



UNIQUE TECHNOLOGY

Bioquell PLC

ANNUAL REPORT AND ACCOUNTS 2013

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SHAREHOLDER INFORMATION

IBC Bioquell Group Directory

CREATING SAFE OPERATIONAL ENVIRONMENTS

The Bioquell Group offers sophisticated solutions for bio-decontamination and a range of comprehensive testing services via TRaC

Every day our world-leading, innovative technologies and services help create safe working environments for a diverse range of markets

HIGHLIGHTS

“Robust strategies in place to generate attractive organic growth.”

FINANCIAL

Group revenues up by 9% to £44.6 million (2012: £41.0 million) – Bio division up 8% to £27.8 million & TRaC up 11% to £16.8 million

Pre-tax profits including reconfiguration costs of £0.9 million were £3.1 million (2012: £4.0 million). Adjusting for reconfiguration costs, pre-tax profits were £4.0 million (2012: £4.0 million)

Basic earnings per share of 7.3p (2012: 9.6p)

Proposed dividend per share of 3.3p (2012: 3.06p), an increase of 8%

Net cash at the year end was £2.0 million (2012: £1.9 million)

OPERATIONAL

New products in the Bio division generating encouraging activity levels: QUBE orders already from USA, India, Brazil, Japan as well as Europe – and increasing international interest in ICE-pod

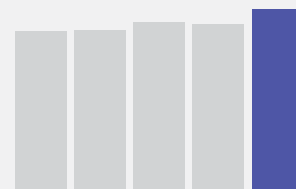
Expanding opportunities in the Life Sciences and Healthcare sectors due to increased regulatory oversight and extreme antibiotic resistance

Focus on consumables is beginning to result in increased levels of higher margin recurring revenues

TRaC is well positioned for further growth in the UK and overseas

REVENUE (£M)

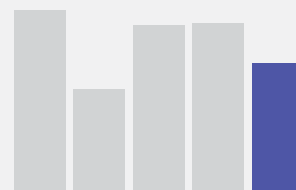
£44.6m



2012	41.0
2011	41.3
2010	39.4
2009	39.2

EARNINGS PER SHARE (P)

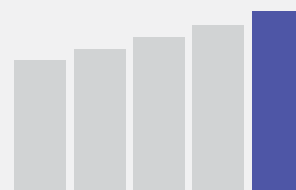
7.3p



2012	9.6
2011	9.3
2010	5.8
2009	10.3

DIVIDEND PER SHARE (P)

3.30p



2012	3.06
2011	2.83
2010	2.62
2009	2.42

OUR BUSINESS

OUR BUSINESS IS COMPRISED OF TWO DIVISIONS

BIO

Bioquell are world leaders in bio-decontamination equipment and services. Our unique hydrogen peroxide vapour (HPV) technology is used to eradicate problematic bacteria, viruses and fungi. Our filtration systems are used to combat chemical, biological, radiological and nuclear (CBRN) contamination.

TARGET SECTORS

- ① LIFE SCIENCES
- ② HEALTHCARE
- ③ DEFENCE

KEY PRODUCTS

We have a range of products to target the specific and evolving needs of customers in our target sectors. Key products include:

- ① **INFECTION-CONTROL ENCLOSURE POD (ICE-POD)**
A standalone infection-control enclosure which enables the eradication of bacteria within 1 hour
- ② **QUBE**
A modular aseptic work-station for sterility test and pharmacy compounding
- ③ **CONSUMABLES**
HPV-optimised biological and chemical indicators together with hydrogen peroxide consumable cartridges

SALES

BIO SALES

£27.8m

(2012: £25.9m)

GROWTH DRIVERS

- Increasing regulation across sectors
- Increasing threat from antibiotic-resistant Gram-negative bacteria, particularly in emerging markets
- New product introductions proving popular



TRaC

TRaC is the largest test and certification company of its kind, providing a comprehensive range of services which help clients achieve product compliance. It also holds a substantial range of accreditations to issue product approvals to national and international standards.

TARGET SECTORS

- ① MILITARY
- ② AEROSPACE
- ③ TELECOMS

KEY SERVICES

- ① ENVIRONMENTAL TESTING
Unrivalled comprehensive independent and confidential testing
- ② TELECOMS TESTING
Performance and approval services for telecoms, radio and broadband products
- ③ SAFETY TESTING
Test, assessment and certification routes to ensure products' full compliance with standards
- ④ ANALYSIS
Leading engineering consultancy in static and dynamic structure analysis

SALES

TRaC SALES

£16.8m

(2012: £15.1m)

GROWTH DRIVERS

- New European regulations
- Launch of Early Stage Qualification consulting business



CHAIRMAN'S STATEMENT

EXPANDING AND UNIQUE RANGE OF PRODUCTS

FINANCIAL PERFORMANCE IN 2013

Consolidated revenues increased by 9% to £44.6 million (2012: £41.0 million), split £27.8 million in Bio (2012: £25.9 million) and £16.8 million in TRaC (2012: £15.1 million). The Group's service revenues totalled £26.9 million, representing 60% of total revenues (2012: 61%). Exports amounted to £24.5 million representing 59% of total revenues (2012: 55%).

Gross margin was down at 46% (2012: 48%) and operating expenses totalled £17.7 million (2012: £15.4 million), although these included £0.9 million of non-recurring reconfiguration costs which adversely affected gross margin and overheads.

Pre-tax profits including the reconfiguration costs were £3.1 million (2012: £4.0 million). Pre-tax profits adjusting for the £0.9 million of reconfiguration costs were £4.0 million (2012: £4.0 million). Basic earnings per share were 7.3p (2012: 9.6p).

The Group continues to invest in the development of technology principally for use in the Life Sciences and Healthcare sectors, with capitalised development costs in the year of £2.1 million (2012: £3.0 million).

The Group continues to have a strong balance sheet. Net cash at the year end was £2.0 million (2012: £1.9 million). Shareholders' funds were £33.3 million (2012: £30.7 million).

The Board is recommending the payment of a dividend of 3.30 pence (2012: 3.06 pence) per share on 2 July, 2014 to shareholders on the register on 6 June 2014, representing an increase of 8% over 2012.

ACTIVITIES

2013 was a tough year for our Bio division as we made a number of changes in the delivery of our products and services, including a reconfiguration of the business and head-count reduction. This is reflected in the Bio division's segmental operating profit of £1.9 million (2012: £2.6 million) after adjusting for the £0.9 million of reconfiguration costs. We are currently making further changes to our sales and marketing teams around the world aimed at driving additional revenues from the Life Sciences and Healthcare sectors.

LIFE SCIENCES

Currently the Life Sciences sector generates the largest proportion of revenues within the Bio division amounting to £22.7 million (2012: £21.7 million) out of the Bio division's revenues of £27.9 million in 2013. Within this sector we are continuing to

see increasing demand for aseptic (free of microbial contamination) equipment and facilities, which is a key application for our hydrogen peroxide vapour technology. Demand is driven by a number of factors including an increasing proportion of biologically sensitive pharmaceutical products which are susceptible to microbial contamination, and a more assertive stance by the regulators.

HEALTHCARE

We are seeing a number of changes in our healthcare business which had revenues in 2013 of £3.5 million (2012: £3.1 million) – largely relating to the growing acceptance by hospitals that antibiotic resistance is not a notional or academic problem. In the UK, although the British public is now somewhat inured to "superbug" reports and although there have been genuine reductions in MRSA and *C.difficile* rates in many NHS hospitals, we are seeing an increasing number of hospitals around the world facing major issues with highly resistant (especially carbapenem-resistant *Enterobacteriaceae*) or untreatable bacterial infections particularly in intensive care units ("ICUs"). Hospitals do not advertise the severity of their antibiotic-resistant problems but such severe antibiotic-resistant problems are very real and are getting worse.

In addition it is now clear that bacterial biofilms exist in the environment as well as in chronic wounds. Scientists and clinicians are becoming more sensitised to the problems that these bacterial biofilms can cause. A biofilm is a group of micro-organisms (such as bacteria) in which cells stick to each other on a surface. The complex biofilm structure makes the bacteria more difficult to combat with standard disinfectants or antibiotics.

We have an expanding and unique range of products to offer hospitals facing problems associated with antibiotic resistance.

DEFENCE

Notwithstanding a general backdrop of declining defence budgets, our defence business continues to grow with revenues of £1.7 million (2012: £1.0 million), particularly with customers from the emerging markets.

TRaC

TRaC has a significant position in the UK testing and regulatory compliance market and performed strongly in 2013 with segmental operating profit of £3.4 million (2012: £3.0 million). We are continuing to extend the range of TRaC's services, particularly into consultancy activities. We have ambitious plans

to extend these consultancy activities in the USA and China where demand exists for such services.

BOARD CHANGES

After some 14 years with the Group, as previously reported, Mark Bodeker leaves us today as Chief Operating Officer and Group Finance Director. During this period revenues have more than tripled from £14.6 million in 2000 to £44.6 million in 2013. We thank him for his contribution over these many years and wish him well with his future career.

We are delighted that Michael Roller will formally be taking over as Group Finance Director. Michael has held senior roles at a number of listed companies and we look forward to working with him.

EMPLOYEES

On behalf of the Board, I would like to thank all the employees within the Group for their hard work and commitment during 2013.

OUTLOOK

Our Bio division is seeking to exploit a number of strong drivers for profitable growth in 2014. These include the increasingly robust stance adopted by the regulators in the Life Sciences sector, the clear and increasing problems associated with antibiotic resistance in the Healthcare sector as well as an improved business model which should generate a greater proportion of recurring revenues from sales of high margin consumables and rental products. However, in this division the year has started somewhat more slowly than we had expected but enquiries for our new products, especially from overseas markets, are encouraging.

We start the year with a robust defence order book for delivery this year, and we are expecting further defence-related orders during the year which should result in higher defence revenues in the second half.

TRaC has good momentum, excellent facilities, exposure to an international client base and an expanding range of high value services, many of which can be delivered without the need for substantial investment in additional capital equipment.

NIGEL KEEN

Chairman
Bioquell PLC 18 March 2014

STRATEGIC REPORT

WE ARE WORLD LEADING SUPPLIERS OF INNOVATIVE SOLUTIONS

SERVICE REVENUE

£26.9m

(2012: £25.2m)

NET ASSETS

£33.3m

(2012: £30.7m)

The Group comprises two divisions:

- Bio: applied bio-chemistry & engineering focussed on biological contamination control and the eradication of micro-organisms with a business model comprising equipment sales & rental, consumable sales and the provision of services; and
- TRaC: applied physics & engineering focussed on testing, regulatory and compliance with a business model comprising the provision of services.

Given the complexity of the businesses, particularly the Bio division, and the changes occurring therein, currently the Board monitors progress on its strategy by reference to two key performance indicators: revenues and pre-tax profit.

Information on the financial performance of the Group is included in the Chairman's statement.

BIO DIVISION Key strategic drivers

Micro-organisms – bacteria, viruses and fungi – are ubiquitous and can cause significant problems in a range of sectors around the world. In its Bio division, Bioquell's strategy is to generate revenues from the provision of novel, cost-effective technology-based solutions for contamination control and micro-organism eradication in the Life Sciences, Healthcare and Defence sectors. Initially our product offerings for Life Sciences and Healthcare were based around hydrogen peroxide vapour ("HPV") – but we have now expanded our technology and product range in these sectors beyond HPV alone.

Evolving microbiology: antibiotic resistance and the role of biofilms

Antibiotic resistance is a growing problem. The focus of clinicians' concern has been on the increasing antibiotic resistance of organisms such as MRSA or *C.difficile*. Although these organisms are still responsible for a significant proportion of Hospital Acquired Infection ("HAI") there are a number of classes of antibiotics which can be used to treat patients infected with these pathogens. However, recently highly resistant and increasingly "untreatable" Gram-negative organisms such as *Klebsiella pneumoniae* – part of the carbapenem-resistant *Enterobacteriaceae* ("CRE") family, *Pseudomonas*

aeruginosa and *Acinetobacter baumannii* have been creating major clinical issues for hospitals, and particularly intensive care units, around the world.

There is increasing evidence that bacteria will readily form a biofilm structure both in the environment as well as in wounds. A biofilm is a group of micro-organisms (such as bacteria) in which cells stick to each other on a surface. There is also scientific evidence that bacteria which have adopted a biofilm structure can be up to 1,000 times more resistant to antibiotics and/or disinfectants than the same bacteria in the single-cell planktonic form. Further, biofilms have been shown to contribute strongly to wounds not healing, which then become chronic wounds. Bioquell is increasingly targeting its HPV and BioxyQuell ("BxQ") peroxy-chemistry technology towards biofilms.

We have developed and are extending our product offering in the healthcare sector to help hospitals cope with the eradication of pathogens in the environment using HPV. We also provide single rooms designed to reinforce standard infection-control measures, improve patient flows and facilitate the "bioquelling" of bed spaces using our ICE-pod system. Our BxQ (aqueous oxygen peroxide) technology is designed to disrupt biofilms in chronic wounds (which may themselves become infected with antibiotic-resistant organisms).

Significant role of the regulators

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

In the Life Sciences sector the US Food & Drug Administration ("FDA") is becoming increasingly demanding around the world, for example recently banning a large Indian pharmaceutical company from exporting pharmaceutical products into the United States due to repeated regulatory violations. Further changes to the Food, Drug and Cosmetic Act in the USA are forcing changes in the way that compounding pharmacies prepare sterile drugs. Given the increasing number of biologically active or sensitive drugs on the market, regulatory oversight is only likely to become more onerous in the future.

STRATEGIC REPORT CONTINUED

The Group's Bio-decontamination division is the world leader in providing solutions based on hydrogen peroxide vapour technology to eradicate problematic bacteria, viruses and fungi, throughout a wide range of applications.

PERFORMANCE IN BRIEF

➤ 7% growth in the Group's Life Science revenues

➤ Bioquell launched a number of new products into the Life Sciences market: the integrated generator (IG-1), the QUBE, biological indicators (BIs), and chemical indicators (CIs)

In the Healthcare sector the relevant regulators, such as the Joint Commission in the USA and the CQC in the UK, are becoming increasingly sensitised to the threat to patient safety, together with the concomitant costs, associated with HAI. These regulators are able to impose economic sanctions on hospitals with inadequate measures for the prevention of HAI.

Evolving business model

Until recently Bioquell's business model, particularly in the Life Sciences sector, was largely predicated on equipment sales with few associated consumable revenues. However, we have been working since 2010 to reduce the proportion of our equipment-related revenues and to increase the proportion of recurring revenues in our business. These recurring revenues are associated with our ICE-pod rental business, higher margin consumables (comprising hydrogen peroxide consumables as well as biological & chemical indicators) and the expansion of our specialist Room Bio-Decontamination Service ("RBDS"). All new HPV-related products have been engineered to incorporate the use of a captive hydrogen peroxide consumable. We have also made good progress in securing the necessary regulatory approvals for the sale of our hydrogen peroxide consumables in a number of territories around the world and we have also put in place the supply chain to manage the delivery of these consumables to our international customer base.

Historically our strategy and growth was developed around the use of HPV to eradicate micro-organisms. However, over the last two years in addition to introducing new products with captive consumables, we have reduced our reliance on HPV by developing products such as the QUBE and the ICE-pod. These products incorporate novel manufacturing techniques developed at our facilities in Andover.

Market dynamics

Our strategy is to promote the use of Bioquell's technology to solve a broad range of micro-organism related problems for customers in the Life Sciences and Healthcare sectors. The markets are large, international and growing. Microbial-related problems are becoming more challenging, largely due to increasing antibiotic resistance and a better understanding of the role of biofilms. Many new, on-patent (and hence high margin) drugs are susceptible to bioburden contamination which can create patient safety and regulatory compliance problems. Moreover, the international

regulators are becoming more robust in enforcing the relevant regulations.

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

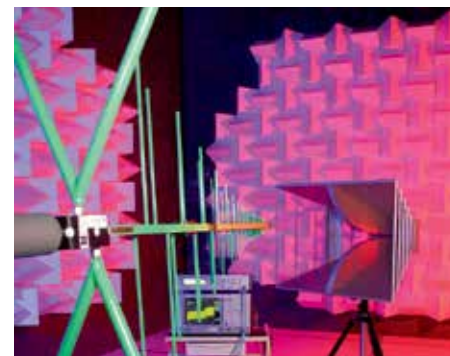
- many of our customers are highly conservative, adopt new technologies slowly and are generally resistant to change;
- particularly in large organisations, many customers find it easier and, in many cases, lower risk to "do nothing";
- in the Life Sciences sector, the research market is becoming more fragmented as "big-pharma" does less research itself and it can be harder to access the smaller research organisations; and
- in the Healthcare sector, many customers are extremely reluctant to discuss the scale of their antibiotic-resistant problems due to the potentially substantial adverse effect on their businesses. In addition, some customers have, to date, been reluctant to acknowledge the severity of the antibiotic-resistance challenge and have adopted a "good enough" or "do nothing" approach. This can create marketing and selling challenges for us.

LIFE SCIENCES SECTOR

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

Aseptic manufacture of bio-pharmaceutical products

In the last century pharmaceutical products typically comprised small molecules which did not need to be prepared under sterile (otherwise known as "aseptic") conditions. Subsequently as more complex pharmaceutical products were launched onto the market, demand evolved for terminal sterilisation, in which the product was sterilised at the end of the manufacturing process using steam sterilisation or other techniques including gamma irradiation and ethylene oxide. Today many of the high margin on-patent, bio-pharmaceutical drugs require aseptic production which essentially means that all aspects of the drug manufacturing process have to be carried out under sterile conditions. This has been an important and increasing driver of demand for Bioquell's HPV technology in the Life Sciences sector over the last decade.



The need for aseptic manufacture of bio-pharmaceutical products has also resulted in heightened, international regulatory oversight. For example, the regulators require manufacturers to introduce sterility test procedures which are used to help demonstrate the sterile manufacture of each product batch. Bioquell's recently launched QUBE aseptic work station is able to incorporate market-leading sterility test equipment. The requirement for sterility testing has already been shown to be an important driver of growth for QUBE sales.

Many new personalised medicine products which incorporate stem cell, gene or cell culture therapies require aseptic research and manufacturing equipment. These new therapies are beginning to drive demand for Bioquell's novel bio-decontamination products.

Bioquell's products and technologies for the Life Sciences sector

Bioquell's HPV technology is able to eradicate micro-organisms in rooms or on equipment without leaving any chemical residues at the end of the process and at ambient pressure and temperature. At the end of the cycle the peroxide is broken down to water vapour and oxygen using specialist catalytic filters, or is exhausted to atmosphere. The process has been shown to be compatible with electronic equipment. The level of micro-organism reduction is significant: Bioquell's HPV bio-decontamination process is tested using the same micro-organism challenge used to validate steam sterilisers.

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

The development of BIs, CIs, HP consumables and associated validation documentation has also been aligned with our strategic decision to

reduce our reliance on selling equipment and to increase the proportion of recurring revenues, both by the sale of services and consumables. 2013 was the first year of sales of BIs and CIs and we saw strong growth in this new high margin product line with a number of customers purchasing batches for evaluation and testing. We expect further strong growth in the sale of these consumables in 2014.

2013 was the first year of sales for the QUBE, a novel aseptic work-station which incorporates Bioquell's HPV technology. The QUBE exploits composite materials and novel manufacturing processes as well as incorporating a modular design, enabling the customers to configure the QUBE to match their process requirements. The design philosophy behind the QUBE is to enable customers to benefit from a flexible but simple-to-use work-station which can be rapidly validated for regulatory purposes by embedding significant complexity into each standard QUBE module. Orders for the QUBE have been encouraging with demand from around the world, including India, Brazil, USA and Japan as well as Europe.

HEALTHCARE

Bioquell's Healthcare strategy is to provide technology-based solutions which help hospitals reduce their HAI rates and combat the significant issues associated with antibiotics becoming less effective due to bacterial resistance.

Background

Up until about a decade ago most scientists and members of the medical profession believed that:

- i. the bacteria responsible for HAI died rapidly when removed from a source of nutrients; and
- ii. the biologically-contaminated hospital environment did not contribute to the spread of HAI (in part due to the belief that most bacteria did not survive for long in an environment devoid of nutrients).

Bioquell has invested significant time and research resources working with a number of leading international hospitals and associated Key Opinion Leaders to demonstrate that both of the above inter-connected points are unfounded.

For example, there is now clear evidence that bacteria responsible for HAI can survive in the inanimate hospital environment for many months. Equally, eradicating such bacteria from the hospital environment can result in a reduction in the HAI rate. A recent research paper¹ from a group at Johns Hopkins Hospital in Baltimore, one of America's top hospitals, showed that patients who were admitted into rooms that had been "bioquelled" were 64% less likely to become infected with a multi-drug resistant organism.

ICE-pod: Infection-Control Enclosure

Notwithstanding the numerous academic publications supporting the use of Bioquell's HPV technology to reduce HAI rates, it became clear that a significant number of our potential customers would encounter practical difficulties using our HPV technology due to the widespread use of multi-bed units (commonly known in the UK as "Nightingale wards"). Multi-bed units are common in the UK and also in the emerging markets, particularly within ICUs where they have also been associated with high HAI rates.

Bioquell's HPV technology needs to be deployed in an enclosed space. Therefore in order to facilitate more widespread "bioquelling" of bed-spaces, at the beginning of 2013 we launched the Infection-Control Enclosure pod ("ICE-pod") as a rental-based service product, focussing initially on the UK (NHS) market. The ICE-pod system comprises an individually tailored enclosure which can be easily installed around a bed space. We have worked closely and collaboratively with early adopters in the NHS to understand better how the ICE-pod can be used optimally within UK hospitals. Following this feedback we have refined the way we promote and sell the ICE-pod to hospitals as well as implementing additional key design features.

Whilst it is difficult to predict accurately adoption rates of new technology in the NHS, based on an ongoing dialogue with a range of NHS hospitals and a number of new ICE-pod orders from existing ICE-pod customers, we view the outlook for this product positively. We are also beginning to see demand for the ICE-pod from overseas hospitals.

1. Passaretti C.L. et al., Clinical Infectious Diseases 2013; 56(1): 27-35

STRATEGIC REPORT CONTINUED

GENERATING REVENUES ACROSS A BROAD RANGE OF SECTORS

Increasing antibiotic resistance – and the specific threat from CRE

Emerging markets in Asia, Latin America and the Middle East are facing substantial clinical challenges associated with antibiotic-resistant bacteria, particularly in ICUs and principally from highly resistant Gram-negative bacteria, especially the CREs (sometimes known as CPEs).

In most countries in the emerging markets there have been many years of stewardship (and hence misuse) of antibiotics resulting in the emergence of widespread antibiotic resistance from bacteria. Particularly dangerous is the growing pan-resistance of some Gram-negative organisms such as *Klebsiella pneumoniae*. In addition, due to the prevalence of intercontinental air travel there have been numerous cases of patients from emerging markets being admitted to North American and European hospitals with the associated introduction of highly resistant strains of bacteria. Air travel brings with it the risk that these highly resistant (and in some cases untreatable) strains of bacteria will spread rapidly around the world.

The clinical consequences of such problems are becoming far more severe. In the past, pan-drug resistance was perceived to be an academic and somewhat theoretical threat. Today we are seeing patients with these problems being admitted to acute care hospitals in a number of large US and European cities. In parallel there is increasing recognition of the threat by governments around the world. The British government's Chief Medical Officer, Dame Sally Davies, has recently written a book entitled: "The drugs don't work – a global threat" in order to try and highlight the scale and severity of the threat posed by the loss of viable antibiotic therapies.

The economics of antibiotic resistance

Although some of the latest, on-patent antibiotics can be expensive, the principal cost associated with HAI is the extended length of stay associated with patients who contract such an infection. Numerous academic studies have shown that patients who contract a HAI tend to stay in hospital significantly longer than equivalent patients who do not contract a HAI.

In addition, fully functioning and effective ICUs remain key to the revenues of most large, acute care hospitals. Complex surgery and advanced cancer treatments require access to ICU facilities. Moreover, such complex surgery is often high profile and generates significant fee income for

surgeons (and associated attending physicians) as well as substantial revenues for the hospital. Accordingly, an ICU which is contaminated with highly resistant Gram-negative bacteria can severely and adversely affect patient care which may also result in reduced revenues for the hospital and its medical professionals. There is the associated risk of substantial reputational damage with concomitant loss of revenues if the hospital becomes linked publicly to high HAI rates.

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

In addition, in some countries the regulators are imposing significant fines relating to HAI.

BioxyQuell – novel, topical treatment of wounds

BioxyQuell has been developing BioxyQuell ("BxQ"), BioxyQuell's novel peroxy-chemistry based wound treatment technology for a number of years. The technology now has regulatory approval in the EU allowing us to work on the commercialisation of BxQ in the UK.

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

We believe there are substantial opportunities for our BxQ technology as it appears to be efficacious against biofilms and assists in the treatment of chronic wounds. Such wounds can themselves be infected with antibiotic-resistant Gram-negative bacteria. We have generated encouraging efficacy data relating to BxQ from a pilot trial and a Randomised Controlled Trial, the data from which has been accepted in principle for publication in a scientific journal.

During 2013 we examined commercialising the BxQ system in the field of venous leg ulcers ("VLUs") in the UK. The successful treatment of VLUs is a significant problem for the NHS and Local Authorities across the UK, however we have established that at the current time the reimbursement regime and tariffs associated with treating VLUs within the NHS do not facilitate the adoption of a novel treatment technology such as that provided by our BxQ system.

Based on discussions with clinicians it is clear that there are a number of chronic wounds which are adversely affected by biofilms and where the current treatment options are costly and unsatisfactory. Accordingly we are currently working on commercialising BxQ around other chronic wounds. In particular there are serious wounds developed by a substantial number of diabetics which are difficult to treat and which lead to further unpleasant clinical consequences for the patient. Early investigations lead us to believe that treatment of these patients provides an opportunity for BxQ to be validated on a profitable basis to provide a solution for a significant unmet clinical need. Moreover, there is significantly greater funding available in the NHS for the treatment of diabetic patients as compared to patients with VLUs.

DEFENCE

Our defence business uses specialist filtration systems and other engineering solutions to provide Chemical, Biological, Radiological and Nuclear ("CBRN") filtration systems as well as environmental control systems, which together are referred to as collective protection ("COLPRO").

In 2011 we were awarded a development contract for the COLPRO system for the new British Army armoured personnel carrier for which General Dynamics, a large US defence group, is the prime contractor. We now expect this development contract to be completed during 2014. Assuming that vehicle trials by the Army are successful then we would anticipate manufacturing contracts for COLPRO systems to follow approximately 18 months thereafter.

We have a number of other defence contracts which are expected to be manufactured and invoiced during 2014.

TRAC DIVISION

TRaC is Group's Testing, Regulatory and Compliance division, comprising six well-equipped facilities across the UK as well as a small number of technical experts located in China.

TRaC is one of only three National Certification Bodies in the UK and also has its own "TRaC" mark.

The core part of TRaC's business comprises environmental (principally vibration and shock), electromagnetic (usually referred to as EMC), safety, explosive atmospheres, radio and telecoms testing.

Most of TRaC's largest clients are currently in the military and/or aerospace sector, as these clients need to comply with specific and often onerous test regimes. The majority of TRaC's clients are UK-based, however many of our large aerospace clients have substantial export revenues which allows TRaC significant indirect exposure to export markets.

In many markets there is a trend for the regulators to make the regulations more demanding. For example in 2014 the new European EMC directive will come into effect which is likely to help generate incremental revenues for TRaC. Against this backdrop of more onerous test requirements, over recent years TRaC has invested strategically in purchasing new specialist test equipment in order to be able to provide its large blue-chip, multi-national clients high quality test data rapidly. This selective investment has helped TRaC secure other related test work from such clients. We have also established dedicated test cells in our facilities around the UK for certain large blue-chip clients with substantial volumes of complex test work.

Since TRaC was formed in 2005 we have invested significant sums in our UK testing facilities which now comprise impressive centres of excellence with highly trained experts, modern (and in some cases unique) test equipment, including a number of dedicated, highly specialist client test cells. These TRaC facilities also represent a significant barrier to entry as the costs of replicating TRaC's facilities would be very substantial and essentially uneconomic for a new entrant to the market.

The well distributed geographic location of TRaC's facilities throughout the UK (the North West, North East, Midlands and the South of England) has helped us secure new clients who tend to want to minimise the travel time and related costs for their engineers.

Complementary non-testing consulting activities

In addition to our traditional testing business, we are beginning to expand our services into other complementary service offerings, including:

- ▶ early stage qualification ("ESQ") – where we assist clients at an early stage in their product development in order to help them maximise their chances of passing specific test requirements;
- ▶ regulatory compliance – where we help clients navigate specific regulatory challenges which they are likely to encounter with new product development; and
- ▶ approvals and certification – where we help clients obtain the necessary compliance certificates for new products which enable them to start selling in markets around the world.

Over recent years we have also expanded our expertise in telecoms, radio and wireless technologies. For example, we are a world-leader in ZigBee testing and approvals. As a result we are seeing demand for our expertise internationally, including in China.

In the future we are planning to generate an increasing proportion of TRaC's revenues from non-testing activities which do not require investment in additional expensive test equipment.

Sector focus – and sector-related opportunities

TRaC is already strong in the aerospace and defence sectors. However, there are a number of sectors in the UK and overseas where we are seeing specific growth opportunities such as the energy sector and in healthcare.

Mobile health – sometimes referred to as m-Health or e-Health – represents a significant opportunity for TRaC. In order to mitigate the costs for healthcare systems of admitting patients to hospital, there are a number of technology companies developing devices which monitor patients' health and/or specific conditions remotely. Such systems have to comply with a number of different international regulatory regimes including for example, the regulations governing medical devices as well as those governing wireless communications.

Challenges

TRaC has shown good growth in recent years and is now widely recognised to have developed a leading position in the UK market. In order to continue to grow we are looking to expand our

consulting revenues in the UK and internationally, particularly based around advisory services before formal testing commences.

We are seeing demand for certification and approvals services from Chinese clients who wish to sell products into markets such as in the USA and Europe. We are also seeing demand from clients in the developed markets for certification and approval services wishing to sell products into China. As a result of this demand we are expanding our team of experts in China. We also believe that there will be demand for many of these certification and approval services in the USA. Accordingly we are starting to expand our non-test activities into these two large markets.

Although the expansion of TRaC's activities away from its conventional business of UK-based testing using specialist equipment testing towards more consultancy-type international activities is not without risk, it does have the potential to increase substantially the size of TRaC's potential markets in business streams which are complementary to TRaC's core specialist testing business.

CONCLUSION

The Group has robust strategies in place to generate attractive organic growth. Life Sciences remains key to the profitability of the Bio division; however, the increasing problems that hospitals are facing with antibiotic resistance represent a substantial opportunity for our Healthcare business. TRaC is taking the key steps necessary to extend its activities beyond its original UK specialist testing business to secure additional profitable growth.

NICHOLAS ADAMS
Group Chief Executive
18 March 2014

RISKS AND UNCERTAINTIES

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

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

A summary of how the Group seeks to mitigate some or all of these principal risks and uncertainties is also set out in the table below. Given the nature of these risks and uncertainties – as well as the general nature of risk implicit in any commercial activities – investors should be aware that there can be no assurances that the mitigation of the risks summarised on pages 10 to 12 will be effective, in whole or in part.

RISK AND/OR UNCERTAINTY

MITIGATION

► Commercial

Ultimately in order to prosper the Group needs to sell its products and services to sufficient customers at an appropriate margin. This requires good marketing and effective selling of attractive products & services into large and increasingly international markets. Some of these markets are at different stages of maturity – or have different requirements due to, among other things, different levels of wealth or funding available to the market participants or differing regulatory requirements. In addition, some of the market requirements can change rapidly. Taken together it is non-trivial – and can be expensive – to have attractive products & services designed at the right price point for the different markets into which the Group sells.

The Group is spending more time talking with actual and prospective customers to try and anticipate market trends – and is working with customers to develop new products and services attractive to such customers. It is also constantly looking at ways in which it can exploit new lower cost digital marketing techniques to access new customers in a cost-effective manner. Further, it is also examining ways to reduce the prime costs of its equipment and services to increase margins and benefit from inherent price elasticity in the market. Where possible the Group is seeking to simplify its operations and product offerings.

► Uncertain adoption rates of new products or services

The Group is constantly developing new products and services around which there is inherent risk. Moreover, in both its principal divisions (Bio & TRaC) it is changing elements of its business model – and there is uncertainty as to how successful these new business models will be. Further, the associated product development and business model migration is expensive, requires resources and contains inherent uncertainty. For example, there is uncertainty as to how quickly new products or services will be adopted by the market – and hence concomitant uncertainty with revenue, profit and cash generation. Note that this uncertainty and risk relates to both slow and rapid adoption rates. Accordingly the Group needs to balance carefully the amount it invests in new product development and its manufacturing capabilities whilst ensuring it retains appropriate profitability and cash balances (or access to other sources of finance) in order to fund high levels of growth.

The Group undertakes "Voice of the Customer" market research and seeks to develop new products and services closely with existing or potential customers. The close involvement of customers helps increase the Group's confidence that such new products will be well received by the market and also provides a good basis for forecast adoption rates (and revenues). However, in reality actual adoption rates can only ever be established after a product launch.

The Group helps mitigate, in part, the financial uncertainty associated with new product launches by ensuring that it retains large cash balances and access to debt finance so that it is able to mitigate the effect of unexpected high or low adoption rates.

► Competition

Some of the Group's competitors are substantially larger than the Group and have, among other things, greater financial, selling and political lobbying resources. Accordingly there is a risk that the Group's business could be adversely affected by actions undertaken by these large competitors. Further, although Bioquell has a number of granted or pending patents internationally, which should help to protect the key components of its intellectual property from copying, there is a risk that competitors operating from territories with poorly enforced patent law/patent protection could copy, in part or in whole, Bioquell's products or services. In addition, in certain markets in which the Group operates there is the risk that "doing nothing" or finding something "good enough" is the preferred course of action taken by prospective customers for a number of reasons including apathy, management challenges, budget allocations, or a disinclination to acknowledge the severity of specific issues. Accordingly "doing nothing" or "doing a little" represents a form of competitive risk for some of the Group's products or services.

The Group monitors the activities of existing, new and potential competitors closely and is constantly reviewing and, as appropriate, refining its strategies, business models, sales and marketing activities, execution plans and new product development depending on, among other things, competitor activities.

The Group seeks to educate the relevant regulatory bodies or other governmental organisations responsible for the drafting or enforcement of regulations.

The Group has a significant portfolio of pending and granted patents and other intellectual property which is available to it to invoke, as appropriate.

The Group has developed specialist manufacturing skills which should help protect its market share and prospects.

The Group has detailed sales and marketing initiatives which are designed to, among other things, increase awareness of the Group's products and services – and make it harder for prospective clients to decide to "do nothing"; or opt for "good enough" or "do a little".

► Growth from international operations

The Group is experiencing significant growth in a number of the overseas territories in which it sells its products and services. There are a number of specific risks and management challenges associated with growth in overseas territories, including the preservation of high levels of customer service and support, margins and cash collection and repatriation.

In many overseas territories the Group uses third party distributors to sell and support its products which helps reduce its direct exposure to the territory – and hence helps reduce certain risks. The financial standing and credit limits of these distributors are, to the extent practicable, closely monitored. In overseas territories where the Group has a wholly owned subsidiary and/or employees, the Group uses a standardised approach to establish and monitor the trading activities, cash balances and delegated management authorities of these overseas subsidiaries.

► Regulatory

The Group operates in a number of countries and sectors which are highly regulated. There is a risk that the relevant regulations, or their interpretation, could be changed and such changes could significantly adversely affect the Group's business in that country or sector. Further, given the specialist nature of its activities there is a risk of jurisdictional dispute by the different regulators in a territory, as it may not always be clear which regulator has, or should have, jurisdiction over the Group's activities.

The Group endeavours to work closely and establish a dialogue, either directly or through its third party distribution partners and/or clients, with the relevant regulators in the territories in which it operates. In addition the Group may, from time to time, engage consultants or legal advisers to help with its discussions with, or strategic approach to, the regulators.

► Political

The regulatory risks and uncertainties summarised above can be closely linked to prevailing policies or strategies being pursued by politicians or civil servants. These policies or strategies can be affected by effective lobbying, including lobbying by the Group's competitors or customers, which could adversely affect the Group.

Generally the Group adopts a cautious, low-profile and conservative approach with its activities, particularly with those where there may be a political dimension. In some territories the Group is starting to develop relationships, either directly or indirectly, with politicians and civil servants to assist with its dialogue with governments and counter the risk posed by competitor lobbying.

► Technological

The Group is dependent on its technology – and products and services – continuing to be efficacious, cost effective and attractive to the marketplace. There is the risk that new technologies, products or services are developed by competitors which perform better, are easier to use or are more cost effective than those of the Group. Further, there is a risk that it takes longer, or costs more, than anticipated to complete the development of new technologies and/or new products.

The Group provides focussed products and services within its markets and accordingly is able to monitor relevant technological developments carefully – whether by competitors or third party research organisations, including universities. The Group takes into account such technological developments when reviewing and adjusting its strategy. It also uses a structured approach to new, different but complementary technologies to de-risk the Group's exposure to specific technologies.

► BioxyQuell

The Bio division has spent approximately £2 million developing novel peroxy-chemistry based wound care technology which has interesting applications for chronic wounds which comprise a large market. This technology is complementary to Bioquell's hydrogen peroxide vapour technology as chronic wounds can be infected by highly antibiotic-resistant pathogens. However, the commercialisation of, and adoption rates for, new healthcare technologies can be slow – particularly when sold into the NHS.

The Group is working carefully to identify not only potential clinical applications for this technology but also understand better the underlying reimbursement and/or tariffs associated with the treatment of different chronic wounds. The Group is spending more time on analysing the differing economics and payments associated with chronic wounds and is adjusting its commercialisation strategy for BxQ accordingly.

RISKS AND UNCERTAINTIES CONTINUED

RISK AND/OR UNCERTAINTY

MITIGATION

➤ Financial

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

The Group has standardised, detailed monthly management reporting packs which all of its subsidiaries are required to complete. These submissions are reviewed centrally and the key points discussed at regular subsidiary or divisional management meetings. As appropriate, foreign exchange hedging is undertaken centrally. In addition, there are detailed delegated management authority levels which cover, among other things, Key Financial Risks.

➤ Legal liabilities

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

Generally the Group adopts a cautious, low-profile and conservative approach with its activities. It has put in place a number of policies which employees are required to follow in order to reduce to the extent practicable these risks. Further the Group actively seeks to build a close relationship with its customers in order to resolve, as appropriate, any issues that may arise without the need for litigation.

➤ Reliance on suppliers

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

The Group seeks to work closely and in partnership with its key suppliers. It also has a key supplier review/audit programme which helps the Group make strategic decisions about working more closely with a given supplier or, if appropriate, take the decision to identify an alternative supplier.

➤ Reliance on customers within a given sector

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

The Group monitors carefully the revenue it generates from any single customer (or customer group) and if appropriate takes proactive steps to reduce the proportion of such revenues within the subsidiary or division – or seeks to sell other product lines to such customers in order to diversify this risk.

➤ Retention of key employees

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

The Group has in place a number of measures which are designed to optimise key employee retention including, but not limited to ensuring that their work is stimulating and interesting; their remuneration is competitive; and the work place environment and culture is attractive. Additionally, employees have the opportunity, as appropriate, to participate in equity upside from employee share option schemes.

DIRECTORS AND ADVISERS

NIGEL KEEN, FCA* FIET

Chairman

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

NICHOLAS ADAMS

Chief Executive

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

MARK BODEKER, CA

Chief Operating Officer & Chief Financial Officer

Joined the Board in April 2000, qualified with and subsequently worked for Deloitte Haskins and Sells for five years before moving to TI Group, holding a number of financial positions. Latterly he was Divisional Finance Director of Meggitt Aerospace Components.

TONY BOURNE*

Non-executive Director

Joined the Board in March 2009. He was Chief Executive of the British Medical Association until late 2013. Previously he held senior positions at the investment banks Hawkpoint, Paribas and Merrill Lynch. He is a Non-executive Director at Barchester, one of the UK's largest operators of residential care homes.

SIMON CONSTANTINE, ACA*

Non-executive Director

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

SIR IAN CARRUTHERS, OBE*

Non-executive Director

Joined the Board in August 2010. He is former Chief Executive of the NHS South of England and has extensive experience of the UK and international healthcare systems. He is a Non-executive Director of Partnerships in Care, Chancellor of the University of West of England and Chair of Healthcare UK.

CHRISTOPHER MILLS**

Non-executive Director

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

* Member of the Audit, Remuneration and Nominations Committees.

**Member of the Remuneration Committee.

SECRETARY

Georgina Pope, ACMA

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Andover
Hampshire SP10 3TS

AUDITORS

Deloitte LLP

Chartered Accountants
Reading

STOCKBROKERS

Investec Limited

BANKERS

Royal Bank of Scotland PLC

REGISTRARS

Capita IRG Plc

CORPORATE GOVERNANCE

INTRODUCTION BY THE CHAIRMAN

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

NIGEL KEEN

Chairman

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

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

The Directors consider that throughout the year ended 31 December 2013 the Company has been in compliance with the code provisions set out in the Code, except for code provision A.4.1 as the Board has not nominated a senior independent Director other than the Chairman, because the Board is small; and code provision D.2.1 as Nigel Keen is Chairman of the Remuneration Committee and also Chairman of the Company.

THE CHAIRMAN

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

THE BOARD

The Board comprises two executive and five non-executive Directors who possess the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively. The non-executive Directors are considered by the Board to be independent in character and judgement other than Christopher Mills who is not judged to be independent under the criteria set out in the Code as he represents shareholders controlling 27.1% of the Company's ordinary shares; the Board does not consider the fact that the other non-executive Directors hold shares in the Company impairs their independence. In the case of Simon Constantine, who has served on the Board for more than nine years, the Board is satisfied that he remains free from any relationship with the executive management of the Company which could interfere with the exercise of his independent judgement and that he continues to provide a rigorous challenge to management; he is proposed for re-election in accordance with the Code.

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

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

For the year ended 31 December 2013 the Board has completed its annual effectiveness evaluation exercise. This was an internal exercise under the control of the Chairman using a detailed questionnaire completed by all Directors in relation to the key areas of Board accountability and the arrangements in place to enable effective focus on these areas. Each Director has discussed the results of this review with the Chairman at the individual one-to-one interviews which the Chairman holds with the directors. The Chief Executive is also involved in the process by giving his input on the way the Board helps him in his role. The output from these evaluations allows the Chairman to review objectively the overall balance of the Board.

DIRECTORS' CONFLICTS OF INTEREST

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

COMMUNICATION WITH SHAREHOLDERS

The Board attaches a high priority to communications with shareholders. The Group's annual 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.

THE AUDIT COMMITTEE

The Audit Committee is chaired by Simon Constantine and oversees the proper observation of accounting standards, the application of the Group's accounting policies, its systems of internal financial controls and all issues relating to the preparation and approval of the Group's annual and half-yearly Reports and Accounts. The Committee also considers the effectiveness of the audit process, objectivity and independence of the Group's auditors by a process of assessment and keeps the scope of non-audit 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 report of the Audit Committee is included on pages 17 to 18.

THE REMUNERATION COMMITTEE

The Remuneration Committee consisted of five 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 19 to 26. The Board as a whole, determines the remuneration of the Chairman and the terms of his appointment and the remuneration of the other non-executive Directors. No Director is involved in deciding his own remuneration.

THE NOMINATIONS COMMITTEE

The Nominations Committee consisted of four non-executive Directors and is chaired by Nigel Keen. The Committee met twice during 2013. This Committee is responsible for nominating candidates for appointment to the Board having regard to the overall skills balance and composition of the Board. It also recommends to the Board the composition of the Board committees.

RISK MANAGEMENT AND INTERNAL CONTROL

A risk management policy is in place which sets out the Board's overall approach to management and acceptance of risk. The Directors and senior managers of each Group business are required to undertake their own risk identification and assessment according to the individual circumstances of the business which they manage, and this risk assessment is then reviewed and evaluated by the Group Finance Director and submitted to the Board for consideration. This system has been in place since 1 January 2013 and up to the date of approval of the Report and Accounts. This risk management process is regularly reviewed by the Board and accords with "Internal Control: Guidance for Directors on the Combined Code" produced by the Turnbull working party.

The Directors have overall responsibility for the system of internal control throughout the Group and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, as it can only provide reasonable, but not absolute, assurance against material misstatement or loss. The Board has conducted a review of the effectiveness of the system of internal control for the year ended 31 December 2013 and the period up to 18 March 2014. In carrying out this review the Board takes account of material developments through reports by the Chief Executive, the Group Finance Director and the Audit Committee. No significant issues were found during this review.

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

CORPORATE SOCIAL RESPONSIBILITY

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

Diversity

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

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

Human rights

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

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

Ratio of men and women

Women currently comprise approximately 20% of our Group-wide employees. With fewer than 50 employees in any single geographical location outside the UK, this ratio is evaluated on a Group-wide basis only.

Under the definition of senior managers as those reporting directly to Executive Directors, 5 of 18 such reports are women.

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

The environment

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

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

Health and safety

The Board is committed to ensuring the health and safety of the Group's employees and applies high standards throughout the Group in the control and management of its operations. All companies across the Group comply with relevant legislation and the Group communicates its health and safety policy to all employees. The Group has put preventative measures in place that aim to continue to reduce major injuries and lost time accidents. In the UK, during the year ended 31 December 2013, there were no fatalities or reportable (RIDDOR) injuries (2012: none) and 25 minor injuries (2012: 20).

AUDIT COMMITTEE

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

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

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

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

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

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

During the year ended 31 December 2013 the audit committee met three times and discharged its responsibilities by:

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

AUDIT COMMITTEE continued

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

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

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

Carrying value of internally generated intangible assets for capitalised development costs: the committee received and reviewed reports from management outlining the basis for the assumptions used. The Company's management and the auditor confirmed to the audit committee that the basis of capitalising costs and their amortisation had been carried out consistently with prior periods and in accordance with IAS 38. The committee reviewed the costs capitalised during the year, the amounts charged to the income statement by way of amortisation and the resulting net carrying values and compared these to sales and gross margins generated and forecast to be generated from the respective assets. In addition, this area is an area of higher audit risk and accordingly Deloitte provided detailed reporting to the committee on this matter. The committee was satisfied that the carrying values are appropriate.

Carrying value of BioxyQuell technology: costs continue to be capitalised and held as fixed assets and amortised on a straight-line basis over their useful lives which is deemed to be 15 years in respect of the development of BioxyQuell. Since this is the only intangible asset that has not generated any revenue to date, additional work was carried out by the audit committee to confirm the appropriateness of its carrying value. A detailed paper identifying a number of strategic opportunities for the commercialisation of BioxyQuell and including financial projections was prepared by management and examined by the audit committee. The committee challenged management on the assumptions supporting the financial projections and was satisfied that they are reasonable. Management confirmed that the assumptions had been applied consistently and accurately within the financial projections, which showed a net present value in excess of the carrying value in fixed assets. This area was a prime source of audit focus and accordingly the committee received detailed verbal and written reports from Deloitte on this matter. The committee was satisfied that the carrying value of the BioxyQuell asset is appropriate.

Revenue recognition and in particular the timing of recording of revenue in respect of products dispatched around the year end, given the significant volume of trade in December: the Company's management confirmed to the audit committee that the controls around year end shipping and invoicing of products and services remained in place and that shipments around the year end had been included in the correct accounting period. Deloitte also reported on their work on cut-off and noted no errors. The audit committee therefore was satisfied that the sales figure for the year included in the annual report and accounts fairly reflected the year's business.

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

As part of the review of auditor independence, Deloitte has confirmed that it is independent of the Company and has complied with applicable auditing standards. Deloitte has held office as auditor for 12 years; in accordance with professional guidelines the engagement partner is rotated after at most five years and the current partner has served for three years.

In assessing the auditor's effectiveness, the committee:

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

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

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

REMUNERATION COMMITTEE

DEAR SHAREHOLDER

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

- The Directors' Remuneration Policy sets out the policy for 2014 and the key factors that were taken into account in setting the policy. The Directors' Remuneration Policy will be subject to a binding shareholder vote for a period of 12 months at the AGM to be held on 19 May.
- The Annual Report on Remuneration sets out payments and awards made to the Directors and details the link between Company performance and remuneration for the 2013 financial year. The Annual Report on Remuneration is subject to an advisory shareholder vote at the AGM.

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

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

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

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

NIGEL KEEN

Chairman, Remuneration Committee

18 March 2014

REMUNERATION POLICY

The Remuneration Policy will come into effect from the date of the AGM in 2014 and remain in place for a period of one year. The main aim of the Group's remuneration policy is to align the interest of Executive and Non-Executive Directors with the Group's business strategy and the long-term creation of shareholder value. The policy aims to pay the Directors competitively, whilst considering the remuneration practices of other international companies of similar size and scope, the current economic climate, the regulatory and governance framework and the need to ensure that the Directors are remunerated appropriately, whilst ensuring the Group pays no more than is necessary.

Element of remuneration	Purpose of this element	Operation	Maximum potential benefit	Performance measures
Basic salary	To provide the basis of a market competitive overall remuneration. Takes account of the role, skills and contribution of the individual.	Basic salaries are normally reviewed annually in March with any changes usually taking effect from 1st April. The review includes a comparison with other companies of similar size and complexity whilst taking into account a number of critical factors such as individual responsibility, performance and experience.	Executive Director salaries as at 1st January 2014 are set at the following levels: Nicholas Adams CEO £298,000 Mark Bodeker CFO £242,600* Michael Roller GFD £192,000* Increases in salary are made in relation to Group and individual performance at the discretion of the Remuneration Committee.	n/a
Pension	To provide post-retirement remuneration to ensure that the overall remuneration package is competitive.	Executive Directors are entitled to an employer pension contribution of 15%. It is the Group's policy that only basic salary is pensionable.	Pension contributions to a maximum of 15% of base salary.	n/a
Other benefits	To provide market typical benefits to ensure that the overall remuneration package is competitive.	Executive Directors currently receive a car allowance and health insurance. The Group would consider payment of relocation expenses on an individual basis.	There are no set maximums for these benefits but they are set in line with other wider employee remuneration.	n/a
Annual bonus	To support the business strategy by incentivising the delivery of annual financial targets as well as the achievement of personal and strategic objectives. To provide market competitive reward opportunities for the achievement of strong financial performance. To align the interests of Executives and shareholders.	A cash bonus award paid after the publication of the financial results for the year.	100% of salary.	75% of the award is based on financial targets (50% Group PBT and 25% on Group turnover) and 25% on personal and strategic objectives.
Long-term incentives	To create alignment between the interest of Executives and shareholders through the delivery of rewards in Company shares. To incentivise Executives to deliver long-term shareholder value creation and the achievement of financial targets.	An award of share options under the Group's Executive Share Options ("ESO") Scheme that vest subject to EPS growth of RPI+ 7.5% compounded over three years. There is no retesting if the performance condition is not met at the end of the three year vesting period.	Awards up to 100% of salary can be made each year. During 2013 actual awards were made at 100% of salary.	Vesting over three years subject to compound EPS growth at RPI+ 7.5% p.a.
The Bioquell SAYE scheme	The scheme is an HM Revenue and Customs "approved" scheme the purpose of which is to allow all UK employees the chance to invest in the Company.	Invitations are issued to all permanently employed UK staff, including Executive Directors to invest a maximum of £250 per month over a three year period to obtain shares the options for which are granted at a 20% discount to market value.	Maximum benefit depends on share price growth during the vesting period. Options cannot be exercised until the third anniversary of grant is reached, after which the participant has six months in which to exercise the option before it expires.	n/a

*Mark Bodeker, the CFO, will cease to be a Director on 18 March 2014. Michael Roller started working for the Group on 10 February 2014 and will formally take up the position of Group Finance Director on 19 March 2014.

POLICY ON NON-EXECUTIVE DIRECTORS

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

No increase was made during 2013.

PERFORMANCE MEASURES AND TARGETS

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

REMUNERATION POLICY FOR EMPLOYEES

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

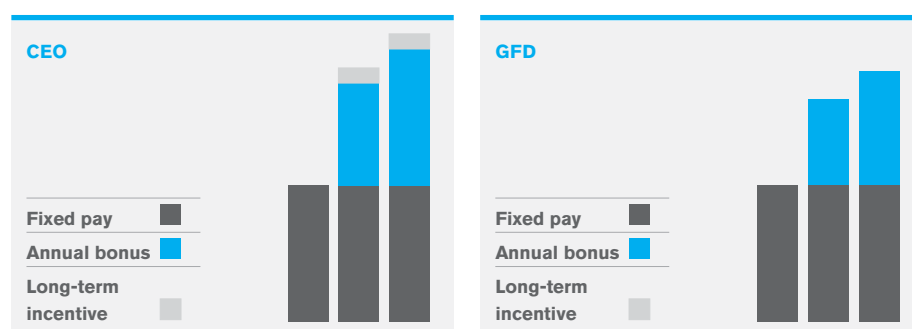
CHANGES TO REMUNERATION POLICY

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

REMUNERATION SCENARIOS

The Committee believes that the remuneration arrangements in place for 2014 and beyond provide an appropriate balance between fixed and variable pay linked to short and long-term strategic objectives. The charts below illustrate the current value and composition of the Executive Directors' remuneration opportunity in minimum, "on-target" and maximum performance scenarios.

Minimum:	No bonus payout No vesting under the ESO scheme
On target:	75% of maximum annual bonus payment 100% of maximum vesting under the ESO scheme
Maximum:	100% of maximum annual bonus payment 100% of maximum vesting under the ESO scheme



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

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

REMUNERATION POLICY continued

RECRUITMENT POLICY

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

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

EXIT PAYMENTS

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

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

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

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

SERVICE CONTRACTS AND NOTICE PERIODS

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

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

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

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

REMUNERATION REPORT

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

The Committee consists of four independent Non-Executive Directors: Nigel Keen (Chairman), Tony Bourne, Sir Ian Carruthers and Simon Constantine and Christopher Mills. Nigel Keen is also Chairman of the Company and, as has been described in the Corporate Governance introduction above, the Board considers that it is appropriate that he is also Chairman of the Committee. The Committee defines the Company's policy on remuneration, benefits and terms of employment. As part of this process, it provides a formal framework for the development of remuneration policy for Executive Directors and for fixing the remuneration packages of individual Directors. The Board, as a whole, is responsible for fixing the remuneration of the Non-Executive Directors, including the Chairman.

The Committee has access to independent, external advisers when required but did not seek external advice during the year ended 31 December 2013. The Committee sought input from the Chief Executive on remuneration of senior staff. The Chairman maintains contact with principal shareholders regarding remuneration policy.

SINGLE TOTAL FIGURE OF REMUNERATION FOR EACH DIRECTOR

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

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

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

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

2012	Salary & fees £'000	Benefits* £'000	Annual bonus £'000	Long-term incentives £'000	Pension contribution £'000	SAYE £'000	Total £'000
Executive Directors							
Nicholas Adams	282	11	46	—	43	—	382
Mark Bodeker	243	8	23	—	36	—	310
	525	19	69	—	79	—	692
Non-Executive Directors							
Nigel Keen	63**	—	—	—	—	—	63
Tony Bourne	30	—	—	—	—	—	30
Sir Ian Carruthers	30	—	—	—	—	—	30
Simon Constantine	30	—	—	—	—	—	30
Christopher Mills	—	—	—	—	—	—	—
	153	—	—	—	—	—	153
Total	678	19	69	—	79	—	845

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

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

CHAIRMAN

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

REMUNERATION REPORT continued

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 contributed a maximum of 15% during the year ended 31 December 2013. Bonus payments are excluded from the contribution calculations. During the year the Company contributed £45,000 (2012: £43,000) into a pension scheme in respect of Nicholas Adams and £36,000 (2012: £36,000) in respect of Mark Bodeker.

OUTCOME OF THE ANNUAL BONUS AWARD FOR THE YEAR ENDED 31 DECEMBER 2013

In determining the awards for 2013, the Committee took into account the profit before tax, the Group's turnover and the individual objectives of each Executive Director. The performance targets, actual performance achievement and resulting bonus payments are summarised below:

Performance measures	Weighting	Nicholas Adams			Mark Bodeker		
		% of target achieved	Maximum opportunity £'000	Bonus receivable £'000	% of target achieved	Maximum opportunity £'000	Bonus receivable £'000
Profit before tax	50%	—	148	—	—	121	—
Group turnover	25%	—	75	—	—	61	—
Personal objectives	25%	81%	75	60	33%	61	20
Total	100%	20%	298	60	8%	243	20

PAYMENT FOR LOSS OF OFFICE

No payments for loss of office were made during 2013.

DIRECTORS' OPTIONS OVER SHARES

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

	Type of scheme award	Basis of award	Face value	% of award vesting for minimum performance	Length of vesting period	Summary of performance measures
Nicholas Adams	Share option	Under Executive Share Option Scheme	284,210	100%	3 years	EPS growth of RPI +7.5% compounded over three years
Mark Bodeker	Share option	Under Executive Share Option Scheme	241,725	100%	3 years	EPS growth of RPI +7.5% compounded over three years

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

Director	1 January 2013	Granted/ (exercised)	Lapsed	31 December 2013	Exercise price (p)	Date from which exercisable	Expiry date
Nicholas Adams	169,355	—	(169,355)	—	155.0	17.03.13	17.03.17
	257,000	—	—	257,000	104.0	23.03.14	23.03.18
	225,000	—	—	225,000	122.5	29.03.15	29.03.19
	—	194,000	—	194,000	146.5	19.04.16	19.04.20
Mark Bodeker	149,032	—	(149,032)	—	155.0	17.03.13	17.03.17
	226,000	—	(226,000)	—	104.0	23.03.14	23.03.18
	198,000	—	(198,000)	—	122.5	29.03.15	29.03.19
	—	165,000	(165,000)	—	146.5	19.04.16	19.04.20
	1,224,387	359,000	(907,387)	676,000			

All the options held during the year were subject to performance conditions. No options remained live having vested at the end of the year. The Executive Directors did not exercise any options during the year. The 2010 grant of the SAYE scheme did vest in the year, Mr Adams and Mr Bodeker received 10,843 shares each at a cost of 83p per share. The market price on the date of exercise was 138p.

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

STATEMENT OF DIRECTORS' SHARE INTERESTS

	31 December 2013	% Share capital	1 January 2013
Christopher Mills*	11,500,000	27.1%	9,232,471
Nicholas Adams	985,843	2.3%	830,000
Simon Constantine	470,000	1.1%	470,000
Nigel Keen	127,270	0.3%	92,270
Mark Bodeker	97,604	0.2%	86,761
	13,180,717		10,711,502

*Mr Mills is Chief Investment Officer and a member of Harwood Capital LLP which owns 27.1% of the share capital.

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

		CEO single figure of total remuneration £'000	Annual bonus awarded as a % of the maximum opportunity %	LTIP awards vesting as a % of the maximum award %
2013	Nicholas Adams	407	21%	—
2012	Nicholas Adams	382	16%	—
2011	Nicholas Adams	489	60%	—
2010	Nicholas Adams	425	30%	100%
2009	Nicholas Adams	427	48%	100%

PERCENTAGE CHANGE IN REMUNERATION OF CEO AND EMPLOYEES

The percentage change in remuneration between 2013 and 2012 for the CEO and for all employees in the Group was:

	Salary % change	Taxable benefits % change	Bonus % change
CEO	3.2%	—	30%
All employees	4.8%	3%	(23%)

RELATIVE IMPORTANCE OF SPEND ON REMUNERATION

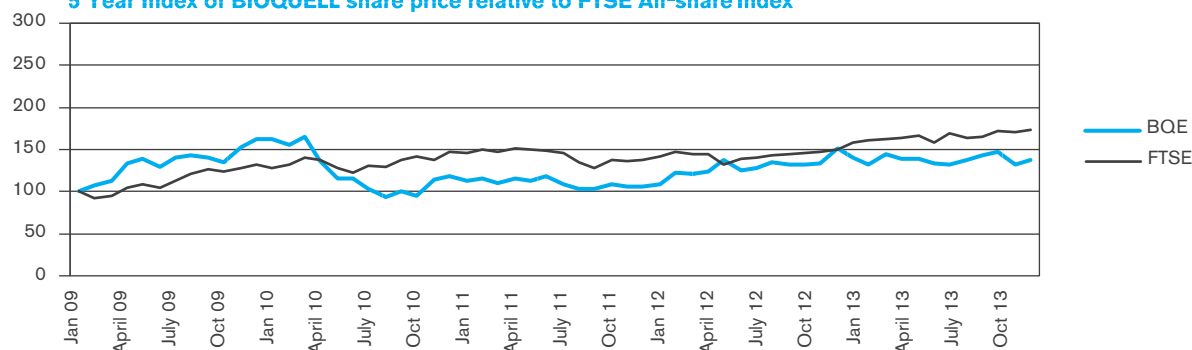
The following table shows the increase in actual expenditure on remuneration across the Group between 2012 and 2013 in comparison to movement in dividends:

	2013 £'000	2012 £'000	Change %
Dividend	1,400	1,282	9.2%
Remuneration	19,988	19,265	3.8%

PERFORMANCE GRAPH

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

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



REMUNERATION REPORT continued

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN THE FOLLOWING FINANCIAL YEAR

The salaries for 2014 are set out below:

	From 1 July 2013	From 1 April 2014
Nicholas Adams	£298,000 p.a.	£307,000 p.a.
Mark Bodeker	£242,600 p.a.	n/a
Michael Roller*	n/a	£192,000 p.a.

*Mr Roller's salary takes effect from his start date of 10 February 2014.

Annual bonus will be based around the criteria outlined in the Remuneration Policy (on page 20). Individual strategic targets are considered to be commercially sensitive and therefore not disclosed.

STATEMENT OF CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE COMPANY

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

STATEMENT OF CONSIDERATION OF SHAREHOLDER VIEWS

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

STATEMENT OF VOTING AT ANNUAL GENERAL MEETING

The table below shows the advisory vote on the 2012 Directors' Remuneration Report.

	Votes for and at discretion	% of votes cast	Votes against	% of votes cast	Votes withheld	% of votes cast
2012 Remuneration Report	16,161,531	85.1%	2,834,171	14.9%	—	—

The first votes on the Annual Report on Remuneration and the Directors' Remuneration Policy are due to take place at the 2014 AGM to be held on 19 May.

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2013. The Corporate Governance Statements set out on pages 14 to 15 forms part of this report.

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position, and the risks and uncertainties which affect the business, are set out in the Strategic Report on pages 5 to 9. The Group has sufficient financial resources to cover budgeted future cashflows, together with contracts with its customers and suppliers across different geographic areas and industries. The Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

In accordance with the Corporate Governance requirements and the Statement of Directors' responsibilities on page 29, the Directors confirm that they have a reasonable expectation that the Group has adequate financial resources to continue to trade for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the financial statements.

DIRECTORS AND DIRECTORS' INTERESTS

The Directors of the Company are shown on page 13. All of them served throughout the year and through to the signing of the financial statements. The interests of the Directors in ordinary shares and options to acquire ordinary shares in the Company are set out in the Directors' Remuneration Report on pages 23 to 26.

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.

Sir Ian Carruthers and Simon Constantine retire by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election. Biographical information on all directors can be found on page 13.

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 £1,613,000 (2012: £1,297,000) – the total expenditure was £3,038,000 (2012: £3,938,000).

SUBSTANTIAL SHAREHOLDINGS

On 31 December 2013 the Company had been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the following voting rights as a shareholder of the Company.

Ordinary shareholders	Number	Percentage of issued ordinary share capital
Harwood Capital LLP*	11,500,000	27.1%
M&G Investment Management Limited*	6,161,282	14.5%
Prudential Group of companies*	4,167,514	9.8%
A.H.J. Muir	2,207,175	5.2%
J. G. Salkeld	2,046,477	4.8%

*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.

During the period between 31 December 2013 and 18 March 2014 the Company did not receive any notifications under chapter 5 of the Disclosure and Transparency Rules.

DIVIDENDS

The Board is recommending the payment of a final dividend of 3.30 pence per ordinary share to be paid on 2 July 2014 to ordinary shareholders on the register on 6 June 2014, representing a total payment of £1,400,000 (2012: £1,282,000).

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 25. The Company has one class of ordinary shares. Each share carries the right to one vote at general meetings of the Company and carries no right to fixed income.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. Details of employee share schemes are set out in note 33. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

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

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.

DIRECTORS' REPORT continued

DISABLED EMPLOYEES

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

EMPLOYEE COMMUNICATION

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

CORPORATE CARBON REPORTING

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

	2013 Tonnes of CO ₂ e
Scope 1 (direct emissions – boilers & vehicles)	705
Scope 2 (energy indirect – purchased electricity)	1,789
Total emissions	2,494
Intensity Ratio – tonnes of CO ₂ e per £m revenue	56

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

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

DISCLOSURE OF INFORMATION TO THE AUDITORS

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

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

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

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

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

GEORGINA POPE

Secretary

18 March 2014

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

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

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

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

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

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

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

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

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

By order of the Board

NICHOLAS ADAMS
Chief Executive Officer
18 March 2014

MARK BODEKER
Chief Financial Officer
18 March 2014

INDEPENDENT AUDITORS' REPORT

to the members of Bioquell PLC

OPINION ON FINANCIAL STATEMENTS OF BIOQUELL PLC

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes 1 to 34 to the consolidated financial statements and 1 to 14 to the parent company financial statements. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

GOING CONCERN

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

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

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

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

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

Risk	How the scope of our audit responded to the risk
The assessment of the carrying value of intangible assets for capitalised development costs given the significant investment in research and development and the judgements involved in the realisation of the capitalised costs.	We challenged management's assumptions used in assessing impairment of intangible assets, including the assumptions underlying the financial models.
	In respect of Bioxyquell, we sought third party evidence of the efficacy of the product in wound care treatment. We also sought third party evidence which allowed us to evaluate the proposed price points which underpin its commercial realisation. We assessed management's financial assumptions; in particular forecast patient numbers, units deployed and rental revenue rates.
	We performed substantive testing on a sample of costs including comparing to invoices and timesheets to assess whether the capitalised costs met the recognition criteria of IFRS.
Revenue recognition including the assessment of percentage completion on long-term contracts spanning the period end and the timing of recording of revenue in respect of products dispatched around the year end, given the significant volume of trade in December.	We performed substantive tests on a sample of contracts to evaluate whether revenue was recognised in accordance with agreed milestones or on percentage completion based on costs incurred.
	We performed substantive tests on a sample of product shipments comparing to dispatch and/or delivery documentation to assess whether revenues were recorded in the correct period.

The Audit Committee's consideration of these risks is set out on pages 17 to 18.

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

OUR APPLICATION OF MATERIALITY

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

We determined materiality for the group to be £231,000, which is 7.5% of pre-tax profit.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £10,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the group level.

Based on that assessment, we focussed our Group audit scope primarily on the audit work at five locations being the UK, France, Ireland, Singapore and the US, covering a total of seven trading entities. Five of these entities were subject to a full audit, whilst the remaining two entities were subject to an audit of certain specified account balances where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's business operations at those locations. These seven entities represent the principal business units within the Group's two reportable segments and account for 99% of the Group's net assets, 98% of the Group's revenue and 100% of the Group's profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the five locations was executed at levels of materiality applicable to each individual entity which were lower than group materiality.

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

The Senior Statutory Auditor continued to visit the locations where the Group audit scope was considered the most significant at least once a year.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

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

Corporate Governance Statement

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

INDEPENDENT AUDITORS' REPORT continued

to the members of Bioquell PLC

Our duty to read other information in the Annual Report

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

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

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

Respective responsibilities of directors and auditor

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

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

Scope of the audit of the financial statements

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

JOHN CLENNETT (SENIOR STATUTORY AUDITOR)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Reading, UK

18 March 2014

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2013

	Notes	2013 £'000	2012 £'000
Revenue	4	44,637	40,995
Cost of sales		(24,034)	(21,360)
Gross profit		20,603	19,635
Gross profit margin		46%	48%
Operating expenses:			
Sales & marketing costs		(8,329)	(7,505)
Administration costs		(6,344)	(5,337)
R&D and engineering costs		(3,027)	(2,595)
Profit from operations	6	2,903	4,198
Investment revenues	8	302	2
Finance costs	9	(124)	(247)
Profit before tax		3,081	3,953
Tax	10	(30)	41
Profit for the year	30	3,051	3,994
Earnings per share – basic	11	7.3p	9.6p
– diluted		7.2p	9.5p

Movements in reserves are set out in notes 25, 26, 27, 28, 29 and 30.

All amounts are derived from continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2013

	2013 £'000	2012 £'000
Net profit for the year	3,051	3,994
Exchange differences on translation of foreign operations*	(37)	32
Total recognised income	3,014	4,026

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

CONSOLIDATED BALANCE SHEET

as at 31 December 2013

	Notes	2013 £'000	2012 £'000
Non-current assets:			
Goodwill	13	691	691
Other intangible assets	14	13,318	11,906
Property, plant & equipment	15	14,788	13,817
Deferred tax assets	21	175	175
		28,972	26,589
Current assets:			
Inventories	17	2,512	2,752
Trade and other receivables	18	9,832	10,057
Derivative financial instruments	20	293	—
Current tax asset		—	235
Cash and cash equivalents		3,550	3,010
		16,187	16,054
Total assets		45,159	42,643
Current liabilities:			
Trade and other payables	22	(7,370)	(7,780)
Derivative financial instruments	20	—	(9)
Current tax liabilities		(75)	—
Borrowings	19	(224)	(105)
Provisions	23	(77)	(76)
Net current assets		8,441	8,084
Non-current liabilities:			
Deferred tax liabilities	21	(2,845)	(2,975)
Other non-current liabilities	24	(1,309)	(968)
Total liabilities		(11,900)	(11,913)
Net assets		33,259	30,730
Equity:			
Share capital	25	4,243	4,179
Share premium account	26	712	210
Equity reserve	27	1,892	1,736
Capital reserve	28	255	255
Translation reserve	29	(113)	(76)
Retained earnings	30	26,270	24,426
Equity attributable to equity holders of the Company		33,259	30,730

The financial statements of Bioquell PLC, registered number 00206372, were approved by the Board of Directors and authorised for issue on 18 March 2014.

They were signed on its behalf by:

NICHOLAS ADAMS
Director
18 March 2014

MARK BODEKER
Director
18 March 2014

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

	2013 £'000	2012 £'000
Profit for the year	3,051	3,994
Exchange differences	(37)	32
Total comprehensive income in the year	3,014	4,026
Other movements in the year:		
Issued share capital	64	4
Issued share premium	502	42
Credit to equity reserve for share-based payments	231	235
Movement in deferred tax charged to equity	—	6
Final dividend for year ended 31 December 2012/2011	(1,282)	(1,182)
Net increase in equity shareholders' funds	2,529	3,131
Equity shareholders' funds at beginning of year	30,730	27,599
Equity shareholders' funds at end of year	33,259	30,730

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Net cash from operating activities	31	7,506	6,015
Investing activities			
Proceeds on disposal of property, plant and equipment		24	57
Purchases of property, plant and equipment		(3,940)	(3,109)
Expenditure on product development		(2,270)	(3,086)
Purchase of intangible asset		(494)	(792)
Net cash used in investing activities		(6,680)	(6,930)
Financing activities			
Proceeds on issue of ordinary shares		566	46
Dividends paid on ordinary shares		(1,282)	(1,182)
Repayment of borrowings		(135)	(104)
New bank loans raised		595	—
Net cash used in financing activities		(256)	(1,240)
Net increase/(decrease) in cash and cash equivalents		570	(2,155)
Bank cash at beginning of year		3,010	5,179
Effect of foreign exchange rate changes		(30)	(14)
Bank cash at end of year		3,550	3,010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2013

1. GENERAL

Bioquell PLC (the "Company") is a Public Limited Company incorporated in the United Kingdom. The address of the registered office is given on page 13. The financial statements are presented in pounds sterling (£) since that is the currency in which the majority of the Group's transactions are denominated.

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

IFRS 7 (amended)	Disclosures – Offsetting Financial Assets and Financial Liabilities
IFRS 13	Fair Value Measurement
IAS 1 (amended)	Presentation of Items of Other Comprehensive Income
IAS 12 (amended)	Deferred Tax: Recovery of Underlying Assets
IAS 36 (amended)	Recoverable Amount Disclosures for Non-Financial Assets (early adopted)

Annual Improvements to IFRSs (2009 – 2011) Cycle

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

IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 12	Disclosure of Interest in Other Entities
IFRS 11	Joint Arrangements
IAS 27 (revised)	Separate Financial Statements
IAS 28 (revised)	Investments in Associates and Joint Ventures
IAS 32 (amended)	Offsetting Financial Assets and Financial Liabilities
IAS 39 (amended)	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC Interpretation 21	Levies

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

Basis of preparation

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Strategic Report on pages 5 to 9 and the Directors' Report on pages 27 to 28.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Revenue recognition

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

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

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

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

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

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

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

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

Profit from operations

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

Property, plant and equipment

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

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

Freehold land is not depreciated.

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

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

The gain or loss arising on the disposal or 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.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

Government grants

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

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

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

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

Goodwill

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

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

Internally generated intangible assets – research & development expenditure

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Intangible assets – customer relationships

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

Patents and trademarks

Patents and trademarks are measured initially at cost which includes all costs directly attributable to acquiring the patent or trademark including the registration, documentation, and other legal fees associated with the application. They are amortised over their estimated useful lives, which is 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 cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

Foreign currencies

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

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

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

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

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

Leasing

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

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Financial assets

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

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

Loans and receivables

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

Impairment of financial assets

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

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

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

Cash and cash equivalents

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

Trade payables

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

Financial liabilities and equity

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

Debt and equity instruments

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

Financial liabilities

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

Financial liabilities at FVTPL

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

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

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

Other financial liabilities

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

Derivative financial instruments

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Provisions

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

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

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

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

Share-based payments

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Internally generated intangible assets

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

Impairment of other intangible assets

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

Revenue recognition

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

4. REVENUE

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

	2013 £'000	2012 £'000
Sales of goods	17,704	15,828
Revenue from the rendering of services	26,933	25,167
	44,637	40,955
Interest	—	2
	44,637	40,957

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

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

Assets and liabilities are allocated to reportable segments.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

5. BUSINESS AND GEOGRAPHICAL SEGMENTS CONTINUED

Year ended 31 December 2012	BIO £'000	TRaC £'000	Consolidated £'000
Revenue			
Total revenue	25,927	15,068	40,995
Result			
Segment result	2,619	3,031	5,650
Unallocated head office costs			(1,452)
Profit from operations			4,198
Finance costs and investment revenue			(245)
Profit before tax			3,953
Tax			41
Profit for the year			3,994
Other information			
Capital additions	5,690	1,300	6,990
Unallocated corporate additions			—
Total capital additions			6,990
Depreciation and amortisation	2,600	1,145	3,745
Unallocated corporate depreciation			44
Total depreciation and amortisation			3,789

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

Balance sheet as at 31 December 2012	BIO £'000	TRaC £'000	Consolidated £'000
Assets			
Segment assets	26,580	11,333	37,913
Unallocated corporate assets			4,730
Consolidated total assets			42,643
Liabilities			
Segment liabilities	8,211	3,010	11,221
Unallocated corporate liabilities			692
Consolidated total liabilities			11,913

Geographical segments

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

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

Sales revenue by geographical market	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
UK	20,165	18,543
Rest of Europe	8,816	8,584
Rest of World	15,656	13,868
	44,637	40,995

5. BUSINESS AND GEOGRAPHICAL SEGMENTS CONTINUED

Geographical segments continued

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

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	Year ended 31 December 2013 £'000	Year ended 31 December 2012* £'000	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
UK	26,259	24,039	6,313	6,734
Rest of Europe	2,249	2,248	65	103
Rest of World	464	302	331	153
	28,972	26,589	6,709	6,990

*2012 assets restated to show non-current assets only.

6. PROFIT FROM OPERATIONS

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

	2013 £'000	2012 £'000
Research & development costs	1,613	1,297
Depreciation of property, plant and equipment	2,906	2,664
Amortisation of development costs	1,127	947
Amortisation of trademarks, patents and licence fees	223	178
Cost of inventories recognised as an expense	6,933	7,154
Staff costs (see note 7)	19,988	19,265
Loss on disposal of property, plant and equipment	55	2
Net foreign exchange costs/(gains)	107	(190)

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

	2013 £'000	2012 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	30	29
Fees payable to the Company's auditors for the audit of the subsidiaries pursuant to legislation	104	96
Total audit fees	134	125
Audit related assurance services	6	4
Taxation compliance services	17	19
Total non-audit fees	23	23

A description of the work of the audit committee is set out in the Corporate Governance section on pages 14 to 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:

	2013 Number	2012 Number
Production shopfloor	130	118
Engineering directs	142	142
	272	260
Sales and marketing	99	92
Administration	53	48
Other	25	31
	177	171
	449	431

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

7. STAFF COSTS CONTINUED

Their aggregate remuneration comprised:

	2013 £'000	2012 £'000
Wages and salaries	17,007	16,455
Social security costs	1,948	1,872
Other pension costs	802	703
Share-based payments	231	235
	19,988	19,265

Details of Directors' remuneration, share options and pension contributions are included in the element of the Directors' Remuneration Report, marked as audited, on pages 23 to 26.

8. INVESTMENT REVENUES

	2013 £'000	2012 £'000
Bank deposits	—	2
Change in fair value of derivative financial instruments	302	—
	302	2

9. FINANCE COSTS

	2013 £'000	2012 £'000
Interest on bank loans and overdrafts	124	58
Change in fair value of derivative financial instruments	—	189
	124	247

10. TAX

	2013 £'000	2012 £'000
UK corporation tax current year	(184)	(19)
UK corporation tax prior year	24	176
Deferred tax charge current year	227	(235)
Deferred tax adjustment prior year	(97)	119
	(30)	41

Corporation tax is calculated at 23.5% (2012: 24.5%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	2013 £'000	2012 £'000
Profit before tax	3,081	3,953
Tax at the UK corporation rate of 23.5% (2012: 24.5%)	(724)	(968)
Adjusted for:		
Tax effect of expenses not deductible in determining taxable profit	(108)	(107)
Effect on deferred tax asset of movement in share price	(39)	40
Effect of research and development relief	671	420
Tax effect of different tax rate of subsidiaries operating in other jurisdictions	10	74
Deferred tax not recognised on other timing differences	(159)	(92)
Prior year adjustment	(73)	295
Recognition of tax losses	—	(7)
Effective change in tax rate	392	386
	(30)	41

Nothing was charged directly to equity (2012: credit to equity of £6,000). The prior year credit 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 2013 £'000	Year ended 31 December 2012 £'000
Earnings		
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	3,051	3,994
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	41,920,410	41,762,635
Effect of dilutive potential ordinary shares:		
– share options	576,681	428,345
Weighted average number of ordinary shares for the purposes of diluted earnings per share	42,497,091	42,190,980

12. DIVIDENDS

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2012 of 3.06p per share (2011: 2.83p)	1,282	1,182
Proposed final dividend for the year ended 31 December 2013 of 3.30p per share (2012: 3.06p)	1,400	1,279

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

13. GOODWILL

	£'000
Cost	
As at 1 January 2012, 1 January 2013 and 31 December 2013	705
Accumulated impairment	
As at 1 January 2012, 1 January 2013 and 31 December 2013	14
Carrying amount	
As at 31 December 2013	691
As at 31 December 2012	691

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

	2013 £'000	2012 £'000
Bio-decontamination segment	—	—
TRaC segment	691	691
	691	691

The Group tests goodwill annually for impairment, based on estimated future cash flows and discounted at a rate reflecting current market assessments of the time value of money and the risks specific to the business segments, or more frequently if there are indications that goodwill might be impaired. The Group prepares discounted cash flows using the most recent financial budgets approved by the management and assumes an estimated extrapolated growth rate of 2% (2012: 2%) per year over three (2012: three) years. The cash flows are discounted at a rate of 2% (2012: 12%).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

14. OTHER INTANGIBLE ASSETS

	Customer relationships £'000	Development costs* £'000	Trademarks licences and patents* £'000	Total intangible assets £'000
Cost				
As at 1 January 2012	619	14,345	86	15,050
Reclassification of patents*	—	(2,195)	2,195	—
Additions	—	3,086	800	3,886
Effect of foreign exchange	—	—	(5)	(5)
As at 1 January 2013	619	15,236	3,076	18,931
Additions	—	2,270	490	2,760
Effect of foreign exchange	—	—	4	4
As at 31 December 2013	619	17,506	3,570	21,695
Amortisation				
As at 1 January 2012	619	5,223	60	5,902
Reclassification of patents*	—	(517)	517	—
Charge for the year	—	947	178	1,125
Effect of foreign exchange	—	—	(2)	(2)
As at 1 January 2013	619	5,653	753	7,025
Charge for the year	—	1,127	223	1,350
Effect of foreign exchange	—	—	2	2
As at 31 December 2013	619	6,780	978	8,377
Carrying amount				
As at 31 December 2013	—	10,726	2,592	13,318
As at 31 December 2012	—	9,583	2,323	11,906

*Patents have been reclassified to be shown, more appropriately, with Trademarks and Licences.

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

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £'000	Assets under construction £'000	Short-term leasehold improvements £'000	Fixtures and equipment £'000	Total £'000
Cost					
As at 1 January 2012	5,294	89	1,470	20,321	27,174
Additions	—	—	322	2,782	3,104
Transferred on completion	—	(89)	89	—	—
Disposals	—	—	—	(137)	(137)
Effect of foreign exchange	—	—	2	(32)	(30)
As at 1 January 2013	5,294	—	1,883	22,934	30,111
Additions	961	—	146	2,842	3,949
Disposals	—	—	—	(171)	(171)
Effect of foreign exchange	—	—	(4)	(5)	(9)
As at 31 December 2013	6,255	—	2,025	25,600	33,880
Accumulated depreciation					
As at 1 January 2012	971	—	707	12,056	13,734
Charge for the year	386	—	232	2,046	2,664
Disposals	—	—	—	(78)	(78)
Effect of foreign exchange	—	—	1	(27)	(26)
As at 1 January 2013	1,357	—	940	13,997	16,294
Charge for the year	422	—	195	2,289	2,906
Disposals	—	—	—	(90)	(90)
Effect of foreign exchange	—	—	(3)	(15)	(18)
As at 31 December 2013	1,779	—	1,132	16,181	19,092
Carrying amount					
As at 31 December 2013	4,476	—	893	9,419	14,788
As at 31 December 2012	3,937	—	943	8,937	13,817

The Group had no capital expenditure contracted but not provided for at the year end (2012: £nil).

Freehold land and buildings with a carrying amount of £1.8m (2012: £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

	2013 £'000	2012 £'000
Raw materials, spare parts and consumables	1,758	1,480
Work in progress	242	499
Finished goods and goods for resale	512	773
	2,512	2,752

18. TRADE AND OTHER RECEIVABLES

	2013 £'000	2012 £'000
Trade debtors	7,666	7,784
Other debtors	208	264
Prepayments and accrued income	1,958	2,009
	9,832	10,057

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

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.

	2013 £'000	2012 £'000
Trade receivables	7,727	7,824
Allowance for doubtful debts	(61)	(40)
	7,666	7,784

The debtor days taken on sales of goods is 63 days (2012: 69 days). Included in the Group's trade receivable balance are debtors with a carrying amount of £1,404,000 (2012: £885,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the Group believes that the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 74 days (2012: 76 days).

Credit risk management

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

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

Ageing of past due but not impaired receivables

	2013 £'000	2012 £'000
Not yet due	6,323	6,939
Up to one month overdue	891	583
Up to two months overdue	513	302
Total	7,727	7,824

Movement in the allowance for doubtful debts

	2013 £'000	2012 £'000
Balance at 1 January	40	20
Amounts written off during the year	—	(2)
Increase in the allowance recognised in the year	21	22
Balance at 31 December	61	40

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

	2013 £'000	2012 £'000
Bank loans	1,533	1,073
The borrowings are repayable as follows:		
Amount due for settlement within twelve months	224	105
Amount due for settlement after twelve months (see note 24)	1,309	968
	1,533	1,073

19. BANK OVERDRAFTS AND LOANS CONTINUED

Analysis of borrowings by currency:

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

Analysis of borrowings by currency:

31 December 2012	Total £'000	Sterling £'000	Euro £'000
Bank loans	1,073	1,073	—

The weighted average interest rates paid were as follows:

	2013 %	2012 %
Bank loans	2	2

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and cash balances. The Group continually monitors forecast and actual cash flows. During the year the Group established a revolving credit facility of £6,000,000 which was unused at the end of the year. In addition the Group had committed overdraft facilities available at 31 December 2013 of £1,500,000 (2012: £2,600,000), the facilities were undrawn at the end of the year. The facilities are reviewed each year.

Capital risk management is summarised in the Directors' Report.

The Group has two bank loans secured on the long lease property in Andover, UK which was purchased in 2008 and the freehold property in Malvern, UK purchased in 2013. The loan on the Andover property was taken out with an interest rate of 1.25% over base rate, repayable over 15 years, the loan on the Malvern property was taken out with an interest rate of 2% over LIBOR. With the exception of the bank loan all of the Group's financial liabilities mature in one year or less or on demand.

20. DERIVATIVE FINANCIAL INSTRUMENTS – CURRENCY DERIVATIVES

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

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

	2013 £'000	2012 £'000
Forward foreign exchange contracts	6,059	1,630

At 31 December 2013, the fair value of the Group's currency derivatives is estimated to be approximately £293,000 (2012: liability £(9,000)). The fair value has been calculated as the present value of future expected cash flows at market related rates, which are current at the balance sheet date. The value is calculated using readily available market data and represents a level 2 measurement in the fair value hierarchy under IFRS 7.

Other financial assets/liabilities

	2013 £'000	2012 £'000
Financial assets/(liabilities) carried at fair value through profit and loss	293	(9)

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	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
USD	(1,342)	(1,382)	4,881	4,536
Euro	(846)	(311)	5,147	4,461
Sing\$	(599)	(323)	2,405	1,312

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

20. DERIVATIVE FINANCIAL INSTRUMENTS – CURRENCY DERIVATIVES CONTINUED

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

Foreign currency sensitivity

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

	Sing\$ impact		USD impact		Euro impact	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Profit or loss	12	(26)	(370)	(227)	(320)	(104)
Equity	47	(37)	77	(242)	28	11

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

21. DEFERRED TAX

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

	Deferred development costs £'000	Tax losses £'000	Accelerated capital allowances £'000	Other timing differences £'000	Total £'000
At 1 January 2012	(2,281)	237	(613)	(33)	(2,690)
Prior year adjustment	—	58	61	—	119
Charge to income	(425)	(32)	140	82	(235)
Net (charge)/credit to income statement	(2,706)	263	(412)	49	(2,806)
Charge to equity	—	—	—	6	6
At 1 January 2013	(2,706)	263	(412)	55	(2,800)
Prior year adjustment	—	139	(274)	38	(97)
(Credit)/charge to income	68	6	153	—	227
Net (charge)/credit to income statement	(2,638)	408	(533)	93	(2,670)
At 31 December 2013	(2,638)	408	(533)	93	(2,670)
				2013 £'000	2012 £'000
Deferred tax assets				175	175
Deferred tax liabilities				(2,845)	(2,975)
				(2,670)	(2,800)

At the balance sheet date, the Group had an unrecognised deferred tax asset of £159,000 (2012: £35,000). At 31 December 2013 a net deferred tax liability of £2,670,000 (2012: £2,800,000) has been recognised.

The UK government has announced a future decrease in the UK corporation tax rate from 23% to 20% from April 2015. This change has resulted in a deferred tax credit arising from the reduction in the balance sheet carrying value of deferred tax liabilities to reflect the anticipated rate of tax at which those liabilities are expected to reverse.

22. TRADE AND OTHER PAYABLES

	2013 £'000	2012 £'000
Trade creditors	3,400	3,552
Other creditors	954	790
Accruals and deferred income	3,016	3,438
	7,370	7,780

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 54 days (2012: 56 days). The Directors consider that the carrying amount of trade payables approximates to their fair value. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time-frame.

23. PROVISIONS

	Warranty provision £'000
At 1 January 2013	76
Additional provision in the year	61
Utilisation of provision	(60)
At 31 December 2013	77
Included in current liabilities	77
Included in non-current liabilities	—
	77

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.

24. OTHER NON-CURRENT LIABILITIES

	2013 £'000	2012 £'000
Bank loans (see note 19)	1,309	968

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

25. SHARE CAPITAL

	2013		2012	
	Number	£'000	Number	£'000
Authorised				
Ordinary shares of 10p each	55,947,780	5,595	55,947,780	5,595
Redeemable deferred ordinary shares of £1 each	255,222	255	255,222	255
		5,850		5,850
Called up, allotted and fully paid				
Ordinary shares of 10p each	42,432,427	4,243	41,793,949	4,179
		4,243		4,179

During the year the Company issued a total of 638,478 ordinary shares of 10p each for £566,000 on the conversion of options under the executive share option schemes and the Save-as-you-earn scheme.

26. SHARE PREMIUM ACCOUNT

	£'000
Balance at 1 January 2012	168
Premium arising on issue of equity shares	42
Balance at 31 December 2012	210
Premium arising on issue of equity shares	502
Balance at 31 December 2013	712

27. EQUITY RESERVE

	£'000
Balance at 1 January 2012	1,516
Credit to equity for share-based payments	235
Charge to equity on exercise of options	(21)
Movement in deferred tax charged to equity	6
Balance at 31 December 2012	1,736
Credit to equity for share-based payments	231
Charge to equity on exercise of options	(75)
Balance at 31 December 2013	1,892

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

28. CAPITAL RESERVE

	£'000
Balance at 1 January 2012 and 1 January 2013	255
Additions	—
Balance at 31 December 2012 and 31 December 2013	255

29. TRANSLATION RESERVE

	£'000
Balance at 1 January 2012	(108)
Effects of foreign exchange in the period	32
Balance at 31 December 2012	(76)
Effects of foreign exchange in the period	(37)
Balance at 31 December 2013	(113)

30. RETAINED EARNINGS

	£'000
Balance at 1 January 2012	21,593
Net profit for the year	3,994
Payment of dividend	(1,182)
Exercised share options	21
Balance at 1 January 2013	24,426
Net profit for the year	3,051
Payment of dividend	(1,282)
Exercised share options	75
Balance at 31 December 2013	26,270

31. NOTES TO THE CASH FLOW STATEMENT

	2013 £'000	2012 £'000
Profit from operations	2,903	4,198
Adjustments for:		
Depreciation of property, plant and equipment	2,888	2,664
Amortisation and impairment losses of intangible assets	1,351	1,125
Share-based payments	231	235
Loss on disposal of property, plant and equipment	55	1
Increase/(decrease) in provisions	1	(17)
Operating cash flows before movements in working capital	7,429	8,206
Decrease/(increase) in inventories	240	(1,482)
Decrease/(increase) in receivables	99	(658)
(Decrease)/increase in payables	(288)	540
Cash generated by operations	7,480	6,606
Investment revenues	—	2
Interest paid	(124)	(58)
Income taxes received/(paid)	150	(535)
Net cash from operating activities	7,506	6,015

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.

32. 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.

	2013 £'000	2012 £'000
Minimum lease payments under operating leases recognised in income for the year	1,274	1,308

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:

	2013 £'000	2012 £'000
Within one year	1,130	1,239
In the second to fifth years inclusive	2,756	3,228
After five years	2,606	3,105
	6,492	7,572

33. SHARE-BASED PAYMENTS

Equity-settled share option schemes

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

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

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

	2013		2012	
	Number of share options	Weighted average exercise price pence	Number of share options	Weighted average exercise price pence
Outstanding at beginning of period	5,485,687	126.8p	4,945,237	126.3p
Granted during the period	1,012,000	146.5p	1,274,000	122.5p
Lapsed during the period	(1,015,756)	129.0p	(693,050)	116.5p
Exercised during the period	(184,731)	107.3p	(40,500)	112.7p
Outstanding at the end of the period	5,297,200	130.5p	5,485,687	126.8p
Exercisable at the end of the period	1,777,600	141.0p	1,503,200	130.7p

The weighted average share price at the date of exercise for share options exercised during the period was 143.5p. The options outstanding at 31 December 2013 had a weighted average exercise price of 130.5p, and a weighted average remaining contractual life of 4.57 years. In 2013, 1,012,000 options were granted on 19 April. The aggregate of the estimated fair values of the options granted on that date was £363,716. In 2012, 1,274,000 options were granted on 29 March. The aggregate of the estimated fair values of the options granted on that date was £328,211.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

33. SHARE-BASED PAYMENTS CONTINUED

Equity-settled share option schemes continued

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

	2013	2012
Weighted average share price	146.5p	122.5p
Expected volatility	30%	32%
Expected life	4.5yrs	4.5yrs
Risk free rate	2.16%	1.57%
Expected dividends	1.5%	1.5%

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

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

Outstanding at the beginning of the period were options awarded in tranches of 540,000 (September 2006), 160,000 (March 2007) and 167,200 (May 2008) which 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 tranche granted in September 2006 lapsed during the year. The inputs into the Black-Scholes model are as set out in the table above, adjusted by a factor based on the probability of meeting the market-based condition.

The Group recognised total expenses of £231,000 and £235,000 related to Equity-settled share-based payment transactions in 2013 and 2012 respectively.

34. 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 23 to 26.

	2013 £'000	2012 £'000
Short-term employee benefits	816	766
Post-employment benefits	81	79
Share-based payments	79	79
	976	924

FIVE YEAR SUMMARY

	IFRS				
	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Revenue	44,637	40,995	41,256	39,403	39,233
Operating profit	2,903	4,198	5,022	3,237	5,645
Profit for the year before tax	3,081	3,953	5,001	3,261	5,856
Equity	33,259	30,730	27,599	24,613	22,963
Earnings per share	7.3p	9.6p	9.3p	5.8p	10.3p
Dividend per share	3.30p	3.06p	2.83p	2.62p	2.42p

COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2013

COMPANY BALANCE SHEET

as at 31 December 2013

Results for the Company are presented under UK GAAP	Notes	2013 £'000	2012 £'000
Fixed assets:			
Investments	5	8,840	8,692
Property, plant and equipment	4	839	883
		9,679	9,575
Current assets:			
Debtors			
– due within one year	6	2,330	1,638
– due after one year	6	3,026	2,888
Cash at bank and in hand		2,844	2,514
		8,200	7,040
Creditors: amounts falling due within one year	7	(528)	(415)
Net current assets		7,672	6,625
Total assets less current liabilities		17,351	16,200
Creditors: amounts falling due after more than one year	7	(863)	(968)
Net assets		16,488	15,232
Capital and reserves:			
Called up share capital	8	4,243	4,179
Share premium account	9	712	210
Equity reserve	10	1,979	1,748
Capital reserve	11	255	255
Profit and loss account	12	9,299	8,840
Shareholders' funds		16,488	15,232

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

NICHOLAS ADAMS
Director
18 March 2014

MARK BODEKER
Director
18 March 2014

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2013

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 37 of the Group accounts.

Derivative financial instruments

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

Investments

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

Tangible fixed assets

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

Plant and equipment 3 to 8 years

Property 25 years

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

Taxation

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

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

Share-based payments

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

2. PROFIT FOR THE YEAR

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. Bioquell PLC has reported a profit after tax and the cost of share-based payments (£89,000; 2012: £90,000) for financial year ended 31 December 2013 of £216,000 (2012: profit of £92,000).

The auditors' remuneration for the audit services to the Company was £29,000 (2012: £29,000).

3. STAFF COSTS

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

	2013	2012
Administration	4	4

Their aggregate remuneration comprised:

	2013 £'000	2012 £'000
Wages and salaries	721	876
Social security costs	105	128
Other pension costs	88	87
	914	1,091

4. FIXED ASSETS

	Property £'000	Plant and equipment £'000	Total property, plant and equipment £'000
Cost			
As at 1 January 2013	1,054	57	1,111
Additions	—	—	—
As at 31 December 2013	1,054	57	1,111
Accumulated depreciation			
As at 1 January 2013	180	48	228
Charge for the year	42	2	44
As at 31 December 2013	222	50	272
Net book value			
As at 31 December 2013	832	7	839
As at 31 December 2012	874	9	883

5. FIXED ASSET INVESTMENTS

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

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

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

	Investment in subsidiaries		
	Shares £'000	Loans £'000	Total £'000
Cost			
As at 1 January 2013	111	9,240	9,351
Foreign exchange differences	—	6	6
Additions – capital contribution made to subsidiaries	—	142	142
As at 31 December 2013	111	9,388	9,499
Provision for impairment			
As at 1 January 2013 and 31 December 2013	(103)	(556)	(659)
Net book value			
As at 31 December 2013	8	8,832	8,840
As at 31 December 2012	8	8,684	8,692

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

6. DEBTORS

	2013 £'000	2012 £'000
Debtors due within one year:		
Amounts due from subsidiary undertakings	1,695	1,049
Corporation and other tax	136	436
Derivative financial instruments (see note 20 of the Group accounts)	293	—
Prepayments and accrued income	206	153
	2,330	1,638
Debtors due after one year:		
Amounts due from subsidiary undertakings	3,026	2,888
Total debtors	5,356	4,526

7. CREDITORS

	2013 £'000	2012 £'000
Amounts falling due within one year:		
Accruals and deferred income	140	85
Bank loan	105	105
Derivative financial instruments	—	9
Deferred tax	283	216
	528	415
Amounts falling due after one year:		
Bank loan	863	968
	863	968

8. CALLED UP SHARE CAPITAL

	2013		2012	
	Number	£'000	Number	£'000
Authorised				
Ordinary shares of 10p each	55,947,780	5,595	55,947,780	5,595
Redeemable deferred ordinary shares of £1 each	255,222	255	255,222	255
		5,850		5,850
Called up, allotted and fully paid up				
Ordinary shares of 10p each	42,432,427	4,243	41,793,949	4,179
		4,243		4,179

During the year the Company issued a total of 638,478 ordinary shares of 10p each for £566,000 on the conversion of options under the executive share options schemes, which is being used to provide additional working capital.

9. SHARE PREMIUM ACCOUNT

	£'000
Balance at 1 January 2012	168
Premium arising on issue of equity shares	42
Balance at 1 January 2013	210
Premium arising on issue of equity shares	502
Balance at 31 December 2013	712

10. EQUITY RESERVES

	£'000
Balance at 1 January 2012	1,513
Credit to equity for share-based payments	90
Credit to equity for share-based payments to subsidiary employees	145
Balance at 1 January 2013	1,748
Credit to equity for share-based payments	89
Credit to equity for share-based payments to subsidiary employees	142
Balance at 31 December 2013	1,979

11. CAPITAL RESERVES

	£'000
Balance at 1 January 2012 and 1 January 2013	255
Additions	—
Balance at 31 December 2013	255

12. PROFIT AND LOSS ACCOUNT

	£'000
Balance at 1 January 2012	9,993
Profit for the financial year	92
Dividends paid in the year	(1,182)
Exchange loss	(63)
Balance at 1 January 2013	8,840
Profit for the financial year	216
Dividends paid in the year	(1,282)
Dividends received in the year	1,500
Exchange gain	25
Balance at 31 December 2013	9,299

13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	£'000
Balance at 1 January 2012	16,104
Issue of equity shares	46
Equity reserve – share-based payments	90
Credit to equity for share-based payments to subsidiary employees	145
Profit for the financial year	92
Dividends paid in the year	(1,182)
Exchange loss	(63)
Balance at 1 January 2013	15,232
Issue of equity shares	566
Equity reserve – share-based payments	89
Credit to equity for share-based payments to subsidiary employees	142
Profit for the financial year	216
Dividends paid in the year	(1,282)
Dividends received in the year	1,500
Exchange gain	25
Balance at 31 December 2013	16,488

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

14. SHARE-BASED PAYMENTS

Equity-settled share option schemes

The Company's employees are able to participate in the Group's share option schemes. Details of these schemes are given in note 33 of the Group's accounts.

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

	2013		2012	
	Number of share options	Weighted average exercise price pence	Number of share options	Weighted average exercise price pence
Outstanding at beginning of year	1,423,387	123.8	1,394,887	120.9
Granted during the year	379,000	146.5	453,000	122.5
Lapsed during the year	(333,387)	152.9	(424,500)	112.9
Exercised during the year	(10,450)	97.0	—	—
Outstanding at the end of the year	1,458,550	123.2	1,423,387	123.8
Exercisable at the end of the year	103,550	135.5	84,000	123.7

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

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