

**Bioquell UK Limited**  
(Registered Number 02520270)

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2011**

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**BIOQUELL UK LTD  
ANNUAL REPORT  
YEAR ENDED 31 DECEMBER 2011**

**CONTENTS**

DIRECTORS' REPORT	3
STATEMENT OF DIRECTORS' RESPONSIBILITIES	6
INDEPENDENT AUDITOR'S REPORT	7
PROFIT AND LOSS ACCOUNT	9
BALANCE SHEET	10
STATEMENT OF ACCOUNTING POLICIES	11
NOTES TO THE FINANCIAL STATEMENTS	13

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**BIOQUELL UK LTD  
DIRECTORS' REPORT**

The directors submit their annual report, together with the audited financial statements for the year ended 31 December 2011

**PRINCIPAL ACTIVITY**

The principal activity of the company is the design, manufacture and service of bio-decontamination and filtration equipment

**BUSINESS REVIEW**

The company reports turnover for the year ended 31 December 2011 of £19,573,181 (2010 £20,002,974)

The company continues to develop new products. Expenditure on product development is written off as incurred and in 2011 this amounted to £2,234,842 (2010 £1,257,057). In 2011 the company continued the development of the new wound healing technology.

In addition to the development of the business in 2011, the company entered the year with order momentum and new products. The company continues to see further opportunities and applications for its technology both at home and overseas. The directors expect defence-related turnover to continue to form a significant proportion of turnover in the future.

The company reports a pre-tax profit for the year of £1,510,025 (2010 £941,224)

**FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

**Cash flow risk**

As sales from overseas customers continue to form a greater proportion of the company's turnover the level of risk associated with foreign exchange also grows. The company uses foreign exchange forward contracts to hedge these exposures.

**Credit risk**

Trade receivables form the main credit risk to the company. The debtor balance for trade receivables reported in the balance sheet is shown net of allowances for doubtful debts. Allowances for doubtful debts are made as a risk of non-payment is recognised. The company has no concentration of credit risk, with exposure spread over a number of counterparties and customers.

**BIOQUELL UK LTD**  
**DIRECTORS' REPORT (CONTINUED)**

**FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

**Liquidity risk**

The company operates a bank overdraft within the parent company's Group banking arrangement. This facility enables the company to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments

The Bioquell plc financial statements include further details on business risks and key performance indicators

**DIVIDEND**

The directors do not recommend payment of a dividend (2010 £nil), and the profit (2010 profit) for the year has been transferred to reserves

**GOING CONCERN**

The current economic conditions create uncertainty over the level of demand for the company's products and services. The company is supported by group borrowings and as such has no present requirement for external finance. As a consequence of this, the directors believe that the company is well-placed to manage its business risks successfully despite the current uncertain economic outlook. The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, we continue to adopt the going concern basis in preparing the annual report and accounts

**DIRECTORS**

The directors listed below held office throughout the year and to the date of the signing of the accounts with the exception of Mr Snare who left the company on 4 November 2011

Mr N M T Adams

Mr B M Bodeker

Mr M Parks

Mr G R Snare

**AUDITORS**

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

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

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

**BIOQUELL UK LTD**  
**DIRECTORS' REPORT (CONTINUED)**

**AUDITORS (CONTINUED)**

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

By Order of the Board

A handwritten signature in black ink, appearing to be 'M Bodeker', written over a horizontal line.

**Mark Bodeker**  
*Secretary*  
5 April 2012

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**BIOQUELL UK LTD**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

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

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

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**BIOQUELL UK LTD**  
**INDEPENDENT AUDITOR'S REPORT**

**To the Members of BIOQUELL UK Limited**

We have audited the financial statements of BIOQUELL UK Ltd for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Accounting Policies and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

**Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

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

**Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**BIOQUELL UK LTD**  
**INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



John Clennett (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditors  
Reading, United Kingdom  
5 April 2012



**BIOQUELL UK LTD**  
**PROFIT AND LOSS ACCOUNT**  
**YEAR ENDED 31 DECEMBER 2011**

	Notes	2011 £	2010 £
Turnover	1	19,573,181	20,002,974
Cost of sales		(12,273,474)	(13,033,192)
Gross profit		7,299,707	6,969,782
Net operating expenses	2	(5,781,312)	(5,991,707)
Operating profit		1,518,395	978,075
Interest payable and similar charges (net)	4	(8,370)	(36,851)
Profit on ordinary activities before tax		1,510,025	941,224
Tax on profit on ordinary activities	5	(174,619)	(227,747)
Profit on ordinary activities after tax	14	1,335,406	713,477

The turnover and operating profit in both the current and preceding year relate wholly to continuing activities

The company had no recognised gains or losses, other than those in the profit and loss account in either the current or preceding financial year. Accordingly, no statement of total recognised gains or losses has been presented

Movements in reserves are set out in Note 14

**BIOQUELL UK LTD**  
**BALANCE SHEET**  
**AT 31 DECEMBER 2011**

		2011	2010
	Notes	£	£
<b>FIXED ASSETS</b>			
Tangible assets	6	5,856,898	6,007,453
Investments	7	259,855	259,855
		<b>6,116,753</b>	<b>6,267,308</b>
<b>CURRENT ASSETS</b>			
Stocks	8	896,583	896,088
Debtors			
– due within one year	9	4,684,311	4,166,830
– due in more than one year	9	1,488,994	1,488,994
Cash		1,618,300	234,910
		<b>8,688,188</b>	<b>6,786,822</b>
<b>CREDITORS</b>			
Amounts falling due within one year	10	(3,894,214)	(4,207,551)
<b>NET CURRENT ASSETS</b>		<b>4,793,974</b>	<b>2,579,271</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>10,910,727</b>	<b>8,846,579</b>
<b>CREDITORS</b>			
Amounts falling due after more than one year	11	(5,409,427)	(4,854,603)
Provisions for liabilities and charges	12	(314,786)	(233,112)
<b>NET ASSETS</b>		<b>5,186,514</b>	<b>3,758,864</b>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	13	2	2
Equity reserve	14	653,864	561,620
Profit and loss account	14	4,532,648	3,197,242
<b>SHAREHOLDER'S FUNDS</b>	15	<b>5,186,514</b>	<b>3,758,864</b>

The Financial Statements of BIOQUELL UK Limited, registered number 02520270, were approved by the Board of directors and signed on its behalf by

Nicholas Adams  
Mark Bodeker

} Directors

5 April 2012

**BIOQUELL UK LTD**  
**STATEMENT OF ACCOUNTING POLICIES**

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

**BASIS OF ACCOUNTING**

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. The company has taken advantage of the exemption from the requirement to produce consolidated financial statements in accordance with s400 Companies Act 2006, since the company is a wholly owned subsidiary undertaking of a UK company which itself prepares consolidated financial statements. The financial statements therefore present information about the company as an individual undertaking and not as a Group.

**GOING CONCERN**

The directors' report on pages 3 to 5 describes the financial position of the company. The company is supported by group borrowings and as such has no present need of external borrowings. The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the annual report and accounts.

**RESEARCH AND DEVELOPMENT**

Research and development expenditure is written off in the year in which it is incurred.

**TANGIBLE FIXED ASSETS**

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

Leasehold land and buildings	10 to 25 years
Plant and machinery	3 to 10 years

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

**STOCKS**

Stocks and work in progress are valued at the lower of cost, including factory overheads, and estimated net realisable value. Provision is made for obsolete, slow-moving or defective items where appropriate.

**TAXATION**

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

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

**BIOQUELL UK LTD**  
**STATEMENT OF ACCOUNTING POLICIES (CONTINUED)**

**TURNOVER**

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes. In relation to the sale of goods, turnover is recognised on shipment of the goods. In relation to the provision of services, turnover is recognised as the service is performed.

**PENSION COSTS**

The company contributes to a group defined contribution pension scheme covering the majority of employees. The assets of the scheme are held separately from those of the group in independently administered funds. The amounts charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

**FOREIGN CURRENCY**

Amounts receivable and payable in foreign currencies are generally translated into sterling at the rates of exchange ruling at the end of the period, or at the date of settlement. In cases where amounts receivable are covered by the forward sale of foreign currency, the rate at which the forward sale has been negotiated is used. Resulting exchange gains and losses are dealt with in the profit and loss account.

**LEASES**

Operating leases and their costs are charged to the profit and loss account as incurred, even if payments are not made on such a basis.

**CASH FLOW STATEMENT**

Under Financial Reporting Standard 1 (revised) the company is exempt from the requirement to prepare a cash flow statement on the grounds that the ultimate parent company includes the Group in its own published consolidated financial statements.

**SHARE-BASED PAYMENTS**

The company has applied the requirements of FRS20 Share Based Payments. Bioquell plc, the ultimate parent company, is able to issue equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the company's estimate of shares that will eventually vest. Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

**BIOQUELL UK LTD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2011**

**1. TURNOVER**

Turnover represents amounts derived from the provision of goods and services which fall within the company's ordinary activities after deduction of trade discounts and Value Added Tax. The turnover and pre-tax profit, the majority of which arises in the United Kingdom, is attributable to the company's principal activity being the sale of bio-decontamination and filtration equipment and services.

	2011	2010
	£	£
United Kingdom	6,174,939	6,237,464
Rest of Europe	4,776,245	4,471,482
Rest of World	8,621,997	9,294,028
	<b>19,573,181</b>	<b>20,002,974</b>

**2. NET OPERATING EXPENSES**

	2011	2010
	£	£
<b>Net operating expenses</b>	<b>5,781,312</b>	<b>5,991,707</b>
<b>Operating profit has been stated after charging</b>		
R&D expenditure	2,234,842	1,257,057
Depreciation of tangible fixed assets      Owned	1,183,531	1,190,134
Auditor's remuneration                      Audit	36,000	30,800
Loss on disposal of fixed assets	-	5,049
<b>Operating lease rentals</b>	<b>287,055</b>	<b>351,740</b>
<b>Operating profit has been stated after crediting</b>		
Foreign exchange gain	279,120	22,992
Rents receivable	1,300	5,200
Profit on disposal of fixed assets	16,344	-

**BIOQUELL UK LTD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2011**

**3. STAFF COSTS**

The average monthly number of employees (including directors) was

	2011 Number	2010 Number
Production shop-floor	28	32
Engineering directs	73	76
	101	108
Sales & marketing	37	39
Administration	10	13
Other	24	20
	71	72
	172	180

Their aggregate remuneration comprised

	2011 £	2010 £
Wages and salaries	5,641,932	6,245,111
Social security costs	606,615	596,304
Other pension costs	205,659	210,189
	6,454,206	7,051,604

Included above, in respect of directors, are the following amounts

Aggregate emoluments	235,741	207,328
Pension costs to a defined contribution scheme	9,075	9,615
	244,816	216,943

The highest paid director received aggregate emoluments of £129,232 (2010 £113,982) and pension contributions of £4,725 (2010 £5,190). Retirement benefits are accruing to one (2010 two) director under a defined contribution scheme. During the year none of the directors (2010 none) exercised share options.

The information concerning directors above excludes Mr N.M.T. Adams and Mr B.M. Bodeker. They are executives of the holding company, BIOQUELL PLC, and are also directors of TRaC Global (Testing, Regulatory and Compliance). They received total emoluments of £759,000 (2010 £649,000) from BIOQUELL PLC during the year, but it is not practicable to allocate this between their services as executives of BIOQUELL PLC and the aforementioned Group subsidiaries. In addition, both directors are accruing benefits under money purchase schemes in respect of their services to BIOQUELL PLC and the aforementioned Group subsidiaries.

**BIOQUELL UK LTD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2011**

**4. INTEREST PAYABLE AND SIMILAR CHARGES (NET)**

	2011	2010
	£	£
<b>Payable</b>		
Bank loans and overdrafts	61	851
Working capital charges from parent undertaking	9,758	36,000
	9,819	36,851
<b>Receivable</b>		
Bank interest	(1,449)	-
	8,370	36,851

**5. TAX ON PROFIT ON ORDINARY ACTIVITIES**

**Analysis of tax charge on ordinary activities**

	2011	2010
	£	£
<b>Current tax</b>		
UK corporation tax	(118,439)	(3,352)
Adjustment in respect of prior periods	3,352	179,879
	(115,087)	176,527
<b>Deferred tax</b>		
Origination and reversal of timing differences	(21,833)	(154,201)
Adjustment in respect of previous periods	(37,699)	(250,073)
	(59,532)	(404,274)
	(174,619)	(227,747)

**BIOQUELL UK LTD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2011**

**5. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)**

**Factors affecting tax charge for period**

The tax assessed for the period differs from that resulting from applying the standard rate of corporation tax in the UK (26.5%). The differences are explained below

	2011 £	2010 £
Profit on ordinary activities before taxation	1,510,025	941,224
Tax at 26.5% (2010: 28%) thereon	(400,157)	(263,543)
Effects of		
Expenses not deductible for tax purposes	(49,470)	(59,939)
Capital allowances in excess of depreciation	(38,403)	28,059
Movement in short term timing differences	2,689	(2,343)
Utilisation of losses	19,778	1,456
R&D tax relief	347,124	382,862
Share based payments	-	2,716
Adjustment in respect of prior year	3,352	179,879
Group relief surrendered	-	(92,620)
	<b>(115,087)</b>	<b>176,527</b>

The company estimated to have an overall deferred tax liability of £221,787 at 31 December 2011 (2010: tax liability £162,255), which has been recognised in the financial statements. It is made up as follows

	2011 £	2010 £
Depreciation in excess of capital allowances	(252,600)	(226,789)
Short term timing differences	12,154	34,188
Trading losses carried forward	18,659	30,346
<b>Total</b>	<b>(221,787)</b>	<b>(162,255)</b>

**Movement in deferred tax during the year**

	£
At 1 January 2011	(162,255)
Charge to profit and loss account	(59,532)
<b>At 31 December 2011</b>	<b>(221,787)</b>

The company has tax losses of £74,636 (2010: £108,379) available for carry forward and offset against future taxable profits. The Finance Act 2011, which provides for a reduction in the main rate of corporation tax from 26% to 25%, effective from 1 April 2012, was substantively enacted on 5 July 2011. The impact of the rate reduction has been reflected in the calculation of the UK deferred tax liability provided at 31 December 2011.



**BIOQUELL UK LTD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2011**

**5. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)**

The government has also indicated that it intends to enact future reductions in the main tax rate of 1% each year down to 23% by 1 April 2014. The impact of any further reduction will be taken into account at subsequent reporting dates, once the change has been substantively enacted.

**6. TANGIBLE FIXED ASSETS**

	Leasehold land and buildings £	Plant and machinery £	Total £
<b>Cost</b>			
As at 1 January 2011	4,393,643	5,618,993	10,012,636
Additions	121,179	934,635	1,055,814
Disposals	-	(45,442)	(45,442)
<b>As at 31 December 2011</b>	<b>4,514,822</b>	<b>6,508,186</b>	<b>11,023,008</b>
<b>Accumulated depreciation</b>			
As at 1 January 2011	579,679	3,425,505	4,005,184
Charge for the year	307,923	875,608	1,183,531
Disposals	-	(22,605)	(22,605)
<b>As at 31 December 2011</b>	<b>887,602</b>	<b>4,278,508</b>	<b>5,166,110</b>
<b>Net book value</b>			
<b>As at 31 December 2011</b>	<b>3,627,220</b>	<b>2,229,678</b>	<b>5,856,898</b>
As at 31 December 2010	3,813,964	2,193,488	6,007,452

**7. INVESTMENTS**

	Total £
<b>Cost and net book value</b>	
As at 31 December 2010 and 2011	<b>259,855</b>

The investment relates to BIOQUELL SAS, a wholly owned trading subsidiary of BIOQUELL UK Limited, incorporated in France.

**BIOQUELL UK LTD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2011**

**8. STOCK**

There is no material difference between the balance sheet value of stock and its replacement cost

	2011	2010
	£	£
Raw materials, spare parts and consumables	674,836	597,548
Work in progress	178,857	222,145
Finished goods and goods for resale	42,890	76,395
	<b>896,583</b>	<b>896,088</b>

**9. DEBTORS**

	2011	2010
	£	£
Amounts falling due within one year		
Trade debtors	2,218,187	1,884,062
Amounts due from group undertakings	1,885,072	1,550,943
Other debtors	9,318	9,266
VAT receivable	225,558	-
Corporation tax paid	-	429,875
Prepayments and accrued income	346,176	292,684
	<b>4,684,311</b>	<b>4,166,830</b>
Amounts falling due after more than one year		
Amounts due from group undertakings	1,488,994	1,488,994
	<b>6,173,305</b>	<b>5,655,824</b>

**10. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2011	2010
	£	£
Trade creditors	2,040,076	2,442,855
Amounts due to group undertakings	241,977	253,434
Corporation tax	118,481	-
Other taxation and social security	203,329	51,892
Accruals and deferred income	1,290,351	1,459,370
	<b>3,894,214</b>	<b>4,207,551</b>

The Group had undrawn committed bank overdraft facilities of £2,600,000 (2010 £2,600,000) available at 31 December 2011, as well as a loan bearing a variable interest rate of 1.25% p a over base rate. The total amount outstanding for the Group at the year-end was £1,177,000 (2010 £1,282,000). The bank loan is secured on the long lease property in Andover, UK which was purchased during the prior year.

**YEAR ENDED 31 DECEMBER 2011**

**11. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	2011	2010
	£	£
Amounts owed to the parent undertaking	5,409,427	4,854,603

The amount owed to the parent undertaking is interest free and has no fixed repayment term, although the parent has advised the directors that it will not demand repayment before twelve months from the date of approval of these financial statements

**12. PROVISIONS FOR LIABILITIES AND CHARGES**

	Deferred Tax	Product Warranties	Total
	£	£	£
As at 1 January 2011	162,255	70,857	233,112
Charge for the year	59,532	76,386	135,918
Utilised during the year	–	(54,244)	(54,244)
<b>As at 31 December 2011</b>	<b>221,787</b>	<b>92,999</b>	<b>314,786</b>

**Warranties**

The provision for warranties relates to expected warranty claims on products sold in the last two years. It is expected that the majority of this expenditure will be incurred in the next financial year.

**Deferred tax**

The deferred tax relates to the excess of taxation allowances over depreciation on fixed assets.

**13 CALLED UP SHARE CAPITAL**

	2011		2010	
	Number	£	Number	£
Authorised				
Ordinary shares of £1 each	100	100	100	100
Called up, allotted and fully paid				
Ordinary shares of £1 each	2	2	2	2

**BIOQUELL UK LTD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2011**

**14 PROFIT AND LOSS ACCOUNT**

	Equity reserve	Profit & loss reserve
	£	£
As at 1 January 2011	561,620	3,197,242
Profit for the financial year	-	1,335,406
Share options charge	92,244	-
<b>As at 31 December 2011</b>	<b>653,864</b>	<b>4,532,648</b>

**15. RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS**

	£
Shareholder's funds at 1 January 2010	2,880,588
Equity reserve - share based payments	164,799
Profit for the financial year	713,477
Shareholder's funds at 1 January 2011	3,758,864
Equity reserve - share based payments	92,244
Profit for the financial year	1,335,406
<b>Shareholder's funds at 31 December 2011</b>	<b>5,186,514</b>

**BIOQUELL UK LTD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2011**

**16. EQUITY-SETTLED SHARE OPTION SCHEMES**

BIOQUELL PLC (the ultimate parent undertaking) has a share option scheme for all employees of the Group. Options are exercisable at a price equal to the average quoted market price of the company's shares on the date of grant. The vesting period is 3 years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest except in certain circumstances in accordance with the Scheme Rules.

Special options, with market-based conditions, have also been granted to certain directors and senior members of staff.

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

	2011		2010	
	Number of share options	Weighted average exercise price (pence)	Number of share options	Weighted average exercise price (pence)
Outstanding at beginning of period	2,180,000	115.5	1,771,000	127.4
Transferred from other Group company	-	-	-	-
Granted during the year	340,000	104.0	439,000	155.0
Lapsed during the year	(399,000)	132.2	(17,000)	148.9
Exercised during the year	-	-	(13,000)	87.4
<b>Outstanding at the end of the year</b>	<b>2,121,000</b>	<b>128.5</b>	<b>2,180,000</b>	<b>133.0</b>
<b>Exercisable at the end of the year</b>	<b>740,100</b>	<b>133.9</b>	<b>654,000</b>	<b>115.5</b>

There were no options exercised during the year. The options outstanding at 31 December 2011 had a weighted average exercise price of 128.5p, and a weighted average remaining contractual life of 4.5 years. In 2011, 340,000 options were granted on 23 March. The aggregate of the estimated fair values of the options granted on that date was £118,902. In 2010, 439,000 options were granted on 18 March. The aggregate of the estimated fair values of the options granted on those dates was £146,516.

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

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

	2011	2010
Weighted average share price	104.0p	155.0p
Expected volatility	32%	32%
Expected life	4.5 yrs	4.5 yrs
Risk free rate	1.34%	1.34%
Expected dividends	1.5%	1.5%

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

**BIOQUELL UK LTD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2011**

**16. EQUITY-SETTLED SHARE OPTION SCHEMES (Continued)**

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 5 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Tranches of special options were issued in September 2006 (275,000 options) at an exercise price of 109 0p, in March 2007 (90,000 options) at an exercise price of 128 0p and in May 2008 (167,200 options) at an exercise price of 174 5p to certain senior members of staff, again conditional upon the market-based condition. The inputs into the Black-Scholes model are as set out in the table above, adjusted by a factor based on the probability of meeting the market-based conditions.

The company recognised total expenses of £92,244 and £164,799 related to equity-settled share-based payment transactions in 2011 and 2010 respectively.

**17. FINANCIAL COMMITMENTS**

Annual commitments under non-cancellable operating leases are as follows:

	Land & buildings		Other	
	2011	2010	2011	2010
	£	£	£	£
Expiry date				
Within one year	–	1,948	52,106	29,935
Between two and five years	–	–	186,198	224,796
	–	1,948	238,304	254,731

**18. RELATED PARTY TRANSACTIONS**

The revised FRS8, effective for years beginning on or after 6 April 2008 provides exemption for disclosure of transactions between two or more members of a group, provided that all subsidiaries which are party to the transaction are wholly-owned by the group. Under the 1985 Act this exemption was available for 90 per cent subsidiaries.

**19. PARENT UNDERTAKING AND CONTROLLING PARTY**

The ultimate parent company, for whom financial statements are prepared, is BIOQUELL PLC. This is both the smallest and the largest group into which the company's results are consolidated. BIOQUELL PLC is incorporated in Great Britain and is also regarded as the ultimate controlling party. A copy of the financial statements of BIOQUELL PLC may be obtained from the company's registered office at 52 Royce Close, West Portway, Andover, Hampshire SP10 3TS.