

24 March, 2009

## **BIOQUELL delivers strong growth in pre-tax profit and cash in 2008**

BIOQUELL PLC (LSE: BQE) – provider of specialist decontamination technologies to the healthcare, life sciences and defence sectors – announces its results for the year ended 31 December, 2008.

### **Financial highlights:**

- Significant growth in higher margin decontamination products and services sold into the international healthcare and life sciences sectors – which successfully substituted prior year US defence filtration systems’ revenues
- Revenues: £34.4 million (2007: £34.1 million)
- Profit before tax: £5.00 million (2007: £4.17 million) – increase in pre-tax profit of 20%
- Basic earnings per share: 9.0p (2007: 8.9p) – increase of 1.1%, reflecting an increase in the effective tax rate to 25% (2007: 12%)
- Strong cashflow in the year: net cash from operating activities increased by 73% to £9.0 million (2007: £5.2 million)
- Substantial cash on balance sheet: gross cash of £7.1 million (2007: £3.5 million); net cash of £5.2 million (2007: £2.7 million), representing a 93% increase in net cash of £2.5 million.
- Proposed payment of a 2.2p dividend per ordinary share (2007: 2.0p), representing a 10% dividend increase over 2007

### **Decontamination highlights:**

- Significant increase in “superbug” decontamination revenues in the healthcare sector, principally relating to service revenues in the UK
- Recent award from the Department of Health and the NHS’ Purchasing and Supply Agency (“PASA”) for the “Innovative new technology offering the greatest contribution in controlling *Clostridium difficile*”
- Substantial increase in decontamination equipment revenues – in the UK and internationally - in the life sciences sector
- First full year of revenues from the US Department of Defense’s Joint Materials Decontamination System development contract, which uses BIOQUELL’s unique hydrogen peroxide vapour technology to decontaminate biological and chemical weapons

**TRaC highlights:**

- Full consolidation of the specialist testing, regulatory and compliance businesses within the TRaC division
- Business development focus on the aerospace, defence and telecoms markets – with additional outsourcing-related opportunities
- Closure of TRaC’s US telecoms testing facilities in Silicon Valley, CA - with transfer of the equipment and know-how to the UK
- Cost reduction programme resulting in headcount reduction and more efficient management structure to help improve TRaC’s profitability

**Board changes:**

- John Salkeld retires as Chairman at the AGM on 28 May, 2009 after 18 years on the Board
- Nigel Keen, who joined the Board last year as a non-executive director, is to succeed Mr Salkeld as Chairman
- Tony Bourne, Chief Executive of the British Medical Association, joins the Board today as a non-executive director

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Commenting on the 2008 results, John Salkeld, Chairman of BIOQUELL PLC, said:

*“The Group had a good 2008 with a 20% increase in pre-tax profit reflecting its successful strategy of selling specialist decontamination products and services into the international healthcare, life sciences and defence sectors.”*

*“Despite the recession, 2009 has started well and BIOQUELL has a number of opportunities for further profitable international growth, assisted by the weakness of sterling. The Group’s substantial £5.2 million net cash position gives it the financial ‘firepower’ to fund the execution of its global growth strategy.”*

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BIOQUELL PLC

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## CHAIRMAN'S STATEMENT

### FINANCIAL PERFORMANCE

Revenues in the year were £34.4m (2007: £34.1 million) representing a 0.9% increase. The DECON division achieved revenues of £23.7 million (2007: £23.6 million). The TRaC division recorded revenues of £10.7 million (2007: £10.5 million) – an increase of 2%. Revenues derived from the Group's service businesses increased by 30% to £17.8 million (2007: £13.7 million).

In 2008 the Group significantly increased sales of its unique hydrogen peroxide vapour ("HPV")-based decontamination technology into the healthcare, life sciences and defence sectors. This growth in HPV decontamination revenues offset a decline in revenues associated with the unusually high level of sales in the previous year to US military vehicle manufacturers purchasing the Group's lower margin Chemical, Biological, Radiological and Nuclear ("CBRN") filtration systems.

Gross margin increased by 2% to 44%, representing an overall increase in profit of £0.6m for the year. This increase largely reflects the increasing proportion of higher technology specialist decontamination equipment and services sold within the DECON division.

Overheads were tightly controlled during the year and showed an overall 4% decline at £9.8 million (2007: £10.2 million); however, the combined investment in sales and marketing and research & development ("R&D") and engineering costs increased by 30% to £6.5 million (2007: £5.0 million). The Group intends to continue to invest in sales and marketing resources and R&D as your Board considers this to be essential to achieve further international growth. The £1.9 million year on year decline in administration costs reflects a number of factors including focussed cost control, the beneficial effect of the decline in sterling as well as the substantial provision made in 2007 for property-related costs.

Profit before tax was £5.0 million (2007: £4.17 million), representing a 20% increase.

The effective tax rate increased to 25% (2007: 12%) on the basis of a total estimated tax liability of £1.3 million (2007: £0.5 million) as substantially all of the Group's tax assets, largely derived from prior year losses, have now been used up. It is notable that the cash effect associated with this tax liability is expected to be £606k (12 % of pre-tax profit) (2007: zero) whereas the non-cash-affected deferred tax liability is expected to be £669k (13%) (2007: 12%). Profit after tax for the year increased by 2% to £3.73 million (2007: £3.65 million). Basic earnings per share were 9.0p (2007: 8.9p), representing a 1% increase.

The Group's balance sheet continues to strengthen. Net assets increased during the year by 20% to £19.4 million (2007: £16.1 million). Property, plant & equipment increased by £4.0 million to £8.3 million (2007: £4.3 million) primarily due to the acquisition and subsequent renovation of a long lease building in Andover comprising the DECON division's R&D, manufacturing and administrative facilities as well as the refurbishment of a new facility for TRaC's Telecoms & Radio business.

The Group accumulated significant cash balances by the year end despite the investment in facilities during the year and the payment of a dividend on the ordinary shares with a total cash cost of £0.8 million (2007: zero). Gross cash was £7.1 million (2007: £3.5 million) and net cash, comprising gross cash less borrowings and obligations under finance leases, was £5.2 million (2007: £ 2.7 million) – representing an increase of £2.5 million. In April 2008 the Group took out a £1.5 million mortgage, with an interest rate of 1.25% over base rate, which is repayable over 15 years.

During the year the Group paid a third party to assume the liability associated with a defined benefit pension scheme relating to the Group's legacy Scottish textile activities. The Group now has no liabilities relating to any defined benefit pension schemes.

Cashflow in the year was strong. Net cash from operating activities was £9.0 million (2007: £5.2 million), representing a 73% increase.

Your Board is recommending the payment of a final dividend of 2.2 pence per ordinary share which represents a 10% increase on the prior year. The final dividend will be payable on 3 July 2009 to shareholders on the register on 12 June 2009. The Board did not announce the payment of an interim dividend last year and it is the Board's current intention only to propose the payment of a final dividend each year.

## **THE STRATEGY OF THE GROUP'S DECONTAMINATION DIVISION**

Micro-organisms – bacteria, viruses and fungi – are invisible as well as ubiquitous. These organisms cause major problems across a broad range of industries worldwide. The Group's strategy is based round the sale of its unique, environmentally friendly, peroxide decontamination technology. This technology is used to eradicate problematic micro-organisms in the healthcare, life sciences and defence sectors, either by the sale of equipment or through the provision of decontamination services.

During 2008 the decontamination division posted a substantial increase in revenues associated with the Group's unique HPV technology. Your Board expects underlying demand for BIOQUELL's decontamination technology to increase in its markets due to a number of factors, including increased antibiotic resistance, pathogen mutation and rapid international transmission of micro-organisms by air travel.

### **Healthcare**

#### *Eradication of "superbugs" / combating Hospital Acquired Infection*

BIOQUELL's work in the healthcare sector principally relates to the application of its technology to eradicate antibiotic resistant bacteria and other problematic viruses and fungi – generally referred to as hospital acquired infection ("HAI") or "superbugs". BIOQUELL provides a unique, specialist decontamination service to eradicate "superbugs" from the inanimate hospital environment as well as selling equipment to healthcare providers. HAI is an international problem which continues to grow, in part due to increasing levels of antibiotic resistance. The new hyper-virulent strain of *Clostridium difficile* is generally considered to be the largest "superbug" problem facing hospitals in North America and in Europe at the current time, and BIOQUELL's technology solutions have repeatedly been shown to be effective against this organism.

Scientific medical research now shows that "superbug" contamination of the inanimate hospital environment is contributing to the spread of HAI. There is also increasing acceptance, based on published peer-reviewed research, that BIOQUELL's technology helps reduce significantly the transmission of HAI. For example, last month the Group won an award from the UK Department of Health and the NHS' Purchasing and Supply Agency ("PASA") entitled "Innovative new technology offering the greatest contribution in controlling *Clostridium difficile*". In addition, the Group recently submitted extensive data on its "superbug" eradication products and services to PASA for a contract tender. This tender submission included data generated from the successful deployment of BIOQUELL's technology in seven acute NHS hospitals under the Department of Health's Showcase Hospital Programme. PASA are in the process of making a decision on which "superbug" eradication technology provider(s) they wish to select for use in the NHS. The Board believes that one of the Group's principal opportunities is the commercialisation of its

technology in the worldwide HAI market and we are working hard to maximise this opportunity.

#### *Wound-care*

BIOQUELL is continuing research into the use of a novel peroxide-based liquid phase technology to disinfect wounds in a new wound-care product. The Group is running a randomised clinical trial (“RCT”) to generate scientific efficacy data for this new technology. To date patient acquisition into the RCT has been slow and changes to the critical patient inclusion criteria are being made which is expected to accelerate significantly the number of patients being treated in the RCT. In parallel, good progress has been made on the work necessary for the regulatory submissions, and associated supporting documentation, to manufacture and sell the wound-care product as a regulated medical device.

#### **Life sciences**

BIOQUELL has a number of different customers in the life sciences sector, from university-based stem cell research to large scale vaccine production. There is a general trend across many life sciences’ disciplines towards the need for increasing levels of sterility, particularly among the high value (and high margin) on-patent drugs which increasingly involve working with biologically active species. BIOQUELL also sees growth opportunities from the increase in ‘personalised medicine’, whereby pharmaceuticals are tailored to reflect a particular patient’s specific requirements (which may include genetic factors) which are mixed, often in sterile facilities, just prior to use and with the minimum of delay post prescription.

In addition, BIOQUELL’s market opportunities are expanding due to increased concerns over environmental contamination and health & safety issues. Historically life sciences’ facilities were decontaminated using formaldehyde, which leaves problematic residues and is a confirmed human carcinogen. One of the benefits of BIOQUELL’s HPV technology is that at the end of the decontamination cycle a catalytic filter is used to break the peroxide vapour down into water vapour and oxygen – hence the BIOQUELL process is ‘residue-free’ and environmentally benign. There are an increasing number of life sciences organisations which are banning the use of formaldehyde at their facilities – and this trend is assisting the Group’s growth in revenues.

BIOQUELL also experienced an increase of sales of its HPV decontamination technology in the food preparation sector during the year. In particular, *Salmonella* contamination is causing problems for the food sector – and the latest molecular typing gene-based technology means that regulators can link specific food production facilities to outbreaks.

#### **Defence**

The Group has been involved in the design and manufacture of the MDH Defence range of Chemical, Biological, Radiological and Nuclear (“CBRN”) filtration and environmental control systems for nearly fifty years. The Group continues to sell CBRN filtration systems – principally to military vehicle manufacturers – around the world.

In October 2007 BIOQUELL’s technology was selected for inclusion in the US Department of Defense’s (“DOD”) Joint Materials Decontamination System (“JMDS”). The JMDS will use BIOQUELL’s HPV technology to decontaminate biological and chemical warfare agents. The JMDS is highly complementary to BIOQUELL’s CBRN filtration systems. BIOQUELL is currently working on the system design and development stage of the contract, which is expected to extend to a manufacturing stage following extensive DOD trials on the system.

## **TRaC DIVISION**

The TRaC division comprises the Group's specialist Testing, Regulatory and Compliance division, focussing on electromagnetic compatibility ("EMC"), environmental, telecoms, wireless and safety testing services as well as computer-based analysis consultancy services. These services are used by a wide range of organisations carrying out R&D and product development, although TRaC focuses its business development resources principally on the aerospace, defence and telecommunications sectors. Most of TRaC's clients are currently located in the UK; however, there is scope to expand the sales of certain of TRaC's more specialist services to clients in continental Europe and the United States.

A significant proportion of TRaC's services are mandated by European or North American civilian or military regulations - and as such regulatory certification is required before a product can be launched on the open market. There is also a general trend towards more regulation in the sectors in which TRaC is operating with, for example, the UK Ministry of Defence having to ensure that its equipment complies with an increasing number of European health & safety regulations.

During the year Mark Heaven was appointed Chief Executive of TRaC. He has made a number of changes to the management and structure of the division. In particular its services, which used to be provided by four separate companies with different names and brands, were fully integrated under the TRaC 'umbrella' at the end of 2008. TRaC's specialist telecoms interoperability testing facility in Silicon Valley, California was closed and its equipment and associated know-how was relocated to the UK. Towards the end of the year, as part of the restructuring work required to integrate the Group's different testing businesses fully into the TRaC division, a cost reduction programme was carried out and there was a simplification in the TRaC management structure.

The management of TRaC believes that in the current economic climate there are a number of opportunities relating to the supply of outsourced testing services to large, blue-chip corporations.

## **BOARD CHANGES**

After 18 years on the Board, John Salkeld retires as Chairman of BIOQUELL PLC at the Annual General Meeting to be held on 28 May, 2009. Nigel Keen, currently a non-executive director, is to succeed Mr Salkeld as Chairman.

Tony Bourne, who is currently Chief Executive of the British Medical Association, joined the Board today as a non-executive director.

## **PROSPECTS**

2009 has started well. Your Board is confident that despite the current tough economic conditions, BIOQUELL will continue to experience growing demand for its unique products and services worldwide, particularly in the healthcare, life sciences and defence sectors. As a UK-based manufacturing company the continuing weakness of sterling is assisting the Group expand profitably its worldwide market share. The Group is well positioned to fund significant international growth given the strength of its balance sheet and its substantial cash resources. Your Board believes that BIOQUELL is well positioned to continue its profitable growth in a number of attractive sectors.

John Salkeld  
*Chairman*  
24 March, 2009

# Consolidated income statement

For the year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Revenue		34,405	34,096
Cost of sales		(19,395)	(19,684)
Gross profit		15,010	14,412
<i>Gross profit margin</i>		44%	42%
Operating expenses:			
Sales & marketing costs		(4,603)	(3,392)
Administration costs		(3,262)	(5,165)
R&D and Engineering costs		(1,936)	(1,607)
Profit from operations	3	5,209	4,248
Investment revenues	4	163	75
Finance costs	5	(369)	(157)
Profit before tax		5,003	4,166
Tax	6	(1,275)	(516)
Profit for the year		3,728	3,650
Earnings per share – basic	7	9.0p	8.9p
– diluted		8.3p	8.2p

All amounts are derived from continuing operations

# Statement of Recognised Income and Expenditure

For the year ended 31 December 2008

	2008 £'000	2007 £'000
Net profit for the year	3,728	3,650
Actuarial (loss)/gain on defined benefit pension scheme	(42)	54
Movement in deferred tax in relation to pension asset	12	(12)
Exchange differences on translation of foreign operations	383	45
<b>Total recognised income</b>	<b>4,081</b>	<b>3,737</b>

# Consolidated balance sheet

As at 31 December 2008

	Notes	2008 £'000	2007 £'000
<b>Non-current assets:</b>			
Goodwill		691	691
Other intangible assets		6,704	6,324
Property, plant & equipment		8,280	4,261
		<b>15,675</b>	<b>11,276</b>
<b>Current assets:</b>			
Inventories		1,365	1,547
Trade and other receivables		7,368	8,736
Cash and cash equivalents		7,097	3,500
Derivative financial instruments		-	6
		<b>15,830</b>	<b>13,789</b>
<b>Total assets</b>		<b>31,505</b>	<b>25,065</b>
<b>Current liabilities:</b>			
Trade and other payables		(6,523)	(5,920)
Current tax liabilities		(606)	-
Obligations under finance leases		(248)	(212)
Borrowings		(78)	
Deferred tax		(1,092)	(141)
Derivative financial instruments		(266)	-
Provisions	8	(1,606)	(1,896)
<b>Net current assets</b>		<b>5,411</b>	<b>5,620</b>
<b>Non-current liabilities:</b>			
Total non-current liabilities		(1,723)	(756)
<b>Total liabilities</b>		<b>(12,142)</b>	<b>(8,925)</b>
<b>Net assets</b>		<b>19,363</b>	<b>16,140</b>
<b>Equity</b>			
Share capital	9	4,160	4,136
Share premium account	11	95	10,933
Special reserve	12	10,933	-
Equity reserve	13	707	875
Capital reserve	14	255	255
Translation reserve	15	154	(229)
Retained earnings	16	3,059	170
<b>Equity attributable to equity holders of the parent</b>		<b>19,363</b>	<b>16,140</b>

# Consolidated cash flow statement

For the year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
<b>Net cash from operating activities</b>	17	8,960	5,233
<b>Investing activities</b>			
Proceeds on disposal of property, plant & equipment		134	33
Purchases of property, plant & equipment		(4,840)	(1,565)
Purchases of patents and trademarks		-	(17)
Expenditure on product development		(1,100)	(843)
<b>Net cash used in investing activities</b>		<b>(5,806)</b>	<b>(2,392)</b>
<b>Financing activities</b>			
Proceeds on issue of ordinary shares		119	494
Dividends paid on ordinary shares		(830)	-
Movement in borrowings		1,386	26
Repayment of obligations under finance leases		(305)	(275)
<b>Net cash from financing activities</b>		<b>370</b>	<b>245</b>
<b>Net increase in cash &amp; cash equivalents</b>		<b>3,524</b>	<b>3,086</b>
Bank cash at beginning of year		3,500	306
Effect of foreign exchange rate changes		73	108
Bank cash at end of year		<b>7,097</b>	3,500

# Notes to the consolidated financial statements

For the year ended 31 December 2008

## 1. Basis of preparation

The financial information set out in the preliminary announcement does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985, but is derived from those accounts. While the financial information in this preliminary announcement has been prepared in accordance with International Financial Reporting (IFRS), this announcement does not itself contain sufficient information to comply with IFRS. The IFRS accounting policies applied in respect of the current and prior years have previously been disclosed in the Group's Annual Report for the year ended 31 December 2007. Statutory accounts for the year ended 31 December 2007 have been delivered to the Registrar of Companies. Those for the year ended 31 December 2008 will be delivered following the Company's Annual General Meeting. The statutory accounts for the year ended 31 December 2008 will be despatched to shareholders by 14 April for approval at the Annual General Meeting on 28 May 2009. The auditors have reported on these accounts - their reports are unqualified and did not contain statement under Section 237(2) or (3) of the Companies Act 1985.

## 2. Business and geographical segments

For management purposes, the Group is currently organised into two divisions - Decontamination and TRaC (Testing, Regulatory and Compliance). These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below

Year ended 31 December 2008	Decontamination £'000	TRaC £'000	Consolidated £'000
<b>Revenue</b>			
Total revenue	23,749	10,656	34,405
<b>Result</b>			
Segment result	4,545	1,084	5,629
Unallocated head office costs			(420)
Profit from operations			5,209
Finance costs and investment revenue			(206)
Profit before tax			5,003
Tax			(1,275)
Profit for the year			3,728
<b>Other information</b>			
Capital additions	3,790	1,479	5,269
Unallocated corporate additions			1,020
Total capital additions			6,289
Depreciation and amortisation	1,213	942	2,155
Unallocated corporate depreciation			14
Total depreciation and amortisation			2,169
<b>Balance sheet as at 31 December 2008</b>			
<b>Assets</b>			
Segment assets	16,469	8,069	24,538
Unallocated corporate assets			6,967
Consolidated total assets			31,505
<b>Liabilities</b>			
Segment liabilities	(7,952)	(2,399)	(10,351)
Unallocated corporate liabilities			(1,791)
Consolidated total liabilities			(12,142)

# Notes to the consolidated financial statements

For the year ended 31 December 2008

## 2. Business and geographical segments continued

Year ended 31 December 2007	Decontamination £'000	TRaC £'000	Consolidated £'000
<b>Revenue</b>			
Total revenue	23,561	10,535	34,096
<b>Result</b>			
Segment result	3,717	980	4,697
Unallocated head office costs			(449)
Profit from operations			4,248
Finance costs and investment revenue			(82)
Profit before tax			4,166
Tax			(516)
Profit for the year			3,650

### Other information

Capital additions	1,574	1,051	2,625
Depreciation and amortisation	944	772	1,716

Balance sheet as at 31 December 2007	Decontamination £'000	TRaC £'000	Consolidated £'000
<b>Assets</b>			
Segment assets	13,276	5,032	18,308
Unallocated corporate assets			6,757
Consolidated total assets			25,065

### Liabilities

Segment liabilities	(3,768)	(2,516)	(6,284)
Unallocated corporate liabilities			(2,641)
Consolidated total liabilities			(8,925)

### Geographical segments

The Group's 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 USA. 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 2008 £'000	Year ended 31 December 2007 £'000
UK	17,616	14,718
Rest of Europe	6,479	5,612
Rest of World	10,310	13,766
	<b>34,405</b>	<b>34,096</b>

# Notes to the consolidated financial statements

For year ending 31 December 2008

## 2. Business and geographical segments continued

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

	Carrying amount of segment assets		Additions to property, plant & equipment and intangible assets	
	Year ended	Year ended	Year ended	Year ended
	31 December 2008 £'000	31 December 2007 £'000	31 December 2008 £'000	31 December 2007 £'000
UK	28,663	21,683	6,115	2,392
Rest of Europe	1,489	1,809	43	48
Rest of World	1,353	1,573	131	185
	<b>31,505</b>	<b>25,065</b>	<b>6,289</b>	<b>2,625</b>

## 3. Profit from operations

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

	2008 £'000	2007 £'000
Research and development costs	244	310
Depreciation of property, plant and equipment	1,442	1,051
Amortisation of internally generated intangible assets & patents	585	525
Amortisation of trademarks	11	9
Amortisation of customer relationships	131	131
Staff costs	13,165	11,070
Loss/(profit) on disposal of property, plant & equipment	8	(12)
Auditors' remuneration for audit services	136	107
Auditors' remuneration for tax services	35	23
Net foreign exchange (gains)/losses	(751)	132

Amounts payable to Deloitte LLP by the Company and its UK subsidiary undertakings in respect of non-audit services were £27,000 (2007: £23,000).

## 4. Investment Revenues

	2008 £'000	2007 £'000
Bank Deposits	163	75

## 5. Finance costs

	2008 £'000	2007 £'000
Interest on bank loans and overdrafts	61	106
Interest on obligations under finance leases	25	41
Interest on defined benefit pension scheme	-	5
Dividend payable on 7.5% preference shares	11	11
Change in fair value of derivative financial instruments	272	(6)
	<b>369</b>	<b>157</b>

# Notes to the consolidated financial statements

For year ending 31 December 2008

## 6. Tax

	2008 £'000	2007 £'000
Current tax charge	(606)	—
Deferred tax charge	(669)	(516)
	(1,275)	(516)

Corporation tax is calculated at 28.5% (2007: 30%) 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:

	2008 £'000	2007 £'000
Profit before tax	5,003	4,166
Tax at the UK corporation rate of 28.5% (2007: 30%)	(1,426)	(1,250)
Adjusted for:		
Tax effect of expenses not deductible in determining taxable profit	(50)	(74)
Effect on deferred tax asset of movement in share price	(115)	
Effect of previously unrecognised and unused tax losses and tax offsets now recognised as deferred tax assets	-	408
Effect of research and development relief	208	173
Tax effect of different tax rate of subsidiaries operating in other jurisdictions	17	32
Deferred tax not recognised on other timing differences	-	43
Prior year adjustment	104	203
Effective change in tax rate	(13)	(51)
	(1,275)	(516)

## 7. Earnings per share

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

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Earnings		
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	3,728	3,650

	Year ended 31 December 2008	Year ended 31 December 2007
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	41,491,801	41,118,083
Effect of dilutive potential ordinary shares:		
- share options	3,646,000	3,199,500
Weighted average number of ordinary shares for the purposes of diluted earnings per share	45,137,801	44,317,583

For a profit making Company with outstanding share options, net profit per share is decreased by the exercise of share options. Therefore diluted earnings per share are calculated by including all share options in the denominator irrespective of vesting conditions.

# Notes to the consolidated financial statements

For year ending 31 December 2008

## 8. Provisions

	Warranty provision £'000	Restructuring provision £'000	Other £'000	Total £'000
At 1 January 2008	126	97	1,673	<b>1,896</b>
Additional provision in the year	172	-	114	<b>286</b>
Utilisation of provision	(117)	(97)	(362)	<b>(576)</b>
At 31 December 2008	181	-	1,425	<b>1,606</b>
Included in current liabilities	181	-	1,425	<b>1,606</b>
Included in non-current liabilities	-	-	-	-
	181	-	1,425	<b>1,606</b>

The warranty provision represents management's best estimate of the Group's liability under 12 month warranties granted on products and services, based on past experience. Other provisions represent property maintenance required under lease obligations within the subsidiaries.

## 9. Share capital

	2008		2007	
	Number	£'000	Number	£'000
Authorised				
Ordinary shares of 10p each	<b>55,947,780</b>	<b>5,595</b>	55,947,780	5,595
Redeemable deferred ordinary shares of £1 each	<b>255,222</b>	<b>255</b>	255,222	255
		<b>5,850</b>		5,850
Called up, allotted and fully paid				
Ordinary shares of 10p each	41,600,984	<b>4,160</b>	41,358,045	4,136
		<b>4,160</b>		4,136

During the year the Company issued a total of 242,939 ordinary shares of 10p each for £119,000 on the conversion of options under the executive share option schemes, which is being used to provide additional working capital.

## 10. Analysis of net cash

	2008 £'000	2007 £'000
Cash and cash equivalents	<b>7,097</b>	3,500
Finance leases - due within one year	<b>(248)</b>	(212)
- due after one year	<b>(160)</b>	(178)
Bank loan - due after one year	<b>(1,465)</b>	(428)
Net cash	<b>5,224</b>	2,682

## 11. Share premium account

	£'000
Balance at 1 January 2007	10,506
Premium arising on issue of equity shares	427
Balances at 31 December 2007	10,933
Transfer to Special reserve	(10,933)
Premium arising on issue of equity shares	95
<b>Balance at 31 December 2008</b>	<b>95</b>

# Notes to the consolidated financial statements

For year ending 31 December 2008

## 12. Special reserve

	£'000
Balance at 1 January 2008	-
Transfer from the Share premium account	10,933
<b>Balance at 31 December 2008</b>	<b>10,933</b>

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

## 13. Equity reserve

	£'000
Balance at 1 January 2007	525
Credit to equity for share-based payments	163
Movement in deferred tax charged to equity	288
Debit to equity on exercise of share options	(101)
<b>Balance at 31 December 2007</b>	<b>875</b>
Credit to equity for share-based payments	142
Movement in deferred tax charged to equity	(288)
Debit to equity on exercise of share options	(22)
<b>Balance at 31 December 2008</b>	<b>707</b>

## 14. Capital reserve

	£'000
Balance at 1 January 2007 & 1 January 2008	255
Additions	-
<b>Balance at 31 December 2007 and 31 December 2008</b>	<b>255</b>

## 15. Translation reserve

	£'000
Balance at 1 January 2007	(274)
Effects of foreign exchange in the period	45
<b>Balance at 31 December 2007</b>	<b>(229)</b>
Effects of foreign exchange in the period	383
<b>Balance at 31 December 2008</b>	<b>154</b>

## 16. Retained earnings

	£'000
Balance at 1 January 2007	(3,624)
Net profit for the year	3,650
Actuarial loss on defined benefit pension scheme	54
Movement in deferred tax in relation to pension asset	(12)
Exercised share options	102
<b>Balance at 1 January 2008</b>	<b>170</b>
Net profit for the year	3,728
Payment of dividend	(830)
Actuarial loss on pension scheme at wind up	(42)
Movement in deferred tax in relation to pension scheme wind up	12
Exercised share options	21
<b>Balance at 31 December 2008</b>	<b>3,059</b>

# Notes to the consolidated financial statements

For year ending 31 December 2008

## 17. Notes to the cash flow statement

	2008 £'000	2007 £'000
Profit from operations	5,209	4,248
Adjustments for:		
Depreciation of property, plant and equipment	1,442	1,051
Amortisation and impairment losses of intangible assets	727	665
Revaluation of assets on transfer	(299)	
Write back of deferred consideration	-	39
Share based payments	142	163
Loss/(profit) on disposal of property, plant and equipment	8	(12)
(Decrease)/Increase in provisions	(301)	760
Operating cash flows before movements in working capital	6,928	6,914
Decrease/(increase) in inventories	259	(132)
Decrease/(increase) in receivables	2,082	(3,121)
(Decrease)/increase in payables	(375)	1,524
Cash generated by operations	8,894	5,185
Additional deferred benefit contribution	-	136
Non equity preference share dividends paid	(11)	(11)
Investment revenues	163	75
Interest paid	(86)	(152)
Net cash from operating activities	8,960	5,233

Of the new additions to fixtures and equipment during the year assets to the value of £349,000 (2007: £200,000) were financed by new finance leases. Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short term highly liquid investments with a maturity of three months or less.