

## Bio

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

## Quell

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



Scientific solutions  
for safer environments

The Bioquell Group combats environmental biological challenges and creates a safer operational environment through a unique range of innovative, scientific-based solutions.

The Group comprises two divisions:

Bio-decontamination

TRaC (Testing, Regulatory and Compliance)



### The Bio-decontamination division

The Bio-decontamination division is the world leader in providing solutions based on hydrogen peroxide vapour ("HPV") technology to eradicate problematic bacteria, viruses and fungi, throughout a wide range of applications. It also provides Chemical, Biological, Radiological and Nuclear ("CBRN") defence filtration technology and specialist laboratory filtration equipment. The division principally sells into the Life Sciences, Healthcare and Defence sectors.



**READ MORE ON THIS DIVISION:**  
pages 02 and 03

### The TRaC division

The TRaC division is the largest British test and certification company, providing a comprehensive range of services that includes environmental testing, telecoms testing, radio testing, EMC testing, safety testing, CE Mark testing and stress analysis. It also holds a comprehensive range of accreditations to issue product approvals to national and international standards. The division principally sells into the military, aerospace and telecoms sectors.



**READ MORE ON THIS DIVISION:**  
pages 02 and 03



# The Bioquell Group continues to strengthen its balance sheet

## FINANCIAL HIGHLIGHTS

- Orders during year: £44.8 million (2009: £36.2 million) – growth of 24%
- Significant improvement in trading in H2 2010: revenues of £21.4 million (H1: 2010 £18.0 million) – a 19% increase
- Service-related revenues represent 64% (2009: 60%) of Group revenues; exports 57% (2009: 56%)
- Basic earnings per share of 5.8 pence (2009: 10.3 pence)
- Net assets of £24.6 million (2009: £23.0 million)
- Proposed dividend of 2.62 pence per ordinary share (2009: 2.42 pence) – a 8% increase

## BIO-DECONTAMINATION DIVISION HIGHLIGHTS

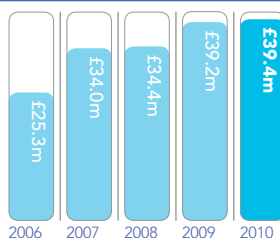
- Substantial recovery in H2 2010 in Life Sciences activities – which still represent the largest proportion of the division's revenues
- Significant growth in Healthcare service revenues in the year associated with the eradication of germs responsible for Hospital Acquired Infection
- Strong growth in orders and revenues from the emerging markets, particularly Asia Pacific

## TRaC DIVISION HIGHLIGHTS

- 10% increase in TRaC revenues during year to £12.4 million (2009: £11.3 million)
- New North West specialist EMC testing facility opened and fully operational

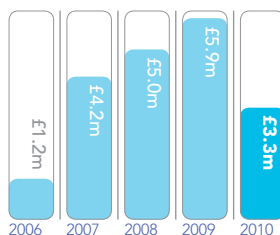
## REVENUE (£m)

£39.4m



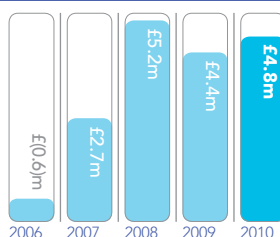
## PRE-TAX PROFIT (£m)

£3.3m



## NET CASH (£m)

£4.8m



JOIN US ONLINE:

W: [www.bioquellplc.com](http://www.bioquellplc.com)

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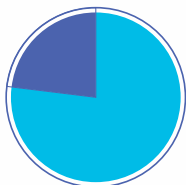
IBC Bioquell Group directory

# Continuing to expand internationally and increase revenues

## BIO-DECONTAMINATION

Split of revenue by geography

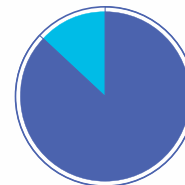
**77% Overseas**  
**23% UK**



## TRaC

Split of revenue by geography

**87% UK**  
**13% Overseas**



### Bio-decontamination division

#### LIFE SCIENCES

Bioquell's hydrogen peroxide vapour ("HPV") equipment has long been the bio-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.

**READ MORE ON LIFE SCIENCES:**  
W: [www.bioquell.com/markets/life-sciences](http://www.bioquell.com/markets/life-sciences)



#### HEALTHCARE

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-negative multidrug-resistant organisms. Bioquell's technology can be deployed in a variety of ways, including a unique decontamination service to suit the particular needs of healthcare providers.

**READ MORE ON HEALTHCARE:**  
W: [www.bioquell.com/markets/healthcare](http://www.bioquell.com/markets/healthcare)



#### DEFENCE

Bioquell provides Chemical, Biological, Radiological and Nuclear ("CBRN") defence filtration technology to the defence sector for use in armoured vehicles and to protect soldiers active in theatre. Additionally Bioquell's HPV technology can be used to eradicate biological and chemical agents from key military assets, including sensitive equipment and critical facilities.

**READ MORE ON DEFENCE:**  
W: [www.bioquell.com/markets/defence](http://www.bioquell.com/markets/defence)



### TRaC division

#### 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.

**READ MORE ON EMC:**  
W: [www.tracglobal.com/emc-testing.html](http://www.tracglobal.com/emc-testing.html)



#### 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").

**READ MORE ON ENVIRONMENTAL:**  
W: [www.tracglobal.com/environmental.html](http://www.tracglobal.com/environmental.html)



#### TELECOMS

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

**READ MORE ON TELECOMS:**  
W: [www.tracglobal.com/telecom-testing.html](http://www.tracglobal.com/telecom-testing.html)

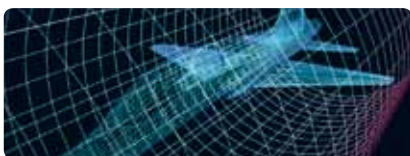


The Bio-decontamination division develops, designs and manufactures specialist surface sterilisation and filtration technology used in the Life Sciences, Healthcare and Defence sectors around the world. The TRaC division provides specialist Testing, Regulatory and Compliance services to companies and organisations, principally in the UK.

## ANALYSIS

TRaC provides leading engineering consultancy in static and dynamic structural analysis using Finite Element Analysis ("FEA") techniques. A typical stress analysis will involve finding accurate stress values either by hand calculations or FEA. Detailed fatigue assessments can be carried out to determine the components durability.

 **READ MORE ON ANALYSIS:**  
W: [www.tracglobal.com/analysis.html](http://www.tracglobal.com/analysis.html)



## RADIO

Our commitment is to be one step ahead of the rapidly changing radio testing and certification market. This enables TRaC to meet the evolving demands of our customers and stay on top of worldwide standards and statutory regulations.

 **READ MORE ON RADIO:**  
W: [www.tracglobal.com/radio-testing-certification-approval.html](http://www.tracglobal.com/radio-testing-certification-approval.html)



## SAFETY

TRaC provides a comprehensive range of test, assessment and certification routes for manufacturers, designers, importers, exporters and distributors of equipment to ensure they fulfil their legal obligations and demonstrate full compliance with national and international safety requirements.

 **READ MORE ON SAFETY:**  
W: [www.tracglobal.com/product-safety-testing-certification.html](http://www.tracglobal.com/product-safety-testing-certification.html)



# Opportunities for significant growth

**NIGEL KEEN**  
Chairman

## Financial performance

- Bioquell had a challenging start to 2010. Revenues in 2010 were up 1% to £39.4 million (2009: £39.2 million).
- Revenues from service-related activities increased to £25.2 million (2009: £23.5 million), representing 64% of total revenues (2009: 60%).
- Final dividend of 2.62 pence per ordinary share which represents a 8% increase on the prior year (2009: 2.42 pence).

## FINANCIAL PERFORMANCE

### Orders and revenues

As previously reported Bioquell had a challenging start to 2010 with business improving as the year progressed:

- in the first half we encountered a significant slowdown in activity from the Life Sciences sector principally as a result of large multi-national pharmaceutical groups cutting their cost bases in Western Europe and North America. We also faced a shortfall in revenues due to the late receipt of a CBRN filtration system defence contract;
- in the second half, and in marked contrast, we saw significantly stronger activity from our clients in the Life Sciences and Defence sectors. In addition, during the year we saw significant growth in Healthcare revenues relating to the eradication of germs in hospitals responsible for Hospital Acquired Infection; and
- encouraging growth was seen in TRaC.

Orders in 2010 were strong and totalled £44.8 million (2009: £36.2 million) representing an increase of some 24%. Despite the issues encountered in the first half, which have been previously reported, revenues in 2010 were up 1% to £39.4 million (2009: £39.2 million).

Order growth was strong in the Bio-decontamination division – with orders up 30% to £30.7 million (2009: £23.7 million). Revenues in the division were down 3% to £27.0 million (2009: £27.9 million).

TRaC displayed encouraging, consistent growth with orders up 14% to £14.1 million (2009: £12.4 million) and revenues up 10% to £12.4 million (2009: £11.3 million).

The Group continues to increase the proportion of its revenues from service-related activities, which increased to £25.2 million (2009: £23.5 million), representing 64% of total revenues (2009: 60%). Export revenues also increased to £22.4 million (2009: £21.8 million), representing 57% of the Group's revenues in 2010 (2009: 56%).

### Overheads

Total overheads increased by 21% to £14.4 million (2009: £11.9 million), largely relating to the expansion of our operations in the US and the Asia Pacific region. We also increased our investment in sales and marketing by 8% to £6.4 million (2009: £5.9 million). Administration costs increased by £1.5 million (38%) to £5.4 million (2009: £3.9 million) of which some two thirds (£1.0 million) related to the business-driven expansion of our US, Asia Pacific and TRaC operations.

New product development, and associated research & development ("R&D"), continues to be critically important to the future growth of the Group. In 2010 R&D and Engineering costs increased by 19% to £2.5 million (2009: £2.1 million). A proportion of these costs were incurred in connection with a development contract for the US Department of Defense ("DoD").

### Profitability

Profit before tax was £3.3 million (2009: £5.9 million). The profitability of the Group was significantly stronger in the second half – with pre-tax profits in the first half of only £0.5 million (2009: £2.8 million) but pre-tax profits in the second half of £2.8 million (2009: £3.1 million).

The effective tax rate was 26% (2009: 27%). Profit after tax for the year was £2.4 million (2009: £4.3 million). Basic earnings per share declined by 44% to 5.8p (2009: 10.3p).

### Balance sheet and cashflow

The Group continues to benefit from a strong balance sheet and a conservative financing structure. Net assets were £24.6 million (2009: £23.0 million). Gross cash on the balance sheet at the year end was £6.1 million (2009: £5.9 million) and net cash, comprising gross cash less borrowings and obligations under finance leases, was £4.8 million (2009: £4.4 million). In addition to its own cash resources, the Group has unused overdraft facilities of £2.6 million and accordingly has sufficient cash resources in place to fund significant levels of organic growth.

During the year the Group invested £2.7 million (2009: £5.2 million) in capital expenditure principally relating to the upgrading of testing facilities for the TRaC division as well as completing the renovation of a new building for its manufacturing activities at its Andover-based headquarters.

**Dividend**

Your Board is recommending the payment of a final dividend of 2.62 pence per ordinary share which represents a 8% increase on the prior year (2009: 2.42 pence). The final dividend will be payable on 1 July 2011 to shareholders on the register on 3 June, 2011. Bioquell PLC currently does not pay interim dividends and it is the Board's current intention only to propose the payment of a final dividend each year.

**THE BIO-DECONTAMINATION DIVISION**

Bioquell sells sophisticated, innovative, patent-protected bio-decontamination equipment to customers in the Life Sciences, Healthcare and Defence sectors. We also provide a unique, specialist bio-decontamination service, which uses proprietary equipment designed and manufactured by us, to eradicate micro-organisms from rooms and/or equipment throughout the world.

Bioquell's bio-decontamination technology has been designed to eradicate micro-organisms – comprising bacteria, viruses and fungi – based upon peroxy chemistry. The technology uses, in the gas phase, hydrogen peroxide vapour ("HPV") and, in the liquid phase, aqueous oxygen peroxide ("AOP"). These peroxy chemistry-based technologies are highly efficacious at eradicating – or 'quelling' – micro-organisms at room temperature. These active agents are then readily broken down by catalysts to water vapour and/or oxygen, making their use essentially residue-free and extremely environmentally friendly.

Bioquell has also developed a range of filtration products and other technical solutions – including catalytic filters, which complement and are used in its peroxy chemistry-based bio-decontamination systems.

**EXPORT REVENUES**

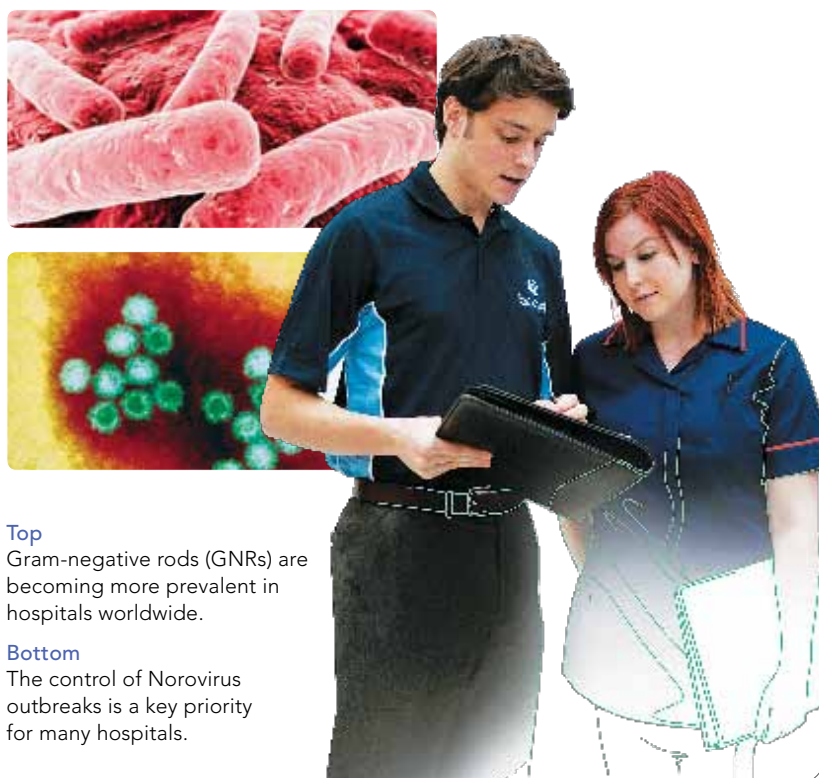
**£22.4m**

**NET ASSETS**

**£24.6m**

**INVESTMENT IN FACILITIES**

**£2.7m**



**Top**  
Gram-negative rods (GNRs) are becoming more prevalent in hospitals worldwide.

**Bottom**  
The control of Norovirus outbreaks is a key priority for many hospitals.

## Biologically-derived drugs and personalised medicine, a key driver in generating future growth

### Bio-decontamination performance

- Order growth was strong in the Bio-decontamination division – with orders up 30% to £30.7 million (2009: £23.7 million).
- Developing a new range of products designed to benefit from the growth in biologically-derived drugs and personalised medicine. These new products have been designed to bring to Bioquell an additional revenue stream associated with captive consumable cartridges.
- We have extended our range of tailored solutions for hospitals with a HAI problem and are seeing increasing demand for our service-based solutions.
- Bioquell's manufacturing facilities in Andover, Hampshire have been approved as suitable for the production of medical devices.

### BIO-DECONTAMINATION REVENUE

**£27.0m**

(2009: £27.9m)

### THE BIO-DECONTAMINATION DIVISION CONTINUED

#### Life Sciences

Bioquell is the leading supplier of low temperature bio-decontamination equipment and services to the Life Sciences industry worldwide, and currently the Bio-decontamination division generates more than half its revenues from customers within this sector.

The Group sells bio-decontamination equipment and bio-decontamination service solutions, via RBDS – its Room Bio-Decontamination Service, to a broad range of clients within the Life Sciences sector, including bio-pharmaceutical, bio-medical, bio-technology, university (and other research institutions) and hospital pharmacies. Its technology is used in small scale research facilities through to large scale third party outsourced manufacturing companies. All these organisations use Bioquell's technology to eradicate micro-organisms from rooms and sensitive electronic equipment at low temperature leaving no residues and in a repeatable, consistent manner which can be documented and demonstrated to the relevant regulatory bodies.

Bioquell's business – and prospects – in the Life Sciences sector is influenced by a number of factors, including:

- a substantial driver of growth in the Life Sciences sector is expected to come from biologically-derived drugs where sterility during the research and manufacturing phases is critically important. Many of these biologically-derived drugs enjoy patent protection and hence are more profitable for the manufacturers than traditional small-molecule based drugs. Our technology is used to provide sterile research & development and manufacturing facilities, including for generic or contract manufacturers, for biologically-derived drugs;
- many Life Sciences groups are relocating their manufacturing operations away from North American and Western European manufacturing sites – and moving to the faster growing, lower cost-base emerging markets including China, India and Brazil. Bioquell opened its AsiaPac operations in Singapore approximately two years ago and is in the process of registering a company in China. We see significant growth in our business from clients in these markets;
- we are continuing to see further growth in biologically-derived or biologically-sensitive bespoke prescription drugs which are often prepared in hospital pharmacies. It is widely reported that there will be strong growth in these 'personalised medicines' over the short to medium term – and Bioquell's products and services will increasingly be used during the development of these novel therapies as well as during their production;
- there have been a number of high profile biological contamination events which have caused significant issues for Life Sciences companies. Further, the use of aseptic processing to produce biologically-derived drugs tends to be higher risk and/or more complex than traditional, non-sterile, small-molecule drug preparation. As a result Bioquell is starting to sell consulting services to a number of its bio-pharmaceutical clients, who together with the industry's regulators are taking a more 'risk based' approach to the production of biologically active products; and
- many Governments around the world recognise the critical importance of knowledge-based economies for future growth and the Life Sciences sector is recognised to be an important source of such growth. As a result many Governments are facilitating – directly or indirectly – investment in the Life Sciences sector.



We believe that the underlying, increasingly biologically-derived, prospects for companies in the Life Sciences sector are positive for our business – particularly in the Asia Pacific region – and this should be a significant source of growth in 2011.

In addition, we are developing a new range of products designed to benefit from the growth in biologically-derived drugs and personalised medicine. These new products will be brought to the market over the next three years – and have been designed to bring to Bioquell an additional revenue stream associated with captive consumable cartridges.

**Healthcare**

**Combating Hospital Acquired Infection**

Hospital Acquired Infection (“HAI”) is a major and increasing issue for healthcare providers internationally. The eradication of the pathogens – bacteria, viruses and fungi – which cause HAI represents a substantial, international opportunity for Bioquell.

Although MRSA and *C. difficile* are currently responsible for a significant proportion of HAI, a new and international HAI-related challenge is beginning to emerge for healthcare providers. Many large hospitals are extremely concerned by Gram-negative bacteria – for example *Acinetobacter baumannii*, *Klebsiella pneumoniae*, *Pseudomonas aeruginosa* and *E. coli* – which are becoming increasingly untreatable by the current generation of antibiotics. Typically these Gram-negative bacteria only affect very sick patients which means that when such patients are admitted to a hospital’s clinically-critical departments including intensive care, cancer or transplant units, they are highly susceptible to infections associated with these extremely antibiotic resistant bacteria. For example, one recent study has suggested that 70% of all HAI in intensive care units in the United States is linked to Gram-negative bacteria. The problem is compounded by new antibiotic resistance mechanisms, such

“Bioquell is the leading supplier of low temperature bio-decontamination equipment and services to the Life Sciences industry worldwide.”



**Top**  
Bioquell has successfully bio-decontaminated over 40,000 rooms at risk of *Clostridium difficile* contamination worldwide.



**Bottom**  
MRSA (methicillin-resistant *Staphylococcus aureus*) continues to be a significant problem for many hospitals.



## The Group is able to fund substantial levels of organic growth

### TRaC division performance

- TRaC displayed encouraging, consistent growth with orders up 14% to £14.1 million (2009: £12.4 million) and revenues up 10% to £12.4 million (2009: £11.3 million).
- During 2010 TRaC opened a new site in the North West of England.
- During 2011, TRaC will consolidate two sites to create a new, state-of-the-art facility in the South of England.

### TRaC DIVISION REVENUE

**£12.4m**  
(2009: £11.3m)

### THE BIO-DECONTAMINATION DIVISION CONTINUED

#### Healthcare continued

#### Combating Hospital Acquired Infection continued

as the New Delhi metallo- $\beta$ -lactamase 1 enzyme, which are being rapidly spread internationally by air travel. Many of these emerging resistance mechanisms render largely ineffective the antibiotics currently available to treat Gram-negative infections.

Bioquell has been highly successful in carrying out research into the eradication of pathogens associated with HAI with highly respected hospitals and key opinion leaders around the world. We have been able to demonstrate that, among other things, the use of Bioquell's technology can reduce HAI rates in both outbreak and endemic settings. In 2010 we saw a significant increase in revenues associated with the eradication of these problematic pathogens from hospital equipment and facilities. However, the healthcare sector in general is relatively slow at adopting new technologies and in the case of HAI this is further complicated by the desire of many hospitals, particularly in the private sector, not to publicise or wish to discuss this difficult and highly sensitive issue.

Over the last 12 months we have extended our range of tailored solutions for hospitals with a HAI problem. In addition to the Q-10, a product we developed for use by a hospital's own staff, we are seeing increasing demand for our service-based solutions. Based on client requests and feedback we have now developed four service offerings which we are rolling out around the world:

- **'Emergency'** deployment where the hospital has an outbreak and needs fast and discreet deployment of a specialist eradication service by Bioquell's expert technicians using proprietary Bioquell equipment;
- **'Scheduled'** where the hospital works closely with Bioquell on the scheduling of a lower cost deployment of our

bio-decontamination technologies, typically a few weeks after initial contact. This service is often used by NHS hospitals in the UK which want to decontaminate their *C.difficile* cohort wards;

- **'Committed Technology'** where Bioquell locates equipment at the hospital enabling highly trained Bioquell technicians to deploy to the hospital rapidly and flexibly without the logistics delay, or associated cost, of getting Bioquell equipment onsite; and
- **'Proactive'** whereby Bioquell technicians and proprietary equipment are located at the hospital, typically on an annual contract, and rooms are 'bioquelled' within the hospital on a preventative, proactive basis to drive down the rates of HAI.

At the moment our service-related revenues are substantially higher than our equipment revenues in the Healthcare sector. Based on our experience in 2010 we anticipate that this bias towards service-related revenues will continue in many parts of the world. Moreover, we have also developed a service-based model for our international distributors who use the Q-10 to provide service bio-decontamination – enabling us to derive revenues both from the consumable cartridges used in the Q-10 and from sales of the Q-10 equipment to the distributor.

We are seeing increasing levels of interest in our bio-decontamination technology and service solutions internationally, particularly as a result of our healthcare clients being exposed to the new highly resistant strains of Gram-negative bacteria and we are expecting to make good progress in the Healthcare sector in 2011.

#### Wound care

Over the last year the Group has made good progress with its BioxyQuell wound care product. More than fifty patients have now been accepted onto the clinical trial currently underway to validate this new product. In addition, Bioquell's

manufacturing facilities in Andover, Hampshire have been approved by the regulators as suitable for the production of medical devices.

We are currently waiting for the regulators to complete their review of our technical file submission relating to the award of a CE mark, which would enable us to market the product within Europe. The regulators should complete this review and make their decision by the end of the first half of 2011. We are also in the process of extending the patent protection enjoyed by this technology.

The UK healthcare market is undergoing significant structural changes mandated by the coalition Government. Accordingly we are in the process of establishing how best to take BioxyQuell to market, mindful of these far-reaching structural changes. In 2011 we anticipate carrying out further research with BioxyQuell with key opinion leaders involved in wound care and will start the application process required to obtain US regulatory approval for the product via a FDA 510(k) filing.

#### Defence

##### Decontamination of BWAs and CWAs using Bioquell's HPV technology

In 2007 Bioquell's HPV technology was selected by the United States of America's Department of Defense ("DoD") for inclusion in its Joint Materials Decontamination System ("JMDS") to decontaminate biological warfare agents ("BWAs") and chemical warfare agents ("CWAs"). Teledyne Brown Engineering, Inc ("TBE") of Huntsville, Alabama, USA was the prime contractor to the DoD on the programme – and Bioquell was awarded a significant share of the work associated with the research & development, engineering and manufacturing relating to the JMDS.

The JMDS programme represented an aggregation of two DoD programmes: the Joint Services Sensitive Equipment Decontamination ("JSSED") programme

and the Joint Program Interior Decontamination ("JPID") programme. In 2010 the DoD decided to focus resources onto JSSED. We manufactured ten prototype JSSED units in 2010 and the DoD is in the process of carrying out work relating to the evaluation of these systems. TBE have informed us that whilst the DoD evaluates these JSSED systems, we will need to switch our focus onto the JPID development programme. TBE have also indicated that they will require us to carry out more research work relating to the JPID system this year, although the amount of work chargeable to the DoD is likely to be significantly lower than in 2010. Moreover, at the moment there is some uncertainty relating to the key dates and scope of the JPID system as, among other things, the Obama Administration has stated its intention to reduce the DoD budget, the DoD budget is itself currently in a period of 'Continuing Resolution' as it has not been approved by Congress and the Program Office within the DoD responsible for the JSSED, JPID and JMDS programmes has recently been restructured. In addition, the DoD may decide to open up the JPID programme to a further tender process.

##### CBRN filtration systems

Bioquell has designed and manufactured a range of Chemical, Biological, Radiological and Nuclear ("CBRN") filtration systems for more than 40 years. Over recent years Bioquell has been selling CBRN filtration systems to overseas customers. For example, in September 2010 Bioquell received a £3.6 million order from a Turkish customer.

In contrast to our HPV technology there are no patents associated with the Group's CBRN filtration systems; however, there is a high degree of specialist know-how and there are relatively few competitors in the international markets. Most of the Group's CBRN systems are sold into military vehicle programmes.

The USA remains by far the largest defence market in the world. Bioquell continues to work on expanding its sales of CBRN filtration equipment into the USA, whilst at the same time ensuring that its defence products are well positioned to win new customers in emerging markets.

#### TRaC – TESTING, REGULATORY AND COMPLIANCE

The Group's TRaC division provides specialist testing, regulatory and compliance services to companies or organisations based in the UK from seven sites located throughout the UK. In particular, TRaC provides electromagnetic compatibility ("EMC") and environmental testing to a large number of British military and aerospace companies.

Unlike a number of specialist testing service companies, TRaC's client base predominately comprises companies or government funded organisations involved with new product or technology development – and accordingly TRaC's activities are currently not directly associated with manufacturing-related product testing. In addition, TRaC's specialist telecoms & wireless testing business, based in the North of England, generates export revenues from international telecoms companies, particularly those based in the USA.

During 2010 TRaC opened a new site in the North West of England to replace a poorly invested and sub-scale facility in the region. During 2011, TRaC will consolidate two sites in the South of England to create a new, state-of-the-art facility which will be well positioned to support and assist the aerospace groups located in the South. Once this investment in the new site has been completed, we do not anticipate further large scale facility-related investments in TRaC – and the TRaC division should start to become significantly cash generative.

## The Group has started 2011 with good momentum

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### TRaC – TESTING, REGULATORY AND COMPLIANCE CONTINUED

In addition to expanding its core specialist testing services, the well-regarded TRaC management team is continuing to focus on the development of the business by the expansion of its specialist consultancy services.

### OUTLOOK

2011 has started well and the Group has good opportunities for organic growth in the key sectors it is targeting:

- the prospects for our range of products and services in the Life Sciences sector continue to improve, with most of the growth coming from overseas, particularly the emerging markets. We are well positioned to benefit from this growth from our operations in Singapore and China. In addition, during the next few years we anticipate further market penetration associated with the launch of new products designed specifically for the Life Sciences sector;
- healthcare providers around the globe are continuing to face increasing problems from multi-drug resistant organisms which cause Hospital Acquired Infection and they are now facing a particular issue associated with the lack of antibiotics still effective against the Gram-negative bacteria which affect Intensive Care Units (and other high risk units). As our Healthcare business grows, we expect to increase the proportion of service-related revenues derived from our hospital clients worldwide;

- there continues to be an interesting opportunity to provide our HPV technology to the US military to enable them to combat biological and chemical warfare agents, although we do not anticipate major revenues in 2011 from these programmes. However, we are expecting satisfactory revenues from our CBRN systems this year; and
- TRaC is continuing to perform well and sees continuing opportunities for growth in the UK.

As always securing these international organic growth opportunities will take good, efficient execution and accordingly we continue to strengthen our management teams and expand our businesses overseas. We are also continuing to work hard to reduce the proportion of the Group's revenues which are related to capital expenditure by our customers and to increase the proportion of our revenues derived from service provision and consumable-cartridge sales. The Group is well capitalised and we are able to fund substantial levels of organic growth. We look forward to growth in 2011 and beyond with considerable enthusiasm.

**NIGEL KEEN**  
Chairman  
15 March 2011

### **NIGEL KEEN, FCA\***

#### **Chairman**

Joined the Board in March 2008 and was appointed Chairman in 2009. He gained a degree in Engineering from Cambridge University and also qualified as an accountant with Deloitte. He has pursued a career encompassing industry, venture capital and banking. In 1984 Nigel Keen founded the Cygnus group of venture capital investment companies. He is Chairman of Laird PLC, Oxford Instruments Plc and Deltex Medical Group Plc.

### **MARK BODEKER, CA**

#### **Chief Operating Officer and Chief Financial Officer**

Joined the Board in April 2000, as Chief Financial Officer, adding the role of Chief Operating Officer in 2003. He qualified as an accountant with and subsequently worked for Deloitte for five years before moving to TI Group, holding a number of corporate financial positions. Latterly he was Divisional Finance Director of Meggitt Aerospace Components.

### **TONY BOURNE\***

#### **Non-executive Director**

Joined the Board in 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.

### **NICHOLAS ADAMS**

#### **Group Chief Executive**

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

### **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

### **SIR IAN CARRUTHERS\***

#### **Non-executive Director**

Joined the Board in August 2010. He is Chief Executive of the South West Strategic Health Authority and has extensive experience of the UK and international healthcare systems.

### **SECRETARY**

Georgina Pope, ACMA

### **REGISTERED OFFICE**

52 Royce Close  
West Portway  
Andover  
Hampshire SP10 3TS

### **REGISTERED NUMBER**

206372

### **AUDITORS**

Deloitte LLP  
Chartered Accountants  
Abbots House  
Abbey Street  
Reading RG1 3BD

### **STOCKBROKERS**

Investec Investment Banking and Securities

2 Gresham Street  
London EC2V 7QP

### **BANKERS**

Royal Bank of Scotland PLC  
3 Hampshire Corporate Park  
Templars Way  
Chandlers Ford  
Hampshire SO53 3RY

### **REGISTRARS**

Capita IRG Plc  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

The Directors present their Annual Report and the audited financial statements for the year ended 31 December 2010. The Corporate Governance Statement set out on pages 15 to 16 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.

### PRINCIPAL RISKS AND UNCERTAINTIES

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

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

#### Technology

The Group derives a considerable proportion of its revenues by selling products or services based on technology it has developed. There is a risk that third parties could develop technologies which are 'better' or more cost effective.

#### Regulatory, political and reputational

The Group operates in a number of countries and sectors which are highly regulated. There is a risk that the relevant regulations could be changed and such change(s) could significantly adversely affect the Group's business in that country. Such a change could occur as a result of political intervention which itself could be as a result of lobbying by third parties and/or competitors. Moreover, there is an elevated reputational risk associated with doing business in many of these highly regulated and high profile sectors.

#### Rapid, international growth

The Group is experiencing rapid growth in a number of the overseas markets in which it sells products or services. There are a number of risks and management challenges associated with such rapid growth in overseas territories. Under certain circumstances the Group could find it difficult to fulfil the demand for its products or services.

#### Competition

Some of the Group's competitors are substantially larger than the Group and have, among other things, greater financial, selling and political-lobbying resources. Accordingly there is a risk that the Group's business could be adversely affected by actions undertaken by these large competitors. Further, although Bioquell has a number of granted or pending patents internationally, which should protect the key components of its intellectual property from copying, there is a risk that competitors operating from territories with poorly enforced, or enforceable, patent law/patent protection could copy, in part or in whole, Bioquell's products or services. In addition, in certain markets in which the Group operates there is always a risk that 'doing nothing' is the preferred course of action taken by prospective customers – and apathy or continuing with the status quo represents a risk for some of the Group's new products or services.

#### Financial

The Group has a number of international subsidiaries and trades with companies located throughout the world. The international nature of many of its business activities result in elevated financial risk, including, but not limited to: foreign exchange exposure, credit risk and cash retention/management.

#### Legal liabilities

Given its international activities, the Group could be subject to litigation in a number of different jurisdictions. By its very nature, such litigation could be related to a broad number of issues, including alleged patent infringement, problems relating to the Group's technology or contravention of anti-bribery legislation.

#### Reliance on suppliers

Due to the complexity of many of its products, the Group is dependent on a number of key suppliers. These suppliers could supply components late, supply poor quality components, refuse to supply or cease trading. Such disruptions to the Group's supply chain could cause major issues to the trading activities of the Group.

#### Reliance on customers within a given sector

Although the Group is not significantly dependent upon one single customer, changes within a sector or sub-sector could adversely affect the trading performance of the Group. For example, the pharmaceutical industry is currently facing significant challenges as a number of drugs lose patent protection and accordingly there is a risk that this could affect the revenues that the Group generates from companies within this sector.

#### Retention of key employees

The Group has a number of key employees working for it. The loss of certain of these employees could be problematic for the Group.

## 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 4 to 10 and the principal risks and uncertainties which affect the business are summarised on the previous page. The Group has sufficient financial resources to cover budgeted future cash-flows, 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.

In accordance with the Corporate Governance requirements and the Statement of Directors' Responsibilities on page 21, 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 11. All of them served throughout the year and through to the signing of the financial statements except for Sir Ian Carruthers who was appointed on 27 August 2010. 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 2010 had the following interests in the ordinary shares of the Company:

Beneficial holdings*	31 December 2010	Percentage of share capital	1 January 2010
Nicholas Adams	810,000	1.9%	724,561
Simon Constantine	470,000	1.1%	456,000
Mark Bodeker	79,261	0.2%	38,928
Nigel Keen	72,270	0.2%	35,000
	<b>1,431,531</b>		1,254,489

\* 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.

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 Board proposes the re-appointment of Sir Ian Carruthers and Simon Constantine 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. Trade creditors of the Group at 31 December 2010 were equivalent to 57 days' (2009: 69 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 £607,000 (2009: £479,000) – the total expenditure was £1,257,000 (2009: £1,377,000).

## SUBSTANTIAL SHAREHOLDINGS

The following interests in 3% or more of the issued ordinary share capital, excluding Board members whose interests are disclosed in the Directors' Remuneration Report, had been notified to the Company as at 14 March 2011.

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%
J.G. Salkeld	2,046,477	4.9%
Standard Life Investments Ltd*	1,650,159	4.0%
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 2.62 pence per ordinary share to be paid on 1 July 2011 to ordinary shareholders on the register on 3 June 2011, representing a total payment of £1,094,000 (2009: £1,010,000).

### CAPITAL STRUCTURE

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 26. The Company has one class of ordinary shares which carries 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 97% 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.

Under its Articles of Association, the Company has authority to issue 2,087,672 ordinary shares.

### 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.

### DISABLED EMPLOYEES

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

### EMPLOYEE COMMUNICATION

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

### DISCLOSURE OF INFORMATION TO THE AUDITORS

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

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- 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 reappoint them will be proposed at the forthcoming Annual General Meeting.

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

### GEORGINA POPE

Secretary

15 March 2011



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") for which the Board is accountable to shareholders.

The Directors consider that throughout the year ended 31 December 2010 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 is Chairman of the Remuneration Committee and also Chairman of the Company.

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 four non-executive Directors. The non-executive Directors are considered by the Board to be independent in character and judgement. Simon Constantine has served on the Board for more than nine years, however the Board is satisfied that he remains free from any relationship with the executive management of the Company which could interfere with the exercise of his independent judgement and that he continues to provide a rigorous challenge to management; he is proposed for re-election in accordance with the Code. The Board does not consider the fact that some of 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. Tony Bourne was absent from two of the twelve meetings held during the year, all other Directors were present for all the meetings held during the year.

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 Nomination Committees.

The Audit Committee consisted of three non-executive Directors for two meetings and, following the appointment of Sir Ian Carruthers, four non-executive Directors for the third meeting in 2010. 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 effectiveness of the audit process, objectivity and independence of the Group's auditors by a process of assessment and keeps the scope of non-audit 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 an independent Group internal audit function but has decided that the current control mechanisms incorporating the Finance and Quality teams are appropriate in the context of the size and complexity of the business. The Board reviews this position at least annually.

The Remuneration Committee consists of four non-executive Directors and was chaired by Nigel Keen. The Committee, which met once during the year, is responsible for recommending to the Board the terms of service and remuneration of the executive Directors. It also has oversight of the remuneration levels of the senior members of the management teams. The Committee is responsible for the allocation of share options throughout the Group. The Report of the Remuneration Committee is included on pages 17 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 Nomination Committee consists of four non-executive Directors and is chaired by Nigel Keen and met twice during 2010. 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 Chief Financial Officer and submitted to the Board for consideration. This system has been in place since 1 January 2010 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.

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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, among other things, 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 2010 and the period up to 15 March 2011. In carrying out this review the Board takes account of material developments through reports by the Chief Executive, the Chief Financial Officer and the Audit Committee. No significant issues were identified 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 Directors at the Annual General Meeting.

### 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 the Combined Code 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.

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.

### REMUNERATION COMMITTEE

The Company has established a Remuneration Committee, which consists of four independent non-executive Directors: Nigel Keen (Chairman), Tony Bourne, Sir Ian Carruthers and Simon Constantine. Nigel Keen is also Chairman of the Company and as has been described in the Statement on Corporate Governance 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 employees. 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.

The terms of reference of the Remuneration Committee are available at [www.bioquellplc.com](http://www.bioquellplc.com).

### 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, the risk profile of the Group 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 as detailed below 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.

## Directors' remuneration report continued

### 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	2010 £'000	2009 As restated* £'000
Nicholas Adams	266	11	80	357	430
Mark Bodeker	234	8	50	292	336
	500	19	130	649	766

\* 2009 restated to include the bonus payment based on the Company performance in the year, historically the number has been derived on a cash paid basis. The remuneration has been restated from £741,000 to £766,000.

### ANNUAL PERFORMANCE INCENTIVE BONUS

The executive Directors' bonus scheme for the year ended 31 December 2010 set performance targets which would pay bonuses at a maximum of 100% of salary. Bonuses are assessed by reference to full year performance. The level of award for the year ended 31 December 2010 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.

For the financial year to 31 December 2011 and subsequent years, the structure of the executive Directors' bonuses will be similar to that for the year to 31 December 2010.

### 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 £32,000 (2009: £27,000) into a pension scheme in respect of Nicholas Adams and £27,000 (2008: £25,000) in respect of Mark Bodeker.

	2010 £'000	2009 £'000
Money purchase pension contributions	59	52

### AGGREGATE EXECUTIVE DIRECTORS' REMUNERATION

The total amounts for executive Directors' remuneration were as follows:

	2010 £'000	2009 £'000
Emoluments	649	766
Gains on exercise of share options	110	10
Money purchase pension contributions	59	52
	818	828

### 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.

## SHARE INCENTIVE SCHEMES CONTINUED

### 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 £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 2010 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 ("SAR") system. Under SAR, 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 2010 the outstanding options for the Directors under the ESO scheme were as follows:

Name of Director	1 January 2010	Granted/ (exercised)	31 December 2010	Exercise price (p)	Date from which exercisable	Expiry date
Nicholas Adams	50,000	(50,000)	—	84.0	17.04.06	16.04.10
	400,000	—	<b>400,000</b>	120.5	07.04.07	06.04.11
	143,000	—	<b>143,000</b>	174.5	27.05.11	27.05.15
	221,000	—	<b>221,000</b>	113.0	26.03.12	26.03.16
	—	169,355	<b>169,355</b>	155.0	17.03.13	17.03.17
Mark Bodeker	100,000	(100,000)	—	84.0	17.04.06	16.04.10
	400,000	—	<b>400,000</b>	120.5	07.04.07	06.04.11
	126,000	—	<b>126,000</b>	174.5	27.05.11	27.05.15
	194,500	—	<b>194,500</b>	113.0	26.03.12	26.03.16
	—	149,032	<b>149,032</b>	155.0	17.03.13	17.03.17
	1,634,500	168,387	<b>1,802,887</b>			

On 19 March 2010 Nicholas Adams and Mark Bodeker exercised 50,000 and 100,000 options respectively at 84.0 pence. The market price on the date of exercise was 157.0 pence per share. The gain on exercise for Nicholas Adams was £36,500 and for Mark Bodeker was £73,000.

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.

The market price of the ordinary shares at 31 December 2010 was 120.0 pence (2009: 165.0 pence) and the range during the year was 87.0 pence to 185.0 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 2011 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 Tony Bourne and Simon Constantine 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. The fees and expenses paid in relation to the appointment of Sir Ian Carruthers are paid to the South West Strategic Health Authority.

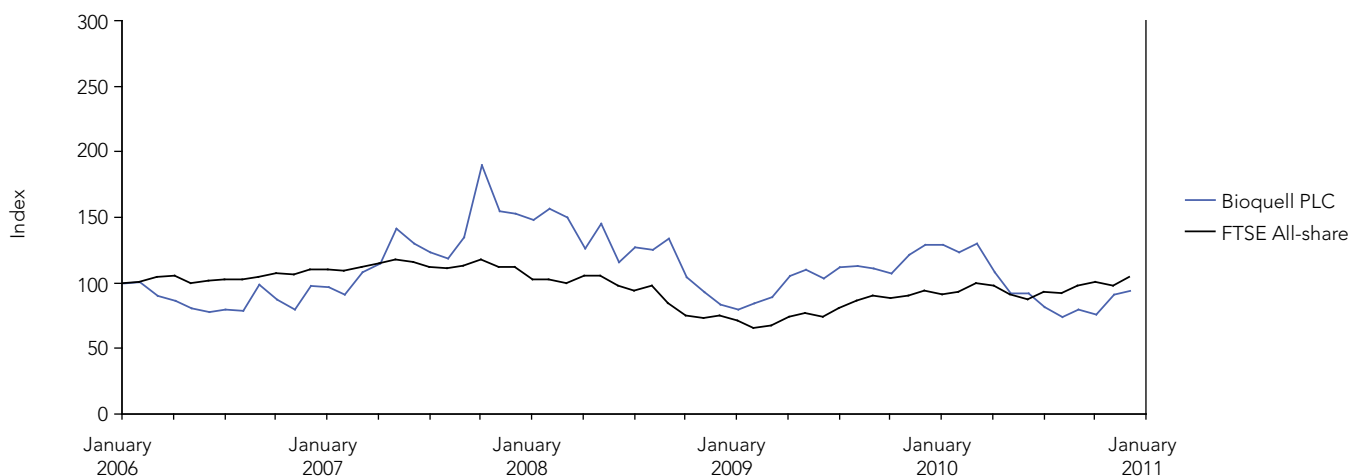
**REMUNERATION OF THE CHAIRMAN AND NON-EXECUTIVE DIRECTORS:**

	2010 £'000	2009 £'000
Nigel Keen	58	36
John Salkeld	—	17
Tony Bourne	30	23
Sir Ian Carruthers	10	—
Simon Constantine	30	30
<b>Total</b>	<b>128</b>	<b>106</b>

**PERFORMANCE GRAPH**

The following graph shows the Company's performance, measured by Total Shareholder Return ("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.

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



This report was approved by the Remuneration Committee at a meeting on 15 March 2011 and has been approved subsequently by the Board of Directors, and signed on behalf of the Board

**NIGEL KEEN**

Chairman of the Remuneration Committee

15 March 2011

## 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  
15 March 2011

**MARK BODEKER**  
Chief Financial Officer  
15 March 2011

## 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 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of 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 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") 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 Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

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 and express an opinion on 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 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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### 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 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs 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.

### 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 Group 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 Director's 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;
- certain elements of the report to shareholders by the Board on Directors' remuneration.

### OTHER MATTER

We have reported separately on the parent company financial statements of Bioquell PLC for the year ended 31 December 2010 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 Auditor  
Reading, United Kingdom  
15 March 2011



## Consolidated income statement for the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
Revenue	4	39,403	39,233
Cost of sales		(21,813)	(21,654)
Gross profit		17,590	17,579
Gross profit margin		45%	45%
Operating expenses:			
Sales & marketing costs		(6,449)	(5,916)
Administration costs		(5,386)	(3,922)
R&D and engineering costs		(2,518)	(2,096)
Profit from operations	6	3,237	5,645
Investment revenues	8	163	313
Finance costs	9	(139)	(102)
Profit before tax		3,261	5,856
Tax	10	(854)	(1,553)
Profit for the year	32	2,407	4,303
Earnings per share	11		
– basic		5.8p	10.3p
– diluted		5.1p	9.3p

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

All amounts are derived from continuing operations.

## Consolidated statement of recognised income and expense for the year ended 31 December 2010

	2010 £'000	2009 £'000
Net profit for the year	2,407	4,303
Exchange differences on translation of foreign operations	(58)	(205)
<b>Total recognised income</b>	<b>2,349</b>	<b>4,098</b>

## Consolidated balance sheet

as at 31 December 2010

	Notes	2010 £'000	2009 £'000
<b>Non-current assets:</b>			
Goodwill	13	691	691
Other intangible assets	14	8,014	7,460
Property, plant & equipment	15	12,053	11,764
		<b>20,758</b>	19,915
<b>Current assets:</b>			
Inventories	17	1,309	1,157
Trade and other receivables	18	8,014	7,584
Deferred tax assets	21	228	—
Derivative financial instruments	20	130	—
Cash and cash equivalents		6,130	5,941
		<b>15,811</b>	14,682
<b>Total assets</b>		<b>36,569</b>	34,597
<b>Current liabilities:</b>			
Trade and other payables	23	(7,272)	(6,642)
Current tax liabilities		(501)	(499)
Obligations under finance leases	22	(28)	(132)
Borrowings	19	(105)	(105)
Deferred tax liabilities	21	(2,652)	(1,800)
Provisions	24	(71)	(984)
<b>Net current assets</b>		<b>5,182</b>	4,520
<b>Non-current liabilities:</b>			
Total non-current liabilities	25	(1,327)	(1,472)
<b>Total liabilities</b>		<b>(11,956)</b>	(11,634)
<b>Net assets</b>		<b>24,613</b>	22,963
<b>Equity:</b>			
Share capital	26	4,175	4,162
Share premium account	27	165	114
Special reserve	28	10,933	10,933
Equity reserve	29	1,305	1,101
Capital reserve	30	255	255
Translation reserve	31	(109)	(51)
Retained earnings	32	7,889	6,449
<b>Equity attributable to equity holders of the Company</b>		<b>24,613</b>	22,963

The financial statements of Bioquell PLC, registered number 00206372, were approved by the Board of Directors and authorised for issue on 15 March 2011. They were signed on its behalf by:

**NICHOLAS ADAMS**  
Director  
15 March 2011

**MARK BODEKER**  
Director

## Consolidated statement of changes in equity for the year ended 31 December 2010

	2010 £'000	2009 £'000
Profit for the year	2,407	4,303
Exchange differences	(58)	(205)
Total comprehensive income in the year	2,349	4,098
Other movements in the year:		
Issued share capital	13	2
Issued share premium	51	19
Credit to equity reserve for share-based payments	343	294
Charge to equity for exercise of share options under the SARS scheme	(6)	(16)
Movement in deferred tax (credited)/charged to equity	(90)	118
Final dividend for year ended 31 December 2009/2008	(1,010)	(915)
<b>Net increase in equity shareholders' funds</b>	<b>1,650</b>	<b>3,600</b>
Equity shareholders' funds at beginning of year	22,963	19,363
Equity shareholders' funds at end of year	24,613	22,963

Overview

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Consolidated cash flow statement  
for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
<b>Net cash from operating activities</b>	33	<b>5,467</b>	6,910
<b>Investing activities</b>			
Proceeds on disposal of property, plant and equipment		<b>36</b>	—
Purchases of property, plant and equipment		<b>(2,710)</b>	(5,249)
Expenditure on product development		<b>(1,424)</b>	(1,575)
<b>Net cash used in investing activities</b>		<b>(4,098)</b>	(6,824)
<b>Financing activities</b>			
Proceeds on issue of ordinary shares		<b>64</b>	21
Dividends paid on ordinary shares		<b>(1,010)</b>	(915)
Movement in borrowings		<b>(104)</b>	(79)
Repayment of obligations under finance leases		<b>(145)</b>	(261)
<b>Net cash used in financing activities</b>		<b>(1,195)</b>	(1,234)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>174</b>	(1,148)
Bank cash at beginning of year		<b>5,941</b>	7,097
Effect of foreign exchange rate changes		<b>15</b>	(8)
Bank cash at end of year		<b>6,130</b>	5,941

# Notes to the consolidated financial statements

## for the year ended 31 December 2010

### 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 11. The nature of the Group's operations and its principal activities are set out on page 12. The financial statements are presented in pounds sterling (£) since that is the currency in which the majority of the Group's transactions are denominated.

The following amendments were made as part of Improvements to IFRSs (2009):

IFRS 2 (amended)	Share-based Payment. IFRS 2 has been amended, following the issue of IFRS 3 (2008), to confirm that the contribution of a business on the formation of a joint venture and common control transactions are not within the scope of IFRS 2.
IAS 17 (amended)	Leases. IAS 17 has been amended such that it may be possible to classify a lease of land as a finance lease if it meets the criteria for that classification under IAS 17.
IAS 39 (amended)	Financial Instruments: Recognition and Measurement. IAS 39 has been amended to state that options contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date are not excluded from the scope of the standard.

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements. The standards have introduced a number of changes in the accounting for business combinations when acquiring a subsidiary or an associate. IFRS 3(2008) has also introduced additional disclosure requirements for acquisitions.

IFRS 3(2008)	Business Combinations;
IAS 27(2008)	Consolidated and Separate Financial Statements;
IAS 28(2008)	Investments in Associates;
IFRIC 17	Distribution of Non-cash Assets to Owners. The Interpretation provides guidance on when an entity should recognise a non-cash dividend payable, how to measure the dividend payable and how to account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable when the payable is settled;
IFRS 2 (amended)	Group Cash-settled Share-based Payment Arrangements. The amendment clarifies the accounting for share-based payment transactions between group entities.

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 9	Financial Instruments
IAS 24 (amended)	Related Party Disclosures
IAS 32 (amended)	Classification of Rights Issues
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
IFRIC 14 (amended)	Prepayments of a Minimum Funding Requirement

The adoption of IFRS 9 which the Group plans to adopt for the year beginning 1 January 2013 may impact both the measurement and disclosures of Financial Instruments.

The Directors do not expect that the adoption of the other Standards and Interpretations listed above will have a material impact on the financial statements of the Group.

#### Basis of preparation

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

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

## Notes to the consolidated financial statements continued

for the year ended 31 December 2010

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### 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 4 to 10 and the Directors' Report on page 12.

#### Business combinations

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

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

#### Revenue recognition

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

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

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

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the balance sheet date;
- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the service for the product sold, taking into account historical trends in the number of services actually provided on past goods sold; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses incurred.

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

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

#### 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### Property, plant and equipment

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

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

Freehold property is not depreciated.

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.

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

### Inventories

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

### Taxation

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the 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.

### 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.

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## 2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### Government grants

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

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

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

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

### Goodwill

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

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

### 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 tangible and intangible assets

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

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

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



## 2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### Foreign currencies

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

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

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under derivative financial instruments); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

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

### Leasing

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

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

### Financial instruments

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

### Financial assets

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.

## Notes to the consolidated financial statements continued

for the year ended 31 December 2010

### 2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

#### 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.

#### 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.

#### 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.

#### Cash and cash equivalents

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

#### Trade payables

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

#### Financial liabilities and equity

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

#### Debt and equity instruments

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

## 2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### Financial liabilities

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

### Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

### Other financial liabilities

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

### Derivative financial instruments

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

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

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

### Provisions

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

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

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

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

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 2010

### 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's development activity are recognised when certain conditions are met. Management applies certain assumptions in measuring development activity cost and in assessing future economic benefits. Analysis is carried out and management remains confident that the carrying amount of the asset will be recovered in full. Adjustments will be made in future periods if future market activity indicates that such impairments are appropriate.

#### 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:

	2010 £'000	2009 £'000
Sales of goods	14,180	15,687
Revenue from the rendering of services	25,223	23,546
	<b>39,403</b>	<b>39,233</b>
Interest	33	47
	<b>39,436</b>	<b>39,280</b>

### 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. Segment information about these businesses is presented below:

Year ended 31 December 2010	BIO-DECON £'000	TRaC £'000	Consolidated £'000
<b>Revenue</b>			
Total revenue	27,031	12,372	39,403
<b>Result</b>			
Segment result	2,525	2,209	4,734
Unallocated head office costs			(1,497)
Profit from operations			3,237
Finance costs and investment revenue			24
Profit before tax			3,261
Tax			(854)
Profit for the year			2,407
<b>Other information</b>			
Capital additions	2,705	1,420	4,125
Unallocated corporate additions			—
Total capital additions			4,125
Depreciation and amortisation	2,216	988	3,204
Unallocated corporate depreciation			43
Total depreciation and amortisation			3,247

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS CONTINUED

All assets and liabilities are allocated to reportable segments with the exception of investments in associated companies.

Balance sheet as at 31 December 2010	BIO-DECON £'000	TRaC £'000	Consolidated £'000
<b>Assets</b>			
Segment assets	21,562	8,067	29,629
Unallocated corporate assets			6,940
Consolidated total assets			36,569
<b>Liabilities</b>			
Segment liabilities	(8,407)	(2,467)	(10,874)
Unallocated corporate liabilities			(1,082)
Consolidated total liabilities			(11,956)
Year ended 31 December 2009			
	BIO-DECON £'000	TRaC £'000	Consolidated £'000
<b>Revenue</b>			
Total revenue	27,935	11,298	39,233
<b>Result</b>			
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
<b>Other information</b>			
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

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

Balance sheet as at 31 December 2009	BIO-DECON £'000	TRaC £'000	Consolidated £'000
<b>Assets</b>			
Segment assets	19,521	8,634	28,155
Unallocated corporate assets			6,442
Consolidated total assets			34,597
<b>Liabilities</b>			
Segment liabilities	(7,830)	(2,597)	(10,427)
Unallocated corporate liabilities			(1,207)
Consolidated total liabilities			(11,634)

## Notes to the consolidated financial statements continued

for the year ended 31 December 2010

### 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.

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

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Sales revenue by geographical market		
UK	17,035	17,446
Rest of Europe	7,434	8,417
Rest of World	14,934	13,370
	<b>39,403</b>	39,233

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 2010 £'000	Year ended 31 December 2009 £'000	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
UK	31,320	31,149	3,831	6,542
Rest of Europe	2,326	1,842	129	154
Rest of World	2,923	1,606	165	170
	<b>36,569</b>	34,597	<b>4,125</b>	6,866

### 6. PROFIT FROM OPERATIONS

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

	2010 £'000	2009 £'000
Research & development costs	607	479
Government grants towards development of TRaC North site	(28)	—
Depreciation of property, plant and equipment	2,380	1,744
Amortisation of development costs and patents	862	675
Amortisation of trademarks	2	13
Amortisation of customer relationships	3	131
Cost of inventories recognised as an expense	7,961	8,785
Staff costs (see note 7)	16,776	15,021
Loss on disposal of property, plant and equipment	6	1
Net foreign exchange gains	(19)	(193)

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

	2010 £'000	2009 £'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	86	90
Total audit fees	112	116
Tax services	58	77
Total non-audit fees	58	77

A description of the work of the audit committee is set out in the Corporate Governance Statement on page 15 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:

	2010 Number	2009 Number
Production shop-floor	57	57
Engineering directs	179	174
	<b>236</b>	<b>231</b>
Sales and marketing	75	69
Administration	53	48
Other	23	18
	<b>151</b>	<b>135</b>
	<b>387</b>	<b>366</b>

Their aggregate remuneration comprised:

	2010 £'000	2009 £'000
Wages and salaries	14,306	12,769
Social security costs	1,582	1,460
Other pension costs	545	498
Share-based payments	343	294
	<b>16,776</b>	<b>15,021</b>

Details of Directors' remuneration, share options and pension contributions are included in the element of the Directors' Remuneration Report, marked as audited, on pages 17 and 20.

## 8. INVESTMENT REVENUES

	2010 £'000	2009 £'000
Bank deposits	33	47
Change in fair value of derivative financial instruments	130	266
	<b>163</b>	<b>313</b>

## 9. FINANCE COSTS

	2010 £'000	2009 £'000
Interest on bank loans and overdrafts	103	46
Interest on obligations under finance leases	25	45
Dividend payable on 7.5% preference shares	11	11
	<b>139</b>	<b>102</b>

## 10. TAX

	2010 £'000	2009 £'000
UK corporation tax current year	(539)	(892)
UK corporation tax prior year	219	165
Deferred tax charge current year	(242)	(569)
Deferred tax charge prior year	(292)	(257)
	<b>(854)</b>	<b>(1,553)</b>

Corporation tax is calculated at 28% (2009: 28%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

## Notes to the consolidated financial statements continued

### for the year ended 31 December 2010

#### 10. TAX CONTINUED

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

	2010 £'000	2009 £'000
Profit before tax	3,261	5,856
Tax at the UK corporation rate of 28% (2009: 28%)	(913)	(1,640)
Adjusted for:		
Tax effect of expenses not deductible in determining taxable profit	(83)	(69)
Effect on deferred tax asset of movement in share price	(178)	22
Effect of abolition of IBAs on deferred tax assets	—	(175)
Effect of research and development relief	383	413
Tax effect of different tax rate of subsidiaries operating in other jurisdictions	—	18
Deferred tax not recognised on other timing differences	115	(30)
Prior year adjustment	(73)	(92)
Utilisation of tax losses	(17)	—
Effective change in tax rate	(88)	—
	<b>(854)</b>	<b>(1,553)</b>

In addition to the amount charged to the income statement an amount of £90,000 was charged directly to equity (2009: credit to equity of £118,000). This related to the estimated excess tax deductions related to share-based payments.

#### 11. EARNINGS PER SHARE

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

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Earnings		
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	2,407	4,303
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	41,728,958	41,615,010
Effect of dilutive potential ordinary shares:		
– share options	5,367,737	4,541,350
Weighted average number of ordinary shares for the purposes of diluted earnings per share	47,096,695	46,156,360

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 5.8p (2009: 10.3p). Diluted earnings per share are 5.1p (2009: 9.3p).

#### 12. DIVIDENDS

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2009 of 2.42p per share (2008: 2.2p)	1,010	915
Proposed final dividend for the year ended 31 December 2010 of 2.62p per share (2009: 2.42p)	1,094	1,007

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
<b>Cost</b>	
As at 1 January 2009	705
Adjustment to deferred consideration	—
As at 1 January and 31 December 2010	705
<b>Accumulated impairment</b>	
As at 1 January 2009	14
Impairment losses for the year	—
As at 1 January 2010	14
Impairment losses for the year	—
<b>As at 31 December 2010</b>	<b>14</b>
<b>Carrying amount</b>	
<b>As at 31 December 2010</b>	<b>691</b>
As at 31 December 2009	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:

	2010 £'000	2009 £'000
Bio-decontamination segment	—	—
TRaC segment	691	691
	<b>691</b>	<b>691</b>

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% (2009: 5%) per year over five years. The cashflows are discounted at a rate of 15% (2009: 12%).

### 14. OTHER INTANGIBLE ASSETS

	Customer relationships £'000	Development costs and patents £'000	Trademarks £'000	Total intangible assets £'000
<b>Cost</b>				
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 1 January 2010	619	10,897	68	11,584
Additions	—	1,424	—	1,424
Effect of foreign exchange	—	—	(2)	(2)
<b>As at 31 December 2010</b>	<b>619</b>	<b>12,321</b>	<b>66</b>	<b>13,006</b>
<b>Amortisation</b>				
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 1 January 2010	616	3,455	53	4,124
Charge for the year	3	862	2	867
Effect of foreign exchange	—	—	1	1
<b>As at 31 December 2010</b>	<b>619</b>	<b>4,317</b>	<b>56</b>	<b>4,992</b>
<b>Carrying amount</b>				
<b>As at 31 December 2010</b>	<b>—</b>	<b>8,004</b>	<b>10</b>	<b>8,014</b>
As at 31 December 2009	3	7,442	15	7,460

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.

## Notes to the consolidated financial statements continued

for the year ended 31 December 2010

### 15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £'000	Short-term leasehold improvements £'000	Fixtures and equipment £'000	Total £'000
<b>Cost</b>				
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 1 January 2010	5,019	894	14,768	20,681
Additions	248	227	2,226	2,701
Disposals	(5)	—	(120)	(125)
Effect of foreign exchange	—	3	6	9
<b>As at 31 December 2010</b>	<b>5,262</b>	<b>1,124</b>	<b>16,880</b>	<b>23,266</b>
<b>Accumulated depreciation</b>				
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 1 January 2010	185	449	8,283	8,917
Charge for the year	449	86	1,845	2,380
Disposals	(1)	—	(83)	(84)
Effect of foreign exchange	—	(1)	1	—
<b>As at 31 December 2010</b>	<b>633</b>	<b>534</b>	<b>10,046</b>	<b>11,213</b>
<b>Carrying amount</b>				
<b>As at 31 December 2010</b>	<b>4,629</b>	<b>590</b>	<b>6,834</b>	<b>12,053</b>
As at 31 December 2009	4,834	445	6,485	11,764

The carrying amount of the Group's fixtures and equipment includes an amount of £437,000 (2009: £574,000) in respect of assets held under finance leases.

The Group had no capital expenditure contracted but not provided for at the year end (2009: £nil).

Freehold land and buildings with a carrying amount of £0.9m (2009: £0.9m) have been pledged to secure borrowings of the Group (see note 19). The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

### 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

	2010 £'000	2009 £'000
Raw materials, spare parts and consumables	797	638
Work in progress	232	333
Finished goods and goods for resale	280	186
	<b>1,309</b>	<b>1,157</b>

### 18. TRADE AND OTHER RECEIVABLES

	2010 £'000	2009 £'000
Trade debtors	7,308	6,717
Other debtors	181	166
Corporation and other tax	—	47
Prepayments and accrued income	525	654
	<b>8,014</b>	<b>7,584</b>

## 18. TRADE AND OTHER RECEIVABLES CONTINUED

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.

	2010 £'000	2009 £'000
Trade receivables	7,337	6,775
Allowance for doubtful debts	(29)	(58)
	<b>7,308</b>	<b>6,717</b>

The average credit period taken on sales of goods is 68 days (2009: 62 days). Included in the Group's trade receivable balance are debtors with a carrying amount of £1,090,000 (2009: £1,979,000) 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 75 days (2009: 74 days).

### Credit risk management

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

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

### Ageing of past due but not impaired receivables

	2010 £'000	2009 £'000
30–60 days	6,786	5,285
60–90 days	276	937
90–120 days	246	495
Total	<b>7,308</b>	<b>6,717</b>

### Movement in the allowance for doubtful debts

	2010 £'000	2009 £'000
Balance at 1 January	58	49
Amounts written off during the year	(39)	—
Increase in the allowance recognised in the year	10	9
Balance at 31 December	<b>29</b>	<b>58</b>

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

	2010 £'000	2009 £'000
Bank loans	1,282	1,386
The borrowings are repayable as follows:		
Amount due for settlement within twelve months	105	105
Amount due for settlement after twelve months (see note 25)	1,177	1,281
	<b>1,282</b>	<b>1,386</b>

## Notes to the consolidated financial statements continued

for the year ended 31 December 2010

### 19. BANK OVERDRAFTS AND LOANS CONTINUED

Analysis of borrowings by currency:

31 December 2010	Total £'000	Sterling £'000	Euro £'000
Bank loans	1,282	1,282	—

Analysis of borrowings by currency:

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

The weighted average interest rates paid were as follows:

	2010 %	2009 %
Bank loans	2	2

The Group had committed overdraft facilities available at 31 December 2010 of £2,600,000 (2009: £2,600,000), the facility was undrawn 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:

	2010 £'000	2009 £'000
Forward foreign exchange contracts	6,864	—

At 31 December 2010, the fair value of the Group's currency derivatives is estimated to be approximately £130,000 (2009: £nil). 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. The value is calculated using readily available market data and represents a level 2 measurement in the fair value hierarchy under IFRS 7.

#### Other financial liabilities

	2010 £'000	2009 £'000
Financial assets carried at fair value through profit and loss	130	—

#### 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	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
USD	(2,139)	(1,182)	3,990	3,961
Euro	(848)	(2,003)	4,833	4,232
Sing\$	—	(150)	1,004	580

## 20. DERIVATIVE FINANCIAL INSTRUMENTS – CURRENCY DERIVATIVES CONTINUED

### 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	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Profit or loss <sup>(i)</sup>	16	(14)	(32)	(124)	(13)	(94)
Equity <sup>(ii)</sup>	2	14	(154)	123	54	130

(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 2009	(1,833)	484	244	13	(1,092)
Prior year adjustment	—	—	(257)	—	(257)
(Charge)/credit to income	(248)	(77)	(287)	43	(569)
Net (charge)/credit to income statement	(2,081)	407	(300)	56	(1,918)
Credit to equity	—	—	—	118	118
At 1 January 2010	(2,081)	407	(300)	174	(1,800)
Prior year adjustment	—	(72)	(220)	—	(292)
Charge to income	(101)	(17)	(107)	(17)	(242)
Net (charge)/credit to income statement	(2,182)	318	(627)	157	(2,334)
Charge to equity	—	—	—	(90)	(90)
<b>At 31 December 2010</b>	<b>(2,182)</b>	<b>318</b>	<b>(627)</b>	<b>67</b>	<b>(2,424)</b>
				2010 £'000	2009 £'000
Deferred tax assets				228	—
Deferred tax liabilities				(2,652)	(1,800)
				<b>(2,424)</b>	<b>(1,800)</b>

At the balance sheet date, the Group had an unrecognised deferred tax asset of £46,000 (2009: £46,000). At 31 December 2010 a deferred tax liability of £2,424,000 (2009: £1,800,000) 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.

The Finance (No. 2) Act was substantively enacted on 27 July 2010 and included legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014 and are expected to be enacted separately each year. For the year ended 31 December 2010, as the reduction in statutory rate by 1% has been substantively enacted, deferred tax has been recognised on the balance sheet at 27%.

## Notes to the consolidated financial statements continued

for the year ended 31 December 2010

### 22. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Amounts payable under finance leases:				
Within one year	28	132	28	132
In the second to fifth years inclusive	—	41	—	26
After five years	—	—	—	—
	28	173	28	158
Less: future finance charges	—	(15)	—	—
Present value of lease obligations	28	158	—	—
Less: amount due for settlement within twelve months (shown under current liabilities)	—	—	28	132
Amount due for settlement after twelve months	—	—	—	26

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 2010, the average effective borrowing rate was 6.75% (2009: 6.75%). 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

	2010 £'000	2009 £'000
Trade creditors	3,337	3,081
Other creditors	647	718
Accruals and deferred income	3,288	2,843
	7,272	6,642

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 57 days (2009: 69 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 2010	96	888	984
Additional provision in the year	62	—	62
Release of provision not required	—	(367)	(367)
Utilisation of provision	(87)	(521)	(608)
<b>At 31 December 2010</b>	<b>71</b>	<b>—</b>	<b>71</b>
Included in current liabilities	71	—	71
Included in non-current liabilities	—	—	—
	71	—	71

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.

### 25. NON-CURRENT LIABILITIES

	2010 £'000	2009 £'000
Bank loans (see note 19)	1,177	1,281
Non-equity preference shares	150	150
Obligations under finance leases (see note 22)	—	41
	1,327	1,472

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

	2010		2009	
	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	41,749,449	4,175	41,624,886	4,162
		4,175		4,162

During the year the Company issued a total of 125,000 ordinary shares of 10p each for £58,000 on the conversion of options under the executive share option schemes.

## 27. SHARE PREMIUM ACCOUNT

	£'000
Balance at 1 January 2009	95
Premium arising on issue of equity shares	19
Balance at 31 December 2009	114
Premium arising on issue of equity shares	51
<b>Balance at 31 December 2010</b>	<b>165</b>

## 28. SPECIAL RESERVE

	£'000
<b>Balance at 1 January and 31 December 2010</b>	<b>10,933</b>

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 Accounts 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 2009	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
Credit to equity for share-based payments	343
Movement in deferred tax charged to equity	(90)
Debit to equity on issue of shares under SARS scheme	(6)
Debit to equity on exercise of share options	(43)
<b>Balance at 31 December 2010</b>	<b>1,305</b>

## 30. CAPITAL RESERVE

	£'000
Balance at 1 January 2009 and 1 January 2010	255
Additions	—
<b>Balance at 31 December 2009 and 31 December 2010</b>	<b>255</b>

## 31. TRANSLATION RESERVE

	£'000
Balance at 1 January 2009	154
Effects of foreign exchange in the period	(205)
Balance at 31 December 2009	(51)
Effects of foreign exchange in the period	(58)
<b>Balance at 31 December 2010</b>	<b>(109)</b>

## Notes to the consolidated financial statements continued

for the year ended 31 December 2010

### 32. RETAINED EARNINGS

	£'000
Balance at 1 January 2009	3,059
Net profit for the year	4,303
Payment of dividend	(915)
Exercised share options	2
Balance at 1 January 2010	6,449
Net profit for the year	2,407
Payment of dividend	(1,010)
Exercised share options	43
<b>Balance at 31 December 2010</b>	<b>7,889</b>

### 33. NOTES TO THE CASH FLOW STATEMENT

	2010 £'000	2009 £'000
Profit from operations	3,237	5,645
Adjustments for:		
Depreciation of property, plant and equipment	2,384	1,744
Amortisation and impairment losses of intangible assets	867	819
Share-based payments	204	294
Loss on disposal of property, plant and equipment	6	1
Decrease in provisions	(913)	(617)
Operating cashflows before movements in working capital	5,785	7,886
(Increase)/decrease in inventories	(151)	178
Increase in receivables	(762)	(405)
Increase in payables	1,019	486
Cash generated by operations	5,891	8,145
Non-equity preference share dividends paid	(11)	(11)
Investment revenues	33	47
Interest paid	(128)	(91)
Income taxes paid	(318)	(1,180)
Net cash from operating activities	5,467	6,910

Of the new additions to fixtures and equipment during the year assets to the value of £nil (2009: £nil) 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.

	2010 £'000	2009 £'000
Minimum lease payments under operating leases recognised in income for the year	1,090	1,230

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:

	2010 £'000	2009 £'000
Within one year	1,016	1,273
In the second to fifth years inclusive	2,305	2,674
After five years	926	945
	<b>4,247</b>	<b>4,892</b>

### 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.



### 35. SHARE-BASED PAYMENTS CONTINUED

#### Equity-settled share option schemes continued

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

	2010		2009	
	Number of share options	Weighted average exercise price pence	Number of share options	Weighted average exercise price pence
Outstanding at beginning of period	4,541,350	126.1p	3,646,000	129.4p
Adjustment to opening balance	—	—	(2,000)	109.0p
Granted during the period	1,057,387	155.0p	1,158,500	113.0p
Lapsed during the period	(106,437)	105.1p	(237,248)	113.4p
Exercised during the period	(124,563)	82.7p	(23,902)	86.6p
Outstanding at the end of the period	5,367,737	133.4p	4,541,350	126.1p
Exercisable at the end of the period	4,648,037	134.4p	2,420,380	114.4p

The weighted average share price at the date of exercise for share options exercised during the period was 82.7p. The options outstanding at 31 December 2010 had a weighted average exercise price of 133.4p, and a weighted average remaining contractual life of 4.3 years. In 2010, 1,057,387 options were granted on 18 March. The aggregate of the estimated fair values of the options granted on that date was £1,638,950. 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.

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:

	2010	2009
Weighted average share price	155.0p	113.0p
Expected volatility	32%	45%
Expected life	4.5yrs	4.5yrs
Risk free rate	1.34%	4.43%
Expected dividends	1.5%	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 £344,000 and £294,000 related to equity-settled share-based payment transactions in 2010 and 2009 respectively.

### 36. RELATED PARTY TRANSACTIONS

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

#### Remuneration of key management personnel

The total remuneration for all of the Directors of Bioquell PLC, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 17 to 20.

	2010	2009
	£'000	£'000 As restated*
Short-term employee benefits	777	872
Post-employment benefits	59	52
Share-based payments	100	33
	936	957

\* 2009 restated to include the bonus payment based on the Company performance in the year, historically the number has been derived on a cash paid basis. The short-term employee benefits have been restated from £847,000 to £872,000.

## Five years of summary

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	IFRS				
	2010	2009	2008	2007	2006
	£'000	£'000	£'000	£'000	£'000
Revenue	<b>39,403</b>	39,233	34,405	34,096	25,238
Operating profit	<b>3,237</b>	5,645	5,209	4,248	1,321
Profit for the year before tax	<b>3,261</b>	5,856	5,003	4,166	1,157
Equity	<b>24,613</b>	22,963	19,363	16,140	11,457
Earnings per share	<b>5.8p</b>	10.3p	9.0p	8.9p	2.9p
Dividend per share	<b>2.62p</b>	2.42p	2.2p	2.0p	—

# Independent auditors' report

as at 31 December 2010

We have audited the parent company financial statements of Bioquell PLC for the year ended 31 December 2010 which comprise the Company Balance Sheet and the related notes 1 to 15. 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 2010 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 2010.

## JASON DAVIES (SENIOR STATUTORY AUDITOR)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditors

Reading, United Kingdom

15 March 2011

## Company balance sheet

as at 31 December 2010

Results for the Company are presented under UK GAAP	Notes	2010 £'000	2009 £'000
<b>Fixed assets:</b>			
Investments	5	8,449	8,229
Property, plant and equipment	4	967	1,010
		<b>9,416</b>	9,239
<b>Current assets:</b>			
Debtors			
– due within one year	6	1,199	1,089
– due after one year	6	2,653	2,590
Cash at bank and in hand		5,909	7,886
		<b>9,761</b>	11,565
<b>Creditors:</b> amounts falling due within one year	7	<b>(1,191)</b>	(2,342)
<b>Net current assets</b>		<b>8,570</b>	9,223
<b>Total assets less current liabilities</b>		<b>17,986</b>	18,462
<b>Creditors:</b> amounts falling due after more than one year	7	<b>(1,327)</b>	(1,432)
<b>Net assets</b>		<b>16,659</b>	17,030
<b>Capital and reserves</b>			
Called up share capital	8	4,175	4,162
Share premium account	9	165	114
Special reserve	10	10,933	10,933
Equity reserve	11	1,286	984
Capital reserve	12	255	255
Profit and loss account	13	(155)	582
<b>Shareholders' funds</b>		<b>16,659</b>	17,030

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  
15 March 2011

**MARK BODEKER**  
Director  
15 March 2011

### 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 13 of the Group accounts.

#### Derivative financial instruments

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

#### Investments

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

#### Tangible fixed assets

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

Plant, 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 (£112,000; 2009: £37,000) for financial year ended 31 December 2010 of £264,000 (2009: profit of £657,000).

The auditors' remuneration for the audit services to the Company was £26,000 (2009: £26,000).

## Notes to the Company financial statements continued

for the year ended 31 December 2010

### 3. STAFF COSTS

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

	2010	2009
Administration	4	4

Their aggregate remuneration comprised:

	2010 £'000	2009 £'000
Wages and salaries	621	674
Social security costs	129	114
Other pension costs	65	65
	<b>815</b>	<b>853</b>

### 4. FIXED ASSETS

	Property £'000	Plant and equipment £'000	Total property, plant and equipment £'000
<b>Cost</b>			
As at 1 January 2010	1,054	53	1,107
Additions	—	—	—
<b>As at 31 December 2010</b>	<b>1,054</b>	<b>53</b>	<b>1,107</b>
<b>Accumulated amortisation</b>			
As at 1 January 2010	55	42	97
Charge for the year	41	2	43
<b>As at 31 December 2010</b>	<b>96</b>	<b>44</b>	<b>140</b>
<b>Net book value</b>			
<b>As at 31 December 2010</b>	<b>958</b>	<b>9</b>	<b>967</b>
As at 31 December 2009	999	11	1,010

### 5. FIXED ASSET INVESTMENTS

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

	Location
Bioquell UK Ltd	Andover, UK
Bioquell Holding SAS	Paris, France
TRaC Global Ltd	Warwick, UK
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.

## 5. FIXED ASSET INVESTMENTS CONTINUED

	Investment in subsidiaries		
	Shares £'000	Loans £'000	Total £'000
<b>Cost</b>			
As at 1 January 2010	111	8,777	8,888
Foreign exchange differences	—	(12)	(12)
Additions – capital contribution made to subsidiaries	—	232	232
<b>As at 31 December 2010</b>	<b>111</b>	<b>8,997</b>	<b>9,108</b>
<b>Provision for impairment</b>			
<b>As at 1 January 2010 and 31 December 2010</b>	<b>(103)</b>	<b>(556)</b>	<b>(659)</b>
<b>Net book value</b>			
<b>As at 31 December 2010</b>	<b>8</b>	<b>8,441</b>	<b>8,449</b>
As at 31 December 2009	8	8,221	8,229

## 6. DEBTORS

	2010 £'000	2009 £'000
Debtors due within one year:		
Amounts due from subsidiary undertakings	923	871
Other debtors	—	3
Corporation and other tax	12	14
Deferred tax	—	63
Derivative financial instruments (see note 20 of the Group accounts)	130	—
Prepayments and accrued income	134	138
	<b>1,199</b>	<b>1,089</b>
Debtors due after one year:		
Amounts due from subsidiary undertakings	2,653	2,590
<b>Total debtors</b>	<b>3,852</b>	<b>3,679</b>

## 7. CREDITORS

	2010 £'000	2009 £'000
Amounts falling due within one year:		
Amounts due to subsidiary undertakings	438	805
Accruals and deferred income	533	496
Bank loan	105	105
Approved preference dividend	6	6
Deferred tax	109	—
Provision	—	930
	<b>1,191</b>	<b>2,342</b>
Amounts falling due after one year:		
Bank loan	1,177	1,282
First preference shares of £1 each	150	150
	<b>1,327</b>	<b>1,432</b>

## Notes to the Company financial statements continued

for the year ended 31 December 2010

### 8. CALLED UP SHARE CAPITAL

	2010		2009	
	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	41,749,449	4,175	41,624,886	4,162
		4,175		4,162

During the year the Company issued a total of 124,563 ordinary shares of 10p each for £58,000 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 2009	95
Premium arising on issue of equity shares	19
Balance at 1 January 2010	114
Premium arising on issue of equity shares	51
<b>Balance at 31 December 2010</b>	<b>165</b>

### 10. SPECIAL RESERVES

	£'000
<b>Balance at 1 January and 31 December 2010</b>	<b>10,933</b>

For detail on Special Reserves please refer to page 45.

### 11. EQUITY RESERVES

	£'000
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 1 January 2010	984
Credit to equity for share-based payments	112
Credit to equity for share-based payments to subsidiary employees	232
Debit to equity on exercise of share options	(36)
Debit to equity on issue of shares under SARS scheme	(6)
<b>Balance at 31 December 2010</b>	<b>1,286</b>



**12. CAPITAL RESERVES**

	£'000
Balance at 1 January 2009 and 1 January 2010	255
Additions	—
<b>Balance at 31 December 2010</b>	<b>255</b>

**13. PROFIT AND LOSS ACCOUNT**

	£'000
Balance at 1 January 2009	1,019
Profit for the financial year	657
Dividends paid in the year	(915)
Exchange loss	(179)
Balance at 1 January 2010	582
Profit for the financial year	264
Dividends paid in the year	(1,010)
Credit to profit and loss account on exercise of share options	36
Exchange loss	(27)
<b>Balance at 31 December 2010</b>	<b>(155)</b>

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.

**14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	£'000
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 1 January 2010	17,030
Issue of equity shares	64
Equity reserve – share-based payments	112
Credit to equity for share-based payments to subsidiary employees	232
Debit to equity on issue of shares under SARS scheme	(6)
Profit for the financial year	264
Dividends paid in the year	(1,010)
Exchange loss in the year	(27)
<b>Balance at 31 December 2010</b>	<b>16,659</b>

## Notes to the Company financial statements continued

for the year ended 31 December 2010

### 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:

	2010		2009	
	Number of share options	Weighted average exercise price pence	Number of share options	Weighted average exercise price pence
Outstanding at beginning of year	1,760,500	123.8	1,475,000	125.3
Granted during the year	348,387	155.0	445,500	113.0
Lapsed during the year	(54,696)	84.0	(150,878)	107.5
Exercised during the year	(100,304)	84.0	(9,122)	107.5
<b>Outstanding at the end of the year</b>	<b>1,953,887</b>	<b>132.5</b>	<b>1,760,500</b>	<b>123.8</b>
<b>Exercisable at the end of the year</b>	<b>851,000</b>	<b>120.0</b>	<b>310,900</b>	<b>84.8</b>

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



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