Results

Turnover for the year was £12.6 million (2002: £12.2 million) representing an increase of 3%. The increase related principally to the revenues associated with the launch of the Group's RBDS service and an increase in turnover from Cape. This was offset by a decrease in turnover from the Group's laboratory filtration equipment business during the year.

The consolidated gross margin was 35% (2002: 34%), the improvement reflecting the increased service element within the Group's turnover.

The pre-tax loss was £2.1 million (2002: £2.5 million) which includes research and development expenditure of £1.4 million (2002: £1.7 million) and exceptional costs relating to redundancy and US litigation of £0.4 million (2002: £0.8 million). The litigation with the Group's principal competitor has now been settled. Loss after tax was £1.8 million (2002: £2.2 million).

Finance

The Group had cash of £0.3 million at the year end (2002: £2.6 million). The Group has overdraft facilities of £2.2 million. Net debt was £0.3 million (2002: net cash of £2.2 million). Net assets were £6.3 million (2002: £8.2 million). Loss per share was 4.7p (2002: 5.9p)

Dividends

The Board is proposing the payment of the dividend for the year on preference shares of 7.5p per preference share, representing a total payment of £11,250. The Board is not recommending the payment of an ordinary dividend.

Prospects

BIOQUELL is fast moving into the roll out and execution phase of its development as the key research is substantially complete. Micro-organisms remain a significant international problem and BIOQUELL now has a broad range of bio-decontamination equipment and services. The markets which BIOQUELL's technology addresses are large – particularly in respect of antibiotic resistant "superbugs" in hospitals which are an increasing international problem. The bio-decontamination service businesses are cash generative and can be licensed, as appropriate, to overseas partners to enable BIOQUELL to take rapid market share internationally. 2004 has started well with good levels of orders received for bio-decontamination equipment. Further, Cape is showing continuing growth. As with most technology companies, the Group's revenue growth remains difficult to forecast but your Board believes the prospects for the Group are good.

John Salkeld
Chairman
6 April 2004



Strategy, Markets and Review of Activities

Summary

BIOQUELL has developed unique technology to bio-decontaminate micro-organisms – comprising bacteria, viruses and fungi – found in equipment, rooms or buildings. BIOQUELL's technology uses hydrogen peroxide vapour, a source of free radicals, to carry out the bio-decontamination. The hydrogen peroxide is rapidly catalytically converted to water and oxygen at the end of the process. The technology operates at low temperature, leaves no residues and has excellent material compatibility characteristics, including with sensitive electronic equipment. BIOQUELL has developed a broad range of equipment and services, capable of bio-decontaminating small laboratory devices to large buildings. Applications for BIOQUELL's technology exist on a global basis in a number of sectors, including healthcare, pharmaceutical, bio-technology and defence.



RBDS – Room Bio-Decontamination Service

During 2003 BIOQUELL launched RBDS – its flagship Room Bio-Decontamination Service. This technology – which is highly portable and scalable – bio-decontaminates micro-organisms in rooms or buildings. The microbiological efficacy of the RBDS technology is impressive. The RBDS technology is the subject of a number of patent filings. In order to achieve rapid market share BIOQUELL intends to licence, as appropriate, its RBDS technology to overseas partners who have strong positions in complementary markets and preliminary licensing discussions are ongoing.



BIOQUELL is seeing strong interest in RBDS from companies and organisations in a range of sectors.

Healthcare

Hospital acquired infection and increasing antibiotic resistance

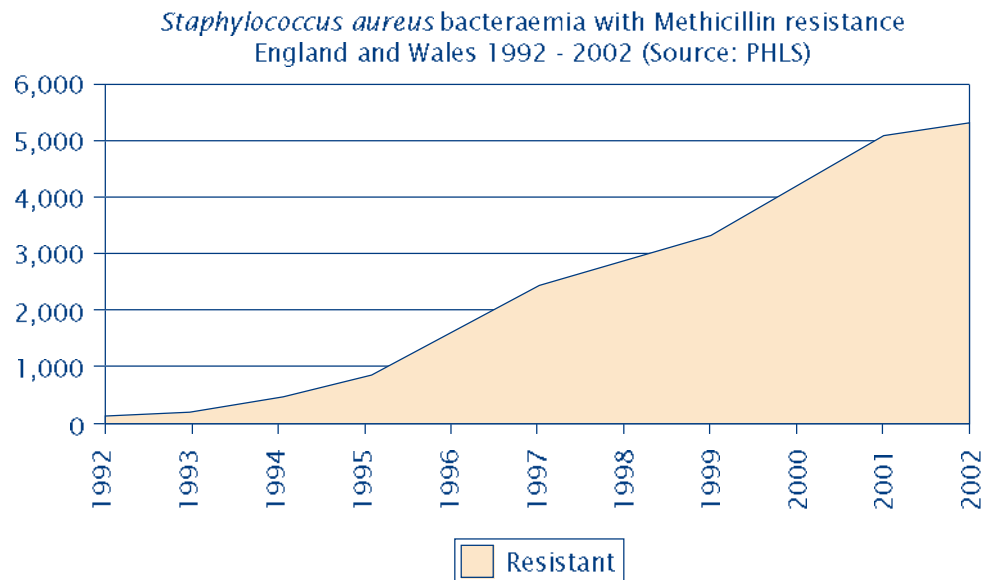
Hospital acquired infection, otherwise known as nosocomial infection, has been described as being the largest problem currently facing clinical medicine and occurs when patients contract an infection from within a hospital or other healthcare facility. In the UK these infections are often referred to by the media as “superbugs”. The problems associated with hospital acquired infection (“HAI”) are being made worse by the increasing resistance to antibiotics displayed by many bacteria typically found in hospitals. Some strains of bacteria are resistant to all antibiotics currently on the market. This is an international problem. HAI is a particular problem to patients whose immune system may be suppressed or damaged such as the young, elderly, transplant patients or cancer patients. A number of recently published scientific research papers suggest that conventional cleaning methods are ineffective at removing micro-organisms from the environment – and indeed sometimes disinfectants can themselves become contaminated. Further, there is increasing scientific evidence that the environment within a hospital is a significant factor in the transmission of HAI.



Strategy, Markets and Review of Activities

Continued

The most common and best known HAI is MRSA: methicillin-resistant *Staphylococcus aureus*. Other common HAI include vancomycin-resistant enterococci ("VRE"), *Klebsiella*, *Acinetobacter* and *Clostridium*. Multi-drug resistant tuberculosis is also becoming a problem in some hospitals.



BIOQUELL has been carrying out research and development work into the reduction of HAI since 2000. A research paper, jointly written with an infection control team at a leading London teaching hospital, is expected to be published next month in a scientific journal. It will show, among other things, the efficacy of BIOQUELL's technology against MRSA. A further jointly written research paper relating to the efficacy of BIOQUELL's RBDS technology against other HAI has been submitted for publication. The publication of these research papers in peer-reviewed scientific journals greatly enhances BIOQUELL's ability to market its technology successfully to the healthcare sector.

Recently published scientific literature suggests that there is a link between the extent of environmental contamination and infection rates in hospitals. A part of BIOQUELL's ongoing research and development trials are to demonstrate that the use of BIOQUELL's RBDS technology results in a reduction in environmental contamination which subsequently gives rise to a reduction in infection rates.

Vancomycin resistance

Notwithstanding the trend of increased antibiotic resistance, many HAI, including MRSA, can be treated using a glycopeptide antibiotic such as vancomycin which is effectively the antibiotic of last resort for many HAI. If MRSA were to become widely resistant to vancomycin then the impact on patient care in hospitals, in terms of costs and effectiveness, as well as the significantly increased sickness and death rates would represent a major and serious public healthcare problem. The detection of vancomycin-resistant MRSA has already been reported in United States.



Acinetobacter

Acinetobacter is another commonly found HAI which is widely reported to contaminate the hospital environment. Once the environment is contaminated it is extremely difficult to eradicate this bacterium using conventional cleaning methods. Throughout Europe new strains of *Acinetobacter* have been detected which are highly resistant to all antibiotics. In December 2003, the French public health authorities announced that *Acinetobacter* had contaminated 21 hospitals in the North of France and in the previous six months there had been 18 deaths in these hospitals linked to this organism. Also in December 2003 a leading Parisian hospital announced that it had experienced a number of deaths allegedly linked to *Acinetobacter*, including that of a 17 year old boy. BIOQUELL successfully bio-decontaminated this Parisian intensive care unit – with the sensitive medical equipment left in situ.



Viruses

HAI also occurs with viruses. Viruses such as Para-influenza are known to have caused significant problems in, for example, organ transplant centres in hospitals in the UK. In addition norovirus (formerly known as Norwalk-like viruses), which has also caused significant problems on cruise ships, can cause major problems in the running of hospitals as it infects both patients and healthcare workers.



In the age of air travel viruses can spread quickly throughout the world. This was seen in 2003 with the spread of SARS from Hong Kong to Canada and the rest of South East Asia. Only stringent infection control measures and intense international co-operation were able to arrest the spread of the disease. In aggregate SARS was estimated to have cost the world economy some US\$30 billion in 2003.

In 2004 further cases of SARS have been reported. In addition the rapid spread of avian flu from Thailand throughout South East Asia has been reported with some suspected fatalities among humans.

BIOQUELL has good viral bio-deactivation data against a broad range of viruses – and is becoming increasingly involved in room and building viral bio-deactivation work.



During 2003 BIOQUELL was awarded a contract to bio-decontaminate three private hospitals in Singapore during the SARS crisis. This contract also demonstrated two important factors relating to BIOQUELL's RBDS technology. First, the equipment can be rapidly transported and deployed in sites around the world and, second, the excellent material compatibility associated with the technology as none of the modern intensive care equipment in Singapore was adversely affected by the RBDS process.

Strategy, Markets and Review of Activities

Continued

Fungi

Fungi such as *Aspergillus* can also cause HAI. Aspergellosis, caused by *Aspergillus* fungal spores, is a major problem for hospitals during construction work, as such work tends to release spores into the environment and cause infection. Aspergellosis is a particular problem for organ transplant patients. Anti-fungal drugs are expensive, relatively toxic and have limited effectiveness; associated mortality rates are high. BIOQUELL has good efficacy data relating to the use of its technology against *Aspergillus* and other fungi.



Patient numbers and costs

A 1999 study carried out in conjunction with the National Audit Office suggested that 5,000 patients died from HAI in the UK and such nosocomial infections cost the NHS approximately £1 billion. The US Center for Disease Control ("CDC") has estimated that approximately 2 million Americans contract some form of HAI each year and approximately 88,000 die from such infections. CDC estimate the costs of HAI to the US healthcare system is approximately US\$6.7 billion. These cost estimates exclude any litigation-related costs which could be substantial.



BIOQUELL anticipates that following the publication of its research papers and targeted marketing to hospitals its RBDS technology will be used by hospitals, initially to control HAI outbreaks on an emergency-type basis and subsequently to be used on an ongoing basis to keep the level of micro-organisms down.

Bio-defence/bio-terrorism

In 2001 a number of letters containing anthrax were sent through the US postal system. The costs of the bio-remediation following these attacks has been estimated to be some US\$200 million – reflecting in large part the difficulties experienced with the bio-decontamination of buildings following bio-agent attack. (BIOQUELL's room/building bio-decontamination technology was not available in 2001).



BIOQUELL has carried out research into the bio-deactivation of bio-agents and has obtained, for example, good anthrax bio-deactivation data. BIOQUELL's technology was selected by the US Environmental Protection Agency, working in conjunction with Homeland Security, for priority verification trials against anthrax. This successful research work will be published later this year.

Significant concern continues to exist as to the threat of a bio-terrorism attack. BIOQUELL has been in discussions with a number of government agencies, in the UK and overseas, about the deployment of its RBDS technology following bio-agent attack. Further, BIOQUELL believes that its technology will be effective against a number of chemical agents and is intending to carry out further research in this area.

Pharmaceutical/bio-technology



BIOQUELL is experiencing increasing demand for its RBDS technology from both research and production facilities in the pharmaceutical and bio-technology sectors. Micro-organisms can cause significant problems in research and development facilities with potentially substantial impacts on costs and timescales. BIOQUELL has won a number of RBDS contracts to bio-decontaminate research facilities over recent months. Equally, the impact on a production site of bacterial, viral or fungal contamination can cause very substantial costs in lost production. In addition, the effect of microbiological contamination of products, particularly for expensive and highly sensitive biologically active therapeutics, can be highly costly and damaging. Recently BIOQUELL has started to win contracts to bio-decontaminate pharmaceutical production facilities. The regulators are also increasingly concerned about microbiological contamination of production sites and are interested in appropriate, residue-free methods of bio-remediation.

Other RBDS applications



The food industry is facing increasingly demanding hygiene standards and hence is a potential user of BIOQUELL's RBDS technology. In addition, schools and other buildings can become contaminated with micro-organisms, and the problems of cruise ships with passengers infected by noroviruses are well documented.

EBDS – Equipment Bio-Decontamination Service



In February 2004 BIOQUELL launched a new range of Clarus technology for use in its EBDS business. This new service is similar to RBDS as BIOQUELL does not sell the equipment – but uses it to provide a service. BIOQUELL's highly trained service engineers bio-decontaminate laboratory research equipment using proprietary Clarus S equipment which is also the subject of a number of patent filings. A key advantage of BIOQUELL's EBDS technology is that it enables the laboratory to remain in operation during the bio-decontamination of the research equipment. Further, the EBDS technology does away with the need for the client's researchers to handle formaldehyde, which is a suspected human carcinogen and leaves problematic residues. There is increasing pressure on research laboratories to improve their environment, health & safety policies and the cessation of the use of formaldehyde is typically a high priority.

The EBDS technology is highly complementary to BIOQUELL's existing after-sales service business as BIOQUELL's service engineers are able to first bio-decontaminate the client's equipment and then carry out preventative maintenance and/or repairs on the equipment. BIOQUELL is in preliminary discussions with a number of overseas service providers who are keen to license its Clarus S EBDS technology.

Strategy, Markets and Review of Activities

Continued

Clarus equipment

In addition to its bio-decontamination service businesses, BIOQUELL also sells patent protected bio-decontamination equipment principally to the pharmaceutical sector. The Clarus C is used to bio-decontaminate small rooms and large pharmaceutical isolators. It also monitors and records the necessary data required by the regulators such as the US Government's Food and Drug Administration ("FDA") and the UK Government's Medicines and Healthcare products Regulatory Agency ("MHRA"). A smaller unit with reduced data capture capabilities, the Clarus L, is sold to bio-decontaminate smaller isolators and laboratory equipment.



Increasingly, the Clarus equipment is bought by clients as part of a larger bio-decontamination solution. Accordingly, BIOQUELL is expanding its validation and consultancy services relating to the optimal use of its Clarus equipment to provide the client with a tailored solution.

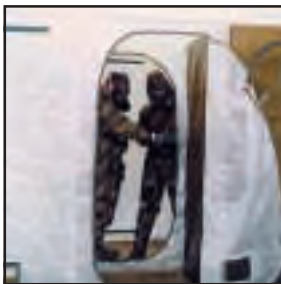
BIOQUELL is also expanding the range of specialist bio-decontamination solutions it sells by developing products which use its existing Clarus equipment in a complementary manner. Examples include the new Clarus PORT which is effectively a low temperature, high speed steriliser used for small pharmaceutical products and which uses BIOQUELL's patented dual-loop Clarus technology. The Clarus PORT is able to increase significantly the throughput and hence production efficiencies for certain specialist pharmaceutical and bio-technology companies.



Laboratory equipment

BIOQUELL designs and manufactures, under the long established Microflow and Astec brand names, a broad range of laboratory equipment used to filter micro-organisms and chemical fumes. BIOQUELL's Clarus technology can be used to bio-decontaminate, as appropriate, this laboratory equipment. This laboratory equipment business was established some 35 years ago and comprises products sold to a broad range of clients who are also likely to be potential or existing users of BIOQUELL's bio-decontamination technology.

The laboratory equipment market has become markedly more competitive over recent years and there is continuing downward pressure on margins. However, BIOQUELL believes that its laboratory equipment supply business forms an important part of the promotion and development of its after-sales (preventative maintenance) service and EBDS businesses – and hence there is an ongoing programme of laboratory equipment product updates.



NBC equipment

BIOQUELL manufactures NBC – nuclear, biological and chemical – filtration equipment for the defence sector under the MDH brand. For example, BIOQUELL's MDH NBC filtration systems are used in the British Army's Challenger 2 tank which saw service in the 2003 Gulf War. BIOQUELL also designs and manufactures environmental control systems for use in defence equipment.

The UK market for such NBC equipment in the military sector is mature. However, BIOQUELL is experiencing overseas interest in its technology. Further, there are potential civil defence applications for its MDH products.

Service

BIOQUELL has a substantial service business in the UK which supplies after sales service, support, preventative maintenance contracts, repairs, calibration and technical support for all BIOQUELL's products. It also services and supports other manufacturers' laboratory and steriliser equipment. BIOQUELL has service engineers located throughout the UK and is able to provide a high quality, comprehensive nationwide service. BIOQUELL also has service engineers located full time on certain large pharmaceutical sites, and services its complex Clarus equipment throughout the world.



BIOQUELL is in the process of training its service engineers to use its EBDS equipment and thereby extend the service offering provided to its clients. As a result of EBDS and other service-related initiatives, BIOQUELL's service business is expected to grow in 2004.

USA

During 2003 BIOQUELL established BIOQUELL Inc., a wholly owned subsidiary in United States. This business is beginning to see strong demand for BIOQUELL's products with particular interest in the Clarus C. BIOQUELL is currently working on the roll out of its RBDS and EBDS services in the US which should become fully operational by the end of 2004. The American market appears to be better funded and enjoying higher levels of investment than markets in Europe. We anticipate investing further in BIOQUELL's US operations during 2004.



France

BIOQUELL has a sales and service subsidiary in France. The bio-decontamination of an intensive care unit in Paris at the beginning of 2004 caused significant interest in BIOQUELL's RBDS technology from the French healthcare market. We are now experiencing interest from the French pharmaceutical market for RBDS and EBDS. BIOQUELL also sells products into the French laboratory equipment market which remains, similar to the UK market, extremely competitive and also suffers from relatively low levels of funding.

Research and development

BIOQUELL now has a broad range of bio-decontamination products and service equipment. We anticipate carrying out further development work relating to products or bio-decontamination solutions which are used in conjunction with the Clarus range of bio-decontamination equipment. We also anticipate a high ongoing level of patent-related costs, development work and regulatory submissions. The level of pure research work should be reduced in 2004 with a greater emphasis on product development and improvement. There is a continuing research programme relating to the use of aqueous oxygen peroxide (ozone) to bio-deactivate micro-organisms, but increasingly BIOQUELL's technical department is moving from a research role to a product development and technical support role for its customers.



Strategy, Markets and Review of Activities

Continued

Cape

Cape Engineering is the Group's environmental stress testing business headquartered at Warwick. Cape is a service business which has a number of blue chip customers spread broadly across a range of sectors including aerospace, defence, telecoms, automotive and rail.



Cape's services include physical testing such as vibration, environmental, ingress and hydrodynamic testing. It also provides software-based stress evaluation services, including linear and non linear finite element ("FE") analysis, and computational fluid dynamics. Cape also sells software and training to its clients.

Most of Cape's services are sold to support clients' product development programmes (as opposed to manufacturing). In 2003 Cape experienced a significantly increased level of demand for its services compared to the previous year. This was particularly apparent for its aerospace clients which had been affected by the events of "9/11". As a general trend, Cape is seeing increasing demand for its specialist testing services as its clients continue to focus on their core competencies and Cape continues to extend the breadth of its services. Cape has been working with a number of its largest clients to develop preferred supplier and outsourcing contracts. Currently an estimated 70% of all testing is still carried out in-house. In 2003 Cape secured its second significant outsourcing contract with the provision of Trent 900 engine component test services to Rolls-Royce in a new test suite which is being established in Cape's Warwick facilities.



During the year Cape established a high quality hydrodynamics testing facility which has already won a significant aerospace contract. It anticipates winning further large hydrodynamic testing contracts from the aerospace sector in 2004. Cape also launched "Cape on Call" in 2003 providing clients with highly trained and experienced engineers at their own facilities to carry out environmental testing using the client's own test equipment. This service is of particular interest to clients who find the transportation of their products problematic. During 2003 Cape also expanded its FE analysis capabilities by the acquisition of IAS, a specialist FE consultancy. As a result of this acquisition, Cape has been able to extend its FE services and the range of specialist software it sells.



During 2004 Cape intends to extend the range of EMC (electromagnetic compatibility) services it offers. Substantially all of its clients require their products to be EMC tested broadly at the same time as environmental testing. There should be significant benefits to Cape from offering its clients capacity and expertise in both EMC and environmental testing.

Cape has recruited a high quality, ambitious management team which is seeing a number of different opportunities for developing the business. Cape is positioning itself to become the leading, specialist provider of environmental test services in UK. Given the growth potential and attractive returns available to Cape, we will continue to invest in the business.

Nicholas Adams
Chief Executive



Operations and Finance Review

Operations

During the last twelve months significant time and resources have been committed to changing the operational structure at Andover to support the fast growing bio-decontamination service businesses. This has included rationalising the management of the manufacturing and service teams, and the training of the manufacturing employees to enable them to assist with the large building RBDS bio-decontamination contracts which BIOQUELL has won. During the year, the Group improved overall working capital levels by £0.2 million (2002: deterioration of £0.4 million) and received £0.2 million from the Government. As a result we are now able to deploy rapidly a large pool of highly trained, flexible direct labour across the Group's manufacturing, after-sales service and bio-decontamination service operations. Manufacturing employees have already been deployed on a number of large international RBDS contracts.

Cape has also been restructuring its operations with the appointment of a new Operations Director and the establishment of a Production Engineering department. These changes have significantly increased Cape's operating efficiencies while at the same time improved the service provided to its customers.

In 2003 the Group continued the focus on cost reduction and increasing efficiencies; the average number of employees in the Group was 186, as compared to 214 and 241 at the end of 2002 and 2001, respectively.

Trading performance

During the year the Group saw the start of revenue generation from its new RBDS service, as well as an increase in bio-decontamination equipment sales, particularly in US, and from Cape Engineering. However, the market for the Group's laboratory equipment products remains highly competitive and we are constantly assessing the margins at which we write new business. Further, in the second half exports of laboratory equipment to Asia came under pressure due to the relative strength of sterling compared to the US dollar. The overall 1% increase in gross margin to 35% achieved in the year represents an amalgamation of, broadly, margin increases in the service businesses offset by margin reduction in the laboratory equipment business.

Research and development

The Group continues to commit substantial resources to its research and development programmes (2003: £1.4 million; 2002: £1.7 million). However, we anticipate that the nature of the R&D programmes will change with greater emphasis on product development and technical support to clients as opposed to fundamental research.

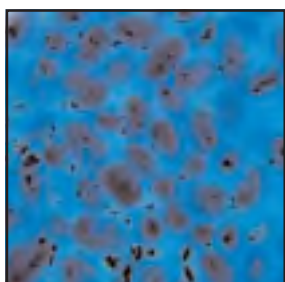
Cash flows, funding and investment

At the year end BIOQUELL had cash on its balance sheet of £0.3 million (2002: £2.6 million). Taking into account the euro debt (to hedge our operations in Europe) and finance leases the net debt position was £0.3 million (2002: net cash £2.2 million). During the year, the Group improved overall working capital levels by £0.2 million (2002: deterioration of £0.4 million) and received £0.2 million from the Government related to an R&D tax credit claim. The Group has an overdraft facility of £2.2 million which we believe gives us appropriate working capital as well as the ability to fund anticipated investments in bio-decontamination service equipment and at Cape Engineering. The bio-decontamination service businesses are cash generative and hence we anticipate that the profile of the Group's cashflows will change during 2004.

Accounting and operating controls

The internal accounting and operating controls improved during the year in large part due to the rationalisation and changes required to support the growing bio-decontamination service businesses. The IT systems were upgraded across the Group which has resulted in improved efficiency and better controls as well as a more robust IT infrastructure.

Mark Bodeker
Chief Operating Officer and Group Finance Director



Directors, Officers And Professional Advisers

Directors

John Salkeld, FCA *

Non Executive Chairman, joined the Board in March 1991. He was for ten years a partner in Binder Hamlyn, Chartered Accountants, and was then Director of Finance at GEC for three years. He left GEC in 1981 to co-lead a management buy-in of the troubled Myson Group. He was Deputy Chief Executive of Myson for nine years during its recovery and expansion until it was acquired by Blue Circle Industries. He was also Chairman of NEWSCOM PLC and LICA Development Capital Limited and holds a number of other non-executive positions.

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, having spent nine years in Barings' Corporate Finance Department both in the UK and continental Europe. He read chemistry at Durham University.

Mark Bodeker, CA

Chief Operating Officer and Group Finance Director, joined the Board in April 2000. He qualified with and subsequently worked for Deloitte Haskins and Sells for five years before moving to TI Group, holding a number of financial positions. Latterly he was divisional finance director of Meggitt Aerospace Components.

Simon Constantine *

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 a non-executive director of Profile Therapeutics PLC.

Richard Towner *

Non Executive Director, joined the Board in 1992. Previously he was a Corporate Finance partner of Richards Butler, a leading firm of City solicitors. He is a non executive director of a number of private and quoted companies.

* Member of the Audit and Remuneration Committees.

Secretary

Mark Bodeker

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Hampshire
SP10 5PY

Auditors

Deloitte & Touche LLP
Chartered Accountants
Reading

Stockbrokers

Investec Limited

Bankers

Barclays Bank PLC

Solicitors

Richards Butler

Registrars

Capita IRG Plc

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

Principal activities

The Company is a holding Company with operating subsidiaries located in United Kingdom and sales offices in France and US.

The principal activity of the Group is the research and development, design, manufacture and supply of bio-decontamination and containment equipment, related products and services to the pharmaceutical, healthcare, food and other industries.

The Chairman's Statement and Strategy, Markets and Review of Activities provide further details of the period under review and future developments.

Review of developments

The results for the year are set out in the profit and loss account on page 24. A review of the Group's business and future prospects is dealt with in the Chairman's Statement and Strategy, Markets and Review of Activities.

Directors

The directors of the Company are shown on page 13. All of them served throughout the year. The interests of the directors in ordinary shares and options to acquire ordinary shares in the Company are shown in the Director's Remuneration Report on pages 17 to 20.

None of the directors had any interest in the preference shares at any time during the year or subsequently.

Mr J G Salkeld will retire in accordance with the Articles of Association and being eligible will offer himself for re-election.

In common with all the non executive directors, the services of Mr J G Salkeld are made available to the Company under a letter of appointment terminable at three months notice.

Supplier payment policy

It is the policy of the Group, in the absence of dispute, to settle amounts due to trade and other creditors as expeditiously as possible within their terms of payment which are normally between thirty and sixty days. At the year-end the Group had 50 days (2002: 55 days) of purchase invoices outstanding.

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. Expenditure in the year on research and development amounted to £1,421,000 (2002: £1,656,000).

Directors' Report

Continued

Substantial shareholdings

At 6 April 2004 the following interests in three per cent or more of the issued ordinary share capital, excluding Board members whose interests are disclosed in the Directors' Remuneration Report, had been notified to the Company:

Ordinary shareholders	Number	Percentage of issued Ordinary Share Capital
M&G Investment Management Limited	5,864,522	14.8
Caledonia Investments PLC	5,162,499	13.0
Hermes Investment Management Limited*	4,290,113	10.8
Thompson Clive Investments*	2,455,051	6.2
Artemis Investment Management	1,647,875	4.1
CBT Adams	1,440,380	3.6
AHJ Muir	1,196,473	3.0

*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.

Disabled employees

The Group continues its policy of giving disabled people full and fair consideration for all job vacancies for which they offer themselves as suitable applicants, having regard to their particular aptitudes and abilities. Training and career development opportunities are available to all employees and the Group endeavours to retain any member of staff who develops a disability during their employment.

Employee consultation

The Group continues to provide employees with information on matters of concern to them and regularly consults them and their representatives about the affairs of the Group.

Every reasonable effort is made to maintain and develop existing arrangements, which include life assurance and pension schemes and to promote awareness amongst the employees of the financial and economic factors affecting the performance of the Group.

Auditors

On 1 August 2003 Deloitte & Touche transferred their entire business to Deloitte & Touche LLP, a limited liability partnership formed pursuant to the Limited Partnership Act 2000. The Company has given its consent to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP. Accordingly, a resolution to reappoint Deloitte & Touche LLP will be proposed at the forthcoming Annual General Meeting.

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

Mark Bodeker
Secretary
Andover

6 April 2004

Corporate Governance Statement

This section of the annual report describes how the Company has applied the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998 (the Hampel “Code”). The directors consider that throughout the year ended 31 December 2003 the Company has been in compliance with the provisions set out in Section 1 of that Code, except for code provision A.2.1 as the Board has not nominated a senior independent director other than the Chairman as the Board is small. The Board will, in the coming year, consider the recommendations set out in the Review of the Role and Effectiveness of Non-executive Directors (the Higgs Review) published in January 2003.

The Board comprises two executive and three non-executive directors. The non-executive directors are considered by the Board to be independent in character and judgement, and they are required to submit themselves for re-election at regular intervals. 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, external advice at the expense of the Company. The Board normally convenes monthly and 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 established audit and remuneration committees. Although there is no formal nominations committee again because the Board is small, appointments to the Board are considered by the non-executive directors.

The Audit Committee consists of the three non-executive directors and is chaired by Mr J G Salkeld. This committee deals with issues such as the proper observation of accounting standards, the application of the Group’s accounting policies, its systems of internal controls and all issues relating to the preparation of the Group’s annual and half-yearly Reports and Accounts.

The Board has considered the need to introduce a Group internal audit function but has decided that the current control mechanisms are appropriate in the context of the size and complexity of the Group. The Board continues to review this position.

The Remuneration Committee consists of the three non-executive directors and is chaired by Mr R E Towner. This committee is responsible for recommending to the Board the terms of service and remuneration of the executive directors, including the allocation of share options. The report of the Remuneration Committee is included on pages 17 to 21.

The Board attaches a high priority to communications with shareholders. The Group’s annual and half-yearly Reports and Accounts are sent to all shareholders. The Group meets regularly with its institutional shareholders and there is an opportunity for individual shareholders to question the Chairman at the AGM.

An ongoing process for identifying, evaluating and managing significant risks faced by the Group has been in place since 1 January 2003 to the date of approval of the annual Report and Accounts. That 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.

Corporate Governance Statement

Continued

The Board has conducted a review of the effectiveness of the system of internal controls for the year ended 31 December 2003 and the period up to 6 April 2004. In carrying out this review the Board takes account of material developments through reports by the Group Finance Director and the Audit Committee.

A risk management policy has been adopted by the Board setting out the Board's role and responsibilities and its 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 their own individual circumstances, and this is then reviewed and evaluated by the Group Finance Director and submitted to the Board for their consideration.

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 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.

Going Concern

In accordance with the Corporate Governance requirements, the directors confirm that after making enquiries they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Directors' Remuneration Report

Introduction

This report has been prepared in accordance with the Directors' Remuneration Report Regulations which introduced new statutory requirements for the disclosure of directors' remuneration in respect of periods ending on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting at which the financial statements will be approved.

The regulations require the auditors to report to the Company's members on the "auditable part" of the Directors' Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for unaudited and audited information.

Unaudited Information

Remuneration Committee

The Company has established a Remuneration Committee which is constituted in accordance with the recommendations of the Combined Code. It consists of three independent non-executive directors: Mr J G Salkeld, Mr S J Constantine and myself as Chairman.

Remuneration policy

The Committee follows certain fundamental principles in deciding levels and forms of remuneration. This includes providing a base salary which reflects the current stage of development of the Group and aligning the interests of those executives with those of the shareholders through the use of share options and bonuses linked to, amongst other things, the development of the Group. The remuneration of the non-executive directors is determined by the Board within limits set out in the Articles of Association.

Basic salary

The basic salary of executive directors is determined by the Committee generally during March each year and when an individual changes position or responsibility.

In addition to basic salary, the executive directors receive certain benefits-in-kind, principally private medical insurance.

Incentive Schemes/Share Option Schemes

Executive directors are eligible for an annual profit performance bonus, the amount of which is determined following an assessment by the Remuneration Committee, based on a number of quantitative and qualitative factors including the financial position and prospects of the Company at the relevant time and the implementation of the strategic plan. The Committee view the performance element as important and accordingly the bonus is determined following strict review.

There are no long-term incentive schemes other than the Share Option Schemes. As the Company is at an early stage in its development, share options are considered part of overall remuneration and are issued without pre-conditions.

The Remuneration Committee has spent considerable time recently considering the remuneration packages of the two Executive Directors, Nick Adams and Mark Bodeker, and in particular their equity based incentives. The Committee has concluded that the current share option scheme rules are somewhat restrictive and inappropriate given the nature of BIOQUELL's business. For example, the Committee is currently not able to grant Mr Adams any more options as he has reached the four times salary cap dictated by the rules of the Company's schemes. However the Committee believes strongly that it is in the best interests of the Company that the two executives remain incentivised by continuing equity participation in the form of options and the Board is proposing to grant to each of them a one off grant of special options. In essence these comprise the grant of options over 400,000 ordinary shares in the Company; those options will only be exercisable if the Company achieves a compound increase in total shareholder return of 25% per annum over a three year period. This increase is equivalent, assuming no dividend payments or return of capital, to almost a doubling of the share price in a three year period. The grant is therefore linked closely to the benefits which shareholders will receive if there is the necessary increase in the share price.

Directors' Remuneration Report

Continued

The executives are effectively given three opportunities to achieve the relevant growth with the increase being measured in each case over a three year period; the first period commences on the Date of Grant (which would be on the day the relevant ordinary resolution is passed) and two subsequent three year periods commencing on the first and second anniversaries of the Date of Grant. You will note that the options are to be granted at the mid market price of the ordinary shares on 7 April 2004 at 120.5p the latest practical date prior to the printing and posting of the Report and Accounts and if the relevant growth is not achieved during the first three year period there is to be an increase of 10% in the base price for the second period and 20% in respect of the third period.

The options would be granted subject to the general provisions of the Company's unapproved share option scheme subject to certain modifications which are referred to in the relevant resolution. One point to which your attention is drawn is that in the event of a successful takeover of the Company the executives will be entitled to exercise their options notwithstanding that they were not otherwise in a position so to do e.g. because the relevant growth has not been achieved or the relevant three year period has not expired.

The options granted will not fall within the general limitations on amounts specified in the unapproved scheme and resolution 6 also extends the exclusion to the number of shares which may be the subject of options under the Inland Revenue approved scheme. Any variation to the approved scheme is subject to Revenue approval and if such approval were not granted, it would not affect the grant of options under resolution 6.

The Committee is responsible for supervising the Company's Share Option Schemes in accordance with the rules approved by shareholders.

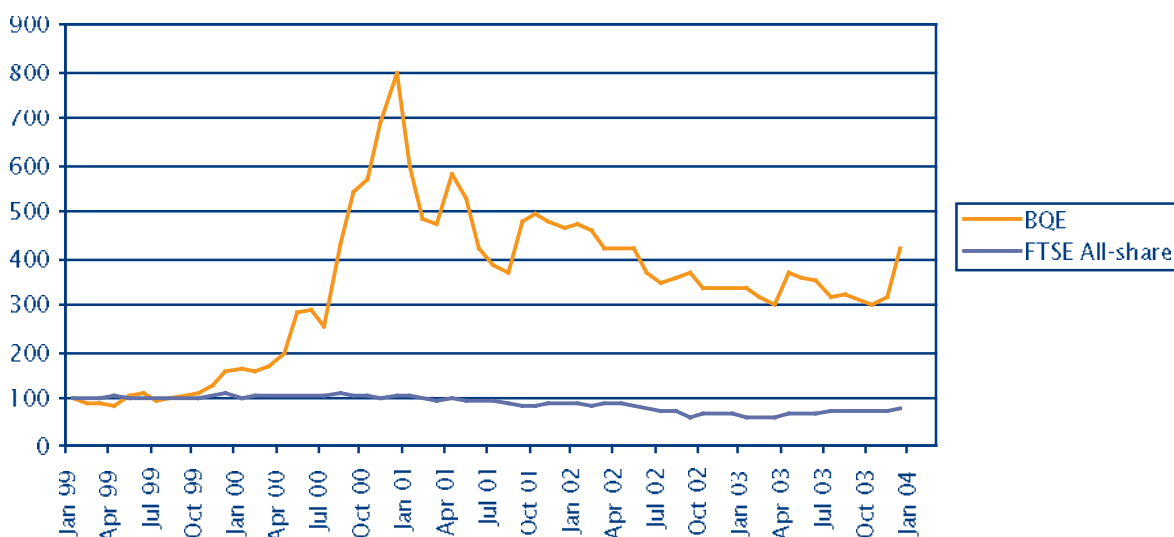
Pension arrangements

The Group operates a defined contribution pension scheme for employees and executive directors.

Performance graph

The following graph shows the Company's performance, measured by total shareholder return, compared with the performance of the FTSE All Share Index also measured by total shareholder return. The FTSE All Share Index is considered the most appropriate benchmark against which to measure Group performance. The graph is prepared on the basis of constituent companies in the Index at a point in time.

15 Year Index of BIOQUELL share price relative to FTSE All-share Index.



Directors' contracts

The executive directors have service contracts with an indefinite term with notice periods of 12 months in respect of Mr N M T Adams and 6 months in respect of Mr B M Bodeker. The contract date for Mr N M T Adams and Mr B M Bodeker is 16 April 2000. In the event of a change of control of the Company, the notice periods of Mr Adams and Mr Bodeker are extended to two years, and this may be treated by the individual as a terminating event. In the event of early termination, the directors' contracts provide for basic compensation up to a maximum of basic salary for the notice period.

The Remuneration 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.

Non-executive directors

All non-executive directors have specific terms of engagement and their remuneration is determined by the Board within the limits set by the Articles of Association. The non-executives receive no further fees for additional work performed for the Company both in respect of membership of the Remuneration Committee and Audit Committee. Non-executive directors participate in the Company's Share Option Schemes but are not eligible to join the Company's pension scheme.

Audited Information

AGGREGATE DIRECTORS' REMUNERATION

The total amount for directors' remuneration were as follows:

	2003 £'000	2002 £'000
Emoluments	293	271
Money purchase pension contributions	11	9
	304	280

Directors' emoluments

	Fees/basic salary £'000	Benefits in kind £'000	Annual bonuses £'000	2003 £'000	2002 £'000
Executive					
Nicholas Adams	104	11	12	127	116
Mark Bodeker	94	7	12	113	102
Non-executive					
John Salkeld	23	-	-	23	23
Richard Towner	15	-	-	15	15
Simon Constantine	15	-	-	15	15
Aggregate emoluments	251	18	24	293	271

Directors' interest in ordinary shares

The directors who held office at 31 December 2003, had the following interests in the ordinary shares of the Company:

Beneficial holdings*	31 December 2003	Percentage of share capital	1 January 2003
J G Salkeld	2,001,477	5.0%	1,951,477
N M T Adams	637,562	1.6%	637,562
R E Towner	309,369	0.8%	309,369
S J Constantine	300,058	0.8%	250,058
B M Bodeker	10,000	-	10,000
	3,258,466	8.2%	3,158,466

*Beneficial holdings include holdings of spouses and infant children.

Directors' Remuneration Report

Continued

Directors' share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the directors. No director exercised any options during the year.

Details of options for directors who served during the year are as follows:

Name of director	1 Jan 2003	Granted/ (exercised)	31 Dec 2003	Exercise price (p)	Date from which exercisable	Expiry date
Nicholas Adams	30,000	-	30,000	24.0	10.04.00	09.04.07
	70,000	-	70,000	18.5	06.05.01	05.05.05
	200,000	-	200,000	23.0	17.06.02	16.06.06
	200,000	-	200,000	44.0	19.04.03	18.04.07
	120,000	-	120,000	123.0	30.04.04	29.04.08
	80,000	-	80,000	107.5	30.04.05	29.04.09
	-	50,000	50,000	84.0	17.04.06	16.04.10
Mark Bodeker	120,000	-	120,000	44.0	19.04.03	18.04.07
	100,000	-	100,000	123.0	30.04.04	29.04.08
	80,000	-	80,000	107.5	30.04.05	29.04.09
	-	100,000	100,000	84.0	17.04.06	16.04.10
John Salkeld	25,000	-	25,000	44.0	19.04.03	18.04.07
	20,000	-	20,000	123.0	30.04.04	29.04.08
Richard Towner	25,000	-	25,000	44.0	19.04.03	18.04.07
	20,000	-	20,000	123.0	30.04.04	29.04.08
Simon Constantine	25,000	-	25,000	44.0	19.04.03	18.04.07
	20,000	-	20,000	123.0	30.04.04	29.04.08
	1,135,000	150,000	1,285,000			

There have been no variations to the terms and conditions or performance criteria for share options during the financial year. Further information on the Share Option Schemes can be found in the unaudited section of this report on pages 17 and 18.

The market price of the ordinary shares at 31 December 2003 was £1.10 (2002: £0.88) and the range during the year was £0.77 to £1.16.

Directors' pension entitlements

No directors are members of, or have any accrued benefits from, the Company's defined benefit scheme, which relates solely to former employees of the Group, details of which can be found in Note 23 to the Financial Statements. This scheme was closed to new members in May 1990.

Two directors are members of money purchase schemes, and the contributions paid by the Company in respect of such directors were as follows:

Name of director	2003 £'000	2002 £'000
Nicholas Adams	6	5
Mark Bodeker	5	4
	11	9

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

Richard Towner
Chairman of the Remuneration Committee
Andover

6 April 2004

Statement of Directors' Responsibilities

United Kingdom Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit or loss of the Group for that year. In preparing these financial statements, the directors consider they have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent; and
- followed applicable United Kingdom accounting standards.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the Group's system of internal financial controls, for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors Report

To the Members of BIOQUELL PLC

We have audited the financial statements of BIOQUELL PLC for the year ended 31 December 2003, which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses, the reconciliation of movements in consolidated shareholders' funds, the statement of accounting policies, the related Notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 Auditors' 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.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the Directors' Remuneration Report. Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report that is described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report that is described as having been audited are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specific for our review by the Listings Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' Report and other information contained in the annual report for the above year as described in the contents section including the unaudited part of the Directors' Remuneration Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report that is described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report that is described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report that is described as having been audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003, and of the loss of the Group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report that is described as having been audited have been properly prepared in accordance with the Companies Act 1985.

DELOITTE & TOUCHE LLP
Chartered Accountants and Registered Auditors
Reading

6 April 2004

Consolidated Profit and Loss Account

for the year ended 31 December 2003

	Notes	2003 £'000	2002 £'000 (restated)*
Turnover	1	12,575	12,243
Cost of sales		(8,235)	(8,092)*
Gross profit		4,340 35%	4,151 34%
Operating loss before R&D and exceptional items		(269)	(110)
R&D	2	(1,421)	(1,656)
Exceptional items	2	(360)	(763)
Net operating expenses	2	(6,390)	(6,680)*
Operating loss	2	(2,050)	(2,529)
Net interest payable and other similar charges	4	(11)	(6)
Loss on ordinary activities before tax		(2,061)	(2,535)
Tax on loss on ordinary activities	5	222	300
Loss on ordinary activities after tax		(1,839)	(2,235)
Dividends on non equity shares	6	(11)	(11)
Retained loss for the year		(1,850)	(2,246)
Loss per share – basic and diluted	7	(4.7p)	(5.9p)

Turnover and operating loss relate wholly to continuing activities.

*For the year ended 31 December 2002, net operating expenses of £280,000 have been reclassified as cost of sales to reflect the consistent treatment of direct costs.

Movements in reserves are set out in Note 20.

Group and Company Balance Sheets

at 31 December 2003

	Notes	Group		Company	
		2003 £'000	2002 £'000	2003 £'000	2002 £'000
Fixed assets:					
Intangible assets	8	265	–	–	–
Tangible assets	9	2,721	2,393	13	15
Investments	11	–	–	6,954	1,733
		2,986	2,393	6,967	1,748
Current assets:					
Stocks	12	2,599	2,753	–	–
Debtors	13	3,504	3,263	1,149	1,038
Cash at bank and in hand		269	2,594	9,703	13,306
		6,372	8,610	10,852	14,344
Creditors:					
Amounts falling due within one year	14	(2,393)	(2,313)	(1,836)	(231)
Net current assets		3,979	6,297	9,016	14,113
Total assets less current liabilities		6,965	8,690	15,983	15,861
Creditors:					
Amounts falling due after more than one year	15	(543)	(377)	(411)	(377)
Provisions for liabilities and charges	18	(77)	(123)	–	–
Net assets		6,345	8,190	15,572	15,484
Capital and reserves:					
Called up share capital	19	4,124	4,112	4,124	4,112
Share premium	20	10,139	10,110	10,139	10,110
Capital reserve	20	255	255	255	255
Profit and loss account	20	(8,173)	(6,287)	1,054	1,007
Shareholders' funds		6,345	8,190	15,572	15,484
Shareholders' funds may be analysed as:					
Equity interests		6,195	8,040	15,422	15,334
Non equity interests		150	150	150	150
		6,345	8,190	15,572	15,484

The Financial Statements were approved by the Board of Directors and signed on its behalf by

Nicholas Adams }
Mark Bodeker } *Directors*

6 April 2004

Consolidated Cash Flow Statement

for the year ended 31 December 2003

	Notes	2003 £'000	2002 £'000
Net cash outflow from operating activities	21(a)	(1,323)	(1,882)
Returns on investments and servicing of finance	21(b)	(22)	(17)
Capital expenditure and financial investment	21(c)	(989)	(441)
Financing	21(d)	9	6,271
(Decrease) / increase in cash in the year		(2,325)	3,931
Reconciliation of net cash flow to movement in net debt	21(e)		
(Decrease) / increase in cash in the year		(2,325)	3,931
Cash outflow from decrease in debt financing		32	36
Change in net debt resulting from cash flows		(2,293)	3,967
New finance leases		(174)	–
Exchange difference		(34)	(12)
Movement in net debt in the year		(2,501)	3,955
Net cash / (debt) at 1 January		2,196	(1,759)
Net (debt) / cash at 31 December		(305)	2,196

Statement of Total Recognised Gains and Losses

for the year ended 31 December 2003

	2003 £'000	2002 £'000
Loss for the financial year	(1,839)	(2,235)
Foreign exchange adjustment	(36)	(17)
Total recognised loss for the financial year	(1,875)	(2,252)

Reconciliation of Movement in Shareholders' Funds

for the year ended 31 December 2003

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
(Loss) / profit	(1,839)	(2,235)	58	(178)
Dividends on non equity shares	(11)	(11)	(11)	(11)
	(1,850)	(2,246)	47	(189)
Foreign exchange adjustment	(36)	(17)	-	-
Shares issued and associated share premium	41	6,307	41	6,307
Net (decrease) / increase	(1,845)	4,044	88	6,118
Opening shareholders' funds	8,190	4,146	15,484	9,366
Closing shareholders' funds	6,345	8,190	15,572	15,484

The total amount of non equity interests in shareholders' funds is as follows:

	2003 £'000	2002 £'000
7.5% redeemable cumulative preference shares of £1 each (First Preference Shares)	150	150

Statement of Accounting Policies

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

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Basis of consolidation

The Group financial statements consolidate the statements of the company and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its economic life, which is 10 years. Provision is made for any impairment.

Research and development

Research and development expenditure is written off in the year in which it is incurred.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for 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:

Leasehold land and buildings	10 years
Plant and machinery	3 to 8 years

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

Stocks

Stocks and work in progress are valued at the lower of cost, including factory overheads, and estimated net realisable value. Provision is made for obsolete, slow-moving or defective items where appropriate.

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 recognised, have not been discounted.

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Pension costs

The defined benefit scheme, which has been closed to new members since May 1990 and relates solely to former employees of the Group, is managed in separate trustee-administered funds, with the assets of the scheme held separately from those of the Group. Pension scheme assets are measured at fair value and liabilities are measured independently on an actuarial basis. These valuations are obtained at least triennially and are updated at each balance sheet date.

For the defined contribution scheme the amounts charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Foreign currency

Amounts receivable and payable in foreign currencies are generally translated into sterling at the rates of exchange ruling at the end of the period, or at the date of settlement. In cases where amounts receivable are covered by the forward sale of foreign currency, the rate at which the forward sale has been negotiated is used. Resulting exchange gains and losses are dealt with in the profit and loss account. For consolidation purposes, the assets and liabilities and profit and loss account of overseas operations are translated at the closing exchange rates. Exchange differences on this translation are taken to reserves.

Leases

Assets held under finance leases and other similar contracts are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding.

All other leases are treated as operating leases and their costs are charged to the profit and loss account as incurred.

Notes to the Financial Statements

for the year ended 31 December 2003

1. Turnover

Turnover represents amounts derived from the provision of goods and services which fall within the Company's ordinary activities after deduction of trade discounts and Value Added Tax. The turnover, pre-tax loss and net assets, the majority of which arises in the United Kingdom, are attributable to the sale of bio-decontamination and filtration equipment and services.

	2003	2002
	£'000	£'000
United Kingdom	8,392	5,977
Rest of Europe	1,963	4,318
Other	2,220	1,948
	12,575	12,243

2. Net operating expenses

	2003	2002
	£'000	£'000
Net operating expenses		
Distribution costs	477	607
Administrative expenses	5,913	6,073
	6,390	6,680
Operating loss has been stated after charging:		
R&D expenditure	1,421	1,656
Exceptional items: restructuring costs related to BIOQUELL Medical Ltd	-	763
litigation and redundancy costs	360	-
Amortisation of intangible fixed assets	14	-
Amortisation of tangible fixed assets: owned	764	774
leased	21	25
Auditors remuneration: audit (Company: £7,650 (2002: £3,100))	57	53
non audit	17	39
Operating lease rentals in respect of: plant and machinery	14	10
other operating leases	575	523
Operating loss has been stated after crediting:		
Rents receivable	5	23
Profit on disposal of fixed assets	-	3

3. Staff costs

The average monthly number of employees (including executive directors) was:

	2003	2002
	Number	Number
Production shop-floor	61	88
Engineering directs	50	38
	111	126
Sales & marketing	33	28
Administration	26	40
Other	16	20
	75	88
	186	214

3. Staff costs (cont'd)

Their aggregate remuneration comprised:

	2003 £'000	2002 £'000
Wages and salaries	5,112	5,244
Social security costs	562	504
Other pension costs	223	205
	5,897	5,953

Details of directors' remuneration, share options and pension contributions are included in the Directors' Remuneration Report, and audited, on pages 17 to 20 which forms part of these financial statements.

4. Net interest payable and other similar charges

	2003 £'000	2002 £'000
Payable		
Bank loans and overdrafts	24	56
Finance charges in respect of finance leases	7	4
	31	60
Receivable		
Bank interest	(20)	(54)
	11	6

5. Tax on loss on ordinary activities

Analysis of tax credit on ordinary activities

	2003 £'000	2002 £'000
UK corporation tax on profits of the period at 30%	-	-
R&D tax credit	222	300
Adjustment in respect of prior periods	-	-
	222	300
Deferred tax: origination and reversal of timing differences	-	-
	222	300

Notes to the Financial Statements

for the year ended 31 December 2003

Continued

5. Tax on loss on ordinary activities (cont'd)

Factors affecting tax credit for period

The tax assessed for the period is higher than that resulting from applying the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2003 £'000	2002 £'000
Loss on ordinary activities before taxation	(2,061)	(2,535)
Tax at 30% thereon	618	760
Effects of:		
Expenses not deductible for tax purposes	(18)	(40)
Capital allowances in excess of depreciation	(201)	(139)
Unutilised tax losses	(126)	(192)
Movement in short term timing differences	4	(14)
R&D tax credit	(55)	(75)
	222	300

The Group is estimated to have an overall deferred tax asset of £2,117,000 (2002: £1,794,000), made up as follows:

	2003 £'000	2002 £'000
Capital allowances in excess of depreciation	830	640
Short term timing differences	29	24
Trading losses carried forward	1,184	1,058
Excess management expenses carried forward	74	72
	2,117	1,794

The deferred tax assets have not been recognised in the financial statements as the Group as a whole is loss-making and it is not anticipated that excess capital allowances and losses carried forward will be utilised in the near future.

The Group has estimated tax losses of £4,193,000 available for carry forward and offset against future taxable profits.

6. Dividends on non equity shares

	2003 £'000	2002 £'000
Paid and proposed dividends on non equity shares		
First Preference Shares		
7.5% redeemable cumulative preference shares of £1 each	11	11

7. Loss per share

The loss per ordinary share is based on a loss of £1,850,000 (2002: £2,246,000) being the loss after taxation less preference dividends, and the weighted average number of shares during the year of 39,677,730 (2002: 38,115,597).

FRS14 requires presentation of diluted EPS when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding share options, net loss per share would only be increased by the exercise of out-of-the-money options. Since option holders would normally only exercise for gain, and there are no other diluting future share issues, diluted EPS has not been presented.

8. Intangible fixed assets: goodwill

	Positive goodwill £'000
Cost	
As at 1 January 2003	–
Additions	279
As at 31 December 2003	279
Accumulated amortisation	
As at 1 January 2003	–
Charge for the year	14
As at 31 December 2003	14
Net book value	
As at 31 December 2003	265
As at 31 December 2002	–

In June 2003, Cape Engineering acquired the trade and net assets of NT Engineering Ltd, trading as IAS, for the initial consideration of £51,000, for which it obtained net assets at a book value of £5,000. The fair value of these assets was £1,000. In addition owner earn-out of £229,000 has been accrued and this will be paid out over three years from the date of acquisition depending upon performance. In the year immediately prior to the acquisition, IAS made a profit of £12,000.

The contribution of this acquisition to the Group results in 2003 was de minimus.

9. Tangible fixed assets

	Short-term leasehold improvements £'000	Group Plant, vehicles and machinery £'000	Total £'000	Company Plant, vehicles and machinery £'000
Cost				
As at 1 January 2003	817	5,305	6,122	49
Additions	45	1,099	1,144	–
Disposals	–	(309)	(309)	–
As at 31 December 2003	862	6,095	6,957	49
Accumulated amortisation				
As at 1 January 2003	139	3,590	3,729	34
Charge for the year	59	726	785	2
Disposals	–	(278)	(278)	–
As at 31 December 2003	198	4,038	4,236	36
Net book value				
As at 31 December 2003	664	2,057	2,721	13
As at 31 December 2002	678	1,715	2,393	15

The figures stated above include assets held under finance leases as follows:

	Group 2003 £'000	2002 £'000
Net book value of plant and machinery	184	37

Notes to the Financial Statements

for the year ended 31 December 2003
Continued

10. Capital commitments

The Group had capital expenditure contracted but not provided for at the year end of £25,658 (2002: £11,245).

11. Fixed asset investments

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

	Location
BIOQUELL UK Limited	Andover and France
Cape Engineering UK Limited	Warwick
BIOQUELL Inc	USA

The activities of the above companies are the research and development, design, manufacturing and supply of bio-decontamination and containment equipment, related products and engineering services to the pharmaceutical, healthcare, food and other industries.

	Company		
	Investment in	Group undertakings	Total
	Shares	Loans	Total
	£'000	£'000	£'000
Cost			
As at 1 January 2003	111	2,281	2,392
Additions	–	5,221	5,221
As at 31 December 2003	111	7,502	7,613
Impairment provision			
As at 1 January 2003	103	556	659
Charge for the year	–	–	–
As at 31 December 2003	103	556	659
Net book value			
As at 31 December 2003	8	6,946	6,954
As at 31 December 2002	8	1,725	1,733

12. Stocks

	Group	
	2003	2002
	£'000	£'000
Raw materials, spare parts and consumables	2,113	2,242
Work in progress	116	100
Finished goods and goods for resale	370	411
	2,599	2,753

13. Debtors

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Trade debtors	2,731	2,400	-	-
Amounts due from subsidiary undertakings	-	-	1,077	692
Other debtors	119	73	10	10
Corporation and other tax	350	320	31	300
Prepayments and accrued income	304	470	31	36
	3,504	3,263	1,149	1,038

Included in Other debtors is an amount of £29,000 (2002: £29,000) due after more than one year.

14. Creditors – Amounts falling due within one year

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Finance leases	31	21	-	-
Payment received on account	-	12	-	-
Trade creditors	998	1,610	-	-
Amounts due to subsidiary undertakings	-	-	1,684	145
Taxation and social security	374	192	-	-
Accruals	981	472	143	80
Proposed preference dividend	9	6	9	6
	2,393	2,313	1,836	231

The Company has entered into a cross guarantee with subsidiary undertakings to guarantee the overdrafts of certain subsidiaries. The amount outstanding under this guarantee was £11,000,000 (2002: £11,000,000).

15. Creditors – Amounts falling due after more than one year

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Bank loan	411	377	411	377
Finance leases	132	-	-	-
	543	377	411	377

A bank loan totalling £411,000 (2002: £377,000) is secured by a debenture creating a fixed and floating charge over all the assets of the Group.

Notes to the Financial Statements

for the year ended 31 December 2003

Continued

16. Finance leases

Net obligations under finance leases are secured on the assets to which they relate and are payable as follows:

	Group	
	2003 £'000	2002 £'000
Within one year	31	21
Between one and two years	30	–
Between two and five years	102	–
	163	21

17. Financial instruments

The Group's financial instruments comprise cash balances, bank loans and overdrafts and various items such as trade debtors and creditors that arise directly from its operations. It is, and has been the Group's policy throughout the year, not to trade in financial instruments. The Group has taken advantage of the exemption available in FRS13 Derivatives and Other Financial Instruments to exclude short term debtors and creditors from the disclosures of financial assets and liabilities.

Interest rate risk profile of financial liabilities

The only financial asset held by the Group at 31 December 2003 was cash at bank of £269,000 (2002: £2,594,000) of which the equivalent of £26,000 was held in EUROS (2002: £68,000). Sterling cash deposits are placed on the money market at call, 7-day and 3-month rates generating interest at rates above LIBOR.

The interest rate profile of the Group's financial liabilities as at 31 December 2003 was:

	Fixed rate		Floating rate	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Sterling				
Finance leases	132	–	–	–
Non equity shares	150	150	–	–
Euro				
Borrowings	411	377	–	–
	693	527	–	–

Further analysis of the interest rate profile at 31 December 2003 is as follows:

	2003		2002	
	Weighted average interest rate %	Weighted average period for which rate is fixed (years)	Weighted average interest rate %	Weighted average period for which rate is fixed (years)
Sterling				
Finance leases	8.3%	5	–	–
Euro				
Borrowings	4.5%	1	4.5%	1
		2		1

17. Financial instruments (cont'd)

The Group's policy for future borrowing will be to take floating rates unless fixed rate financing is available at more attractive rates.

The fair value of the above financial instruments is approximately equal to book value.

Maturity of financial liabilities

The currency loan is denominated in EUROS and bears interest at a fixed rate of 4.54%, and it is anticipated it will be converted into a term facility over a 3-year period from December 2004. For other financial liabilities, the maturity profile is shown in Notes 16 and 19.

Currency profile

The main functional currencies of the Group are Sterling, the EURO and the US Dollar. The monetary assets and liabilities of the Group are held in the same functional currencies of the operations involved.

Borrowing facility

The Group had undrawn committed overdraft facilities available at 31 December 2003 of £2,200,000 (2002: £2,200,000). The facility is reviewable each year.

Liquidity risk

The Group's policy is to ensure that it has available sufficient facilities to enable it to satisfy its peak borrowing requirements with an appropriate level of headroom.

18. Provisions for liabilities and charges

Group	2003 £'000
As at 1 January 2003	123
Charge for the year	38
Utilised during the year	(84)
As at 31 December 2003	77

The amounts above relate to warranty and restructuring associated with the closure of the site at Weston super Mare. It is anticipated that the closing balance will be used over a period of 36 months.

19. Called up share capital

	2003		2002	
	Number	£'000	Number	£'000
Authorised				
Ordinary shares of 10p each	55,947,780	5,595	55,947,780	5,595
First Preference Shares of £1 each	150,000	150	150,000	150
Redeemable deferred ordinary shares of £1 each	255,222	255	255,222	255
		6,000		6,000
Called up, allotted and fully paid				
Ordinary shares of 10p each	39,738,602	3,974	39,621,861	3,962
First Preference Shares of £1 each	150,000	150	150,000	150
		4,124		4,112

Notes to the Financial Statements

for the year ended 31 December 2003

Continued

19. Called up share capital (cont'd)

During the year the Company issued a total of 116,741 ordinary shares of 10p each for £41,000 on the conversion of options under the executive share option schemes, which is being used to provide additional working capital.

The First Preference Shares are redeemable at the option of the Company at a premium of 12.5p per share. Holders of the First Preference Shares have no voting rights unless the dividend has remained unpaid for six months after any half yearly payment date or a resolution is proposed for winding up the Company or reducing the capital of the Company or adversely varying the holders' rights and privileges.

When either of these criteria apply then holders of Preference Shares are entitled, on a show of hands, to one vote and, on a poll, holders present in person or by proxy are entitled to four votes for every one First Preference Share held. On the winding up of the Company, the holders of the First Preference Shares receive a return of their capital together with a further amount by way of a premium of 12.5p per share together with all arrears of dividend, in priority to any repayment to any of the holders of ordinary shares.

The following options to subscribe for ordinary shares have been granted pursuant to the terms of the Share Option Schemes to employees:

Number of ordinary shares	Date from which exercisable	Expiry date	Exercise price
8,000	19.10.98	18.10.05	20.0p
25,000	15.04.99	14.04.06	22.0p
25,000	24.09.99	23.09.06	28.5p
8,000	15.09.00	14.09.07	27.5p
10,000	06.05.01	05.05.05	18.5p
15,000	17.06.02	16.06.06	23.0p
132,000	07.07.02	06.07.09	28.0p
24,000	19.04.03	18.04.07	44.0p
99,500	19.04.03	18.04.10	44.0p
40,000	13.09.03	12.09.10	74.5p
57,000	30.04.04	29.04.08	123.0p
139,000	30.04.04	29.04.11	123.0p
35,000	04.10.04	03.10.11	93.5p
79,750	30.04.05	29.04.09	107.5p
153,150	30.04.05	29.04.12	107.5p
124,000	17.04.06	16.04.10	84.0p
201,000	17.04.06	16.04.13	84.0p
1,175,400			

During the year the following options were granted or lapsed:

	Directors Number	Employees Number	Total Number
As at 1 January 2003	1,135,000	1,079,500	2,214,500
Lapsed	-	(125,600)	(125,600)
Converted	-	(116,500)	(116,500)
Granted	150,000	338,000	488,000
As at 31 December 2003	1,285,000	1,175,400	2,460,400

Further details of directors' options are given in the Directors' Remuneration Report on pages 17 to 20.

20. Reserves

	Share premium	Capital reserve	Profit and loss account
	£'000	£'000	£'000
Group			
As at 1 January 2003	10,110	255	(6,287)
Arising on share issue	29	-	-
Retained loss for equity shareholders	-	-	(1,850)
Loss on foreign exchange	-	-	(36)
As at 31 December 2003	10,139	255	(8,173)
Company			
As at 1 January 2003	10,110	255	1,007
Arising on share issue	29	-	-
Retained profit for equity shareholders	-	-	47
As at 31 December 2003	10,139	255	1,054

At 31 December 2003 the amount of purchased goodwill written off directly to reserves was £3,434,000 (2002: £3,434,000).

In accordance with Section 230 of the Companies Act 1985 BIOQUELL PLC is exempt from the requirement to present its own profit and loss account. The profit after taxation, dealt with in the financial statements of the Company is £47,000 (2002: loss of £189,000).

21. Notes to the cashflow

	2003	2002
	£'000	£'000
(a) Reconciliation of operating loss to operating cash flows:		
Operating loss	(2,050)	(2,529)
Amortisation of intangible assets	14	-
Amortisation of tangible assets	785	799
Profit on disposal of fixed assets	-	(3)
Decrease / (increase) in stocks	154	(441)
(Increase) / decrease in debtors	(19)	541
Increase / (decrease) in creditors	(161)	(170)
Decrease in provisions	(46)	(79)
Net cash outflow from operating activities	(1,323)	(1,882)

The net cash outflow from operating activities disclosed above includes an outflow of £167,000 relating to the exceptional items, being legal costs, disclosed on the face of the profit and loss account.

(b) Returns on investments and servicing of finance:

Interest received	19	54
Interest paid	(24)	(56)
Interest element of finance lease rental payments	(6)	(4)
Preference dividend paid	(11)	(11)
Net cash outflow from returns on investments and servicing of finance	(22)	(17)

Notes to the Financial Statements

for the year ended 31 December 2003

Continued

21. Notes to the cashflow (cont'd)

	2003 £'000	2002 £'000
(c) Capital expenditure and financial investment		
Purchase of intangible fixed assets	(51)	–
Purchase of tangible fixed assets	(970)	(494)
Sale of tangible fixed assets	32	53
Net cash outflow from capital expenditure	(989)	(441)
(d) Financing		
Proceeds from share issue	41	6,307
Capital element of finance lease rental payments	(32)	(36)
Net cash inflow from financing	9	6,271

	At 1 January 2003 £'000	Cash flow £'000	Other non cash movements £'000	Exchange movements £'000	At 31 December 2003 £'000
(e) Analysis of net debt					
Cash at bank and in hand	2,594	(2,325)	–	–	269
		(2,325)			
Debt after 1 year	(377)	–	–	(34)	(411)
Finance leases	(21)	32	(174)	–	(163)
		32			
	2,196	(2,293)	(174)	(34)	(305)

22. Financial commitments

Annual commitments under non-cancellable operating leases are as follows:

	Group		Other	
	Land & buildings 2003 £'000	2002 £'000	2003 £'000	2002 £'000
Expiry date:				
Within one year	–	–	3	5
Between two and five years	338	87	151	68
After five years	156	404	–	–
	494	491	154	73

23. Pension arrangements

The Company operates a defined benefit scheme which has been closed to new members since May 1990 and whose assets are held separately from those of the Company. A full actuarial valuation was carried out at 5 April 2000 and updated to 31 December 2003 by a qualified actuary. As at 5 April 2000, the scheme was 84% funded. The major assumptions used for the actuarial valuation were:

	2003	2002	2001
Rate of increase in salaries	N/a	N/a	N/a
Rate of increase in pension payment	3.0%	3.0%	3.0%
Discount rate	5.5%	5.5%	6.0%
Inflation assumption	3.0%	2.5%	2.5%

23 Pension arrangements (cont'd)

The fair value of assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at each balance sheet date were:

	31 December 2003		31 December 2002		31 December 2001	
	Long term rate of return	Fair value £'000	Long term rate of return	Fair value £'000	Long term rate of return	Fair value £'000
Equities	7.5%	95	7.0%	104	7.5%	165
Bonds	5.5%	287	5.5%	284	6.0%	258
Other	3.5%	45	4.0%	34	4.5%	7
Total fair value of assets		427		422		430
Present value of scheme liabilities		565		540		533
Liability in the scheme		(138)		(118)		(103)
Related deferred tax credit		41		35		31
Net pension liability		(97)		(83)		(72)

In the year to 31 December 2003, the Company made contributions of £8,400 (2002: £27,000) and contributions will continue at this level for the foreseeable future. The pension cost charge equals the contributions made.

Analysis of the amount charged to operating profit:

	2003 £'000	2002 £'000
Current service cost	-	-
Past service cost	-	-
Gains and losses on any settlements or curtailments	-	-
	-	-

Analysis of the amount credited to other finance income:

	2003 £'000	2002 £'000
Expected return on pension scheme assets	21	28
Interest on pension scheme liabilities	(29)	(31)
Net return	(8)	(3)

Analysis of the actuarial loss in the statement of total recognised gains and losses:

	2003 £'000	2002 £'000
Actual return less expected return on pension scheme assets	-	(35)
Experience gains and losses arising on the scheme liabilities	-	31
Changes in assumptions underlying the present value of the scheme liabilities	(20)	(35)
	(20)	(39)

Notes to the Financial Statements

for the year ended 31 December 2003

Continued

23 Pension arrangements (cont'd)

Movement in the scheme deficit during the year:

	2003 £'000	2002 £'000
At 1 January 2003	(118)	(103)
Employer's contributions	8	27
Net interest charges	(8)	(3)
Actuarial loss	(20)	(39)
At 31 December 2003	(138)	(118)

History of experience gains and losses:

	2003		2002	
	£'000	%	£'000	%
Differences between the expected and actual return on scheme assets	-	-%	(35)	8%
Experience gains on scheme liabilities	-	-%	31	6%
Total actuarial loss	(20)	4%	(39)	7%

The information set out above is for memorandum purposes only as the net pension liability in respect of the defined benefit scheme of £97,000 (2002: £83,000) has not been reflected in the financial statements.

The Group also operates a number of defined contribution pension schemes. The pension cost charge for the year represents contributions payable by the Group to the funds and amounted to £279,000 (2002: £208,000). Amounts owing to schemes at 31 December 2003 amounted to £25,000 (2002: £32,000).

Five Year Summary

	2003 £'000	2002 £'000	2001 £'000	2000 £'000	1999 £'000
Turnover	12,575	12,243	15,869	14,579	16,868
Research & development	(1,421)	(1,656)	(1,168)	(1,671)	(363)
Exceptional costs	(360)	(763)	-	-	-
Operating (loss) / profit	(2,050)	(2,529)	(1,202)	(2,389)	10
Loss on ordinary activities after tax	(1,839)	(2,235)	(1,344)	(2,608)	(150)
Shareholders' funds	6,345	8,190	4,146	4,185	2,682
Loss per share	(4.7p)	(5.9p)	(4.2p)	(9.5p)	(0.7p)

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of BIOQUELL PLC will be held at the offices of the Company, 34A Walworth Road, Andover, Hampshire SP10 5PY on 1 June 2004 at 12.00pm for the following purposes:

1. To receive and consider the report of the directors and the audited accounts for the year ended 31 December 2003.
2. To reappoint Deloitte & Touche LLP as auditors of the Company and to authorise the directors to determine the remuneration of the auditors.
3. To re-elect Mr J G Salkeld as a director of the Company.
4. To authorise the payment of the dividend for the year on the 7.5 per cent redeemable cumulative preference shares (First Preference Shares) as specified in the accompanying Chairman's Statement.

As special business to consider and if thought fit, pass the following resolutions, of which resolution numbers 5 and 6 will be proposed as ordinary resolutions and resolution number 7 as a special resolution.

Ordinary Resolutions

5. (1) The directors be and they are hereby generally and unconditionally authorised for the purpose of Section 80 of the Companies Act 1985 to allot and to grant rights to subscribe for securities or to convert securities into unissued shares of the Company up to a maximum aggregate nominal amount of £1,324,620 at any time on or before the conclusion of the Annual General Meeting of the Company to be held in 2005 or the date falling 15 months after the passing of this resolution (whichever is the earlier);
 - (2) The Company be allowed to make any offer or agreement which will or might require any such relevant securities to be allotted or any such rights to be granted after the expiry of this authority and the directors may, notwithstanding such expiry, allot shares and grant such rights pursuant to any such offer or agreement made by the Company before the expiry of this authority; and
 - (3) This authority be in substitution for all existing authorities given by the Company for the purpose of Section 80 of the Companies Act 1985 to the extent such authorities are unused.
6. (1) That the Board is hereby authorised to grant to each of Nicholas Adams and Mark Bodeker (both being Executives for the purposes of the Scheme herein referred to) by resolution (the date of such resolution being the Date of Grant) an option (each a "Special Option") over 400,000 ordinary shares in the Company under the Rules of the BIOQUELL Plc Executive Share Option Scheme (No 2) (formerly the G & G Kynoch Executive Share Option Scheme (No 2) ("the Scheme") at an exercise price per ordinary share of an amount being the mid market price per ordinary share as shown by the Daily Official List of the London Stock Exchange on 7 April 2004 at 120.5p ("the base exercise price") the latest practical date prior to the printing and posting of the Report and Accounts, each Special Option being exercisable if but only if the mid market price per ordinary share (as shown by the said Daily Official List) on a Threshold Date (being an anniversary of the Date of Grant or at the discretion of the Board a date within 7 days of such anniversary or if in either case the same be not a day on which the London Stock Exchange is open for business, the first day following on which it is so open), has increased by 25% per annum compounded annually over a period ("the Target Price") provided that in determining if the Target Price shall have been achieved in the period there shall be added to the mid market price per share at the relevant Threshold Date a sum representing the aggregate of any cash dividends (and capital returned to shareholders not falling within the said Rules relating to variation of capital) paid in that period such period ("Period") being:
 - (a) a Period commencing on the Date of Grant and ending on a Threshold Date three years thereafter; or if the mid market price per ordinary share shall not have so increased by that Threshold Date
 - (b) a Period commencing on the first anniversary of the Date of Grant and ending on a Threshold Date being three years from that first anniversary provided that in such case the base exercise price shall be increased by 10% or if the mid market price per ordinary share shall not have so increased by that Threshold Date
 - (c) a Period commencing on the second anniversary of the Date of Grant and ending on a Threshold Date being three years from that second anniversary provided that in such case the base exercise price shall be increased by 20%;

and otherwise in accordance with the said Rules subject to and with the following modifications:

- (i) the provisions of clauses 3.2 and 3.3 of the said Rules (limits on number of shares which can be placed under option under the said Rules) shall be disapplied such that each Special Option will be disregarded in applying such limits in respect of future grants under the said Scheme;
- (ii) the provisions of clause 3.4 of the said Rules (limits on individual grants not to exceed 4 times remuneration) is disapplied such that each Special Option will be disregarded in applying such limits in respect of future grants under the said Scheme;
- (iii) the provisions of clause 2.2 of the said Rules (options to be granted only in a period after announcement of results) is disapplied;
- (iv) the provisions of clause 2.4 of the said Rules (options to be granted at not less than the greater of middle market valuation or nominal value per share) is disapplied.

Provided always that:

- (v) if the provisions of clause 6 of the said Rules shall apply to the Company each Special Option may be exercised at the base exercise price notwithstanding that a Threshold Date has not been reached or, if reached, the Executive shall have not qualified to exercise the Special Option;
 - (vi) the provisions of clauses 4.3, 4.4, 4.4A (subject in that case to such modifications as the Board may decide) and 4.5 of the said Rules shall apply only if the relevant date of exercise shall fall on or after a Threshold Date and the relevant performance criteria are satisfied.
- (2) That subject to the approval of the Inland Revenue being obtained the Rules of the BIOQUELL Plc Executive Share Option Scheme (No 1) (formerly the G & G Kynoch Executive Share Option Scheme (No 1)) shall be modified as follows:
- (a) the provisions of clauses 3.2 and 3.3 of the said Rules (limits on number of shares which can be placed under option under the said Rules) shall be disapplied such that each Special Option referred to in Resolution 6(1) above will be disregarded in applying such limits in respect of future grants under the said Scheme;
 - (b) the provisions of clause 3.4 of the said Rules (limits on individual grants not to exceed 4 times remuneration) is disapplied such that each Special Option will be disregarded in applying such limits in respect of future grants under the said Scheme.

Special Resolution

7. That the directors of the Company be and they are generally and unconditionally authorised at any time during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the Annual General Meeting of the Company to be held in 2005 or on the date falling 15 months after the passing of this resolution (whichever is the earlier) and at any time thereafter, notwithstanding that this authority has expired, pursuant to any offer or agreement made by the Company before the expiry of such period, to allot any equity securities of the Company under any authority conferred on them from time to time pursuant to Section 80 of the Companies Act 1985 or any re-enactment thereof ("the Act") as if Section 89(1) of the Act did not apply thereto, provided that such authority and power shall be limited to the allotment of equity securities (as defined for the purpose of Section 95 of the Act), as follows:
- (a) in connection with any rights issue or issues of equity securities to the holders of relevant shares of the Company in proportion (as nearly as may be) to their respective holdings of such shares or (where applicable) in accordance with the rights for the time being attached to such shares (but subject to statutory exclusion, or other arrangements as the directors may deem necessary or expedient to deal with problems under the laws of any territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional entitlements or otherwise howsoever); and
 - (b) any other allotment for cash of equity securities up to a maximum aggregate nominal value of £198,693.

Registered office
34A Walworth Road
Andover
Hampshire
SP10 5PY
6 April, 2004

By order of the Board
B M Bodeker
Secretary

Notice of Annual General Meeting

Continued

Notes:

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his or her behalf. A proxy need not be a member of the Company. Holders of First Preference Shares are not entitled, as such, to attend and vote at the Annual General Meeting.
2. A form of proxy is provided with this notice and instructions for use are shown on the form. To be valid, forms of proxy must be completed in accordance with the instructions set out in the form and returned so as to be received at the offices of the Company's Registrars, Capita IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours before the time fixed for the Annual General Meeting (i.e. no later than 12.00pm on 30 May 2004). Completion of the form of proxy will not preclude a member from attending and voting in person at the meeting if the member so wishes.
3. Copies of the directors' letters of appointment and service contracts are available for inspection at the registered office of the Company, 34A Walworth Road, Andover, Hampshire SP10 5PY during usual business hours on each business day and will also be available at the place of the Annual General Meeting for at least 15 minutes prior to and during the Annual General Meeting. The register of directors' interests will be available for inspection at the commencement of, and during, the Annual General Meeting.
4. As permitted by regulation 41 of the Uncertificated Securities Regulations 2002, only those shareholders who are registered on the Company's register of members at 12.00pm on 30 May 2004 or, in the event that the Annual General Meeting is adjourned, on the register of members 48 hours before the time of any adjourned meeting, shall be entitled to attend the Annual General Meeting and to vote in respect of the number of ordinary shares registered in their names at that time. Changes to entries on the register of members after 12.00pm on 30 May 2004 or, in the event that the Annual General Meeting is adjourned, on the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and/or vote at the Annual General Meeting.

Explanatory notes

1. Resolution 1: Accounts

The directors must lay the Company's Accounts, the Directors' Report and the Auditors' Report before the members in general meeting. This is a legal requirement once the directors have approved the Accounts and the directors and the auditors have prepared their respective reports.

2. Resolution 2: Appointment of Auditors

At each Annual General Meeting, the Company is required to appoint auditors to serve until the next such meeting. Resolution 2 proposes the re-appointment of the Company's present auditors, Deloitte & Touche LLP. In accordance with normal practice, the directors should be authorised to fix their remuneration.

3. Resolutions 3: Re-election of directors retiring by rotation

Article 69 of the Company's Articles of Association states that one third of the directors, subject to retirement by rotation, shall retire from office at each Annual General Meeting. Mr J G Salkeld has agreed, in accordance with the Company's Articles of Association, that he shall retire and, being eligible, offers himself for re-appointment. Biographical details of Mr J G Salkeld are set out in the Report and Accounts.

4. Resolution 4: Payment of dividend

Article 119 of the Company's Articles of Association requires dividends to be declared by ordinary resolution of the Company. No dividend may exceed the amount recommended by the directors. The directors recommend a payment of £11,250 on the First Preference Shares representing 7.5p per First Preference Share.

5. Resolution 5: Renewal of Section 80 authority

This Resolution provides for the grant of authority to the directors pursuant to Section 80 of the Companies Act 1985 to allot shares to a nominal value of £1,324,620. The authority will terminate no later than 15 months after the Annual General Meeting.

6. Resolution 6:

This Resolution provides for the grant of Special Options to the Executive Directors, explanation of which is given in the Directors' Remuneration Report.

7. Resolution 7: Renewal of directors' authority to allot shares for cash

Section 89 of the Companies Act 1985 requires ordinary shares allotted for cash (other than pursuant to employee share schemes) to be offered to existing shareholders on a pro rata basis. Resolution 7 allows the directors to allot shares other than in accordance to Section 89 in connection with rights issues and other offers, and otherwise up to a maximum nominal amount of £198,693, representing approximately 5% of the Company's issued ordinary share capital as at 6 April 2004. The authority will terminate no later than 15 months after the Annual General Meeting. In the event that the special resolution to be proposed at the EGM is passed, this resolution will not be put to the meeting as the relevant authority will have already been granted.

Form of Proxy

BIOQUELL PLC

FOR USE BY HOLDERS OF ORDINARY SHARES OF 10P EACH AT
THE ANNUAL GENERAL MEETING OF BIOQUELL PLC ON 1 JUNE 2004

*I/We
(PLEASE USE BLOCK CAPITALS)

Address:
being (a) member(s) of BIOQUELL PLC ("the Company") by virtue of my/our holding of ordinary shares of
10p each hereby appoint the Chairman of the Meeting or (see note (2) below)

of
as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company
to be held at 12.00 p.m., and at any adjournment of the Annual General Meeting. I/We direct my/our
proxy to vote on the under-mentioned resolutions as follows:

Please insert an X in the appropriate boxes alongside the resolutions.

ORDINARY RESOLUTIONS	FOR	AGAINST
1 To receive the Accounts for the year ended 31 December 2003		
2 To re-appoint Deloitte & Touche LLP as auditors and to authorise the directors to fix their remuneration		
3 To re-appoint Mr J G Salkeld as a director		
4 To declare a dividend on the First Preference Shares		
5 To renew the directors' authority to allot shares		
6 To grant Executive Directors Special Options		
SPECIAL RESOLUTION		
7 To renew the directors' authority to allot shares for cash		

If this form is signed and returned without any indication as to how the proxy shall vote, the proxy will exercise discretion both as to how the proxy votes and whether or not the proxy abstains from voting. The proxy will also exercise discretion as to voting (and whether or not the proxy abstains from voting) on any other business transacted at the Annual General Meeting.

Signed this day of 2004

Signature

NOTES

- To be effective this form of proxy (together with the power of attorney (if any) under which it is signed (or a notarily certified copy of that power of attorney)) must be lodged with the Company's Registrars, Capita IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time appointed for the holding of the Annual General Meeting or any adjournment of that Meeting.
- If you wish to appoint someone other than the Chairman of the Meeting as your proxy, you should complete in block capitals his or her full name and address in the space provided and delete the words "the Chairman of the Meeting or". Such proxy need not be a member of the Company. Any alteration to this form should be initialled by the person signing the form.
- In the case of joint holders, the signature of any holder will be sufficient but the names of the joint holders should be stated. In the event of more than one joint holder voting in person or by proxy, the vote of the senior holder who tenders a vote whether by proxy or in person shall be accepted to the exclusion of the votes of the other joint holders, seniority being determined by the order in which their names stand in the register of members.
- In the case of a corporation, the proxy must be under the common seal or signed on its behalf by a duly authorised officer of the corporation.
- You are requested to complete and return this form of proxy even if you intend to attend and vote at the Annual General Meeting. Completion of a form of proxy will not preclude a member from attending and voting in person at the Meeting.
- Every holder of ordinary shares present in person and entitled to vote shall have one vote on a show of hands and every holder of ordinary shares present in person or by proxy shall on a poll be entitled to one vote for every ordinary share held. Holders of First Preference Shares are not entitled to attend or vote at the Annual General Meeting.
- A member entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend and vote on his behalf and a proxy need not be a member of the Company. If a member appoints more than one proxy, the form of proxy must specify the number of ordinary shares in respect of which the proxy is entitled to vote and no member is permitted to appoint more than one proxy (save in the alternate) to vote in respect of any one ordinary share held by that member.

SECOND FOLD

BUSINESS REPLY SERVICE
Licence No. MB 122

1



Capita IRG Plc (proxies)
Proxy Department
PO Box 25
Beckenham
Kent
BR3 4BR

FIRST FOLD

THIRD FOLD



RBDS

Room Bio-decontamination Service

A unique bio-decontamination service from BIOQUELL for buildings and cleanrooms in a range of industries.

- “infinitely scalable” - no room too large
- emergency, scheduled, new-build, room bio-decontamination
- rapid deployment

CLARUS

Hydrogen peroxide gas generators

State-of-the-art bio-decontamination equipment for use with:

- rooms and pass-through chambers
- isolators
- laboratory equipment



EBDS

Equipment Bio-Decontamination Service

A unique bio-decontamination service from BIOQUELL for laboratory equipment, including:

- micro-biological safety cabinets
- CO₂ incubators
- other laboratory equipment

MICROFLOW

HEPA filtration equipment

A broad range of HEPA filtration equipment, including:

- micro-biological safety cabinets (designed for peroxide gassing)
- laminar flow units



ASTEC

Activated carbon filtration equipment

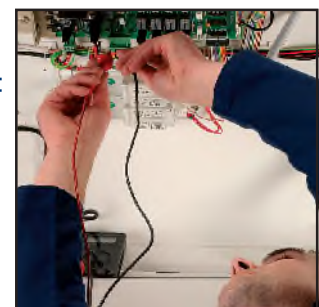
Recirculating fume cupboards and other specialist activated carbon equipment:

- Monair fume cupboards

SERVICE

After-sales customer service and support

- preventative maintenance
- breakdown
- spare/replacement parts
- calibration
- cleanrooms
- validation



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