

Bio /adj

1. Of, relating to, caused by, or affecting life or living organisms: biological processes such as growth and digestion

Quell /verb

1. Suppress, forcibly put an end to, crush, overcome, reduce to submission



THE BIOQUELL GROUP COMPRISES TWO DIVISIONS: BIO-DECONTAMINATION AND TRaC (TESTING, REGULATORY AND COMPLIANCE)

THE BIO-DECONTAMINATION DIVISION comprises the hydrogen peroxide vapour (“HPV”) decontamination technology; Chemical, Biological, Radiological and Nuclear (“CBRN”) defence filtration technology and specialist laboratory filtration equipment. The division principally sells into the healthcare, life science and defence sectors.

Healthcare

Hospital Acquired Infections (“HAI”), nosocomial pathogens or “superbugs” are increasingly becoming a major issue for senior clinicians and administrators in hospitals around the world. BIOQUELL’s technology is proven to be effective against a wide range of environmentally associated nosocomial pathogens, including Methicillin-resistant *Staphylococcus aureus* (“MRSA”), *Clostridium difficile*, Vancomycin-resistant *Enterococci* (“VRE”), *Klebsiella*, *Acinetobacter* and other Gram-negatives multi-drug resistant organisms. BIOQUELL’s technology can be deployed in a variety of ways, including unique decontamination service provision to suit the particular needs of institutions.

Life sciences

BIOQUELL’s Clarus® HPV equipment has long been the decontamination technology of choice within the biotech, biomedical, biologics and pharmaceutical sectors. The technology is increasingly being used in the food production sector. A range of equipment and services are available that are designed to provide bio-decontamination of equipment, rooms or entire facilities. HPV is the clear choice when replacing traditional formaldehyde or chlorine-based applications offering fast, “residue-free” and repeatable cycles within a sensitive and controlled environment.

Defence

BIOQUELL’s HPV technology can be used to eradicate biological weapons and chemical weapons from key assets, including sensitive equipment and critical facilities. In addition, the “MDH Defence” product range comprises the design, development, production and support of Collective Protection (“COLPRO”) systems for the chemical, biological, radiological and nuclear (“CBRN”) defence of military vehicles and other equipment. BIOQUELL is also working with the United States Department of Defense (“DOD”) in the production of the Joint Materials Decontamination System (“JMDS”).

Visit our website for more information: www.bioquell.com



THE TRaC DIVISION comprises specialist service businesses carrying out electro-magnetic compatibility (“EMC”), environmental and telecoms testing. The division principally sells into the military, aerospace and telecoms sectors.

EMC

From toys to tanks, TRaC offers Electromagnetic Compatibility (“EMC”) and electrical safety testing to demonstrate conformity with regulating requirements for a range of markets including military and aerospace.

Environmental

TRaC’s state-of-the-art, 42,000 sq ft, UKAS-accredited, Environmental and Analysis laboratory provides unrivalled comprehensive independent and confidential testing and Finite Element Analysis (“FEA”).

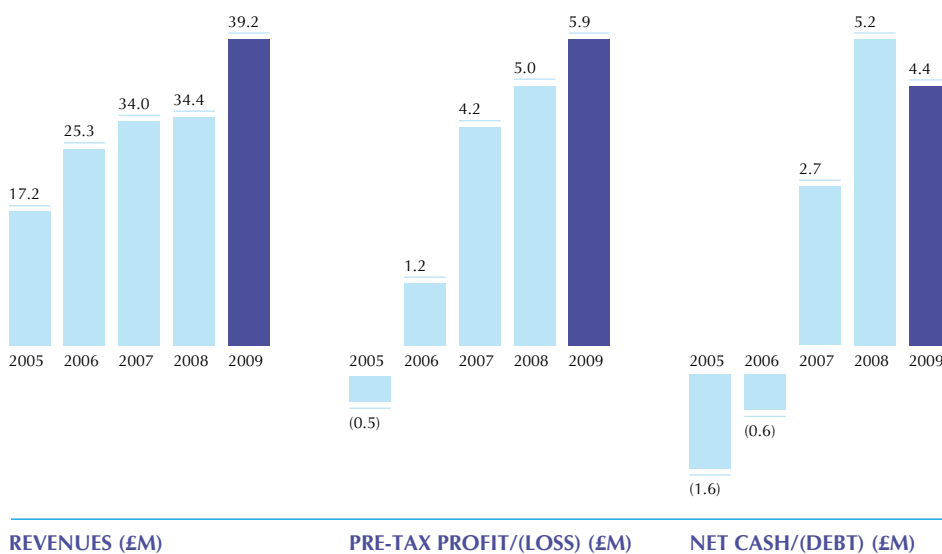
Telecoms

TRaC provides performance and approvals services for telecoms, radio (wireless) and broadband products for compliance against worldwide standards and statutory requirements.

Visit our website for more information: www.tracglobal.com



HIGHLIGHTS: Financial



- **Revenues:** £39.2 million (2008: £34.4 million) – increase of 14%
- **Export-related revenues** increased 30% to £21.8 million (2008: £16.8 million) and represent 56% of total revenues (2008: 49%)
- **Profit before tax:** £5.9 million (2008: £5.0 million) – increase of 18%; basic earnings per share: 10.3 pence (2008: 9.0 pence) – increase of 14%
- **Substantial cash on balance sheet:** gross cash of £5.9 million (2008: £7.1 million); net cash of £4.4 million (2008: £5.2 million) after significant investment in facilities
- **Proposed payment of a 2.42 pence dividend** per ordinary share (2008: 2.2 pence) – a 10% dividend increase over previous year

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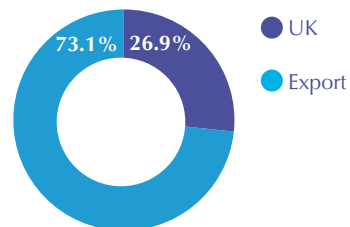
BIO-DECONTAMINATION

(Healthcare, Life Sciences, Defence)

HIGHLIGHTS

- 18% increase in BIO-DECON division revenues across all three core sectors totalling £27.9 million (2008: £23.7 million)
- Launch of new BIOQUELL Q-10 product – incorporating a new BIOQUELL hydrogen peroxide consumable cartridge – specifically designed for the healthcare market and the eradication of “superbugs” from hospitals
- Extension of BIOQUELL’s life sciences’ product range and expansion of its international sales network
- Good progress with the United States Department of Defense JMDS contract – prototype test units in production

Split of revenue by geography



TOTAL REVENUE 2009

£27.9 million
(2008: £23.7 MILLION)

The BIOQUELL Q-10 is a small, easy-to-use unit designed specifically for use by hospitals to combat HAI. It is a low-cost device incorporating a single use disposable hydrogen peroxide consumable cartridge and has been designed to be capable of operation by a hospital’s own employees.





OVERVIEW

BUSINESS REVIEW

CORPORATE GOVERNANCE

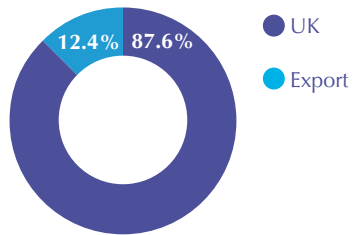
FINANCIAL STATEMENTS

TRaC

HIGHLIGHTS

- 6% increase in TRaC revenues to £11.3 million (2008: £10.7 million) despite challenging economic environment
- Increased market share, cross-selling of services to existing clients and improved profitability
- New TRaC facility being established in the North West of the UK

Split of revenue by geography

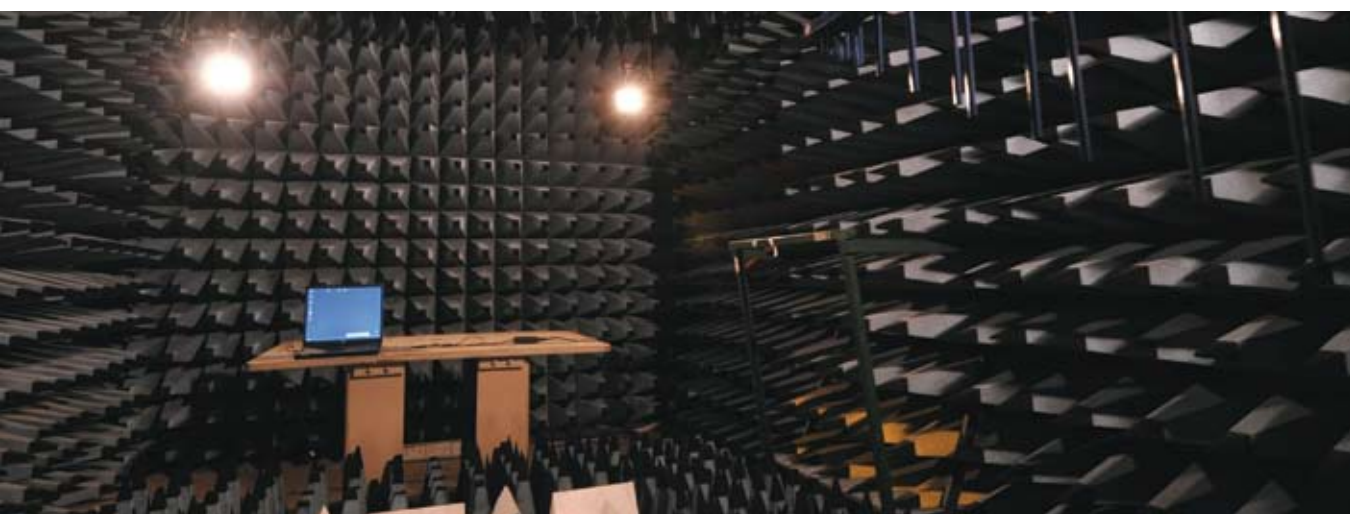


TOTAL REVENUE 2009

£11.3 million
(2008: £10.7 MILLION)

We have continued to invest in the division to ensure that it has well equipped, high quality facilities which will attract clients who require a premium service.





OVERVIEW

BUSINESS REVIEW

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

BUSINESS REVIEW: Chairman's statement

SUMMARY

- BIOQUELL performed well in 2009. Revenues in the year were up 14% to £39.2 million (2008: £34.4 million).
- Revenues from the Group's service businesses grew strongly by 32% to £23.5 million (2008: £17.8 million).
- Final dividend of 2.42 pence per ordinary share which represents a 10% increase on the prior year (2008: 2.2 pence).

FINANCIAL PERFORMANCE

BIOQUELL performed well in 2009. Revenues in the year were up 14% to £39.2 million (2008: £34.4 million). Revenue growth came principally from the BIO-DECON division which posted revenues of £27.9 million (2008: £23.7 million), an increase of 18%. The TRaC division recorded revenues of £11.3 million (2008: £10.7 million) – an increase of 6%.

During 2009 revenues from the Group's service businesses grew strongly by 32% to £23.5 million (2008: £17.8 million). Export revenues increased by 30% to £21.8 million (2008: £16.8 million), representing 56% of Group revenues (2008: 49%).

The BIO-DECON division's revenues grew principally as a result of increased sales of the Group's unique, patented hydrogen peroxide vapour ("HPV")-based bio-decontamination technology across its three target sectors: Healthcare, Life Sciences and Defence. Revenues from the Group's Chemical, Biological, Radiological and Nuclear ("CBRN") filtration systems declined slightly year on year.

The Group's consolidated gross margin was 45% (2008: 44%), although across the Group's activities there is significant variation in the gross margin achieved by each product line.

Total Group overheads increased by £2.1 million, to £11.9 million (2008: £9.8 million). The largest element of this increase was as a result of our increased investment in sales & marketing, principally in relation to the Healthcare and Life Sciences sectors. In particular we expanded

our international sales and service offices which are now located in the US, France, Ireland and Singapore. We will continue with our strategy of expanding internationally in line with increasing revenues. Foreign exchange gains included within administration costs were £0.2 million (2008: £0.8 million). Research and Development ("R&D") and Engineering costs rose slightly to £2.1 million (2008: £1.9 million). The Group has a number of new products in development and we anticipate continuing our investment in research & development at a similar level.

Profit before tax was up 18% at £5.9 million (2008: £5.0 million).

The effective tax rate was 27% (2008: 25%). Profit after tax for the year increased to £4.3 million (2008: £3.7 million); basic earnings per share were 10.3p (2008: 9.0p), representing a 14% increase.

The Group's balance sheet continues to strengthen. Net assets increased during the year by 19% to £23.0 million (2008: £19.4 million). During 2009 the Group purchased at an attractive price a second long lease building adjacent to its Andover headquarters. This new building has now been refurbished, giving the Group sufficient high quality space and appropriate facilities to accommodate increased levels of manufacturing. The new building is also being used to manage the training and logistics associated with our international RBDS (Room Bio-Decontamination Service) business.

After the investment of £2.6 million in facilities described above, other purchases of plant and

equipment of £2.7 million, tax paid of £1.2 million (2008: nil) and the payment of a dividend on the ordinary shares with a total cash cost of £0.9 million (2008: £0.8 million), year end gross cash was £5.9 million (2008: £7.1 million) and net cash, comprising gross cash less borrowings and obligations under finance leases, was £4.4 million (2008: £5.2 million). The Group has a repayment mortgage on its Andover-based headquarters with an outstanding balance of approximately £1.4 million and 14 years remaining until the end of its term. In addition the Group has unused overdraft facilities of £2.6 million. The Group therefore has sufficient financial resources in place to fund its organic growth.

Your Board is recommending the payment of a final dividend of 2.42 pence per ordinary share which represents a 10% increase on the prior year (2008: 2.2 pence). The final dividend will be payable on 1 July 2010 to shareholders on the register on 4 June 2010. The Board did not pay an interim dividend last year and it is the Board's current intention only to propose the payment of a final dividend each year.

THE BIO-DECONTAMINATION DIVISION

Micro-organisms – bacteria, viruses and fungi – are all around us as well as invisible. For example, it has been estimated that 100,000 bacteria exist on the average "clean" finger tip. Micro-organisms can cause major problems across a broad range of industries worldwide. Increasing antibiotic resistance and virulence of bacteria is causing well publicised issues in the healthcare sector. The Group's strategy is based round the sale of its unique, low temperature,



The BIOQUELL Q-10 is easy to use and incorporates a single use disposable consumable cartridge.

“IN 2010 WE ANTICIPATE INCREASED INTERNATIONAL DEMAND FOR BIOQUELL’S WORLD CLASS TECHNOLOGY TO COMBAT ‘SUPERBUGS’ IN HOSPITALS.”

environmentally friendly, peroxide bio-decontamination technology. This technology is currently used principally to eradicate problematic micro-organisms in the healthcare, life sciences and defence sectors; BIOQUELL sells equipment and/or provides specialist bio-decontamination services. The Group is also developing a woundcare system based on liquid phase peroxy chemistry.

Healthcare

Eradication of “superbugs”/combating Hospital Acquired Infection

BIOQUELL provides a range of bio-decontamination services to healthcare providers worldwide to eradicate problematic pathogens associated with Hospital Acquired Infection (“HAI”). The principal bio-decontamination services we provide are summarised below:

- **emergency outbreak service** – discreet and rapid bio-decontamination. For example, we recently stopped a multi-drug resistant *Acinetobacter* outbreak in a burns Intensive Care Unit (“ICU”) in a US hospital at very short notice;
- **scheduled bio-decontamination** – used by an increasing number of hospitals worldwide to control pathogens in high risk areas. For example, we routinely eradicate *Clostridium difficile* from wards in the UK where patients with the new hyper virulent NAP1/BI/027 strain of *C.difficile* have been grouped together for treatment;
- **proactive service** – comprising BIOQUELL technicians and BIOQUELL equipment, located on a long term basis at the hospital, driving the HAI rate down on a proactive basis – in conjunction with the hospital’s infection control, microbiology and bed management departments. Typically the proactive service targets high risk and/or high cost units such as ICUs, oncology, haematology, transplant and invasive surgery.

BIOQUELL provides a range of services to healthcare providers worldwide to eradicate problematic pathogens associated with Hospital Acquired Infection (“HAI”).



BUSINESS REVIEW: Chairman's statement continued

“ The Group's new bio-decontamination products are being configured to use single use disposable hydrogen peroxide consumable cartridges which will provide an additional and complementary revenue stream to its existing sales of capital equipment. ”

THE BIO-DECONTAMINATION DIVISION CONTINUED**Healthcare continued**

Eradication of "superbugs"/combating Hospital Acquired Infection continued
These services are provided by our technicians using our proprietary RBDS equipment (which we manufacture but do not sell to third parties).

In addition to the provision of specialist bio-decontamination services, we launched new equipment at the end of 2009: the BIOQUELL Q-10 – which is a small, easy-to-use unit designed specifically for use by hospitals to combat HAI. The Q-10 was designed by drawing upon our own experience of "bioquelling" hospital rooms via our service bio-decontamination business in the USA and Europe. The Q-10 is configured as a low-cost portable device incorporating a single use disposable hydrogen peroxide consumable cartridge and has been designed to be capable of operation by a hospital's own employees. We have also structured a rental option for the Q-10 to help hospitals with restricted capital expenditure budgets and/or lengthy approval procedures to

take up the Q-10 technology. This rental package is being offered initially in the UK but we plan to roll it out internationally later in the year.

In addition to developing the Q-10 to enable a hospital's own staff to combat HAI, we have also developed a sophisticated internet-based multi-lingual on-line training package which will help enable hospitals ensure that their employees are trained to use the Q-10 safely, efficiently and effectively. We have also launched the QuAD – Quality Assurance Data – system which uses a network-enabled handheld electronic PDA data capture device to facilitate the hospitals recording the use of BIOQUELL's technology on a room by room basis to combat HAI. The information captured by the QuAD system can significantly help hospitals provide relevant and accurate data to regulatory bodies in the event of a query over the steps taken by a hospital to combat HAI.

The new hyper-virulent (NAP1/BI/O27) strain of *Clostridium difficile* remains a highly problematic pathogen linked to HAI which

is continuing to create significant issues for healthcare providers internationally. In addition MRSA, VRE, *Acinetobacter*, *Klebsiella* and Norovirus are other nosocomial pathogens which can cause major problems for healthcare providers.

Combating HAI – UK

2009 was a challenging year for BIOQUELL's healthcare business in the UK. The year started with much promise – with "proactive" teams in seven Department of Health-funded Showcase Hospital Programme ("SHP") hospitals. Unfortunately there was a period of many months between the ending of the SHP and securing the key National Health Service ("NHS") Purchasing and Supply Agency ("PASA") decontamination contract. The PASA contract award was originally expected in March 2009 – but was finally awarded in October 2009, and this was further complicated by the NHS disbanding PASA. This led to a period of time when we were forced to absorb the costs of fully trained technicians whilst waiting for the PASA contract award. The PASA contract award essentially acts as a stamp



Our new Andover manufacturing facility, which became operational at the start of 2010, includes a standalone woundcare medical device manufacturing cell.

of approval for the purchase by NHS hospitals of BIOQUELL's technology to combat HAI and also removes the requirement for individual hospitals to go out to tender for the required service, which can be an expensive and time consuming process.

We are well positioned in 2010: the Q-10 has been launched and initial feedback has been positive although we have not yet seen significant levels of orders. PASA – and its successor organisation "Buying Solutions" – is now becoming more familiar with the administration of the NHS decontamination contract. We anticipate that, notwithstanding tight capital expenditure budgets in the NHS, particularly post the general election, eradicating "superbugs" from hospitals will be seen as a required spend and resources will continue to be allocated to driving down HAI rates.

Combating HAI – continental Europe

During 2009 we undertook a number of "outbreak" and "scheduled" RBDS bio-decontamination service deployments in France and Ireland. We were particularly pleased to start to extend our healthcare-related bio-decontamination services into continental Europe as HAI problems remain an extremely sensitive issue for all hospitals. However, it is still a difficult sales challenge to ensure that a hospital will contact BIOQUELL when faced with an outbreak, as often the hospital's management are wary about admitting to an outside party that they have an HAI problem. Our experience is that once the hospital has experienced the effectiveness, professionalism and discretion of our RBDS service then they often become repeat customers.

Yesterday we entered into a distribution and supply agreement with Schülke & Mayr GmbH ("Schülke"), a leading German biocide manufacturer also well known for its infection control disinfection products in German speaking countries in Europe. We will be working closely with Schülke to assist them in the sale of BIOQUELL's HPV bio-decontamination products and services in Germany, Austria and the German speaking

part of Switzerland. Schülke will be providing us with high quality hydrogen peroxide consumable cartridges which we will be selling with our products and services within Europe.

Combating HAI – United States

Good progress was made in the US healthcare market in 2009 with additional "proactive" service contracts put in place with a number of US hospitals. It is our objective to be recognised as experts using evidence-based technology and we continue to carry out collaborative HAI-related research with a number of US hospitals. This enables us to market our products and services on the back of accumulating, high quality scientific data. The launch of the Q-10 has been well received in the US market – and the US healthcare market appears to be showing encouraging signs of becoming more receptive to the benefits of BIOQUELL's technology to combat HAI. The outlook in the US for 2010 is positive: we will be promoting both the provision of RBDS service bio-decontamination as well as sales of the Q-10 system into the US healthcare market.

As part of our work for the BIOQUELL Q-10 launch we obtained formal approval from the United States Environmental Protection Agency ("EPA") for the use of the hydrogen peroxide solution consumable which is used in the Q-10.

Combating HAI – rest of world

HAI is a worldwide problem and the ability of pathogens to be transmitted rapidly and internationally was illustrated by the spread of swine 'flu (H1N1) during 2009 and SARS during 2003. We are actively establishing high quality routes to market for our HPV bio-decontamination technology to combat HAI in many parts of the world. In Asia this work is being spearheaded by a team within our newly formed subsidiary company, BIOQUELL AsiaPac, which is located in Singapore.

BioxyQuell & Woundcare

During 2009 we continued exacting research & development work and the preparation of regulatory submissions relating

to the use of a novel peroxide-based liquid phase technology to irrigate wounds in a new woundcare product: BioxyQuell. The Group is supporting a randomised controlled trial ("RCT") with primary care providers in Hampshire to generate scientific efficacy data for this new technology. Following modifications to the patient inclusion criteria, patient acquisition into the RCT accelerated during the year although progress has, until recently, been slower than had been planned.

We anticipate that significant progress will be made in 2010 with the regulatory approvals which are required before the product can be launched onto the market. Our new manufacturing facilities which became operational at the start of 2010 include a standalone woundcare medical device manufacturing cell. Linked to this, we are currently working on the detailed commercial plan on how best to take this product to market.

Life Sciences

BIOQUELL's life science group performed well in 2009 in difficult economic conditions. There is increasing acceptance of BIOQUELL's HPV technology among the large pharmaceutical groups and we are in the process of negotiating a number of global purchasing arrangements with these multi-national groups. Underlying demand for BIOQUELL's HPV technology remains strong across a number of sub-sectors including university (and other research organisation) laboratories, bio-pharmaceutical and biotechnology companies. Against this positive backdrop, it is not yet clear what impact, if any, the recently announced headcount reductions from a number of large pharmaceutical groups will have on our life sciences business, although we note that some of the reduction is being offset by increased investment in Asia where we are already well represented.

BUSINESS REVIEW: Chairman's statement continued

THE BIO-DECONTAMINATION DIVISION CONTINUED

Life Sciences continued

During the year a number of companies had biological contamination issues and called BIOQUELL in to help them address and solve the problem. This has helped to underline to existing and prospective clients, as well as to the relevant regulatory bodies, the increasing risks associated with biological contamination which can be significantly mitigated by the use of BIOQUELL's rapid, efficacious and expert bio-decontamination response service.

BIOQUELL's international businesses performed strongly during the year and are an increasingly important part of the Group. BIOQUELL Inc – based in Pennsylvania – showed particularly strong growth in revenues. Our investment in the establishment of BIOQUELL AsiaPac in Singapore was timely and we are beginning to see orders from Asian life sciences organisations which we would not have secured prior to the opening of our facility in the region.

Demand for our low temperature, residue-free bio-decontamination technology is growing in the life sciences sector for a number of reasons. One key driver of growth relates to the trend away from terminal sterilisation of product (where the drug or medical device is sterilised at the end of the manufacturing process) to the manufacture of product in aseptic conditions (where the product is manufactured in sterile conditions throughout the manufacturing process). In large part this is due to the increasing move towards biotechnology-derived therapeutics which are typically more temperature sensitive and are damaged by the high temperature terminal sterilisation process. Related to this,

we have identified three new areas of future growth in the life sciences sector which our development teams are now working on:

Providing OEMs with BIOQUELL HPV technology modules that can be incorporated into their products

There are a number of original equipment manufacturers ("OEMs"), operating in the life sciences sector, who would like to be able to offer their customers the ability to sterilise their products at low temperature using a reliable, repeatable method which leaves no residues and is designed to satisfy the requirements of the relevant regulatory bodies. Over the last year an increasing number of OEMs have approached us requesting that we supply them with the key modules comprising our HPV technology. Given this demand – and the potential size of the market – we are working on adapting our current product range to be able to supply OEMs with appropriate BIOQUELL HPV modules which can be integrated within their products.

Aseptic conditions in cleanrooms used in the life sciences sector

There is a growing need for aseptic conditions within pharmaceutical or bio-technology cleanrooms, for both research & development and production. Over time as more biologically active – or biologically sensitive – drugs obtain regulatory approval this need is likely to increase. Many of these bio-therapeutics are on-patent and hence provide very high margins and strong cashflow for the pharmaceutical groups. In addition, the regulators are becoming more sensitised to the risks and problems associated with biological contamination (and the current reliance on manual decontamination

techniques). This leads to increasing pressure on bio-pharmaceutical manufacturers to invest in reducing the risk of bioburden in their facilities. BIOQUELL's current bio-decontamination solutions are typically mobile and, although these work well, we believe that there is scope to take market share – in what we believe is an expanding market – by developing a higher capacity fixed bio-decontamination solution for use in aseptic cleanroom facilities.

Hospital pharmacies – and the trend towards "personalised medicine"

Hospital pharmacies – both in-house and outsourced – represent an interesting opportunity for BIOQUELL, especially as they represent the intersection between our healthcare and life sciences strategic sector focus. Until recently there has been little investment in hospital pharmacies – and in some countries there has been a strong tendency to outsource hospital pharmacy work, particularly in respect of the more complex bio-therapeutics. However, there are two significant factors which have started to influence the work of hospital pharmacies. First, there is increasing evidence that biological contamination of specialist prescriptions prepared by hospital pharmacies has been implicated in patient sickness and/or death. This has resulted in increased regulations in this area including those contained within the US Pharmacopoeia Chapter 797. Second, the increasing biological sensitivity of new therapeutics is also affecting the way in which drugs are prepared. This is already seen in the use of cytotoxic drugs, used in chemotherapy to treat cancer. In the future individually tailored treatments using stem cell and gene therapy will require aseptic preparation.



TRaC focuses its development on the aerospace, defence and telecommunications sectors.

“ We are continuing to invest in the development and extension of the Group’s core peroxy-based bio-decontamination systems; the Group has a number of new products under development which, combined with an increasingly confident performance from TRaC, should lead to further growth. ”

For several years BIOQUELL has been selling its RBDS service and specialist PORT product into the hospital pharmacy sector in a number of European countries to provide aseptic environments within these facilities. We believe that opportunities exist to extend our business in this area.

Defence

The Group has been involved in the design and manufacture of Chemical, Biological, Radiological and Nuclear (“CBRN”) filtration and environmental control systems for nearly fifty years and we continue to sell CBRN filtration systems – principally to military vehicle manufacturers – around the world. CBRN system contracts are often substantial; but they can also be quite “lumpy” and hence there can be substantial variation in our revenues relating to such systems each year.

Although the actual revenues from CBRN system contracts achieved in 2009 were subdued, we worked on a significant number of large CBRN system contract submissions and are waiting for a number of orders to be placed; receipt of these anticipated orders would result in revenues starting to be generated towards the end of 2010.

In October 2007 BIOQUELL’s technology was selected for inclusion in the US Department of Defense’s (“DoD”) Joint Materials Decontamination System (“JMDS”). The JMDS will use BIOQUELL’s HPV technology to decontaminate biological and chemical warfare agents. The JMDS is highly complementary to BIOQUELL’s CBRN filtration systems. In addition, it will be possible to use

the JMDS to eradicate problematic pathogens – including HAI – from military field hospitals. During the year our engineering team extended its expertise in the use of new, speciality plastics which have been incorporated into the design of the JMDS (and we anticipate using this expertise in the design of new civilian products). BIOQUELL is currently working on the manufacture of the first prototype test units for JMDS. The JMDS should be show-cased for the first time at a triennial CBRN conference in Sweden in June. Substantially all of the technical challenges have been solved for JMDS and the first prototypes will be delivered to the US Department of Defense later in the year. We do not currently know how the DoD wants to carry out testing of these prototypes nor the likely timescales for any resulting manufacturing contract, although we understand that the timetable has slipped since BIOQUELL was awarded the contract in late 2007. These uncertainties make estimating the timing of future revenues from JMDS difficult although once we are able to showcase the prototype system we anticipate strong interest in the technology from customers in addition to the DoD.

THE TRAC DIVISION

The TRaC division comprises the Group’s specialist Testing, Regulatory and Compliance division, focussing on electromagnetic compatibility (“EMC”), environmental, telecoms, wireless and safety testing services as well as computer-based analysis consultancy services. These services are used by a wide range of organisations carrying out R&D and product development. TRaC currently focuses

its business development resources principally on the aerospace, defence and telecommunications sectors and most of TRaC’s clients are located in the UK.

One of the key drivers of growth within TRaC is its expertise in EMC. In Europe civilian EMC testing requirements continue to be driven by new and tighter EMC regulations emanating from Brussels. These regulations help to ensure that there is a reasonably stable level of regulatory-mandated additional revenues from TRaC’s clients. These new regulations often require TRaC to invest in new EMC test equipment and in difficult economic conditions there are fewer companies able or prepared to invest which helps TRaC’s competitive position in the market.

During 2009 TRaC achieved significant growth in revenues and profitability against a backdrop of difficult trading conditions. Unlike the BIO-DECON division, TRaC’s business is more dependent on the underlying health of the UK economy. During the year TRaC made good progress in increasing its market presence – particularly among the large multinational defence and aerospace groups. It also increased the cross selling of its diverse electronic and environmental services among its clientbase.

Since the formation of TRaC in October 2005, we have continued to invest in the division to ensure that it has well equipped, high quality facilities which will attract clients who require a premium service provided by experts. At the end of last year, assisted by a grant from the North West Regional Development Agency, we invested in a new site in the North West.

BUSINESS REVIEW: Chairman's statement continued

“THE GROUP'S SIGNIFICANT NET CASH POSITION ON ITS BALANCE SHEET AS WELL AS ITS UNUSED OVERDRAFT FACILITIES MEAN THAT IT IS WELL POSITIONED TO FUND SIGNIFICANT GROWTH.”

THE TRAC DIVISION CONTINUED

The previous site comprised facilities significantly below the minimum standard required by TRaC and it was unable to grow its business in the region. We anticipate that this more up to date and larger facility will enable TRaC to continue to grow in the North West of the UK where there are interesting opportunities for the business. There is still one facility within the TRaC division which requires investment to bring it up to the high standards of customer service, including the availability of specialist test facilities, which TRaC provides to its clients. During 2010, once the investment in the North West has been completed we intend to start the planning process for the investment in this final site which requires refurbishment, although any decision to invest will be linked to underlying market conditions.

TRaC's largest competitors effectively comprise the in-house testing facilities which often exist in large and long established UK technology groups and we believe that the current difficult economic climate will help promote small or large scale outsourcing opportunities from such organisations.

OUTLOOK AND PROSPECTS

BIOQUELL's bio-decontamination technology is increasingly being accepted worldwide as the “gold standard” for low temperature, residue-free eradication of pathogens in rooms and equipment in a number of sectors. The Group has particularly interesting opportunities to develop its business in the healthcare sector to combat global problems associated with HAI. In addition, we believe that there are also other significant opportunities to increase the Group's revenues internationally – and increase its market share – in the healthcare and life sciences sectors. We anticipate that this growth

will come from a combination of income from capital equipment sales of new products as well as increased recurring revenues, principally associated with new hydrogen peroxide-based consumable cartridges to be sold with new products. This shift away from reliance on customers' capital expenditure budgets will also be assisted by the use of rental finance options which we will be offering our healthcare and life sciences customers.

We believe that the Group's exposure to three discrete international business sectors – healthcare, life sciences and defence – with an increasing range of novel products, supported by new consumable cartridge revenues, means that BIOQUELL is well positioned for future growth. We anticipate that in 2010 economic conditions will improve in the USA and Asia but are likely to remain challenging in the UK. We saw a slow start to the year which was exacerbated by the move of our UK manufacturing facilities and the snow which created difficulties for a number of the TRaC sites in January. However, we are anticipating increased demand in 2010 for BIOQUELL's technology to combat HAI. We are also waiting for new orders for CBRN systems which would be an important source of revenues later in the year. In addition, we anticipate that the TRaC division will continue to find interesting opportunities in its market place. The Group's significant net cash position on its balance sheet as well as its unused overdraft facilities mean that it is well positioned to fund significant growth.

NIGEL KEEN
Chairman
30 March 2010

DIRECTORS AND ADVISERS

NIGEL KEEN, FCA*

Chairman

Joined the Board in March 2008 and was appointed Chairman in 2009. He is Chairman of Laird PLC, Axis-Shield Plc, Oxford Instruments Plc and Deltex Medical Group Plc.

NICHOLAS ADAMS

Group Chief Executive Officer

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

MARK BODEKER, CA

Group Finance Director

Joined the Board in April 2000, 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, ACA*

Non-executive Director

Joined the Board in November 1999. Previously he held a number of financial and operational positions at Board level within Life Sciences International PLC. He is also Chairman of Reinnervate Ltd, Xena Systems Ltd and Capstone Foster Care Ltd, and a non-executive Director of Sterigenics Holdings, Inc.

TONY BOURNE*

Non-executive Director

Joined the Board on 24 March 2009. He is Chief Executive of the British Medical Association. Previously he held senior positions at the investment banks Paribas and Merrill Lynch.

* Member of the Audit, Remuneration and Nominations Committees.

SECRETARY

Georgina Pope, ACMA

REGISTERED OFFICE

52 Royce Close
West Portway
Andover
Hampshire SP10 3TS

AUDITORS

Deloitte LLP
Chartered Accountants
Reading

STOCKBROKERS

Investec Limited

BANKERS

Royal Bank of Scotland PLC

REGISTRARS

Capita IRG Plc

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2009. The Corporate Governance Statement set out on page 17 forms part of this report.

PRINCIPAL ACTIVITY

The Company is a holding company with operating subsidiaries located in the United Kingdom and sales and service offices in France, Ireland, Singapore and the United States.

The principal activities of the Group include the design, manufacture and supply of bio-decontamination and containment equipment, related products and services to the healthcare, life sciences and defence industries, and testing, regulatory and compliance services to a broad range of companies including those in the aerospace, telecoms and defence industries.

BUSINESS REVIEW

The results for the year are set out in the income statement on page 23. A review of the Group's business and future prospects is summarised in the Chairman's Statement and Business Review.

RISKS AND UNCERTAINTIES

The Group develops, designs, manufactures and sells complex equipment and specialist services to a large number of clients in many countries. The Group is also experiencing significant underlying growth. Accordingly the Group encounters a broad range of strategic, operational and financial risks and uncertainties – in addition to the generic risks and uncertainties faced by all businesses.

The Group has in place a comprehensive Authorities Manual that relates to the limits and delegated authorities imposed on all levels of management within the Group. Each subsidiary has a set of standard operating procedures. These procedures cover all aspects of the entity's operational activities.

Summarised below are the principal risks which the Directors believe the Group faces; however, this description is not intended to be, nor by definition can be, exhaustive.

Competition – the Group faces a number of competition-related risks and uncertainties. The Group's bio-decontamination technology benefits from a number of granted patents and pending patent applications in major markets around the world. However, it is expensive to file, maintain and defend a large patent portfolio and such patents can themselves be challenged in the courts. In addition, other decontamination or sterilisation technologies exist and there can be no assurances that, in time, other technologies could not be developed which would have superior efficacy or lower costs or other advantages over BIOQUELL's technology. Moreover, the Group's bio-decontamination technologies operate in large markets and face competition from substantially larger and better resourced groups. The regulatory and legal environment is also constantly evolving and the Group could face regulatory or statutory challenges which could put it at a competitive disadvantage. In addition the Group faces de facto competition from customers who decide that their preferred course of action is to do nothing and hence do not purchase equipment or services from BIOQUELL.

The TRaC businesses operate in a highly competitive market where keeping abreast of technological developments and capital investments are necessary to maintain market share. The experience and knowledge of the senior management of these businesses is key to ensuring that new services are developed in line with customer requirements.

Reliance on suppliers – the Group tries to ensure that there is a secondary supplier for each key component it uses in products. Given the highly specialised nature of the BIOQUELL technology it is inevitable that some components have a single source. In these cases the Group works closely with the supplier to maintain the quality and longevity of the component. However, the global economic slow-down could put certain of its component suppliers out of business; this situation is monitored and alternative suppliers sourced if required.

Loss of key personnel – retention of key employees is seen as crucial to the success of the business. The Directors, working principally through the Remuneration Committee, have developed a system of bonus and equity-based incentives, together with other benefits which complement an individual's salary. The Group encourages all senior management to develop the employees in their teams and to establish, where appropriate, clear succession planning.

Currency exposure – in recent years the percentage of the Group's turnover from overseas customers has increased rapidly. This exposes the Group to the risk of currency fluctuations. The Directors have established a policy to cover the Group's exposure to foreign exchange.

Economy and credit risk – the significant deterioration in the global economy in 2008 continued into 2009, although in certain areas there were some signs of recovery towards the end of the year. Although the Group is exposed to sectors which traditionally are not, or are less, affected by recession, there can be no assurances that the global economic slow-down will not affect the Group's activities. Related to this the Group recognises the potential risk posed by customers defaulting on their contractual obligations. The Group carries out careful monitoring of the creditworthiness of its customers. Customers who are unable to fulfil the criteria set by the Group's credit procedures are required to either provide payment with their order, or enter into a Letter of Credit arrangement.

Litigation risk – the Group sells products and services in a number of jurisdictions worldwide. There is a risk that the sale of such products and services may result in litigation and defending such litigation, even if it is baseless and without merit, can be expensive and take up significant management time and resources.

Liquidity risk – the Group has substantial cash balances. In addition, the Directors have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and through careful monitoring of cashflow and cashflow forecasts.

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 6 to 12 and the risks and uncertainties which affect the business are summarised on the previous page. The Group has sufficient financial resources to cover budgeted future cashflows, together with contracts with its customers and suppliers across different geographic areas and industries. The Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

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

DIRECTORS AND DIRECTORS' INTERESTS

The Directors of the Company are shown on page 13. All of them served throughout the year and through to the signing of the financial statements except for Tony Bourne who was appointed on 24 March 2009 and John Salkeld who retired on 28 May 2009. The interests of the Directors in ordinary shares and options to acquire ordinary shares in the Company are shown in the table below and the tables in the Directors' Remuneration Report.

The Directors who held office at 31 December 2009 had the following interests in the ordinary shares of the Company:

Beneficial holdings*	31 December 2009	Percentage of share capital	1 January 2009
Nicholas Adams	724,561	1.7%	720,000
Simon Constantine	456,000	1.1%	456,000
Mark Bodeker	38,928	—	34,367
Nigel Keen	35,000	—	35,000
	1,254,489	2.8%	1,245,367

* Beneficial holdings include holdings of spouses and infant children.

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

The Board proposes the re-appointment of Simon Constantine and Nigel Keen as non-executive Directors of the Company at the forthcoming AGM.

SUPPLIER PAYMENT POLICY

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the Group at 31 December 2009 were equivalent to 69 days' (2008: 68 days') purchases, based on the average daily amount invoiced by suppliers during the year.

RESEARCH AND DEVELOPMENT EXPENDITURE

The Group's policy is to develop new and improve existing products and services to meet the needs of its customers. The amount charged to the income statement in the year on research and development under IFRS amounted to £479,000 (2008: £821,000) – the total expenditure was £1,377,000 (2008: £1,195,000).

SUBSTANTIAL SHAREHOLDINGS

The following interests in 3% or more of the issued ordinary share capital, excluding Board members whose interests are disclosed above, had been notified to the Company as at 30 March 2010:

Ordinary shareholders	Number	Percentage of issued ordinary share capital
M&G Investment Management Limited	6,161,282	14.8%
Caledonia Investments PLC	5,462,500	13.1%
Hermes Investment Management Limited*	2,616,638	6.3%
A H J Muir	2,207,175	5.3%
Standard Life Investments Limited*	2,150,159	5.2%
J G Salkeld	2,046,477	4.9%
C B T Adams	1,440,380	3.5%

* 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.

DIVIDENDS

The Board is proposing the payment of the dividend for the year on the preference shares of 7.5 pence per preference share, representing a total payment of £11,250. The Board is further recommending the payment of a final dividend of 2.42 pence per ordinary share to be paid on 1 July 2010 to ordinary shareholders on the register on 4 June 2010, representing a total payment of £1,007,000.

DIRECTORS' REPORT continued

CAPITAL STRUCTURE

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 26. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. The redeemable preference shares carry 7.5% interest but do not carry voting rights. The percentage of the issued nominal value of the ordinary shares is 94% of the total issued nominal value of all share capital.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. Details of employee share schemes are set out in note 35. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Main Board Terms of Reference, copies of which are available on request, and the Corporate Governance Statement on page 17.

Under its Articles of Association, the Company has authority to issue 2,081,244 ordinary shares.

DEFINED BENEFIT PENSION SCHEME

The Group's defined benefit pension scheme has been closed to members for a number of years. In December 2007 the pensioners' benefits were bought out by a third party. The Group now has no net liabilities relating to any defined benefit pension scheme. Further details are contained in note 36 to the accounts.

CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group have sufficient funding to continue as a going concern while also retaining sufficient funding to enable the Group to invest in its development. The capital structure of the Group consists of debt, which includes borrowings disclosed in note 19, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 26 to 32.

EQUAL OPPORTUNITIES

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

EMPLOYEE CONSULTATION

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

DISCLOSURE OF INFORMATION TO THE AUDITORS

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

- (1) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- (2) the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with provisions of section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming AGM.

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

GEORGINA POPE

Secretary

30 March 2010

CORPORATE GOVERNANCE

The Company is committed to the principles of corporate governance contained in the Combined Code on Corporate Governance that was issued in 2008 by the Financial Services Authority ('the Code').

The Directors consider that throughout the year ended 31 December 2009 the Company has been in compliance with the code provisions set out in Section 1 of the Code, except for code provision A.1.2 as the Board has not nominated a senior independent Director other than the Chairman, because the Board is small; and code provision B.2.1 as Nigel Keen who is Chairman of the Company is also Chairman of the Remuneration Committee.

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

The Board comprises two executive and three non-executive Directors. The non-executive Directors are considered by the Board to be independent in character and judgement; the Board does not consider the fact that the non-executive Directors hold shares in the Company impairs their independence. The non-executive Directors are required to submit themselves for re-election at regular intervals. Before re-election the Chairman will confirm to the shareholders that the individual's performance continues to be effective and the individual continues to demonstrate their commitment to the role. This composition satisfies the Code's Principles and Provisions that the Board should have a balance of executive and non-executive Directors in terms of number and relevant experience to enable it to have effective leadership and control of the Company and its subsidiaries. The Directors have access to all information and, if required, independent professional advice at the expense of the Company. The Board normally convenes monthly with attendance by all Directors. No Directors were absent from the 12 meetings held during 2009.

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

The Audit Committee, which met three times, consists of the three non-executive Directors. The Chairman of the committee is Simon Constantine. This committee oversees the proper observation of accounting standards, the application of the Group's accounting policies, its systems of internal financial controls and all issues relating to the preparation and approval of the Group's annual and half-yearly Reports and Accounts. The committee also considers the objectivity and independence of the Group's auditors by a process of assessment and keeps the scope of non-audit service provided by the auditors and the level of non-audit fees under review. In addition it is involved in the approval of the audit fees and the auditors' terms of engagement. The Audit Committee acknowledges its responsibility to investigate any reports of impropriety or potential fraud.

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

The Remuneration Committee consists of the three non-executive Directors and was chaired by Nigel Keen. This committee, which met twice during the year, is responsible for recommending to the Board the terms of service and remuneration of the Executive Directors. It also has oversight of the remuneration levels of the senior members of the management teams. The committee is responsible for the allocation of share options throughout the Group. The Report of the Remuneration Committee is included on pages 18 to 20.

The Board as a whole, determines the remuneration of the Chairman and the terms of his appointment and the remuneration of the other non-executive Directors. No Director is involved in deciding his own remuneration.

The Nominations Committee consists of the three non-executive Directors and is chaired by Nigel Keen and met once during 2009. This Committee is responsible for nominating candidates for appointment to the Board having regard to the overall skills balance and composition of the Board. It also recommends to the Board the composition of the Board committees.

A risk management policy is in place which sets out the Board's overall approach to management and acceptance of risk. The Directors and senior managers of each Group business are required to undertake their own risk identification and assessment according to the individual circumstances of the business which they manage, and this risk assessment is then reviewed and evaluated by the Group Finance Director and submitted to the Board for consideration. This system has been in place since 1 January 2009 and up to the date of approval of the Report and Accounts. This risk management process is regularly reviewed by the Board and accords with "Internal Control: Guidance for Directors on the Combined Code" produced by the Turnbull working party.

The Directors have overall responsibility for the system of internal control throughout the Group and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, as it can only provide reasonable, but not absolute, assurance against material misstatement or loss. The Board has conducted a review of the effectiveness of the system of internal control for the year ended 31 December 2009 and the period up to 30 March 2010. In carrying out this review the Board takes account of material developments through reports by the Chief Executive, the Group Finance Director and the Audit Committee. No significant issues were found during this review.

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

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 shareholders and there is an opportunity for shareholders to question the Chairman and the Executive Directors at the Annual General Meeting.

DIRECTORS' REMUNERATION REPORT

INTRODUCTION

This report has been prepared in accordance with Schedule 8 to the Accounting Regulations under the Companies Act 2006. 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 Corporate Governance relating to Directors' remuneration. As required by the Act, a resolution to approve the report will be proposed at the Annual General Meeting at which the financial statements will be approved.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee, which consists of three independent non-executive Directors: Nigel Keen (Chairman), Simon Constantine and Tony Bourne. Nigel Keen is also Chairman of the Company and as has been described on page 13. The Board considers that it is appropriate that he is also chairman of the Remuneration Committee. The committee defines the Company's policy on remuneration, benefits and terms of employment. As part of this process, it provides a formal framework for the development of remuneration policy for Executive Directors and for fixing the remuneration packages of individual Directors. The Board, as a whole, is responsible for fixing the remuneration of the non-executive Directors, including the Chairman.

No Director is involved in deciding his own remuneration.

The Committee also reviews and approves general increases in salaries and bonus arrangements for staff. The remuneration policy and practice for employees are taken into account when setting remuneration for Executive Directors.

Over the past year the Committee had access to independent, external advisers when required and the Committee sought input from the Chief Executive. The Chairman maintains contact with principal shareholders regarding remuneration policy.

REMUNERATION POLICY

The Remuneration Committee has established a policy on the remuneration of Executive Directors and the Board has established a policy for the remuneration of the Chairman and the non-executive Directors.

EXECUTIVE DIRECTORS

The Company has in place an incentive-driven Executive Director remuneration programme that promotes the delivery of the Group strategy, seeks to align the interest of Directors and shareholders and reflects the performance of each Director. Overall the remuneration package aims to be appropriate to attract, motivate and retain high calibre executives. The Remuneration Committee considers carefully the motivational effects of the incentive structure in order to ensure that it is effective and does not have any unintentionally negative impact on matters such as governance and environmental and social issues. A significant proportion of total potential rewards are provided through performance-based schemes.

NON-EXECUTIVE DIRECTORS

The Company's policy is to appoint Non-Executive Directors to the Board with a breadth of international skills and experience that is relevant to the Group's global business. Appointments are made by the Board upon the recommendation and advice from the Nominations Committee.

SERVICE CONTRACTS

The Executive Directors have service contracts with an indefinite term with notice periods of twelve months in respect of Nicholas Adams and six months in respect of Mark Bodeker. The contract date for Nicholas Adams and Mark Bodeker is 16 April 2000. In the event of a change of control of the Company, the notice periods of Nicholas Adams and Mark Bodeker are extended to two years, and a change of control may be treated by the individual as a terminating event. In the event of early termination, the Directors' contracts provide for compensation up to a maximum of base 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. The Remuneration Committee's policy on early termination is to provide compensation which reflects the Company's contractual obligations, whilst recognising the principle of mitigation of losses.

The 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-executive Directors receive no further fees for additional work performed for the Company in respect of membership of either the Remuneration Committee, the Audit Committee or the Nomination Committee.

The terms of engagement of the Directors are available for inspection at the Annual General Meeting.

EXECUTIVE DIRECTORS' REMUNERATION

Executive Directors receive base salary, annual performance awards, pension contributions and other benefits and long term performance awards. These remuneration programmes for the Executive Directors are reviewed annually by the Remuneration Committee and are determined with reference to an appropriate comparator group of companies. Consideration is given to the Director's experience, performance and responsibilities. Benefits comprise provision of a car or car allowance and life and health insurance.

Emoluments of the current Executive Directors showing the breakdown between basic and performance related remuneration are:

	Fees/basic salary £'000	Benefits in kind £'000	Performance related bonuses £'000	2009 £'000	2008 £'000
Nicholas Adams	259	11	125	395	361
Mark Bodeker	228	8	110	346	311
	487	19	235	741	672

ANNUAL PERFORMANCE INCENTIVE BONUS

The Executive Directors' bonus scheme for the year ended 31 December 2009 set performance targets which would pay bonuses at a maximum of 100% of salary. Bonuses were earned on full year performance. The level of award for the year ended 31 December 2009 took account of achievement against specific targets in relation to profit, turnover, cash generation and measurable progress in meeting defined strategic objectives for the Group. Bonuses are paid after the completion of the statutory annual audit.

For the financial year to 31 December 2010, the structure of the Executive Directors' bonuses will be similar to that for the year to 31 December 2009.

EXECUTIVE DIRECTOR PENSION ARRANGEMENTS

Under the terms of their service contracts Nicholas Adams and Mark Bodeker can ask the Company to contribute to a pension plan of their own choice. The Company contributes a maximum of 12% of base salary. Bonus payments are excluded from the contribution calculations. During the year the Company contributed £27,000 (2008: £14,000) into a pension scheme in respect of Nicholas Adams and £25,000 (2008: £12,000) in respect of Mark Bodeker.

	2009 £'000	2008 £'000
Money purchase pension contributions	52	26

SHARE INCENTIVE SCHEMES

The Company has the following share options schemes for incentivising Executive Directors and employees of the Group:

- the Executive Share Option Scheme ("ESO")
- the Save-As-You-Earn scheme ("SAYE")

The ESO scheme is the primary vehicle used to incentivise the Executive Directors and senior management.

ESO Scheme

This shareholder and Revenue approved scheme grants options over new shares to be issued at the time of exercise. Options granted to an individual in excess of £30,000 are classified as unapproved. The aggregate market value of shares over which options under the ESO scheme may be granted to an individual participant in any twelve month period may not normally exceed 1.5 times base salary.

Options are granted at the market value on the date of grant and are exercisable after three years but not more than ten years (unapproved options: seven years) from the date of grant.

Performance conditions

The Remuneration Committee considers that imposing performance conditions that require growth in earnings per share (EPS) above a specified level will encourage shareholder value creation and improved financial performance. In selecting appropriate targets the Committee takes into account both the recent performance of the Company and its projections for future growth. For option awards granted in 2009 the performance condition required for the options to vest was that the Group's EPS should increase at a rate of 7.5% per annum over the three year period of the option. There is no retesting of performance if the performance condition is not met.

Share appreciation rights

Share options that are unapproved can be exercised using the share appreciation rights ("SARS") system. Under SARS, in effect, an option is settled by issuing shares at no consideration to the value of the gain on the share option up to the time of exercise. This means that the number of shares to which an option holder may become entitled depends on the Company's share price at the time of exercise.

At 31 December 2009 the outstanding options for the Directors under the ESO scheme were as follows:

Name of Director	1 January 2009	Granted/ (exercised)	31 December 2009	Exercise price pence	Date from which exercisable	Expiry date
Nicholas Adams	80,000	(80,000)	—	107.5	30.04.05	29.04.09
	50,000	—	50,000	84.0	17.04.06	16.04.10
	400,000	—	400,000	120.5	07.04.07	06.04.11
	143,000	—	143,000	174.5	27.05.11	27.05.15
	—	221,000	221,000	113.0	26.03.12	26.03.16
Mark Bodeker	80,000	(80,000)	—	107.5	30.04.05	29.04.09
	100,000	—	100,000	84.0	17.04.06	16.04.10
	400,000	—	400,000	120.5	07.04.07	06.04.11
	126,000	—	126,000	174.5	27.05.11	27.05.15
	—	194,500	194,500	113.0	26.03.12	26.03.16
	1,379,000	255,500	1,634,500			

On 29 April 2009 Nicholas Adams and Mark Bodeker each exercised 80,000 options at 107.5 pence. The market price on the date of exercise was 114.0 pence per share.

There have been no variations to the terms and conditions or performance criteria for share options during the year. None of the Directors' share options lapsed during the year.

DIRECTORS' REMUNERATION REPORT continued

SHARE INCENTIVE SCHEMES CONTINUED

Share appreciation rights continued

The market price of the ordinary shares at 31 December 2009 was 165.0 pence (2008: 107.0 pence) and the range during the year was 101.5 pence to 180.0 pence.

CHAIRMAN

Under an arrangement between the Company and Imperialise Limited, Nigel Keen is retained to act as Chairman of the Company and he must account to Imperialise Limited for his services. His current term of appointment commenced on 10 March 2008 and is for three years. In addition Imperialise Limited is paid a sum equivalent to the employer's national insurance contributions on these fees as it is responsible for the cost of national insurance on payments to Nigel Keen, whereas national insurance contributions in respect of the other non-executive Directors are made directly to HMRC.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Non-executive Directors are appointed for an initial period of three years with subsequent reviews. They do not have a contract of employment and their appointment can be terminated without notice. It is the Board's policy for the Non-Executive Directors to be paid a level of fee that reflects the time commitment and responsibilities of the role and is sufficient to attract individuals with appropriate knowledge and experience. Non-Executive Directors receive fixed fees agreed by the full Board after reference to similar roles in an appropriate comparator group of companies and reimbursement of expenses incurred in attending Board and other meetings.

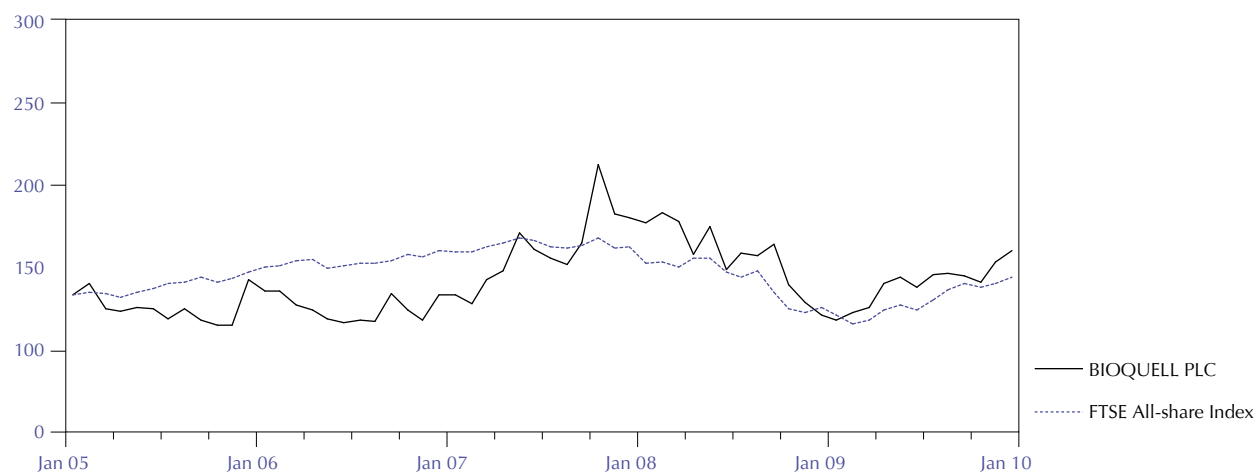
REMUNERATION OF THE CHAIRMAN AND NON-EXECUTIVE DIRECTORS

	2009 £'000	2008 £'000
Nigel Keen	36	22
John Salkeld	17	37
Tony Bourne	23	—
Simon Constantine	30	28
Richard Towner	—	10
Total	106	97

PERFORMANCE GRAPH

The following graph shows the Company's performance, measured by TSR, compared with the performance of the FTSE All-share Index also measured by TSR. The 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.

Five year index of BIOQUELL PLC share price relative to FTSE All-share Index



In accordance with the Directors' Remuneration Report Regulations the four tables setting out the Executive and non-executive Directors' remuneration, pensions and share options contained within the report have been audited; all other information including the statements of policy have not been audited.

This report was approved by the Remuneration Committee at a meeting on 15 March 2010 and has been approved subsequently by the Board of Directors, and signed on behalf of the Board:

NIGEL KEEN

Chairman of the Remuneration Committee

30 March 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

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

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

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board:

NICHOLAS ADAMS
Group Chief Executive Officer
30 March 2010

MARK BODEKER
Group Finance Director

INDEPENDENT AUDITORS' REPORT

To the members of BIOQUELL PLC

We have audited the group financial statements of BIOQUELL PLC for the year ended 31 December 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, and the related notes 1 to 37. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

SEPARATE OPINION IN RELATION TO IFRS AS ISSUED BY THE IASB

As explained in note 2 to the Group financial statements, the Group in addition to complying with its legal obligation to apply IFRS as adopted by the European Union, has also applied IFRS as issued by the International Accounting Standards Board ("IASB").

In our opinion the Group financial statements comply with IFRS as issued by the IASB.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the group financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

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

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement contained within the Directors' Report in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

OTHER MATTERS

We have reported separately on the parent company financial statements of BIOQUELL PLC for the year ended 31 December 2009 and on the information in the Directors' Remuneration Report that is described as having been audited.

JASON DAVIES (SENIOR STATUTORY AUDITOR)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditors

Reading, United Kingdom

30 March 2010

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	Notes	2009 £'000	2008 £'000
Revenue	4	39,233	34,405
Cost of sales		(21,654)	(19,395)
Gross profit		17,579	15,010
Gross profit margin		45%	44%
Operating expenses:			
Sales & marketing costs		(5,916)	(4,603)
Administration costs		(3,922)	(3,262)
R&D and engineering costs		(2,096)	(1,936)
Profit from operations	6	5,645	5,209
Investment revenues	8	313	163
Finance costs	9	(102)	(369)
Profit before tax		5,856	5,003
Tax	10	(1,553)	(1,275)
Profit for the year	32	4,303	3,728
Earnings per share – basic	11	10.3p	9.0p
– diluted		9.3p	8.3p

Movements in reserves are set out in notes 29, 30, 31 and 32.

All amounts are derived from continuing operations.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the year ended 31 December 2009

	2009 £'000	2008 £'000
Net profit for the year	4,303	3,728
Actuarial loss on defined benefit pension scheme	—	(42)
Movement in deferred tax in relation to pension asset	—	12
Exchange differences on translation of foreign operations	(205)	383
Total recognised income	4,098	4,081

CONSOLIDATED BALANCE SHEET

As at 31 December 2009

	Notes	2009 £'000	2008 £'000
Non-current assets:			
Goodwill	13	691	691
Other intangible assets	14	7,460	6,704
Property, plant & equipment	15	11,764	8,280
		19,915	15,675
Current assets:			
Inventories	17	1,157	1,365
Trade and other receivables	18	7,584	7,368
Cash and cash equivalents		5,941	7,097
		14,682	15,830
Total assets		34,597	31,505
Current liabilities:			
Trade and other payables	23	(6,642)	(6,523)
Current tax liabilities		(499)	(606)
Obligations under finance leases	22	(132)	(248)
Borrowings	19	(105)	(78)
Deferred tax	21	(1,800)	(1,092)
Derivative financial instruments	20	—	(266)
Provisions	24	(984)	(1,606)
Net current assets		4,520	5,411
Non-current liabilities:			
Total non-current liabilities	25	(1,472)	(1,723)
Total liabilities		(11,634)	(12,142)
Net assets		22,963	19,363
Equity:			
Share capital	26	4,162	4,160
Share premium account	27	114	95
Special reserve	28	10,933	10,933
Equity reserve	29	1,101	707
Capital reserve	30	255	255
Translation reserve	31	(51)	154
Retained earnings	32	6,449	3,059
Equity attributable to equity holders of the parent		22,963	19,363

The financial statements of BIOQUELL PLC, registered number 00206372, were approved by the Board of Directors and authorised for issue on 30 March 2010.

They were signed on its behalf by:

NICHOLAS ADAMS
Director
30 March 2010

MARK BODEKER
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	2009 £'000	2008 £'000
Profit for the year	4,303	3,728
Actuarial loss on defined benefit pension scheme	—	(42)
Movement in deferred tax in relation to pension asset	—	12
Exchange differences	(205)	383
Total comprehensive income in the year	4,098	4,081
Other movements in the year:		
Issued share capital	2	24
Issued share premium	19	95
Credit to equity reserve for share-based payments	294	141
Charge to equity for exercise of share options under the SARS scheme	(16)	—
Movement in deferred tax charged to equity	118	(288)
Final dividend for year ended 31 December 2008/2007	(915)	(830)
Net increase in equity shareholders' funds	3,600	3,223
Equity shareholders' funds at beginning of year	19,363	16,140
Equity shareholders' funds at end of year	22,963	19,363

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Net cash from operating activities	33	6,910	8,960
Investing activities			
Proceeds on disposal of property, plant and equipment		—	134
Purchases of property, plant and equipment		(5,249)	(4,840)
Expenditure on product development		(1,575)	(1,100)
Net cash used in investing activities		(6,824)	(5,806)
Financing activities			
Proceeds on issue of ordinary shares		21	119
Dividends paid on ordinary shares		(915)	(830)
Movement in borrowings		(79)	1,386
Repayment of obligations under finance leases		(261)	(305)
Net cash (used in)/from financing activities		(1,234)	370
Net (decrease)/increase in cash and cash equivalents		(1,148)	3,524
Bank cash at beginning of year		7,097	3,500
Effect of foreign exchange rate changes		(8)	73
Bank cash at end of year		5,941	7,097

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. GENERAL

BIOQUELL PLC (the "Company") is a Public Limited Company incorporated in the United Kingdom. The address of the registered office is given on page 13. The nature of the Group's operations and its principal activities are set out on page 14. The financial statements are presented in pounds sterling (£) since that is the currency in which the majority of the Group's transactions are denominated.

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements:

IAS 1 (revised 2007)	IAS 1(2007) has introduced a number of changes in the format and content of the financial statements.
IFRS 8	Operating Segments – this Standard has not changed the reportable segments of the Group and therefore the Group has not included a third balance sheet.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not effective:

IFRS 1 (amended)/IAS 27 (amended)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 3 (revised 2008)	Business Combinations
IAS 27 (revised 2008)	Consolidated and Separate Financial Statements
IAS 28 (revised 2008)	Investments in Associates
IFRIC 12	Service Concession Arrangements
IFRIC 17	Distributions of Non-cash Assets to Owners

The directors do not expect that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

Basis of consolidation

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

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Business Review on pages 6 to 12 and the Directors' Report on page 15.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED**Revenue recognition**

Sales of goods are recognised when goods are delivered and title has passed. Revenue from services is recognised throughout the contract as services are provided or upon completion dependent upon contractual terms.

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

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

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

Operating profit

Operating profit is stated after charging restructuring costs and after the share of results of associates but before investment income and finance costs.

Property, plant and equipment

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

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

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

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

Inventories

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Bank borrowings

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

Goodwill

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

Goodwill arising on acquisitions prior to the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1988 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Internally-generated intangible assets – research & development expenditure

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

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

- an asset is created that can be identified (such as products and new processes related to bio-decontamination solutions);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

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

Intangible assets – customer relationships

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

Patents and trademarks

Patents and trademarks are measured initially at purchase cost. They are amortised over their estimated useful lives, which is on average 15 years, although patent protection extends to 20 years.

Impairment of financial assets

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

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

Foreign currencies

Transactions in currencies other than sterling are initially recorded at the rate of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rate prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated. Gains and losses arising on exchange are included in net profit or loss for the period.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at the exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Leasing

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

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

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

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

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. The defined benefit scheme has been closed to new members since May 1990 and related solely to former employees of the Group. The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of the plan assets. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit or loss and presented in the Statement of Recognised Income and Expense.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

Financial instruments

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

Loans and receivables

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

Impairment of financial assets

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

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

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

Cash and cash equivalents

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

De-recognition of financial assets

The Group de-recognises a financial asset only when the contractual rights to the cashflows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Trade payables

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

Financial liabilities and equity

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

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Financial assets

Investments are recognised and de-recognised on the trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as fair value through profit or loss which are initially measured at fair value. Subsequent to initial recognition, investments in subsidiaries are measured at cost. Other financial assets are classified into the following specified categories: financial assets as “at fair value through profit and loss” and “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit and loss

Financial assets are classified as financial assets at fair value through profit or loss where the Group acquires the financial asset principally for the purpose of selling in the near term, the financial asset is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short term profit taking as well as all derivatives that are not designated and effective hedging instruments. Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period. Debt instruments that are held-to-maturity, are available-for-sale, or are loans and receivables recognise income on an effective interest rate basis.

Debt and equity instruments

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

Financial liabilities

Financial liabilities are classified as either financial liabilities “at fair value through profit or loss” or other financial liabilities.

Other financial liabilities

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

Derivative financial instruments

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

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

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

Provisions

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

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties. Other provisions represent property maintenance required under lease obligations.

Share-based payments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2009

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Internally generated intangible assets

Internally generated intangible assets arising from the Group development activity are recognised when certain conditions are met. Management applies certain assumptions in measuring development activity cost and in assessing future economic benefits. Development assets are subject to annual impairment review.

Valuation of share-based payments

In order to determine the value of share-based payments, management are required to make an estimation of the effects of non-transferability, exercise restrictions and behavioural considerations. Fair value is measured by use of the Black-Scholes model and the inputs used are set out in note 35.

Impairment of goodwill and other intangible assets

Management applies certain assumptions in assessing impairment of goodwill and intangible assets. These assumptions are subject to annual impairment review, the assumptions for which are disclosed in note 13.

4. REVENUE

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

	2009 £'000	2008 £'000
Sales of goods	15,687	16,584
Revenue from the rendering of services	23,546	17,821
	39,233	34,405
Interest	47	163
	39,280	34,568

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

For management purposes, the Group is currently organised into two divisions – Bio-decontamination ('BIO-DECON') and TRaC (Testing, Regulatory and Compliance). These divisions are consistent with the internal reporting as reviewed by the Chief Executive. These reportable divisions remain unchanged from the 31 December 2008 consolidated accounts.

Segment information about these businesses is presented below:

Year ended 31 December 2009	BIO-DECON £'000	TRaC £'000	Consolidated £'000
Revenue			
Total revenue	27,935	11,298	39,233
Result			
Segment result	4,944	1,873	6,817
Unallocated head office costs			(1,172)
Profit from operations			5,645
Finance costs and investment revenue			211
Profit before tax			5,856
Tax			(1,553)
Profit for the year			4,303
Other information			
Capital additions	5,944	884	6,828
Unallocated corporate additions			38
Total capital additions			6,866
Depreciation and amortisation	1,564	956	2,520
Unallocated corporate depreciation			43
Total depreciation and amortisation			2,563

5. BUSINESS AND GEOGRAPHICAL SEGMENTS CONTINUED

Balance sheet as at 31 December 2009	BIO-DECON £'000	TRaC £'000	Consolidated £'000
Assets			
Segment assets	19,521	8,634	28,155
Unallocated corporate assets			6,442
Consolidated total assets			34,597
Liabilities			
Segment liabilities	(7,830)	(2,597)	(10,427)
Unallocated corporate liabilities			(1,207)
Consolidated total liabilities			(11,634)
All assets and liabilities are allocated to reportable segments with the exception of investments in associated companies.			
Year ended 31 December 2008	BIO-DECON £'000	TRaC £'000	Consolidated £'000
Revenue			
Total revenue	23,749	10,656	34,405
Result			
Segment result	4,545	1,084	5,629
Unallocated head office costs			(420)
Profit from operations			5,209
Finance costs and investment revenue			(206)
Profit before tax			5,003
Tax			(1,275)
Profit for the year			3,728
Other information			
Capital additions	3,790	1,479	5,269
Unallocated corporate additions			1,020
Total capital additions			6,289
Depreciation and amortisation	1,213	942	2,155
Unallocated corporate depreciation			14
Total depreciation and amortisation			2,169
Balance sheet as at 31 December 2008			
Assets			
Segment assets	16,469	8,069	24,538
Unallocated corporate assets			6,967
Consolidated total assets			31,505
Liabilities			
Segment liabilities	(7,952)	(2,399)	(10,351)
Unallocated corporate liabilities			(1,791)
Consolidated total liabilities			(12,142)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2009

5. BUSINESS AND GEOGRAPHICAL SEGMENTS CONTINUED

Geographical segments

The Group's bio-decontamination equipment is manufactured within the UK and sold into the UK, Europe and Rest of World markets. The TRaC segment offers services from bases within the UK. At the end of 2008 the US-based TRaC business was transferred to the Group's telecoms testing centre in Kingston-upon-Hull.

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

Sales revenue by geographical market	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
UK	17,446	17,616
Rest of Europe	8,417	6,479
Rest of World	13,370	10,310
	39,233	34,405

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

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
UK	31,149	28,663	6,542	6,115
Rest of Europe	1,842	1,489	154	43
Rest of World	1,606	1,353	170	131
	34,597	31,505	6,866	6,289

6. PROFIT FROM OPERATIONS

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

	2009 £'000	2008 £'000
Research & development costs	479	244
Depreciation of property, plant and equipment	1,744	1,442
Amortisation of development costs and patents	675	585
Amortisation of trademarks	13	11
Amortisation of customer relationships	131	131
Cost of inventories recognised as an expense	8,785	8,344
Staff costs (see note 7)	15,021	13,165
Loss on disposal of property, plant and equipment	1	8
Net foreign exchange gains	(193)	(751)

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

	2009 £'000	2008 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	26	26
Fees payable to the Company's auditors for the audit of the subsidiaries pursuant to legislation	90	87
Total audit fees	116	113
Tax services	77	50
Total non-audit fees	77	50

A description of the work of the audit committee is set out in the Corporate Governance Statement on page 17 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

7. STAFF COSTS

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

	2009 Number	2008 Number
Production shop-floor	57	66
Engineering directs	174	141
	231	207
Sales and marketing	69	51
Administration	48	40
Other	18	14
	135	105
	366	312

Their aggregate remuneration comprised:

	2009 £'000	2008 £'000
Wages and salaries	12,769	11,275
Social security costs	1,460	1,319
Other pension costs	498	429
Share-based payments	294	142
	15,021	13,165

Details of Directors' remuneration, share options and pension contributions are included in the element of the Directors' Remuneration Report, marked as audited, on pages 18 and 20.

8. INVESTMENT REVENUES

	2009 £'000	2008 £'000
Bank deposits	47	163
Change in fair value of derivative financial instruments	266	—
	313	163

9. FINANCE COSTS

	2009 £'000	2008 £'000
Interest on bank loans and overdrafts	46	61
Interest on obligations under finance leases	45	25
Dividend payable on 7.5% preference shares	11	11
Change in fair value of derivative financial instruments	—	272
	102	369

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2009

10. TAX

	2009 £'000	2008 £'000
UK corporation tax current year	(892)	(606)
UK corporation tax prior year	165	—
Deferred tax charge current year	(569)	(773)
Deferred tax charge prior year	(257)	104
	(1,553)	(1,275)

Corporation tax is calculated at 28% (2008: 28.5%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	2009 £'000	2008 £'000
Profit before tax	5,856	5,003
Tax at the UK corporation rate of 28% (2008: 28.5%)	(1,640)	(1,426)
Adjusted for:		
Tax effect of expenses not deductible in determining taxable profit	(69)	(50)
Effect on deferred tax asset of movement in share price	22	(115)
Effect of abolition of IBAs on deferred tax assets	(175)	—
Effect of research and development relief	413	208
Tax effect of different tax rate of subsidiaries operating in other jurisdictions	18	17
Deferred tax not recognised on other timing differences	(30)	—
Prior year adjustment	(92)	104
Effective change in tax rate	—	(13)
	(1,553)	(1,275)

11. EARNINGS PER SHARE

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

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Earnings		
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	4,303	3,728
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	41,615,010	41,491,801
Effect of dilutive potential ordinary shares:		
– share options	4,541,350	3,646,000
Weighted average number of ordinary shares for the purposes of diluted earnings per share	46,156,360	45,137,801

For a profit making company with outstanding share options, net profit per share is decreased by the exercise of share options. Therefore diluted earnings per share are calculated by including all share options in the denominator irrespective of vesting conditions. Basic earnings per share are 10.3p (2008: 9.0p). Diluted earnings per share are 9.3p (2008: 8.3p).

12. DIVIDENDS

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2008 of 2.2p per share (2007: 2.0p)	915	830
Proposed final dividend for the year ended 31 December 2009 of 2.42p per share (2008: 2.2p)	1,007	915

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

13. GOODWILL

	£'000
Cost	
As at 1 January 2008	705
Adjustment to deferred consideration	—
As at 1 January and 31 December 2009	705
Accumulated impairment	
As at 1 January 2008	14
Impairment losses for the year	—
As at 1 January 2009	14
Impairment losses for the year	—
As at 31 December 2009	14
Carrying amount	
As at 31 December 2009	691
As at 31 December 2008	691

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

	2009 £'000	2008 £'000
Bio-decontamination segment	—	—
TRaC segment	691	691
	691	691

The Group tests goodwill annually for impairment, based on estimated future cashflows and discounted at a rate reflecting current market assessments of the time value of money and the risks specific to the business segments, or more frequently if there are indications that goodwill might be impaired. The Group prepares discounted cashflows using the most recent financial budgets approved by the management and assumes an estimated extrapolated growth rate of 5% (2008: 5%) per year over five years. The cashflows are discounted at a rate of 12% (2008: 12%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2009

14. OTHER INTANGIBLE ASSETS

	Customer relationships £'000	Development costs and patents £'000	Trademarks £'000	Total intangible assets £'000
Cost				
As at 1 January 2008	619	8,225	52	8,896
Additions	—	1,100	—	1,100
Effect of foreign exchange	—	—	17	17
As at 1 January 2009	619	9,325	69	10,013
Additions	—	1,572	5	1,577
Effect of foreign exchange	—	—	(6)	(6)
As at 31 December 2009	619	10,897	68	11,584
Amortisation				
As at 1 January 2008	354	2,195	23	2,572
Charge for the year	131	585	11	727
Effect of foreign exchange	—	—	10	10
As at 1 January 2009	485	2,780	44	3,309
Charge for the year	131	675	13	819
Effect of foreign exchange	—	—	(4)	(4)
As at 31 December 2009	616	3,455	53	4,124
Carrying amount				
As at 31 December 2009	3	7,442	15	7,460
As at 31 December 2008	134	6,545	25	6,704

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

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £'000	Short-term leasehold improvements £'000	Fixtures and equipment £'000	Assets under construction £'000	Total £'000
Cost					
As at 1 January 2008	—	921	9,542	240	10,703
Additions	2,492	151	2,546	—	5,189
Disposals	—	(204)	(734)	—	(938)
Transfer of completed assets	—	—	240	(240)	—
Revaluation adjustment	—	—	299	—	299
Effect of foreign exchange	—	—	337	—	337
As at 1 January 2009	2,492	868	12,230	—	15,590
Additions	2,527	26	2,735	—	5,288
Disposals	—	—	(150)	—	(150)
Effect of foreign exchange	—	—	(47)	—	(47)
As at 31 December 2009	5,019	894	14,768	—	20,681
Accumulated depreciation					
As at 1 January 2008	—	435	6,007	—	6,442
Charge for the year	38	63	1,341	—	1,442
Disposals	—	(126)	(670)	—	(796)
Effect of foreign exchange	—	—	222	—	222
As at 1 January 2009	38	372	6,900	—	7,310
Charge for the year	147	77	1,520	—	1,744
Disposals	—	—	(108)	—	(108)
Effect of foreign exchange	—	—	(29)	—	(29)
As at 31 December 2009	185	449	8,283	—	8,917
Carrying amount					
As at 31 December 2009	4,834	445	6,485	—	11,764
As at 31 December 2008	2,454	496	5,330	—	8,280

The carrying amount of the Group's fixtures and equipment includes an amount of £574,000 (2008: £737,000) in respect of assets held under finance leases.

The Group had no capital expenditure contracted but not provided for at the year end (2008: £nil).

16. SUBSIDIARIES

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

17. INVENTORIES

	2009 £'000	2008 £'000
Raw materials, spare parts and consumables	638	756
Work in progress	333	299
Finished goods and goods for resale	186	310
	1,157	1,365

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2009

18. TRADE AND OTHER RECEIVABLES

	2009 £'000	2008 £'000
Trade debtors	6,717	6,527
Other debtors	166	128
Corporation and other tax	47	107
Prepayments and accrued income	654	606
	7,584	7,368

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

	2009 £'000	2008 £'000
Trade receivables	6,775	6,576
Allowance for doubtful debts	(58)	(49)
	6,717	6,527

The average credit period taken on sales of goods is 62 days (2008: 69 days). Included in the Group's trade receivable balance are debtors with a carrying amount of £1,979,000 (2008: £1,901,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the Group believes that the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 74 days (2008: 71 days).

Credit risk management

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

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

Ageing of past due but not impaired receivables

	2009 £'000	2008 £'000
30–60 days	5,285	4,964
60–90 days	937	865
90–120 days	495	698
Total	6,717	6,527

Movement in the allowance for doubtful debts

	£'000
Balance at 1 January 2009	49
Amounts written off during the year	—
Increase in the allowance recognised in the year	9
Balance at 31 December 2009	58

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

19. BANK OVERDRAFTS AND LOANS

	2009 £'000	2008 £'000
Bank loans	1,386	1,465
The borrowings are repayable as follows:		
Amount due for settlement within twelve months	105	78
Amount due for settlement after twelve months (see note 25)	1,281	1,387
	1,386	1,465

Analysis of borrowings by currency:

31 December 2009	Total £'000	Sterling £'000	Euros £'000
Bank loans	1,386	1,386	—

Analysis of borrowings by currency:

31 December 2008	Total £'000	Sterling £'000	Euros £'000
Bank loans	1,465	1,465	—

The weighted average interest rates paid were as follows:

	Year ended 2009 %	Year ended 2008 %
Bank loans	2	5

The Group had committed overdraft facilities available at 31 December 2009 of £2,600,000 (2008: £2,600,000), none of which facility was drawn at the end of the year. The facility is reviewed each year.

The bank loan is secured on the long lease property in Andover, UK which was purchased during the prior year. The loan was taken out with an interest rate of 1.25% over base rate, repayable over 15 years.

20. DERIVATIVE FINANCIAL INSTRUMENTS – CURRENCY DERIVATIVES

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts within 70 to 80% of the exposure generated. The Group also enters into forward foreign contracts to manage the risk associated with anticipated sales and purchase transactions out to six months within 40 to 50% of the exposure generated. Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated sale or purchase transaction takes place.

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

	2009 £'000	2008 £'000
Forward foreign exchange contracts	—	2,475

At 31 December 2009, the fair value of the Group's currency derivatives is estimated to be approximately £nil (2008: £(272,000)). The fair value has been calculated as the present value of future expected cashflows at market related rates, which are current at the balance sheet date.

Other financial liabilities

	2009 £'000	2008 £'000
Financial liabilities carried at fair value through profit and loss	—	(266)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2009

20. DERIVATIVE FINANCIAL INSTRUMENTS – CURRENCY DERIVATIVES CONTINUED

Foreign currency risk management

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

	Liabilities		Assets	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
USD	(1,182)	(1,754)	3,961	2,364
Euro	(2,003)	(2,307)	4,232	3,537
Sing\$	(150)	—	580	—

Foreign currency sensitivity

The following table details the Group's sensitivity to a 10% change in pounds sterling against the respective foreign currencies. The 10% is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period. A positive number indicates an increase in profit or loss and other equity where pounds sterling strengthens against the respective currency.

	Sing\$ impact		USD impact		Euro impact	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Profit or loss (i)	(14)	—	(124)	13	(94)	(24)
Equity (ii)	14	—	123	130	130	158

(i) this is mainly attributable to the translation of the trading of foreign subsidiaries and the exposure outstanding in USD, Euro and Sing\$ receivables and payables, and in foreign denominated bank accounts.

(ii) this is mainly as a result of the translation of the investment in foreign subsidiaries.

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

21. DEFERRED TAX

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

	Deferred development costs £'000	Tax losses £'000	Decelerated capital allowances £'000	Other timing differences £'000	Total £'000
At 1 January 2008	(1,689)	708	355	485	(141)
Prior year adjustment	—	(203)	303	—	100
Credit to income	(144)	(21)	(414)	(190)	(769)
Net charge to income statement	(144)	(224)	(111)	(190)	(669)
Charge to equity	—	—	—	(282)	(282)
At 1 January 2009	(1,833)	484	244	13	(1,092)
Prior year adjustment	—	—	(257)	—	(257)
Credit to income	(248)	(77)	(287)	43	(569)
Net (charge)/credit to income statement	(2,081)	407	(300)	56	(1,918)
Charge to equity	—	—	—	118	118
At 31 December 2009	(2,081)	407	(300)	174	(1,800)

At the balance sheet date, the Group had an unrecognised deferred tax asset of £46,000 (2008: £46,000). At 31 December 2009 a deferred tax liability of £1,800,000 (2008: £1,092,000) has been recognised. The Group has been profitable in the year and the Directors forecast a profit for the next year's trading. They therefore deem the deferred tax balance to be recoverable in full.

22. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Amounts payable under finance leases:				
Within one year	132	248	132	248
In the second to fifth years inclusive	41	158	26	134
After five years	—	28	—	26
	173	434	158	408
Less: future finance charges	(15)	(26)		
Present value of lease obligations	158	408		
Less: amount due for settlement within twelve months (shown under current liabilities)	—	—	132	248
Amount due for settlement after twelve months	—	—	26	160

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is five years. For the year ended 31 December 2009, the average effective borrowing rate was 6.75% (2008: 6.9%). All lease obligations are denominated in sterling. The fair value of the Group's lease obligations approximates their carrying amount. The Group's obligations under finance leases are secured by the lessors' rights over the leased assets.

23. TRADE AND OTHER PAYABLES

	2009 £'000	2008 £'000
Trade creditors	3,081	2,962
Other creditors	718	1,033
Accruals and deferred income	2,843	2,528
	6,642	6,523

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 69 days (2008: 68 days). The Directors consider that the carrying amount of trade payables approximates to their fair value. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

24. PROVISIONS

	Warranty provision £'000	Other £'000	Total £'000
At 1 January 2009	181	1,425	1,606
Additional provision in the year	58	—	58
Release of provision not required	—	(380)	(380)
Utilisation of provision	(143)	(157)	(300)
At 31 December 2009	96	888	984
Included in current liabilities	96	888	984
Included in non-current liabilities	—	—	—
	96	888	984

The warranty provision represents management's best estimate of the Group's liability under twelve month warranties granted on products and services, based on past experience. Other provisions represent potential property-related costs, including property maintenance required under lease obligations within the subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2009

25. NON-CURRENT LIABILITIES

	2009 £'000	2008 £'000
Bank loans (see note 19)	1,281	1,387
Non equity preference shares	150	150
Obligations under finance leases (see note 22)	41	186
	1,472	1,723

The fair value of the financial liabilities is approximately equal to book value due to the short maturity of the liabilities or because they bear interest at rates approximate to the market. The Group has 150,000 7.5% redeemable preference shares in issue.

26. SHARE CAPITAL

	2009		2008	
	Number	£'000	Number	£'000
Authorised				
Ordinary shares of 10p each	55,947,780	5,595	55,947,780	5,595
Redeemable deferred ordinary shares of £1 each	255,222	255	255,222	255
		5,850		5,850
Called up, allotted and fully paid				
Ordinary shares of 10p each	41,624,886	4,162	41,600,984	4,160
		4,162		4,160

During the year the Company issued a total of 23,902 ordinary shares of 10p each for £20,700 on the conversion of options under the executive share option schemes.

27. SHARE PREMIUM ACCOUNT

	£'000
Balance at 1 January 2008	10,933
Transfer to Special reserve (see note 28)	(10,933)
Premium arising on issue of equity shares	95
Balance at 31 December 2008	95
Premium arising on issue of equity shares	19
Balance at 31 December 2009	114

28. SPECIAL RESERVE

	£'000
Balance at 1 January and 31 December 2009	10,933

Following the agreement of shareholders at the EGM held on 27 May 2008 and subsequent approval by the Court on 26 June 2008, the Share Premium Account was cancelled and the balance of £10,933,000 transferred to the Special Reserve. These funds are now available for distribution.

29. EQUITY RESERVE

	£'000
Balance at 1 January 2008	875
Credit to equity for share-based payments	142
Movement in deferred tax charged to equity	(288)
Debit to equity on exercise of share options	(22)
Balance at 31 December 2008	707
Credit to equity for share-based payments	294
Movement in deferred tax charged to equity	118
Debit to equity on issue of shares under SARS scheme	(16)
Debit to equity on exercise of share options	(2)
Balance at 31 December 2009	1,101

30. CAPITAL RESERVE

	£'000
Balance at 1 January 2008 and 1 January 2009	255
Additions	—
Balance at 31 December 2008 and 31 December 2009	255

31. TRANSLATION RESERVE

	£'000
Balance at 1 January 2008	(229)
Effects of foreign exchange in the period	383
Balance at 31 December 2008	154
Effects of foreign exchange in the period	(205)
Balance at 31 December 2009	(51)

32. RETAINED EARNINGS

	£'000
Balance at 1 January 2008	170
Net profit for the year	3,728
Payment of dividend	(830)
Actuarial loss on pension scheme at wind up	(42)
Movement in deferred tax in relation to pension scheme wind up	12
Exercised share options	21
Balance at 1 January 2009	3,059
Net profit for the year	4,303
Payment of dividend	(915)
Exercised share options	2
Balance at 31 December 2009	6,449

33. NOTES TO THE CASH FLOW STATEMENT

	2009 £'000	2008 £'000
Profit from operations	5,645	5,209
Adjustments for:		
Depreciation of property, plant and equipment	1,744	1,442
Amortisation and impairment losses of intangible assets	819	727
Revaluation of assets on transfer	—	(299)
Share-based payments	294	142
Loss/(profit) on disposal of property, plant and equipment	1	8
(Decrease)/increase in provisions	(617)	(301)
Operating cashflows before movements in working capital	7,886	6,928
Decrease in inventories	178	259
(Increase)/decrease in receivables	(405)	2,082
Increase/(decrease) in payables	486	(375)
Cash generated by operations	8,145	8,894
Non equity preference share dividends paid	(11)	(11)
Investment revenues	47	163
Interest paid	(91)	(86)
Income taxes paid	(1,180)	—
Net cash from operating activities	6,910	8,960

Of the new additions to fixtures and equipment during the year assets to the value of £nil (2008: £349,000) were financed by new finance leases. Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short term highly liquid investments with a maturity of three months or less.

34. OPERATING LEASE ARRANGEMENTS

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

	2009 £'000	2008 £'000
Minimum lease payments under operating leases recognised in income for the year	1,230	1,014

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2009

34. OPERATING LEASE ARRANGEMENTS CONTINUED

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

	2009 £'000	2008 £'000
Within one year	1,273	757
In the second to fifth years inclusive	2,674	2,078
After five years	945	1,310
	4,892	4,145

35. SHARE-BASED PAYMENTS

Equity-settled share option schemes

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

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

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

	2009		2008	
	Number of share options	Weighted average exercise price pence	Number of share options	Weighted average exercise price pence
Outstanding at beginning of period	3,646,000	129.4	3,199,500	111.9
Adjustment to opening balance	(2,000)	109.0	6,000	95.8
Granted during the period	1,158,500	113.0	1,002,500	174.5
Lapsed during the period	(237,248)	113.4	(319,061)	127.6
Exercised during the period	(23,902)	86.6	(242,939)	87.0
Outstanding at the end of the period	4,541,350	126.1	3,646,000	129.4
Exercisable at the end of the period	2,420,380	114.4	2,088,030	113.0

The weighted average share price at the date of exercise for share options exercised during the period was 86.6p. The options outstanding at 31 December 2009 had a weighted average exercise price of 126.1p, and a weighted average remaining contractual life of 4.5 years. In 2009, 1,158,500 options were granted on 27 March. The aggregate of the estimated fair values of the options granted on that date was £1,309,105. In 2008, 1,002,500 options were granted on 27 May. The aggregate of the estimated fair values of the options granted on that date was £1,749,000.

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

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

	2009	2008
Weighted average share price	113.0p	174.5p
Expected volatility	45%	40%
Expected life	4.5yrs	4.5yrs
Risk free rate	4.43%	4.85%
Expected dividends	1%	1%

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

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

Outstanding at the beginning and end of the period were 800,000 Directors' special options issued in April 2004 at an exercise price of 120.5p, conditional upon the market-based performance condition. Further tranches of 540,000 (September 2006), 160,000 (March 2007) and 167,200 (May 2008) were granted at an exercise price of 109.0p, 128.0p and 174.5p respectively, to certain senior members of staff again conditional upon the market-based condition. The inputs into the Black-Scholes model are as set out in the table above, adjusted by a factor based on the probability of meeting the market-based conditions.

The Group recognised total expenses of £294,000 and £142,000 related to equity-settled share-based payment transactions in 2009 and 2008 respectively.

36. PENSION ARRANGEMENTS

The Group 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 £498,000 (2008: £429,000). Amounts owing to schemes at 31 December 2009 amounted to £50,000 (2008: £42,000).

Until September 2008 the Group also operated a defined benefit scheme which had been closed to new members since May 1990 and whose assets were held separately from those of the Company.

Since the Scheme had been closed to future accrual for some time, the Trustees decided to buy-out the benefits with an insurer with the ultimate aim of winding-up the Scheme. In December 2007, the pensioners' benefits were bought out by Legal & General (with the first payment made by Legal & General on 1 March 2008 to these members). In September 2008, the Trustees secured the deferred members' benefits with Legal & General.

BIOQUELL PLC has no further obligation over this pension scheme.

The overall expected rate of return of the plan assets prior to the winding-up of the scheme had been based on the average expected return for each asset class, weighted by the amount of assets in each class. Actuarial gains and losses which arose during the year have been deferred. The following disclosures have been produced in line with the December 2004 Amendments to IAS 19.

The major assumptions used for the actuarial valuation were:

	2009	2008
Rate of increase in salaries	n/a	n/a
Rate of increase in pension payment	n/a	3.0%
Discount rate	n/a	6.45%
Inflation assumption	n/a	3.0%

The assumed life expectations on retirement at age 65 are:

	2009 years	2008 years
Retiring today:		
Males	n/a	18.5
Females	n/a	21.5
Retiring in 20 years:		
Males	n/a	38.5
Females	n/a	41.5

In the year to 31 December 2009, the Company made contributions of £nil (2008: £174,000 of which £160,000 had been provided the previous year). There was no pension cost charge for this scheme in the year (finance cost in 2008: £nil). The Company will not make contributions during 2010.

Amounts recognised in income in respect of the Group's defined benefit scheme are as follows:

	2009 £'000	2008 £'000
Employers current service cost	—	—
Interest on obligation	—	27
Expected return on pension plan assets	—	(28)
Limit due to paragraph 58(b)	—	171
Total included in employee benefits expense	—	170

Amounts included in the balance sheet in respect of the defined benefit scheme are as follows:

	2009 £'000	2008 £'000
Present value of defined benefit obligation	—	412
Fair value of plan assets	—	(525)
Unrecognised actuarial gains/(losses)	—	(58)
Irrecoverable surplus	—	171
(Asset)/liability recognised in the balance sheet	—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2009

36. PENSION ARRANGEMENTS CONTINUED

Movements in the present value of defined benefit obligations were as follows:

	2009 £'000	2008 £'000
Opening defined benefit obligation	—	467
Interest on obligation	—	27
Actuarial gains on obligations	—	(78)
Benefits paid	—	(4)
	—	412

Movements in the fair value of the scheme assets were as follows:

	2009 £'000	2008 £'000
As at 1 January	—	509
Expected return on scheme assets	—	28
Actuarial losses and gains	—	(182)
Contributions	—	174
Benefits	—	(4)
As at 31 December	—	525

The analysis of the scheme assets and the expected rate of return is as follows:

	Expected return		Fair value of assets	
	31 December 2009 %	31 December 2008 %	31 December 2009 £'000	31 December 2008 £'000
Equities	—	n/a	—	—
Fixed interest bonds	—	n/a	—	—
Insurance policies	—	6.45	—	412
Cash	—	6.45	—	113
	—	—	—	525

The five-year history of experience adjustments is as follows:

	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Present value of defined benefit obligation	—	(412)	(467)	(560)	(655)
Fair value of scheme assets	—	525	509	417	456
Surplus/(deficit) in the scheme	—	113	42	(143)	(199)
Experience adjustments on scheme liabilities					
Amount (£'000)	—	52	29	41	3
Percentage of scheme liabilities (%)	—	13	6	7	—
Experience adjustments on scheme assets					
Amount (£'000)	—	(182)	(21)	(10)	23
Percentage of scheme assets (%)	—	(35)	(4)	(2)	5

37. RELATED PARTY TRANSACTIONS

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

Remuneration of key management personnel

The total remuneration for all of the Directors of BIOQUELL PLC, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 18 to 20.

	2009 £'000	2008 £'000
Short-term employee benefits	847	769
Post-employment benefits	52	26
Share-based payments	33	67
	932	862

FIVE-YEAR SUMMARY

	IFRS				
	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Revenue	39,233	34,405	34,096	25,238	17,220
Operating profit/(loss)	5,645	5,209	4,248	1,321	(397)
Profit/(loss) for the year before tax	5,856	5,003	4,166	1,157	(504)
Equity	22,963	19,363	16,140	11,457	10,145
Earnings/(loss) per share	10.3p	9.0p	8.9p	2.9p	(0.8p)
Dividend per share	2.42p	2.2p	2.0p	—	—

INDEPENDENT AUDITORS' REPORT

To the members of BIOQUELL PLC

We have audited the parent company financial statements of BIOQUELL PLC for the year ended 31 December 2009 which comprise the Company Balance Sheet and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

OTHER MATTER

We have reported separately on the Group financial statements of BIOQUELL PLC for the year ended 31 December 2009.

JASON DAVIES (SENIOR STATUTORY AUDITOR)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditors

Reading, United Kingdom

30 March 2010

COMPANY BALANCE SHEET

As at 31 December 2009

Results for the Company are presented under UK GAAP	Notes	2009 £'000	2008 £'000
Fixed assets:			
Investments	5	8,229	8,001
Property, plant and equipment	4	1,010	1,016
		9,239	9,017
Current assets:			
Debtors			
– due within one year	6	1,089	1,574
– due after one year	6	2,590	2,685
Cash at bank and in hand		7,886	8,620
		11,565	12,879
Creditors: amounts falling due within one year	7	(2,342)	(3,190)
Net current assets		9,223	9,689
Total assets less current liabilities		18,462	18,706
Creditors: amounts falling due after more than one year	7	(1,432)	(1,537)
Net assets		17,030	17,169
Capital and reserves			
Called up share capital	8	4,162	4,160
Share premium account	9	114	95
Special reserve	10	10,933	10,933
Equity reserve	11	984	707
Capital reserve	12	255	255
Profit and loss account	13	582	1,019
Shareholders' funds		17,030	17,169

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

NICHOLAS ADAMS
Director
30 March 2010

MARK BODEKER
Director

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

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

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

Going concern

Going concern has been applied on a Group basis. Refer to page 27 of the Group accounts.

Investments

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

Tangible fixed assets

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

Plant, vehicles and machinery	3 to 8 years
Property	25 years

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

Taxation

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

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

Share-based payments

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

2. PROFIT FOR THE YEAR

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. BIOQUELL PLC has reported a profit after tax and the cost of share-based payments (£37,000; (2008: £75,000)) for financial year ended 31 December 2009 of £657,000 (2008: loss of £(516,000)).

The auditors' remuneration for the audit services to the Company was £26,000 (2008: £26,000).

3. STAFF COSTS

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

	2009	2008
Administration	4	4

Their aggregate remuneration comprised:

	2009 £'000	2008 £'000
Wages and salaries	674	643
Social security costs	114	125
Other pension costs	65	53
	853	821

4. FIXED ASSETS

	Property £'000	Plant and equipment £'000	Total property, plant and equipment £'000
Cost			
As at 1 January 2009	1,017	53	1,070
Additions	37	—	37
As at 31 December 2009	1,054	53	1,107
Accumulated amortisation			
As at 1 January 2009	13	41	54
Charge for the year	42	1	43
As at 31 December 2009	55	42	97
Net book value			
As at 31 December 2009	999	11	1,010
As at 31 December 2008	1,004	12	1,016

5. FIXED ASSET INVESTMENTS

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

	Location
BIOQUELL UK Limited	Andover, UK
BIOQUELL Holding SAS	Paris, France
TRaC Global Ltd	Warwick, UK
EMC Projects Ltd	Ringwood, UK
TRaC Telecoms & Radio Ltd	Kingston Upon Hull, UK
TRaC EMC & Safety Ltd	Malvern, UK
BIOQUELL Global Logistics (Ireland) Ltd	Limerick, Republic of Ireland
BIOQUELL Asia Pacific Pte Ltd	Singapore
BIOQUELL Inc	Pennsylvania, USA
BIOQUELL Defense Inc	Pennsylvania, USA

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

	Investment in subsidiaries		
	Shares £'000	Loans £'000	Total £'000
Cost			
As at 1 January 2009	111	8,549	8,660
Foreign exchange differences	—	(29)	(29)
Additions – capital contribution made to subsidiaries	—	257	257
As at 31 December 2009	111	8,777	8,888
Provision for impairment			
As at 1 January 2009 and 31 December 2009	(103)	(556)	(659)
Net book value			
As at 31 December 2009	8	8,221	8,229
As at 31 December 2008	8	7,993	8,001

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

For the year ended 31 December 2009

6. DEBTORS

	2009 £'000	2008 £'000
Debtors due within one year:		
Amounts due from subsidiary undertakings	871	1,399
Other debtors	3	3
Corporation and other tax	14	74
Deferred tax	63	30
Prepayments and accrued income	138	68
	1,089	1,574
Debtors due after one year:		
Amounts due from subsidiary undertakings	2,590	2,685
Total debtors	3,679	4,259

7. CREDITORS

	2009 £'000	2008 £'000
Amounts falling due within one year:		
Amounts due to subsidiary undertakings	805	1,444
Accruals and deferred income	496	352
Bank Loan	105	78
Proposed preference dividend	6	6
Provision	930	1,310
	2,342	3,190
Amounts falling due after one year:		
Bank loan	1,282	1,387
First preference shares of £1 each	150	150
	1,432	1,537

8. CALLED UP SHARE CAPITAL

	2009		2008	
	Number	£'000	Number	£'000
Authorised				
Ordinary shares of 10p each	55,947,780	5,595	55,947,780	5,595
Redeemable deferred ordinary shares of £1 each	255,222	255	255,222	255
		5,850		5,850
Called up, allotted and fully paid up				
Ordinary shares of 10p each	41,624,886	4,162	41,600,984	4,160
		4,162		4,160

During the year the Company issued a total of 23,902 ordinary shares of 10p each for £20,700 on the conversion of options under the executive share options schemes, which is being used to provide additional working capital. Under FRS 25 Financial Instruments: Disclosure and Presentation the first preference shares are reclassified from called up share capital to Creditors: amounts falling due after more than one year with effect from 1 January 2006.

9. SHARE PREMIUM ACCOUNT

	£'000
Balance at 1 January 2008	10,933
Transfer to Special reserve	(10,933)
Premium arising on issue of equity shares	95
Balance at 1 January 2009	95
Premium arising on issue of equity shares	19
Balance at 31 December 2009	114

10. SPECIAL RESERVES

	£'000
Balance at 1 January and 31 December 2009	10,933

11. EQUITY RESERVES

	£'000
Balance at 1 January 2008	587
Credit to equity for share-based payments	75
Credit to equity for share-based payments to subsidiary employees	45
Balance at 1 January 2009	707
Credit to equity for share-based payments	37
Credit to equity for share-based payments to subsidiary employees	257
Debit to equity on issue of shares under SARS scheme	(17)
Balance at 31 December 2009	984

12. CAPITAL RESERVES

	£'000
Balance at 1 January 2008 and 1 January 2009	255
Additions	—
Balance at 31 December 2009	255

13. PROFIT AND LOSS ACCOUNT

	£'000
Balance at 1 January 2008	1,138
Loss for the financial year	(516)
Exchange gain	397
Balance at 1 January 2009	1,019
Profit for the financial year	657
Dividends paid in the year	(915)
Exchange loss	(179)
Balance at 31 December 2009	582

Under FRS 20 Share-based Payments, equity settled share-based payments to employees are part of employee benefit expense in the profit and loss account. A corresponding increase in equity reserves has been made.

Under FRS 17 Employee Benefits the defined benefit pension liability has been recognised. See note 36 of the consolidated financial statements.

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	£'000
Balance at 1 January 2008	17,049
Issue of equity shares	119
Equity reserve – share-based payments	75
Credit to equity for share-based payments to subsidiary employees	45
Loss for the financial year	(516)
Exchange gain in the year	397
Balance at 1 January 2009	17,169
Issue of equity shares	21
Equity reserve – share-based payments	37
Credit to equity for share-based payments to subsidiary employees	257
Debit to equity on issue of shares under SARS scheme	(17)
Profit for the financial year	657
Dividends paid in the year	(915)
Exchange loss in the year	(179)
Balance at 31 December 2009	17,030

FRS 24 Financial Instruments: Disclosure and Presentation has been implemented with effect from 1 January 2006. Accordingly preference share capital has been reclassified as a long-term liability.

15. SHARE-BASED PAYMENTS**Equity settled share option schemes**

The Company's employees are able to participate in the Group's share options schemes. Details of these schemes are given in note 35 of the Group's accounts.

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

	2009		2008	
	Number of share options	Weighted average exercise price pence	Number of share options	Weighted average exercise price pence
Outstanding at beginning of year	1,475,000	125.3	1,411,000	116.3
Granted during the year	445,500	113.0	284,000	174.5
Lapsed during the year	(150,878)	107.5	(138,061)	123.0
Exercised during the year	(9,122)	107.5	(81,939)	123.0
Outstanding at the end of the year	1,760,500	123.8	1,475,000	125.3
Exercisable at the end of the year	310,900	84.8	355,000	97.7

Note 35 of the Group accounts describes the valuation of share options.

16. PENSION ARRANGEMENTS

The Company pension arrangements are discussed in note 36 of the Group accounts.

BIOQUELL GROUP DIRECTORY



BIOQUELL UK Ltd

52 Royce Close
West Portway
Andover
SP10 3TS
Tel: +44 (0) 1264 835835
Fax: +44 (0) 1264 835836

BIOQUELL Inc

101 Witmer Road
Suite 400
Horsham
PA 19044
USA
Tel: +1 215 682 0225
Fax: +1 215 682 0395

BIOQUELL Defense Inc

516 Stump Road
Montgomeryville
PA 18936
USA
Tel: +1 215 368 4641
Fax: +1 215 368 4652

BIOQUELL France

153 Quai du Rancy
94380 Bonneuil sur Marne
Paris
France
Tel: +33 1 4378 1594
Fax: +33 1 4378 1584

BIOQUELL Global Logistics (Ireland) Ltd

Unit E4
Eastway Business Park
Ballysimon Road
Limerick
Republic of Ireland
Tel: +353 61 603622
Fax: +353 61 603627

BIOQUELL Asia Pacific Pte Ltd

8 Eu Tong Sen Street
14-95 The Central
059818
Singapore
Tel: +65 6592 5145
Fax: +65 6227 5878



TRaC Global Ltd

t/a TRaC Environmental & Analysis Ltd
Rothwell Road
Warwick
CV34 5JX
Tel: +44 (0) 1926 478478
Fax: +44 (0) 1926 478479

TRaC Telecoms & Radio Ltd

Unit E
South Orbital Trading Park
Hedon Road
Kingston-upon-Hull
HU9 1NJ
Tel: +44 (0) 1482 801801
Fax: +44 (0) 1482 801806

TRaC EMC & Safety Ltd

100 Frobisher Business Park
Leigh Sinton Road
Malvern
WR14 1BX
Tel: +44 (0) 1684 571700
Fax: +44 (0) 1684 571701



bioquell

BIOQUELL PLC

52 Royce Close, West Portway, Andover, Hampshire SP10 3TS

BIOQUELL Sales: 0800 220 700

BIOQUELL Service: 0800 052 7800

Tel: 01264 835 900

Fax: 01264 835 901

enquiries@bioquell.com

www.bioquell.com