

16 March, 2010

BIOQUELL delivers strong growth in revenues and profit in 2009

BIOQUELL PLC (LSE: BQE) – provider of specialist low temperature, residue-free bio-decontamination technologies to the healthcare, life sciences and defence sectors – announces its results for the year ended 31 December, 2009.

Financial highlights:

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

BIO-DECONTAMINATION (Healthcare, Life Sciences, Defence) highlights:

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

TRaC highlights:

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

Commenting on the 2009 results, Nigel Keen, Chairman of BIOQUELL PLC, said:

“BIOQUELL performed well in 2009; economic conditions were not easy but the BIO-DECON division achieved a substantial 18% increase in revenues across its healthcare, life sciences and defence businesses.”

“In 2010 we anticipate increased international demand for BIOQUELL’s world class technology to combat ‘superbugs’ in hospitals”.

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

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

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CHAIRMAN'S STATEMENT

FINANCIAL PERFORMANCE

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

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

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

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

Total Group overheads increased by £2.1 million, to £11.9 million (2008: £9.8 million). The largest element of this increase was as a result of our increased investment in sales & marketing, principally in relation to the Healthcare and Life Sciences sectors. In particular we expanded our international sales and service offices which are now located in the US, France, Ireland and Singapore. We will continue with our strategy of expanding internationally in line with increasing revenues. Foreign exchange gains included within administration costs were £0.2 million (2008: £0.8 million). Research and Development ("R&D") and Engineering costs rose slightly to £2.1 million (2008: £1.9 million). The Group has a number of new products in development and we anticipate continuing our investment in research & development at a similar level.

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

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

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

After the investment of £2.6 million in facilities described above, other purchases of plant and equipment of £2.7 million, tax paid of £1.2 million

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

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

THE BIO-DECONTAMINATION DIVISION

Micro-organisms – bacteria, viruses and fungi – are all around us as well as invisible. For example, it has been estimated that 100,000 bacteria exist on the average “clean” finger tip. Micro-organisms can cause major problems across a broad range of industries worldwide. Increasing antibiotic resistance and virulence of bacteria is causing well publicised issues in the healthcare sector. The Group's strategy is based round the sale of its unique, low temperature, environmentally friendly, peroxide bio-decontamination technology. This technology is currently used principally to eradicate problematic micro-organisms in the healthcare, life sciences and defence sectors; BIOQUELL sells equipment and/or provides specialist bio-decontamination services. The Group is also developing a woundcare system based on liquid phase peroxy chemistry.

HEALTHCARE

Eradication of “superbugs” / combating Hospital Acquired Infection

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

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

Typically the proactive service targets high risk and/or high cost units such as ICUs, oncology, haematology, transplant and invasive surgery; These services are provided by our technicians using our proprietary RBDS equipment (which we manufacture but do not sell to third parties).

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

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

The new hyper-virulent (NAP1/BI/027) strain of *Clostridium difficile* remains a highly problematic pathogen linked to HAI which is continuing to create significant issues for healthcare providers internationally. In addition MRSA, VRE, *Acinetobacter*, *Klebsiella* and Norovirus are other nosocomial pathogens which can cause major problems for healthcare providers.

Combating HAI - UK

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

the required service, which can be an expensive and time consuming process.

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

Combating HAI - continental Europe

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

Yesterday we entered into a distribution and supply agreement with Schülke & Mayr GmbH (“Schülke”), a leading German biocide manufacturer also well known for its infection control disinfection products in German speaking countries in Europe. We will be working closely with Schülke to assist them in the sale of BIOQUELL’s HPV bio-decontamination products and services in Germany, Austria and the German speaking part of Switzerland. Schülke will be providing us with high quality hydrogen peroxide consumable cartridges which we will be selling with our products and services within Europe.

Combating HAI - United States

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

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

Combating HAI – rest of world

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

BioxyQuell & Woundcare

During 2009 we continued exacting research & development work and the preparation of regulatory submissions relating to the use of a novel peroxide-based liquid phase technology to irrigate wounds in a new woundcare product: BioxyQuell. The Group is supporting a randomised controlled trial (“RCT”) with primary care providers in Hampshire to generate scientific efficacy data for this new technology. Following modifications to the patient inclusion criteria, patient acquisition into the RCT accelerated during the year although progress has, until recently, been slower than had been planned.

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

LIFE SCIENCES

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

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

BIOQUELL’s international businesses performed strongly during the year and are an increasingly important part of the Group. BIOQUELL Inc - based in Pennsylvania - showed particularly strong growth in revenues. Our investment in the establishment of BIOQUELL AsiaPac in Singapore was timely

and we are beginning to see orders from Asian life sciences organisations which we would not have secured prior to the opening of our facility in the region.

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

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

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

Aseptic conditions in cleanrooms used in the life sciences sector

There is a growing need for aseptic conditions within pharmaceutical or biotechnology cleanrooms, for both research & development and production. Over time as more biologically active - or biologically sensitive - drugs obtain regulatory approval this need is likely to increase. Many of these bio-therapeutics are on-patent and hence provide very high margins and strong cashflow for the pharmaceutical groups. In addition, the regulators are becoming more sensitised to the risks and problems associated with biological contamination (and the current reliance on manual decontamination techniques). This leads to increasing pressure on biopharmaceutical manufacturers to invest in reducing the risk of bioburden in their facilities. BIOQUELL’s current bio-decontamination solutions are typically mobile and, although these work well, we believe that there is scope to take market share - in what we believe is an expanding market - by developing a higher capacity fixed bio-decontamination solution for use in aseptic cleanroom facilities.

Hospital pharmacies - and the trend towards “personalised medicine”

Hospital pharmacies - both in-house and outsourced - represent an interesting opportunity for BIOQUELL, especially as they represent the intersection between our healthcare and life sciences strategic sector focus. Until recently there has been little investment in hospital pharmacies - and in

some countries there has been a strong tendency to outsource hospital pharmacy work, particularly in respect of the more complex bio-therapeutics. However, there are two significant factors which have started to influence the work of hospital pharmacies. First, there is increasing evidence that biological contamination of specialist prescriptions prepared by hospital pharmacies has been implicated in patient sickness and/or death. This has resulted in increased regulations in this area including those contained within the US Pharmacopoeia Chapter 797. Second, the increasing biological sensitivity of new therapeutics is also affecting the way in which drugs are prepared. This is already seen in the use of cytotoxic drugs, used in chemotherapy to treat cancer. In the future individually tailored treatments using stem cell and gene therapy will require aseptic preparation. For several years BIOQUELL has been selling its RBDS service and specialist PORT product into the hospital pharmacy sector in a number of European countries to provide aseptic environments within these facilities. We believe that opportunities exist to extend our business in this area.

DEFENCE

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

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

In October 2007 BIOQUELL’s technology was selected for inclusion in the US Department of Defense’s (“DoD”) Joint Materials Decontamination System (“JMDS”). The JMDS will use BIOQUELL’s HPV technology to decontaminate biological and chemical warfare agents. The JMDS is highly complementary to BIOQUELL’s CBRN filtration systems. In addition, it will be possible to use the JMDS to eradicate problematic pathogens - including HAI - from military field hospitals. During the year our engineering team extended its expertise in the use of new, speciality plastics which have been incorporated into the design of the JMDS (and we anticipate using this expertise in the design of new civilian products). BIOQUELL is currently working on the manufacture of the first prototype test units for JMDS. The JMDS should be show-cased for the first time at a triennial CBRN conference in Sweden in June. Substantially all of the technical challenges have been solved for JMDS and the first prototypes will be delivered to the US Department of Defense later in the year. We do not currently know how the DoD wants to carry out testing of these prototypes nor the likely timescales for any resulting manufacturing contract, although we understand that the timetable has slipped since BIOQUELL was awarded the contract in late 2007. These uncertainties make estimating the timing of future revenues from JMDS difficult although once

we are able to showcase the prototype system we anticipate strong interest in the technology from customers in addition to the DoD.

THE TRaC DIVISION

The TRaC division comprises the Group's specialist Testing, Regulatory and Compliance division, focussing on electromagnetic compatibility ("EMC"), environmental, telecoms, wireless and safety testing services as well as computer-based analysis consultancy services. These services are used by a wide range of organisations carrying out R&D and product development. TRaC currently focuses its business development resources principally on the aerospace, defence and telecommunications sectors and most of TRaC's clients are located in the UK.

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

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

Since the formation of TRaC in October 2005, we have continued to invest in the division to ensure that it has well equipped, high quality facilities which will attract clients who require a premium service provided by experts. At the end of last year, assisted by a grant from the North West Regional Development Agency, we invested in a new site in the North West. The previous site comprised facilities significantly below the minimum standard required by TRaC and it was unable to grow its business in the region. We anticipate that this more up to date and larger facility will enable TRaC to continue to grow in the North West of the UK where there are interesting opportunities for the business. There is still one facility within the TRaC division which requires investment to bring it up to the high standards of customer service, including the availability of specialist test facilities, which TRaC provides to its clients. During 2010, once the investment in the North West has been completed we intend to start the planning process for the investment in this final site which requires refurbishment, although any decision to invest will be linked to underlying market conditions.

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

OUTLOOK & PROSPECTS

BIOQUELL's bio-decontamination technology is increasingly being accepted worldwide as the "gold standard" for low temperature, residue-free eradication of pathogens in rooms and equipment in a number of sectors. The Group has particularly interesting opportunities to develop its business in the healthcare sector to combat global problems associated with HAI. In addition, we believe that there are also other significant opportunities to increase the Group's revenues internationally - and increase its market share - in the healthcare and life sciences sectors. We anticipate that this growth will come from a combination of income from capital equipment sales of new products as well as increased recurring revenues, principally associated with new hydrogen peroxide-based consumable cartridges to be sold with new products. This shift away from reliance on customers' capital expenditure budgets will also be assisted by the use of rental finance options which we will be offering our healthcare and life sciences customers.

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

Nigel Keen
Chairman
16 March, 2010

Consolidated income statement

For the year ended 31 December 2009

	Notes	2009 £'000	2008 £'000
Revenue		39,233	34,405
Cost of sales		(21,654)	(19,395)
Gross profit		17,579	15,010
Gross profit margin		45%	44%
Operating expenses:			
Sales & marketing costs		(5,916)	(4,603)
Administration costs		(3,922)	(3,262)
R&D and Engineering costs		(2,096)	(1,936)
Profit from operations	3	5,645	5,209
Investment revenues	4	313	163
Finance costs	5	(102)	(369)
Profit before tax		5,856	5,003
Tax	6	(1,553)	(1,275)
Profit for the year		4,303	3,728
Earnings per share			
- basic	7	10.3p	9.0p
- diluted		9.3p	8.3p

Movements in reserves are set out in notes 12, 13, 14 and 15.

All amounts are derived from continuing operations.

Consolidated statement of recognised income and expense

For the year ended 31 December 2009

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

Consolidated balance sheet

As at 31 December 2009

	Notes	2009 £'000	2008 £'000
Non-current assets:			
Goodwill		691	691
Other intangible assets		7,460	6,704
Property, plant & equipment		11,764	8,280
		19,915	15,675
Current assets:			
Inventories		1,157	1,365
Trade and other receivables		7,584	7,368
Cash and cash equivalents		5,941	7,097
		14,682	15,830
Total assets		34,597	31,505
Current liabilities:			
Trade and other payables		(6,642)	(6,523)
Current tax liabilities		(499)	(606)
Obligations under finance leases		(132)	(248)
Borrowings	9	(105)	(78)
Deferred tax		(1,800)	(1,092)
Derivative financial instruments		—	(266)
Provisions	8	(984)	(1,606)
Net current assets		4,520	5,411
Non-current liabilities:			
Total non-current liabilities		(1,472)	(1,723)
Total liabilities		(11,634)	(12,142)
Net assets		22,963	19,363
Equity:			
Share capital	10	4,162	4,160
Share premium account	11	114	95
Special reserve	12	10,933	10,933
Equity reserve	13	1,101	707
Capital reserve	14	255	255
Translation reserve	15	(51)	154
Retained earnings	16	6,449	3,059
Equity attributable to equity holders of the parent		22,963	19,363

Consolidated statement of changes in equity

As at 31 December 2009

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

Consolidated cashflow statement

For the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Net cash from operating activities	17	6,910	8,960
Investing activities			
Proceeds on disposal of property, plant and equipment		—	134
Purchases of property, plant and equipment		(5,249)	(4,840)
Expenditure on product development		(1,575)	(1,100)
Net cash used in investing activities		(6,824)	(5,806)
Financing activities			
Proceeds on issue of ordinary shares		21	119
Dividends paid on ordinary shares		(915)	(830)
Movement in borrowings		(79)	1,386
Repayment of obligations under finance leases		(261)	(305)
Net cash (used in)/from financing activities		(1,234)	370
Net (decrease)/increase in cash and cash equivalents		(1,148)	3,524
Bank cash at beginning of year		7,097	3,500
Effect of foreign exchange rate changes		(8)	73
Bank cash at end of year		5,941	7,097

Notes to the consolidated financial statements

For the year ended 31 December 2009

1. Basis of preparation

The financial information set out in the preliminary statement announcement does not constitute the Company's statutory accounts for the years ended 31 December 2009 or 2008. Statutory accounts for 2008 have been delivered to the Registrar of Companies and those for 2009 will be delivered following the Company's Annual General Meeting on 17 May 2010. The auditors' reports on both the 2008 and 2009 accounts were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of Companies Act 2006 or equivalent preceding legislation.

2. Business and geographical segments

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

Segment information about these businesses is presented below;

Year ended 31 December 2009	BIO-DECON £'000	TRaC £'000	Consolidated £'000
Revenue			
Total revenue	27,935	11,298	39,233
Result			
Segment result	4,944	1,873	6,817
Unallocated head office costs			(1,172)
Profit from operations			5,645
Finance costs and investment revenue			211
Profit before tax			5,856
Tax			(1,553)
Profit for the year			4,303
Other information			
Capital additions	5,944	884	6,828
Unallocated corporate additions			38
Total capital additions			6,866
Depreciation and amortisation	1,564	956	2,520
Unallocated corporate depreciation			43
Total depreciation and amortisation			2,563
Balance sheet as at 31 December 2009			
Assets			
Segment assets	19,521	8,634	28,155
Unallocated corporate assets			6,442
Consolidated total assets			34,597
Liabilities			
Segment liabilities	(7,830)	(2,597)	(10,427)
Unallocated corporate liabilities			(1,207)
Consolidated total liabilities			(11,634)

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

2. Business and geographical segments *continued*

Year ended 31 December 2008	BIO-DECON £'000	TRaC £'000	Consolidated £'000
Revenue			
Total revenue	23,749	10,656	34,405
Result			
Segment result	4,545	1,084	5,629
Unallocated head office costs			(420)
Profit from operations			5,209
Finance costs and investment revenue			(206)
Profit before tax			5,003
Tax			(1,275)
Profit for the year			3,728

Other information

Capital additions	3,790	1,479	5,269
Unallocated corporate additions			1,020
Total capital additions			6,289
Depreciation and amortisation	1,213	942	2,155
Unallocated corporate depreciation			14
Total depreciation and amortisation			2,169

Balance sheet as at 31 December 2008

Assets

Segment assets	16,469	8,069	24,538
Unallocated corporate assets			6,967
Consolidated total assets			31,505

Liabilities

Segment liabilities	(7,952)	(2,399)	(10,351)
Unallocated corporate liabilities			(1,791)
Consolidated total liabilities			(12,142)

2. Business and geographical segments *continued*

Geographical segments

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

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

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

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

	Carrying amount		Additions to property,	
	of segment assets		plant and equipment	
	Year ended	Year ended	Year ended	Year ended
	31 December	31 December	31 December	31 December
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
UK	31,149	28,663	6542	6,115
Rest of Europe	1,842	1,489	154	43
Rest of World	1,606	1,353	170	131
	34,597	31,505	6,866	6,289

3. Profit from operations

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

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

4. Investment revenues

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

5. Finance costs

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

6. Tax

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

Corporation tax is calculated at 28% (2008: 28.5%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The charge for the year can be reconciled to the profit per the income statement as follows:

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

7. Earnings per share

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

Earnings	Year ended	Year ended
	31 December	31 December
	2009	2008
	£'000	£'000
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	4,303	3,728

Number of shares	Year ended	Year ended
	31 December	31 December
	2009	2008
Weighted average number of ordinary shares for the purposes of basic earnings per share	41,615,010	41,491,801
Effect of dilutive potential ordinary shares:		
– share options	4,541,350	3,646,000
Weighted average number of ordinary shares for the purposes of diluted earnings per share	46,156,360	45,137,801

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

8. Provisions

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

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

9. Analysis of net cash

	2009	2008
	£'000	£'000
Cash and cash equivalents	5,941	7,097
Finance leases – due within one year	(132)	(248)
– due after one year	(41)	(186)
Bank loan – due within one year	(105)	(78)
– due after one year	(1,281)	(1,387)
Net cash	4,382	5,198

10. Share capital

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

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

11. Share premium account

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

12. Special reserve

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

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

13. Equity reserve

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

14. Capital reserve

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

15. Translation reserve

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

16. Retained earnings

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

17. Notes to the cash flow statement

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

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

18. 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.

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

Risks and uncertainties

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

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

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

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

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

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

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

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

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

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

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

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and the risks and uncertainties summarised above. The Group has sufficient financial resources to cover budgeted future cash-flows, together with contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

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

Responsibility statement

We confirm that to the best of our knowledge:

1. the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
2. the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

This responsibility statement was approved by the Board of Directors on 16 March 2010 and is signed on its behalf by:

Nicholas Adams
Chief Executive Officer

Mark Bodeker
Chief Financial Officer