

Bioquell UK Limited
(Registered Number 02520270)

ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

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**BIOQUELL UK LTD
ANNUAL REPORT
YEAR ENDED 31 DECEMBER 2010**

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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 2010.

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 2010 of £20,002,974 (2009 £24,142,559)

The company continues to develop new products. Expenditure on product development is written off as incurred and in 2010 this amounted to £1,257,057 (2009 £1,329,809). In 2010 the company continued the development of the new wound healing technology.

In 2009 the company incorporated a new subsidiary, BIOQUELL Asia Pacific Pte Ltd, in Singapore which will help to grow the company's market in the Asia-Pacific region. The trade and assets of the company's French branch was transferred to a newly formed French company at the end of 2009.

In addition to the development of the business in 2010, 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 £941,224 (2009 £4,792,639).

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.

BIOQUELL UK LTD
DIRECTORS' REPORT (CONTINUED)

The company has no concentration of credit risk, with exposure spread over a number of counterparties and customers

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

DIVIDEND

The directors do not recommend payment of a dividend (2009 £nil), and the profit (2009 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

Mr N M T Adams

Mr B M Bodeker

Mr M Parks

Mr G R Snare (appointed 21 July 2010)

AUDITORS

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

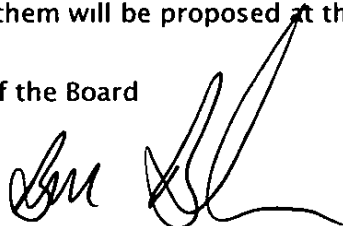
- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's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

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 'MB', written over a horizontal line.

Mark Bodeker

Secretary

28 March 2011

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 judgments 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.

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

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 2010 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Statement of Accounting Policies and the related notes 1 to 20. 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 2010 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

A handwritten signature in black ink, appearing to read 'Jason Davies', followed by a horizontal line.

Jason Davies (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Reading, United Kingdom
28 March 2011

BIOQUELL UK LTD
PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 DECEMBER 2010

	Notes	2010 £	2009 £
Turnover	1	20,002,974	24,142,559
Cost of sales		(13,033,192)	(14,260,482)
Gross profit		6,969,782	9,882,077
Net operating expenses	2	(5,991,707)	(6,737,901)
Operating profit		978,075	3,144,176
Gain on disposal of business	4	–	1,688,123
Profit before interest and tax		978,075	4,832,299
Interest payable and similar charges (net)	5	(36,851)	(39,660)
Profit on ordinary activities before tax		941,224	4,792,639
Tax on profit on ordinary activities	6	(227,747)	(538,662)
Profit on ordinary activities after tax		713,477	4,253,977

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

Movements in reserves are set out in Note 16.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
YEAR ENDED 31 DECEMBER 2010

	2010 £	2009 £
Profit for the financial year	713,477	4,253,977
Foreign exchange adjustment	–	(166,213)
Total recognised gains and losses for the financial year	713,477	4,087,764

Bioquell UK LTD
BALANCE SHEET
AT 31 DECEMBER 2010

	Notes	2010 £	2009 £
FIXED ASSETS			
Tangible assets	7	6,007,453	6,273,810
Investments	8	259,855	258,242
		6,267,308	6,532,052
CURRENT ASSETS			
Stocks	9	896,088	840,296
Debtors			
– due within one year	10	4,166,830	4,536,334
– due in more than one year	10	1,488,994	1,488,994
Cash		234,910	3,001
		6,786,822	6,868,625
CREDITORS			
Amounts falling due within one year	11	(4,369,806)	(5,669,095)
NET CURRENT ASSETS		2,417,016	1,199,530
TOTAL ASSETS LESS CURRENT LIABILITIES		8,684,324	7,731,582
CREDITORS			
Amounts falling due after more than one year	12	(4,854,603)	(4,755,007)
Provisions for liabilities and charges	13	(70,857)	(95,987)
NET ASSETS		3,758,864	2,880,588
CAPITAL AND RESERVES			
Called up share capital	14	2	2
Equity reserve	15	561,620	396,821
Profit and loss account	16	3,197,242	2,483,765
SHAREHOLDER'S FUNDS	16	3,758,864	2,880,588

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*

28 March 2011



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 s228(2) 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.

The results of overseas operations are translated at average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date.

LEASES

Operating leases and their costs are charged to the profit and loss account as incurred.

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. In accordance with the transitional provisions, FRS20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005. The 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 2010

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.

	2010	2009
	£	£
United Kingdom	6,237,464	7,520,737
Rest of Europe	4,471,482	7,755,848
Rest of World	9,294,028	8,865,974
	20,002,974	24,142,559

2. NET OPERATING EXPENSES

	2010	2009
	£	£
Net operating expenses	5,991,707	6,737,901
Operating profit has been stated after charging:		
R&D expenditure	1,257,057	1,329,809
Depreciation of tangible fixed assets Owned	1,190,134	771,431
Auditor's remuneration Audit	30,800	48,354
Loss on disposal of fixed assets	5,049	-
Operating lease rentals	351,740	367,077
Operating profit has been stated after crediting		
Rents receivable	5,200	5,200
Foreign exchange gain	22,992	187,059
Profit on disposal of fixed assets	-	7,146

BIOQUELL UK LTD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

3. STAFF COSTS

The average monthly number of employees (including directors) was

	2010 Number	2009 Number
Production shop-floor	32	29
Engineering directs	76	85
	108	114
Sales & marketing	39	41
Administration	13	18
Other	20	17
	72	76
	180	190

Their aggregate remuneration comprised

	2010 £	2009 £
Wages and salaries	6,245,111	6,194,743
Social security costs	596,304	758,025
Other pension costs	210,189	279,591
	7,051,604	7,232,359

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

Aggregate emoluments	207,328	231,754
Pension costs to a defined contribution scheme	9,615	5,475
	216,943	237,229

The highest paid director received aggregate emoluments of £113,982 (2009 £154,273) and pension contributions of £5,190 (2009 £4,125). Retirement benefits are accruing to two (2009 two) directors under a defined contribution scheme.

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 (Testing, Regulatory and Compliance). They received total emoluments of £708,000 (2009 £741,000) 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 2010

4. GAIN ON DISPOSAL OF BUSINESS

On 31 December 2009 the company sold the business and assets of its French branch to BIOQUELL SAS – a company registered in France and belonging to the BIOQUELL Group.

	£
Consideration received in shares	251,965
Net liabilities of business disposed	1,436,158
	<u>1,688,123</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES (NET)

	2010 £	2009 £
Payable		
Bank loans and overdrafts	851	3,955
Working capital charges from parent undertaking	36,000	36,000
	<u>36,851</u>	<u>39,955</u>
Receivable		
Bank interest	–	(295)
	<u>36,851</u>	<u>39,660</u>

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of tax charge on ordinary activities

	2010 £	2009 £
Current tax		
UK corporation tax	(3,352)	(330,879)
Adjustment in respect of prior periods	179,879	38,033
	<u>176,527</u>	<u>(292,846)</u>
Deferred Tax		
Origination and reversal of timing differences	(154,201)	(245,816)
Adjustment in respect of previous periods	(250,073)	–
	<u>(404,274)</u>	<u>(245,516)</u>
	<u>(227,747)</u>	<u>(538,662)</u>

BIOQUELL UK LTD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

6. 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 (28%). The differences are explained below

	2010 £	2009 £
Profit on ordinary activities before taxation	941,224	4,792,639
Tax at 28% (2009 28%) thereon	(263,543)	(1,341,939)
Effects of		
Non-taxable gain on incorporation of French branch	-	472,674
Expenses not deductible for tax purposes	(59,939)	(81,104)
Capital allowances in excess of depreciation	28,059	95,518
Movement in short term timing differences	(2,343)	28,376
Utilisation of losses	1,456	93,180
R&D tax relief	382,862	400,627
Share based payments	2,716	1,788
Adjustment in respect of prior year	179,879	38,033
Group relief surrendered	(92,620)	-
	176,527	(292,846)

The company estimated to have an overall deferred tax liability of £162,255 at 31 December 2010 (2009 tax asset £242,019), which has been recognised in the financial statements. It is made up as follows

	2010 £	2009 £
Depreciation in excess of capital allowances	(226,789)	20,278
Short term timing differences	34,188	152,472
Trading losses carried forward	30,346	69,269
Total	(162,255)	242,019

Movement in deferred tax during the year

	£
At 1 January 2010	242,019
Charge to profit and loss account	(404,274)
At 31 December 2010	(162,255)

The company has tax losses of £108,379 (2009 £247,389) available for carry forward and offset against future taxable profits. Finance (No 2) Act 2010 was substantively enacted on 27 July 2010 and included legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014 and are expected to be enacted separately each year. For the year ended 31 December 2010, as the reduction in statutory rate by 1% has been substantively enacted, deferred tax has been recognised on the balance sheet at 27%.

BIOQUELL UK LTD

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010**

7. TANGIBLE FIXED ASSETS

	Leasehold land and buildings £	Plant and machinery £	Total £
Cost			
As at 1 January 2010	4,150,349	4,973,902	9,124,251
Additions	248,113	716,220	964,333
Disposals	(4,819)	(71,128)	(75,947)
As at 31 December 2010	4,393,643	5,618,994	10,012,637
Accumulated depreciation			
As at 1 January 2010	167,748	2,682,694	2,850,442
Charge for the year	412,814	777,320	1,190,134
Disposals	(883)	(34,509)	(35,392)
As at 31 December 2010	579,679	3,425,505	4,005,184
Net book value			
As at 31 December 2010	3,813,964	2,193,489	6,007,453
As at 31 December 2009	3,982,601	2,291,208	6,273,810

8. INVESTMENTS

	Total £
Cost	
As at 1 January 2010	258,242
Additions	1,613
Net book value	
As at 31 December 2010	259,855
As at 31 December 2009	258,242

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

BIOQUELL UK LTD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

9. STOCK

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

	2010	2009
	£	£
Raw materials, spare parts and consumables	597,548	482,604
Work in progress	222,145	315,270
Finished goods and goods for resale	76,395	42,422
	896,088	840,296

10. DEBTORS

	2010	2009
	£	£
Amounts falling due within one year		
Trade debtors	1,884,062	3,060,549
Amounts due from group undertakings	1,550,943	972,161
Other debtors	9,266	110,024
Corporation tax paid	429,875	242,019
Prepayments and accrued income	292,684	151,581
	4,166,830	4,536,334
Amounts falling due after more than one year		
Amounts due from group undertakings	1,488,994	1,488,994
	5,655,824	6,025,328

11. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010	2009
	£	£
Bank overdraft	–	1,651,109
Trade creditors	2,442,855	2,264,236
Amounts due to group undertakings	253,434	244,989
Deferred tax liability	162,255	–
Other taxation and social security	51,892	(331,677)
Accruals and deferred income	1,459,370	1,840,438
	4,369,806	5,669,095

The Group had undrawn committed bank overdraft facilities of £2,600,000 (2009 £2,600,000) available at 31 December 2010, 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 £1,282,000 (2009 £1,386,000).

BIOQUELL UK LTD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

12. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2010	2009
	£	£
Amounts owed to the parent undertaking	4,854,603	4,755,007

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

13. PROVISIONS FOR LIABILITIES AND CHARGES

	Product Warranties £
As at 1 January 2010	95,987
Charge for the year	62,256
Utilised during the year	(87,386)
As at 31 December 2010	70,857

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.

14. CALLED UP SHARE CAPITAL

	2010		2009	
	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 2010

15. PROFIT AND LOSS ACCOUNT

	Equity reserve	Profit & loss reserve
	£	£
As at 1 January 2010	396,821	2,483,765
Profit for the financial year	–	713,477
Share options charge	164,799	–
As at 31 December 2010	561,620	3,197,242

16. RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S (DEFICIT)/FUNDS

	£
Shareholder's deficit at 1 January 2009	(1,376,375)
Equity reserve – share based payments	169,199
Profit for the financial year	4,253,977
Foreign exchange adjustment	(166,213)
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 31 December 2010	3,758,864

BIOQUELL UK LTD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

17. 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

	2010		2009	
	Number of share options	Weighted average exercise price (pence)	Number of share options	Weighted average exercise price (pence)
Outstanding at beginning of period	1,771,000	127.4	1,312,500	131.0
Transferred from other Group company	-	-	99,500	139.0
Granted during the year	439,000	155.0	410,000	113.0
Lapsed during the year	(17,000)	148.9	(41,022)	136.6
Exercised during the year	(13,000)	87.4	(9,978)	82.8
Outstanding at the end of the year	2,180,000	133.0	1,771,000	127.4
Exercisable at the end of the year	654,000	115.5	619,000	113.8

The weighted average share price at the date of exercise for share options exercised during the year was 87.4p. The options outstanding at 31 December 2010 had a weighted average exercise price of 133.0p, and a weighted average remaining contractual life of 4.9 years. In 2010, 439,000 options were granted on 18 March. The aggregate of the estimated fair values of the options granted on that date was £146,516. In 2009, 410,000 options were granted on 27 March. The aggregate of the estimated fair values of the options granted on those dates was £199,260.

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

	2010	2009
Weighted average share price	155.0p	113.0p
Expected volatility	32%	45%
Expected life	4.5 yrs	4.5 yrs
Risk free rate	1.34%	4.43%
Expected dividends	1.5%	1%

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

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17. 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 £164,799 and £169,199 related to equity-settled share-based payment transactions in 2010 and 2009 respectively.

18. FINANCIAL COMMITMENTS

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

	Land & buildings		Other	
	2010	2009	2010	2009
	£	£	£	£
Expiry date				
Within one year	1,948	5,801	29,935	5,315
Between two and five years	-	-	224,796	313,251
	1,948	5,801	254,731	318,566

19. 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.

20. 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.