

10 March, 2008

## **BIOQUELL PLC**

### **2007 preliminary results: significant increase in revenues and profits**

#### **Proposed payment of an ordinary dividend**

#### **Board changes, including new Chairman from 2009 AGM**

BIOQUELL PLC (“BIOQUELL”), the UK leader in specialist decontamination technology and testing/compliance services, announces its preliminary results for the year ended 31 December 2007. The highlights are:

#### **FINANCIALS**

- turnover £34.1 million (2006: £25.2 million), a 35% increase - all from organic growth
- profit before tax: £4.2 million (2006: £1.2 million) – a 250% increase in pre-tax profit
- earnings three times the level of last year at £3.7 million (2006: £1.2 million) and basic earnings per share 8.9p (2006: 2.9p)
- net cash £2.7 million (2006: net debt £(0.6) million) – a £3.3 million improvement
- net assets £16.1 million (2006: £11.5 million)
- proposed final dividend of 2p per ordinary share (the Group last paid a dividend on the ordinary shares in 1989)

#### **BOARD CHANGES**

- Nigel Keen joins the Board of BIOQUELL today. Mr Keen is currently Chairman of The Laird Group PLC, Axis-Shield plc, Oxford Instruments plc and Deltex Medical Group plc
- John Salkeld, Chairman of BIOQUELL, has informed the Board that he wishes to retire from the Board at the 2009 AGM – and it is intended that Nigel Keen will replace him as Chairman from this date
- Dick Towner has informed the Board that he wishes to retire from the Board at this year’s AGM on 27 May, 2008

#### **ACTIVITIES**

##### ***Decontamination division***

- turnover £23.6 million (2006: £14.6 million), organic growth of 62%
- healthcare (“superbugs” / hospital acquired infection): The Group’s strategy of offering hospitals a range of solutions to combat hospital acquired infection – from long term in situ BIOQUELL “implant” teams to “outbreak” emergency deployments – is beginning to show meaningful growth, with long term BIOQUELL “implant” teams currently in place in three US hospitals and two UK hospitals. “Outbreak” emergency deployments in the UK have also shown significant growth in recent months

- life sciences: the new BIOQUELL Z – for zone or room decontamination - was launched in April 2007 and during last year achieved encouraging unit sales in the life sciences sector
- defence: the Group saw strong growth in its defence activities in the year, including the Joint Materials Decontamination System (“JMDS”) sub-contract win for the US Department of Defense and significantly increased sales of chemical, biological, radiological and nuclear (“CBRN”) filtration systems to a number of international military vehicle manufacturers
- healthcare (wound healing): a major clinical trial relating to BIOQUELL’s new wound healing technology started at the beginning of 2008 and preliminary results are expected before the year end

#### **TRAC (Testing, Regulatory and Compliance) division**

- turnover £10.5 million (2006: £10.6 million), 1% decline influenced by the move of two major testing facilities in the year
- high levels of military / aerospace orders continuing across the TRAC division
- the new TRAC brand achieving increased levels of market penetration

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

*“This is a good set of results showing strong growth, robust profitability and some £2.7 million of net cash on the balance sheet at the year end. I am delighted that the Board is able to propose the payment of a final dividend of 2p per ordinary share.*

*It is most encouraging to see our strategy delivering international revenue growth across the healthcare, life sciences and defence sectors. It is particularly gratifying that we are now seeing significant levels of interest in the use of BIOQUELL’s technology to eradicate “superbugs” from the hospital environment – and I am pleased that we currently have BIOQUELL “implant” technicians and equipment deployed at 3 US and 2 UK hospitals.*

*Notwithstanding the challenges associated with moving two core facilities, the TRAC division is making good progress at increasing its market share in the key military and aerospace market.*

*I am delighted that Nigel Keen, who has extensive, successful experience with international healthcare and technology companies, has agreed to join the Board and will be able to help the Group with the next stage of its growth. I would also like to thank, on behalf of the Board and shareholders, Dick Towner for his wise counsel, sound judgement and sense of humour during his 16 years as a director of the Group.”*

#### **Enquiries**

John Salkeld  
Nick Adams  
Mark Bodeker

BIOQUELL PLC

01264 835 900

## CHAIRMAN'S STATEMENT

### BIOQUELL PLC – preliminary results for the year ended 31 December, 2007

#### Overview

The BIOQUELL Group comprises two divisions: Decontamination and TRAC (Testing, Regulatory and Compliance). The Group's hydrogen peroxide vapour ("HPV") decontamination technology Chemical, Biological, Radiological and Nuclear ("CBRN") defence filtration technology and specialist laboratory filtration equipment make up the Decontamination division. The TRAC division comprises specialist service businesses carrying out electromagnetic compatibility ("EMC"), environmental and telecoms testing.

#### Results and finance

Turnover for the Group increased by 35% to £34.1 million (2006: £25.2 million) with all the increase in revenues being generated from organic growth. The Group's international revenues increased by 87% from £10.4 million to £19.4 million, reflecting the Decontamination division's increasingly international client base.

The Decontamination division's revenues in 2007 were £23.6 million (2006: £14.6 million), representing growth of 62%.

The TRAC division's revenues were £10.5 million (2006: £10.6 million), representing a small decline of some 1% as a result of the inevitable business disruption from the move of the Malvern (EMC) and Hull (Telecoms) testing facilities during 2007.

Gross expenditure on product development in the year was £1.2 million (2006: £1.0 million). This reflects continuing investment in the development of new products across the healthcare, life sciences and defence sectors as well as further research and the development of technology specifically relating to the eradication of "superbugs" / nosocomial pathogens from hospitals.

Total Group overheads increased by 21% from £8.4 million to £10.2 million. A significant proportion of this increase relates to investment in infrastructure and personnel in the United States.

Profit before tax increased 250% to £4.2 million (2006: £1.2 million). The substantial increase in profitability was due to significantly higher Group revenues with improved gross margins and only moderately increased overheads.

In 2007 the Group effectively used up its carried forward tax losses and other tax assets and had a tax rate in the year of 12%. In the future the Group anticipates having to pay a normalised tax rate on its consolidated profit.

Earnings for the year were £3.7 million (2006: £1.2 million); basic earnings per share were 8.9p (2006: 2.9p), representing a 200% increase.

The Group had net cash at 31 December 2007 of £2.7 million (2006: net debt of £(0.6) million). The Group had net positive cashflow during the year of some £3.2 million (2006: £1.4 million) notwithstanding significant demands on working capital associated with the increase in revenues and ongoing investment in research and development as well as capital expenditure.

Capital expenditure was £1.8 million (2006: £0.9 million) relating principally to the investment in new proprietary bio-decontamination equipment used by BIOQUELL and its licensees to provide its HPV-based room bio-decontamination service (RBDS) and investment in specialist testing and move-related equipment for the TRAC division.

Net cash from operating activities was £5.2 million (2006: £3.5 million). Cash inflow after expenditure on product development and before capital investment was £4.5 million (2006: £2.5 million).

Net assets at 31 December 2007 were £16.1 million (2006: £11.5 million). The Group had net cash on its balance sheet at the year end.

Given the substantial increase in profitability, the net cash position at the year end and the much improved strategic position of the Group, the Board is proposing the payment of a final dividend of 2 pence per ordinary share which would represent a total payment of approximately £0.8 million. (The ex-dividend date will be 28 May, the record date 30 May and the payment date 1 July, 2008.) It is the Board's current intention only to propose the payment of a final dividend each year.

### **Decontamination division**

The Decontamination division displayed significant growth in 2007, in large part as a result of improved sales into the defence sector. During the year, the Group extended the strong position of its HPV decontamination technology with a number of international clients in the life sciences sector, with a notable increase from the French market. The prospects look promising in 2008 for increased revenues from the healthcare sector – principally as a result of the use of BIOQUELL's HPV technology to eradicate nosocomial pathogens responsible for hospital acquired infection (so-called "superbugs"). Due to the expiry of a 35 year building lease, during 2008 the principal operating company within the division will move to a recently acquired modern, refurbished facility in Andover; provisions were made in the 2007 accounts for a substantial proportion of the estimated move-related costs.

### **TRAC division**

Although the TRAC division's revenues were subdued in 2007, this masked significant and strategically important changes within the division. The move of two of the division's largest facilities created inevitable disruption – but these businesses are now well positioned to increase their revenues, market share and extend the services which they offer. KTL Inc's specialist telecom's testing facility in Santa Clara, California showed strong growth, albeit from a low base – and we anticipate further growth from this business in 2008. Further work will take place this year to increase the proportion of UK revenues from the important aerospace and military sector, as well as promote further the TRAC brand and increase the average size of contract. Another property move is anticipated in 2008 to consolidate further TRAC's UK facilities.

### **Prospects**

The Group has excellent opportunities with international clients in three sectors: healthcare, life sciences and defence - which are unlikely to be significantly adversely affected by the expected global slowdown, although the timing and quantum of some of the orders from the defence and healthcare sectors are hard to predict. The Group now has a broad range of well established products and services as well as a number of new product development programmes in place, including innovative patent protected wound healing technology which is undergoing clinical trials. The Group has no net borrowings and is in a position to fund significant organic growth from its existing cash resources. Based on the above and the execution skills demonstrated by the Group's management, your Board believes that the Group is well positioned strategically and its prospects are continuing to improve.

John Salkeld  
**Chairman**  
10 March, 2008

## SUMMARY OF ACTIVITIES

### DECONTAMINATION DIVISION

#### Hydrogen peroxide vapour (“HPV”) decontamination technology

##### *Overview*

The Group has developed specialist, patent protected HPV decontamination technology which is used principally in the healthcare, life sciences and defence sectors. This unique HPV technology, which is the result of more than ten years of research, sterilises rooms and equipment at ambient temperature and pressure, and is compatible with sensitive electronics. Moreover, at the end of the sterilisation process the HPV is passed through a catalyst and breaks down to water vapour and oxygen – hence representing an extremely “green” or environmentally friendly biocide. (The efficacy of the microbiological deactivation achieved by BIOQUELL’s HPV technology can be verified using standard biological indicators, similar to those used to check the efficacy of steam autoclaves.)

BIOQUELL’s Clarus product range comprises HPV equipment which can sterilise different sized enclosures, and their contents, ranging from small research chambers to large hospital wards or bio-pharmaceutical vaccine production facilities.

RBDS is the Group’s Room Bio-Decontamination Service – which represents a specialist HPV-based sterilisation service using proprietary BIOQUELL equipment and specially trained technicians employed by the Group, or its international licensees. In 2007 RBDS was deployed across the world, including, for example, a substantial decontamination for a bio-pharmaceutical company in Australia.

During the year the Group saw strong growth from its US and French operations – and BIOQUELL anticipates investing further amounts in 2008 in these and other overseas BIOQUELL facilities.

##### *Healthcare: hospital acquired infection and “superbugs”*

Over the last decade BIOQUELL has been carrying out detailed research and development to build up an appropriate and robust scientific evidence base for the use of its HPV technology to eradicate “superbugs”, including MRSA and *Clostridium difficile* (“C.diff”), from the hospital environment. This research has been carried out in a number of European countries and in the United States. We expect research to be published shortly which shows that, in summary, using BIOQUELL’s technology in a US hospital resulted in a statistically significant 53% reduction in C.diff associated disease. BIOQUELL now has impressive scientific data which demonstrates the efficacy of its technology against substantially all of the pathogens usually responsible for hospital acquired infection (“HAI”). These data were formally recognised in October 2007 when the Rapid Review Panel (comprising leading UK scientific experts involved in infection control) of the Department of Health announced the upgrade of BIOQUELL’s HPV technology to ‘Category One’ status meaning that “*Basic research and development, validation and recent in use evaluations have shown benefits that should be available to NHS bodies to include as appropriate in their cleaning, hygiene or infection control protocols*”. BIOQUELL’s HPV technology is one of only two decontamination technologies in this category – the other being a topical antiseptic. The DOH has also uploaded to its ‘Clean, Safe Care’ website eight case studies relating to the use of BIOQUELL’s HPV technology to combat “superbugs”. ([www.clean-safe-care.nhs.uk/Public/default.aspx?level=2&load=ArticleViewer&ArticleID=465](http://www.clean-safe-care.nhs.uk/Public/default.aspx?level=2&load=ArticleViewer&ArticleID=465))

In summary, BIOQUELL is able to offer its healthcare clients four different deployment solutions to combat HAI (with some clients using more than one BIOQUELL solution):

- a long term “implant” team located at the hospital comprising proprietary BIOQUELL equipment and highly trained technicians - which are normally used in a preventative manner to combat “superbugs”;

- a scheduled decontamination of high risk rooms or contaminated equipment – for example a number of NHS hospitals in the UK use BIOQUELL’s decontamination services on a scheduled basis to decontaminate their C.diff cohort wards;
- an emergency “outbreak” response service – used to decontaminate at short notice equipment or rooms implicated in a “superbug” outbreak. Examples include the decontamination of incubators used in neonatal intensive care units which are often implicated in HAI outbreaks; and
- the sale of BIOQUELL HPV equipment - including the new BIOQUELL Z – when the hospital concludes that it wishes its own employees to carry out the decontamination using BIOQUELL’s equipment.

Although there are some signs of improvement in the MRSA and C.diff rates recorded in NHS hospitals in the UK, this is against a more general trend of hospitals seeing an increasing number of antibiotic resistant organisms – some of which are becoming more virulent. In addition, whereas in the past there was a clear distinction between antibiotic resistant infections contracted in the hospital – hence the term “*hospital acquired infection*” – there are now more resistant organisms in the community, which can be readily introduced into hospitals. This phenomenon is seen clearly with MRSA – with both “*hospital acquired*” and “*community acquired*” strains causing real problems to healthcare providers.

The international location of a hospital also tends to affect the type or strain of “superbug” that may infect patients. For example, in addition to MRSA and C.diff, US hospitals tend to have significant issues with other “superbugs” such as VRE, multi-drug resistant *Acinetobacter* and the KPC2 strain of *Klebsiella*. As a result of the wide range of nosocomial pathogens, BIOQUELL is seeing a broad and increasing number of opportunities whereby its technology and “real world” hospital deployment experience can be used in healthcare facilities to ameliorate the problems caused by “superbugs”.

#### *Life sciences*

In 2007 the Group experienced increased interest in BIOQUELL’s HPV decontamination technology in the life sciences sector, principally relating to the Clarus range of HPV equipment. There were three principal factors driving the increased order intake for BIOQUELL’s technology in the life sciences sector:

- an increasing proportion of new drugs being developed by biotechnology or biopharmaceutical groups are biologically active – and hence susceptible to biological contamination. The Group’s technology is able to provide high level bio-decontamination of research and production facilities with no problematic residues – and BIOQUELL now has an impressive list of reference sites to demonstrate the efficacy and competence of its equipment to new clients;
- many organisations, particularly in continental Europe, are moving away from the use of formaldehyde, which is a confirmed human carcinogen and which leaves problematic residues, to sterilise equipment or rooms; and
- the launch of the new BIOQUELL Z – with automated, predictive cycle control – makes zone or room decontamination significantly easier, more practical and more affordable. In addition, BIOQUELL was able to sell a number of BIOQUELL Z units through its international network of distributors.

These factors should continue to affect positively order activity for the life sciences sector in 2008.

## **Defence**

### *Joint Materials Decontamination System ("JMDS")*

Following a joint submission with prime contractor Teledyne Brown Engineering, Inc to the United States Department of Defense ("DOD"), the Group was awarded a "cost plus" sub-contract relating to the technology and manufacturing elements of the JMDS. The initial System Development and Demonstration phase is expected to be worth approximately US\$7 million to the Group. It is not yet possible to predict the eventual size of the manufacturing element of the JMDS contract.

The JMDS will use BIOQUELL's HPV technology to decontaminate a range of military equipment and assets from biological weapon agents and chemical weapon agents. BIOQUELL's technology was selected after an extensive, in-depth international review by the DOD of available technologies. The JMDS sub-contract award has helped materially to promote the Group's HPV technology, and market position more generally, in the defence sector. Moreover, it is likely that other US organisations and overseas governments will be interested in purchasing the JMDS technology once its development and testing is completed.

### *Chemical, biological, radiological and nuclear filtration technology*

In 2007 the Group saw strong growth in revenues from its chemical, biological, radiological and nuclear ("CBRN") filtration systems technology. The Group has been involved in the development of CBRN systems and filters since the 1970s and in recent years BIOQUELL's defence team has significantly upgraded the performance of these systems - resulting in a number of contract awards from a range of clients which significantly positively affected the Group's results in 2007. A proportion of these contracts related to CBRN filtration systems for the DOD's mine resistant, ambush protected ("MRAP") vehicles. It is likely that the DOD will reduce investment in MRAP vehicles in 2008 and divert vehicle-related investment to the new 'Joint Light Tactical Vehicle' ("JLTV"). BIOQUELL's defence team are in discussions relating to the supply of CBRN filtration systems with a number of potential JLTV suppliers. However, it remains difficult to predict the quantum and timing of sales of future JLTV-related CBRN filtration system orders. Separately, the Group has also won contracts for CBRN equipment destined for use in vehicles purchased by the Royal Saudi Land Forces, and currently has order cover on this contract to 2009. The Group also has a number of European CBRN filtration equipment contracts to fulfil this year.

Many security experts believe that the CBRN threat remains real and problematic - and BIOQUELL believes that there are other ways to extend sales of its CBRN equipment and associated technology. BIOQUELL is examining a number of development programmes which, if successful, would extend the range and market share of its CBRN products.

Given the size and importance of the DOD and their clear preference for US manufacturing, BIOQUELL has invested in manufacturing facilities in Pennsylvania for its growing defence-related activities.

## **Wound healing technology**

### *Background*

Based on its experience of hydrogen peroxide, BIOQUELL started developing innovative wound healing technology using applied peroxy chemistry some seven years ago. This resulted in prototype equipment being built which was used to treat 30 patients with venous leg ulcers in 2003 / 2004 in a pilot study carried out with experts at the Wound Healing Research Unit at Wales College of Medicine, Biology, Life and Health Sciences. The results of this first pilot study were sufficiently encouraging for the Board to approve further investment in research and development of this new wound healing equipment, which is the subject of patent filings, and to fund a randomised, double blind controlled clinical trial which should involve approximately 112 patients with venous leg ulcers. It has taken longer than expected to gain UK regulatory approval for this clinical trial which finally started at the

beginning of 2008. Preliminary results from this trial are anticipated to be available later this year, although this data will depend largely on the rate of patient acquisition into the trial which itself is a function of the carefully selected clinical criteria used to determine which patients are eligible for treatment.

#### *Market size*

Chronic wounds – which are typically defined to be wounds which remain unhealed after three months – are a major problem and expense for healthcare providers around the world. The scientific community does not understand fully why certain wounds do not heal and become chronic, although a number of theories exist. Chronic wounds include venous leg ulcers, bed sores (technically decubitus ulcers) and diabetic foot ulcers. It is notable that many of these wounds can become colonised or infected with “superbugs” if the patients are hospitalised. The healing of chronic wounds represents a large potential market with estimates from the scientific literature suggesting that up to 1% of the population at any time can be affected by chronic wounds. Further, one estimate suggests that the annual cost to the US healthcare system of chronic wounds is some US\$ 9.5 billion. Accordingly there are *prima facie* good commercial opportunities for a technology which can assist in the treatment or healing of chronic wounds.

#### **After-sales service and support**

The demand for high quality after-sales service and support, including spares and training, is increasing as the Group continues to increase its HPV equipment unit sales both in the UK and overseas. (BIOQUELL’s Service department also supports the Group’s laboratory filtration equipment business.)

During 2007 the management of the Group’s Service department was strengthened significantly and investment in IT and hardware is currently underway to increase the efficiency and customer service levels which the Service Department can provide. BIOQUELL believes that it is strategically important to have a high quality and well resourced after-sales service department – and further profitable growth is expected from this department in 2008.

#### TRAC DIVISION

##### **Overview**

The Group’s testing service businesses have been positioned under the TRAC – Testing, Regulatory and Compliance – Global divisional brand. The division was formed in 2005 to combine Cape and EMC Projects with TRL Compliance and KTL (the two businesses acquired in October 2005). Most of TRAC’s businesses are primarily involved in the testing of new products or devices in the ‘R&D’ or product development stage – and little work is related to clients’ actual manufacturing processes (which are often in the Far East).

Work continued in 2007 in the melding together of the separate businesses into a coherent specialist testing service division, well positioned to win large contracts from multi-national groups – particularly in the military and aerospace sectors. Mark Heaven has recently been appointed Managing Director of TRAC – and he will continue the integration of the businesses and the optimization of TRAC’s market position during 2008.

During 2007 two significant property moves took place which had an inevitable adverse effect on the division’s financial performance and a further consolidation is planned in Ringwood during 2008. TRAC will then have four well-invested and substantial centres of excellence in Malvern (EMC), Warwick (environmental), Ringwood (EMC and environmental) and Hull (telecoms).

##### **EMC**

Electromagnetic compatibility (“EMC”) remains a major cause of concern for regulators as well as large aerospace and military companies. Electronic devices can give out or be susceptible to electromagnetic radiation which can cause devices to interact and/or malfunction. As a result specialist EMC testing is needed and such testing is particularly

onerous for military and aerospace equipment. Over recent years the scale of EMC testing has increased with new activities such as lightning testing or testing at higher frequencies being introduced and these have resulted in increased revenues for the division's EMC businesses. The costs of purchasing specialist EMC testing equipment is high and as a result there are significant barriers to entry as such costs make it difficult for smaller EMC businesses, or companies' in-house laboratories, to justify the investment in new EMC equipment and/or find the necessary trained and experienced EMC test engineers.

TRL Compliance Limited is the TRAC division's principal EMC testing business which moved its headquarters and two smaller testing facilities to Malvern during 2007. The Malvern facilities now comprise an EMC centre of excellence with state-of-the-art equipment including seven high capacity EMC chambers including one which can accommodate larger vehicles such as main battlefield tanks. TRL Compliance addresses the EMC market in the North of England via its facilities in Lancashire which, in addition to EMC testing, also provide specialist ATEX and DSEAR testing for explosive atmospheres. EMC Projects Limited, located close to Ringwood, Hampshire provides EMC testing services to the important South of England market which includes a number of multi-national aerospace groups.

In 2007 TRAC's EMC business saw a significant level of revenues from the strategically important military / aerospace sector. (It is notable that many military / aerospace clients have order books extending out many years.) It is also clear that new aerospace or military equipment is going to contain high levels of electronics and hence the opportunities for increased levels of EMC testing appear encouraging.

## **Environmental**

Cape Engineering had a good year under a new management team and increased its profitability on higher revenues. Given the high fixed costs associated with running Cape, the trend towards increased profitability should continue in 2008 in large part as Cape and TRAC's EMC businesses are beginning to bid jointly - and offer an integrated testing package - for a number of large contracts.

Cape Engineering is the Group's original testing business with its headquarters in Warwick and is less than one hour's drive from TRL Compliance's headquarters in Malvern. Environmental testing comprises vibrating, heating or otherwise exerting environmental stress on components or products. Environmental testing tends to require larger facilities than EMC or telecoms testing and is in many respects a more mature business. However, the high replacement costs of these assets and the requisite technical expertise to use them, and interpret the results successfully, also represents a substantial barrier to entry. Cape's facilities at Warwick comprise an environmental centre of excellence able to provide substantially all of the specialist environmental tests required by clients. In addition, Cape has a specialist environmental testing facility at Wimborne (some 10 miles from EMC Projects) in the South of England which is co-located on the facilities of a large aerospace group. Cape also provides 'Cape-on-Call' where clients are able to call upon Cape's specialist testing experts to assist at the clients' facilities.

Although environmental testing does not benefit from the same regulatory drivers which tend to increase the underlying demand for EMC and telecoms testing, it is clear that most clients who require EMC testing will require environmental testing - and vice versa. During 2007 TRL Compliance, EMC Projects and Cape succeeded in winning a number of substantial contracts under the TRAC brand and this success is anticipated to continue in 2008.

## **Telecoms**

KTL Limited ("KTL") has its headquarters in new facilities which it moved into in Hull at the end of 2007. The business was originally the telecoms test laboratory of Kingston Communications. KTL has worldwide expertise in a broad range of analogue and digital telecoms testing to ensure interoperability - essentially the ability of the telecoms device to communicate successfully with the telecoms network without causing interference. In addition, KTL has internationally recognised expertise in DSL technology - digital subscriber line - which enables high speed, high capacity broadband internet access to be transmitted

down conventional copper wire telephone lines which are installed in most houses in Europe and North America. Given the significant increase in broadband internet access globally, KTL continues to carry out a high volume of DSL testing. This work is being extended by new DSL standards – including ADSL, ADSL2+ and VDSL – which will increase data transmission speeds and capacity resulting in, for example, the download of films or TV programmes over the internet or to mobile phones. KTL is also looking at other new technologies where it can exploit its specialist telecoms-related testing skills including WiMAX (broadband wireless internet), ZigBee (the use of wireless technology to control industrial and domestic appliances including electronics and lighting) and VoIP (voice over internet protocol, used to facilitate telephone calls over the internet).

In 2005 KTL Inc was established with unique digital testing facilities in Silicon Valley, California and during 2007 further investment in this facility occurred with a particular focus on VDSL testing. KTL Inc draws upon KTL's telecoms expertise from its UK operations, with a particular focus on DSL, and sells specialist testing services to "blue chip" hardware manufacturers based in or close to Silicon Valley. There were a number of changes to the management team at KTL Inc in 2007 and the business is well positioned for further growth in 2008.

# Consolidated income statement

for the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
Revenue		34,096	25,238
Cost of sales		(19,684)	(15,521)
<b>Gross profit</b>		<b>14,412</b>	<b>9,717</b>
<i>Gross profit margin</i>		<i>42%</i>	<i>39%</i>
Operating expenses:			
Sales & marketing cost		(3,392)	(2,952)
Administration costs		(5,165)	(4,082)
R&D and Engineering costs		(1,607)	(1,362)
<b>Profit from operations</b>		<b>4,248</b>	<b>1,321</b>
Investment revenues	3	75	9
Finance costs	4	(157)	(173)
<b>Profit before tax</b>		<b>4,166</b>	<b>1,157</b>
Tax	5	(516)	4
<b>Profit for the year</b>		<b>3,650</b>	<b>1,161</b>
Profit per share – basic	6	8.9p	2.9p
– diluted	6	8.2p	2.6p

All amounts are derived from continuing operations

# Consolidated statement of recognised income and expense

for the year ended 31 December 2007

	2007 £'000	2006 £'000
Net profit for the year	3,650	1,161
Actuarial gain on defined benefit pension scheme	154	56
Movement in deferred tax in relation to pension asset	(12)	–
Exchange differences on translation of foreign operations	45	(225)
<b>Total recognised income</b>	<b>3,737</b>	<b>992</b>

# Consolidated balance sheet

As at 31 December 2007

		2007 £'000	2006 £'000
<b>Non-current assets:</b>			
Goodwill		691	730
Other intangible assets		6,324	6,108
Property, plant & equipment		4,261	3,596
		<b>11,276</b>	<b>10,434</b>
<b>Current assets:</b>			
Inventories		1,547	1,415
Deferred tax		–	100
Trade and other receivables		8,736	5,570
Cash and cash equivalents		3,500	306
Derivative financial instruments		6	–
		<b>13,789</b>	<b>7,391</b>
<b>Total assets</b>		<b>25,065</b>	<b>17,825</b>
<b>Current liabilities:</b>			
Trade and other payables		(5,920)	(4,072)
Obligations under finance leases		(212)	(205)
Deferred tax		(141)	–
Provisions	7	(1,896)	(1,136)
<b>Net current assets</b>		<b>5,620</b>	<b>1,978</b>
<b>Non-current liabilities</b>			
Total non-current liabilities		(756)	(955)
<b>Total liabilities</b>		<b>(8,925)</b>	<b>(6,368)</b>
<b>Net assets</b>		<b>16,140</b>	<b>11,457</b>
<b>Equity</b>			
Share capital	8	4,136	4,069
Share premium account	10	10,933	10,506
Equity reserve	11	875	525
Capital reserve	12	255	255
Translation reserve	13	(229)	(274)
Retained earnings	14	170	(3,624)
<b>Equity attributable to equity holders of the parent</b>		<b>16,140</b>	<b>11,457</b>

# Consolidated cash flow statement

for the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
<b>Net cash from operating activities</b>	15	5,233	3,505
<b>Investing activities</b>			
Proceeds on disposal of property, plant & equipment		33	20
Purchases of property, plant & equipment		(1,565)	(933)
Purchases of patents and trademarks		(17)	-
Expenditure on product development		(843)	(1,031)
<b>Net cash used in investing activities</b>		<b>(2,392)</b>	<b>(1,944)</b>
<b>Financing activities</b>			
Proceeds on issue of ordinary shares		494	150
Movement in borrowings		26	(20)
Repayment of obligations under finance leases		(275)	(132)
<b>Net cash from/(used in) financing activities</b>		<b>245</b>	<b>(2)</b>
<b>Net increase in cash &amp; cash equivalents</b>		<b>3,086</b>	<b>1,559</b>
Bank cash/(overdraft) at beginning of year		306	(1,076)
Effect of foreign exchange rate changes		108	(177)
Bank cash at end of year		<b>3,500</b>	306

# Notes to the consolidated financial statements

## 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 2006. Statutory accounts for the year ended 31 December 2006 have been delivered to the Registrar of Companies. Those for the year ended 31 December 2007 will be delivered following the Company's Annual General Meeting. The statutory accounts for the year ended 31 December 2007 will be despatched to shareholders by 25 March for approval at the Annual General Meeting on 19 May 2007. 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 – Bio-decontamination Solutions and 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 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			<u>3,650</u>
<b>Other information</b>			
Capital additions	1,574	1,051	2,625
Depreciation and amortisation	944	772	1,716

# Notes to the consolidated financial statements

for the year ended 31 December 2007 continued

## 2. Business and geographical segments continued

### 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			<u>25,065</u>
<b>Liabilities</b>			
Segment liabilities	(3,768)	(2,516)	(6,284)
Unallocated corporate liabilities			(2,641)
Consolidated total liabilities			<u>(8,925)</u>

### Year ended 31 December 2006

	Decontamination £'000	TRAC £'000	Consolidated £'000
<b>Revenue</b>			
Total revenue	14,607	10,631	25,238
<b>Result</b>			
Segment result	749	913	1,662
Unallocated head office costs			(341)
Loss from operations			1,321
Finance costs			(164)
Loss before tax			1,157
Tax			4
Loss after tax			<u>1,161</u>
<b>Other information</b>			
Capital additions	1,250	1,278	2,528
Depreciation and amortisation	969	662	1,631

# Notes to the consolidated financial statements

for the year ended 31 December 2007 continued

## 2. Business and geographical segments continued

Year ended 31 December 2006

	Decontamination £'000	TRAC £'000	Consolidated £'000
<b>Assets</b>			
Segment assets	11,558	6,196	17,754
Unallocated corporate assets			71
Consolidated total assets			<u>17,825</u>
<b>Liabilities</b>			
Segment liabilities	(2,409)	(2,814)	(5,223)
Unallocated corporate liabilities			(1,145)
Consolidated total liabilities			<u>(6,368)</u>

### 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 2007 £'000	Year ended 31 December 2006 £'000
UK	14,718	14,822
Rest of Europe	5,612	3,368
Rest of World	13,766	7,048
	<u>34,096</u>	<u>25,238</u>

# Notes to the consolidated financial statements

for the year ended 31 December 2007 continued

## 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 31 December 2007 £'000	Year ended 31 December 2006 £'000	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
UK	21,683	15,521	2,392	2,342
Rest of Europe	1,809	932	48	9
Rest of World	1,573	1,372	185	177
	25,065	17,825	2,625	2,528

## 3. Investment Revenues

	2007 £'000	2006 £'000
Bank Deposits	75	9

## 4. Finance costs

	2007 £'000	2006 £'000
Interest on bank loans and overdrafts	106	156
Interest on obligations under finance leases	41	24
Interest on defined benefit pension scheme	5	-
Dividend payable on 7.5% preference shares	11	11
Fair value gains on hedging	(6)	(18)
	157	173

## 5. Tax

	2007 £'000	2006 £'000
Current tax credit	-	(41)
Deferred tax charge	(516)	45
	(516)	4

Corporation tax is calculated at 30% (2006: 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

# Notes to the consolidated financial statements

for the year ended 31 December 2007 continued

## 5. Tax continued

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

	2007	2006
	£'000	£'000
Profit before tax	4,166	1,157
Tax at the UK corporation rate of 30% (2006: 30%)	(1,250)	(347)
Adjusted for:		
Tax effect of expenses not deductible in determining taxable profit	(74)	(44)
Effect of accelerated capital allowances not previously recognised	-	265
Tax effect of utilisation of tax losses not previously recognised	408	109
Utilisation of tax losses brought forward	-	19
R&D tax credit	173	95
Tax effect of different tax rate of subsidiaries operating in other jurisdictions	32	2
Deferred tax not recognised on other timing differences	43	(54)
Prior year adjustment	203	(41)
Effect on deferred tax balances due to the change income tax rates from 30% to 28% (effective 1 April 2008)	(51)	-
	<b>(516)</b>	<b>4</b>

## 6. Earnings per share

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

Earnings	Year ended 31 Dec 2007 £'000	Year ended 31 Dec 2006 £'000
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	<u>3,650</u>	<u>1,161</u>
Number of shares	Year ended 31 Dec 2007	Year ended 31 Dec 2006
Weighted average number of ordinary shares for the purposes of basic earnings per share	41,118,083	40,495,439
Effect of dilutive potential ordinary shares:		
– share options	<u>3,199,500</u>	<u>3,707,000</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>44,317,583</u>	<u>44,202,439</u>

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 'live' share options in the denominator.

# Notes to the consolidated financial statements

for the year ended 31 December 2007

Continued

## 7. Provisions

	Warranty provision £'000	Restructuring provision £'000	Other £'000	Total £'000
At 1 January 2007	63	544	529	1,136
Additional provision in the year	126	-	1,254	1,380
Utilisation of provision	(63)	(447)	(110)	(620)
At 31 December 2007	126	97	1,673	1,896
Included in current liabilities	126	97	1,673	1,896
Included in non-current liabilities	-	-	-	-
	126	97	1,673	1,896

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. The restructuring provision represents the estimated cost of moving the newly acquired businesses as required in the purchase agreement. Other provisions primarily represent property maintenance required under lease obligations within the subsidiaries.

## 8. Share capital

	2007		2006	
	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	41,358,045	4,136	40,694,545	4,069
		4,136		4,069

During the year the Company issued a total of 663,500 ordinary shares of 10p each for £494,000 on the conversion of options under the executive share option schemes, which is being used to provide additional working capital.

## 9. Analysis of net cash/(debt)

	2007 £'000	2006 £'000
Cash and cash equivalents	3,500	306
Finance leases – due within one year	(212)	(205)
– due after one year	(178)	(260)
Bank loan – due after one year	(428)	(402)
Net cash/(debt)	2,682	(561)

# Notes to the consolidated financial statements

for the year ended 31 December 2007

Continued

## 10. Share premium account

	<b>£'000</b>
Balance at 1 January 2006	10,393
Premium arising on issue of equity shares	113
Balances at 31 December 2006	<b>10,506</b>
Premium arising on issue of equity shares	427
Balance at 31 December 2007	<b>10,933</b>

## 11. Equity reserve

	<b>£'000</b>
Balance at 1 January 2006	365
Credit to equity for share-based payments	188
Debit to equity on exercise of share options	(28)
Balance at 31 December 2006	<b>525</b>
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)
Balance at 31 December 2007	<b>875</b>

## 12. Capital reserve

	<b>£'000</b>
Balance at 1 January 2006 & 1 January 2007	255
Additions	-
Balance at 31 December 2006 and 31 December 2007	<b>255</b>

## 13. Translation reserve

	<b>£'000</b>
Balance at 1 January 2006	(31)
Effects of foreign exchange in the period	(225)
Fair value gain on hedging	(18)
Balance at 31 December 2006	<b>(274)</b>
Effects of foreign exchange in the period	45
Balance at 31 December 2007	<b>(229)</b>

# Notes to the consolidated financial statements

for the year ended 31 December 2007

Continued

## 14. Retained earnings

	£'000
Balance at 1 January 2006	(4,869)
Net profit for the year	1,161
Actuarial loss on defined benefit pension scheme	56
Exercised share options	28
Balance at 1 January 2007	(3,624)
Net profit for the year	3,650
Actuarial gain on defined benefit pension scheme	54
Movement in deferred tax in relation to pension asset	(12)
Exercised share options	102
Balance at 31 December 2007	170

## 15. Notes to the cash flow statement

	2007	2006
	£'000	£'000
Profit from operations	4,248	1,321
Adjustments for:		
Depreciation of property, plant and equipment	1,051	1,042
Amortisation and impairment losses of intangible assets	665	589
Adjustment to deferred consideration	39	-
Share based payments	163	188
Profit on disposal of property, plant and equipment	(12)	(11)
Increase in provisions	760	251
Operating cash flows before movements in working capital	6,914	3,380
(Increase)/decrease in inventories	(132)	732
Increase in receivables	(3,121)	(42)
Increase in payables	1,524	(383)
Cash generated by operations	5,185	3,687
Additional deferred benefit contribution	136	-
Non equity preference share dividends paid	(11)	(11)
Investment revenues	75	9
Interest paid	(152)	(180)
Net cash from operating activities	5,233	3,505

Of the new additions to fixtures and equipment during the year assets to the value of £200,000 (2006: £499,000) 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 short term bank deposits with a maturity of three months or less.