



Tristel

Tristel plc
Annual Report & Accounts
Year ended
30 June 2006

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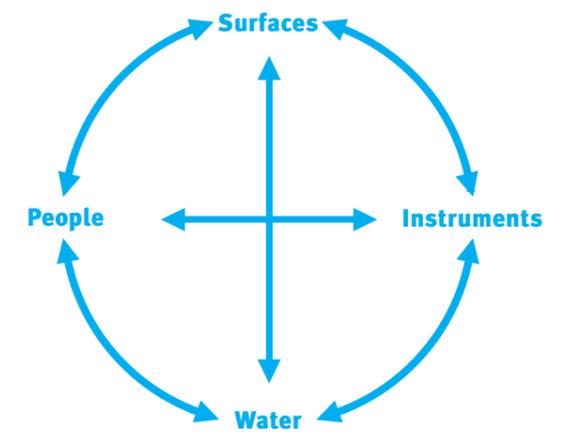
The Tristel vision

In our 2005 Annual Report we described Tristel as a healthcare business specialising in infection control products that use our proprietary chlorine dioxide chemistry.

A year on, via acquisition and marketing partnerships, we have extended our activities beyond infection control in hospitals to legionella control in water systems and contamination control in the food growing, food processing and pharmaceutical industries.

We continue to pursue the product development strategy of creating applications for our chemistry that address the four routes of transmission of infection and contamination – surfaces, instruments, water and people.

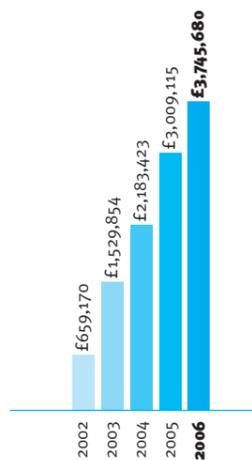
Whilst chlorine dioxide is at present our core technology, the broader vision for the business is the use of safe and effective biocidal chemistries that we can provide to users in innovative packaging formats and delivery systems.



Chairman's introduction

I am pleased to report that your Company made solid progress during the year ended 30 June 2006, increasing turnover by **24%** to **£3,745,680** (2005: £3,009,115) and operating profit by **56%** to **£684,207** (2005: £439,852 before exceptional items). Whilst operating profit has more than quadrupled in the past three years, the operating margin has increased from 9.4% in 2004 to **18.3%** in 2006.

TURNOVER

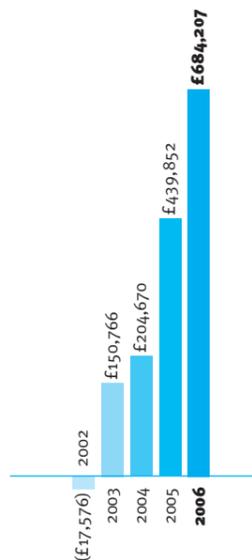


Tristel Solutions, our sole operating subsidiary for most of the year, continued its focus on the acute NHS and private sector hospitals, but made further progress in penetrating primary care trusts, community hospitals and private practices with our growing range of infection control products. Tristel products are the most widely used disinfectant solutions in all branches of endoscopy in the United Kingdom. One of Tristel's strengths, gained as a result of the product development strategy that we have pursued in recent years, is the range of 'solutions' it offers a hospital.

To illustrate how the broad range of Tristel products might be employed in a large metropolitan hospital, one could find two or more brands of Tristel liquid disinfectant being used in the endoscopy department in different makes of endoscope washer-disinfector; the Tristel Wipes System being used in the Ear, Nose and Throat (ENT) department; Tristel Duo and Fusion being used to disinfect floors, walls and equipment in intensive care, and the suite of Tristel Ultrasound products being used in radiology.

One of the most significant developments of the year, which was facilitated by the flotation and its associated

OPERATING PROFIT



fund raising, was the acquisition of Vernagene Limited on 5 June 2006. The business, renamed Tristel Technologies Limited, also uses chlorine dioxide chemistry, but with different applications to those of Tristel Solutions. These are legionella control in buildings' water systems and contamination control in the food growing and processing industries. Importantly, many of Tristel Technologies' customers are also hospitals. There are clear synergies and cross-selling opportunities between the two businesses and I am pleased with the way in which management is integrating the two operations.

Whilst the acquisition of Tristel Technologies was not planned at the time of our flotation, it has enabled our management team to execute a digestible acquisition that makes sound strategic sense.

Outlook and future prospects

We have entered the current financial year with a stronger, better balanced mix of activities and products than we have had in the past. The Group has momentum and strong growth prospects in all the markets it serves, both within the United Kingdom and overseas.

Our earnings per share (basic) for the year ended 30 June 2006 were 2.12 pence. Reflecting our continuing confidence in the future, the Board is proposing the payment of a final dividend of 0.725 pence per ordinary share, representing a total payment of £172,818, and bringing the dividend payment for the year ended 30 June 2005 to 1 penny.

Francisco A. Soler

Chairman

10 October 2006



Chief Executive's review of activities**The importance of the infection control issue to hospitals at home and abroad has not abated during the year.**

Outbreaks in hospital wards, for example of *Clostridium difficile*, and the consequent death of patients, have been widely reported in our national press. They underline the need for more effective biocidal products and higher standards of cleaning and hygiene in hospitals. *Clostridium difficile* is described as a 'spring' organism, the most resistant of microbes. It is the ability of chlorine dioxide to kill spores, whilst being safe and easy to use, that distinguishes Tristel's chemistry from other disinfectants.

The first Tristel product was introduced to the United Kingdom market in 1995. Today, we have over ten years experience of how to work best with the chemistry. We understand how it interacts with medical instruments and the materials of which they are made and we are able to optimise concentrations and corrosion inhibition systems. Furthermore, we are well acquainted with the test programmes and regulatory frameworks that govern entry for chlorine dioxide products into different markets.

To our knowledge, Tristel remains the only chlorine dioxide based high-level disinfectant being widely used for the decontamination of medical devices anywhere in the world.

This first mover advantage has enabled Tristel to develop far beyond the gastroenterology market that was originally targeted.

Patented chlorine dioxide wipes; patent pending foam systems for hard surfaces; our patent pending Generator and chlorine dioxide measurement system; the burstable sachet; the recently acquired patent pending sterilising

tray which enables, for the first time, single-use decontamination of endoscopes in markets that cannot afford automated systems: these are all innovations with which we lead the decontamination industry.

Some of the highlights of the year ended 30 June 2006 were:-

- A British patent was issued for the Tristel Sporicidal Wipe. Whenever possible, we add to our portfolio of intellectual property rights, which we consider to be a major asset of the Company. The most recent additions have been applications filed on a sterilising tray and a hygiene work station.
 - The expansion into overseas markets gathered momentum with the appointment of distributors in Spain, Benelux, Romania, Greece, Cyprus, Turkey, Pakistan, Thailand, Malaysia, Singapore and New Zealand.
- Since the year end, further appointments have been made in the United Arab Emirates, Oman and South Africa. Whilst export sales have yet to make a significant contribution to turnover, the network of overseas distributors represents an important pipeline of future sales.
- A co-marketing agreement was concluded with Johnson Diversey whereby Tristel's chemistry is utilised in their sporicidal product branded 'Bi-Spore'. The product is used for the decontamination of clean rooms and drug preparation areas in the pharmaceutical industry.
 - The acquisition of Vernagene Limited was concluded on 5 June 2006. We purchased the company's share capital for £1,000,000 cash and funded the acquisition using existing cash balances of £800,000, supplemented by a short term loan of £200,000 from one of our shareholders. The loan was repaid in August 2006.

At the date of its acquisition the business (renamed Tristel Technologies Limited) employed six people and in



its most recent financial year, ended 31 March 2006, achieved sales of £1,177,000 (2005: £1,145,000 and 2004: £906,000) and pre-tax profits of £301,000. Tristel Technologies has made a positive contribution to group profits since its purchase.

- A product development programme was initiated by IVC Limited, Tristel's distributor in New Zealand, for the creation of a sterilising tray and a hygiene work station, both designed specifically for the use of Tristel's chemistry.

Subsequent to the year end, Tristel has entered into a technology acquisition agreement with IVC, whereby the design rights and patent applications belonging to these products have been assigned to Tristel in return for the payment of future royalties.

Outside of the most advanced healthcare markets, where endoscopes are mainly processed in sophisticated and costly automated machines, the majority of endoscopes are disinfected in basic trays and sinks. These can only hold disinfectant liquids that have to be used repeatedly for many instruments over a period of many hours or even days.

The Tristel tray system, combined with Tristel's novel burstable sachet, Tristel Fusion, enables the disinfectant to be used once and to be dedicated to one instrument only.

Product portfolio

The expanding portfolio of Tristel Solution's products, now joined by those of Tristel Technologies, is reviewed on page 8.

Results and finance

Our main operating subsidiary, Tristel Solutions, achieved its eighth successive year of increased turnover since it first started trading in 1998. The 24% increase in group turnover was attributable to higher levels of Tristel Solutions' sales of its Wipes System and Instrument Sterilants and Tristel Technologies' initial contribution to sales of £94,000.

The gross profit margin increased from 51.9% in 2005 to 54.4% in the year under review.

Despite the expansion of our activities, we restricted the increase in expense growth to below that of the rate of turnover growth. Administrative expenses totalled £1,368,937 (2005: £1,121,215) and included in this expenditure were research costs of £59,213 (2005: £109,970).

Without the impact of exceptional items as recorded last year, we achieved record pre-tax profits of £719,579 compared to £104,196 in 2005. The pre-tax profit margin was 19.2%.

The two Tristel subsidiaries are both profitable and generate positive cash flow. Their products are consumable and are purchased frequently and regularly by their customers. During the year, net cash inflow from operations was £337,879 (2005: £312,543), after a reduction in creditors of £244,620 which largely related to the settlement of costs arising from the flotation on AIM.

At the fiscal year-end, shareholders' funds stood at £2,005,692, an increase of £321,668, resulting from additions to profit and loss reserves.

Paul Swinney

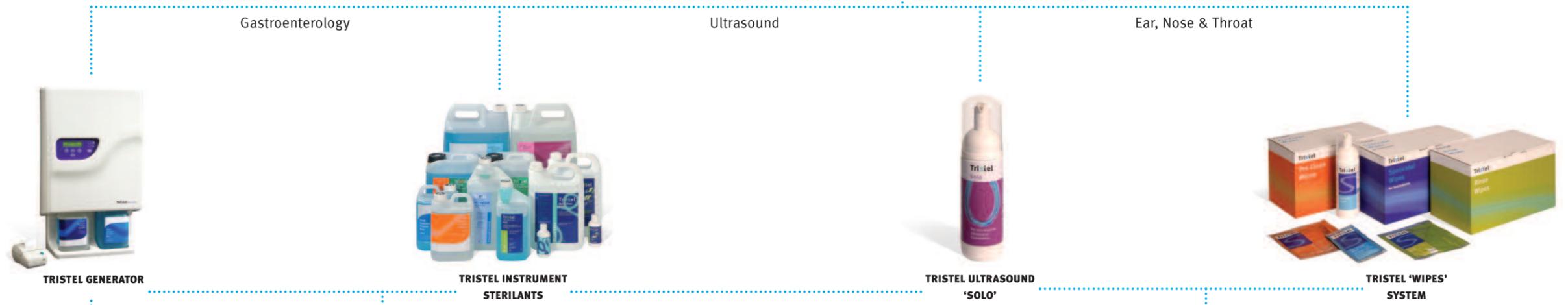
Chief Executive

10 October 2006

Tristel's product portfolio

TRISTEL SOLUTIONS
INFECTION CONTROL
IN HEALTHCARE

Instruments

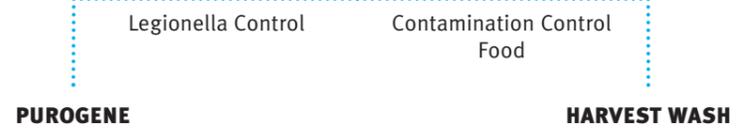


Surfaces



Water

TRISTEL TECHNOLOGIES
INFECTION CONTROL
IN WATER SYSTEMS,
FOOD GROWING AND
PROCESSING
INDUSTRIES



Company Information for the year ended 30 June 2006

Directors

P C Swinney
F A Soler
P C Clarke
P F H Stephens
P M Barnes FCCA

Secretary

P M Barnes FCCA

Registered Office

Lynx Business Park
Fordham Road
Snailwell
Cambridgeshire
CB8 7NY

Registered number

04728199 (England and Wales)

Auditors

Hedges Chandler
Chartered Accountants – Registered Auditors
Hamlet House
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Essex
SS0 7HZ

Nominated advisor and broker

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Beaufort House
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London
EC3A 7QR

Solicitors

Maclay Murray Spens
One London Wall
London
EC2Y 5AB

Patent attorneys

Dummett Copp
25 The Square
Martlesham Heath
Ipswich
Suffolk
IP5 3SL

Registrars

Computershare Investor Services plc
PO Box 859
The Pavilions
Bridgewater Road
Bristol
BS99 7NH

Report of the Directors for the year ended 30 June 2006

The directors present their report with the financial statements of the company and the group for the year ended 30 June 2006.

Principal activity

The principal activity of the group in the year under review was that of the design, manufacture and sale of infection control and water treatment products.

Review of business

A review of the Company's activities during the year is dealt with in the Chairman's introduction and the Chief Executive's review of activities.

Dividends

An interim dividend of £65,551 was paid during the year. The directors recommend a final dividend of 0.725p per share.

The total distribution of dividends for the year ended 30 June 2006 will be £238,368.

Future developments

The Board aims to continue its corporate strategies as set out in the Chairman's introduction and Chief Executive's review of activities.

Directors

The directors during the year under review were:

P C Swinney
F A Soler
P C Clarke
P F H Stephens
P M Barnes FCCA

The beneficial interests of the directors holding office on 30 June 2006 in the issued share capital of the company were as follows:

	30.6.06	1.7.05
Ordinary 1p shares		
P C Swinney	2,718,986	2,713,986
F A Soler	9,627,228	10,827,228
P C Clarke	181,811	181,811
P F H Stephens	593,937	486,505
P M Barnes FCCA	556,260	551,260

Corporate Governance

Tristel plc is committed to maintaining high standards of corporate governance. The Company complies with the Combined Code as modified by the recommendations of the Quoted Companies Alliance to the extent the directors consider appropriate, given the size of the Company, its current stage of development and the constitution of the Board.

Substantial shareholdings

Except for directors' interests noted above, the directors are aware of the following who are interested in 3% or more of the Company's equity at 30 June 2006.

	Registered holding	% of issued
Invesco Perpetual	882,081	3.70%
Bruce Green	864,016	3.62%
M D Barnard	744,324	3.12%

Report of the Directors for the year ended 30 June 2006

Group's policy on payment of creditors

The group does not have a written code or standard on payment practice. It negotiates terms with each of its suppliers. Payments are then made to suppliers in accordance with those terms provided the supplier has carried out the agreed obligations in a satisfactory manner.

At the year end the group had an average of 50 days purchases outstanding in trade creditors.

Statement of directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards as adopted for use in the European Union.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRS; 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement as to disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the group's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director, in order to make himself aware of any relevant audit information and to establish that the group's auditors are aware of that information.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of Hedges Chandler as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD

P M BARNES FCCA

SECRETARY

10 OCTOBER 2006

Report of the Independent Auditors to the Members of Tristel plc

We have audited the financial statements of Tristel plc for the year ended 30 June 2006 on pages 14 to 28. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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 auditors

As described on page 12 the company's directors are responsible for the preparation of financial statements in accordance with applicable law and International Financial Reporting Standards as adopted for use in the European Union.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with International Financial Reporting Standards as adopted for use in the European Union, of the state of affairs of the company and the group as at 30 June 2006 and of the profit of the group for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

In our opinion the information given in the report of the directors is consistent with the financial statements.

HEDGES CHANDLER

CHARTERED ACCOUNTANTS - REGISTERED AUDITORS

HAMLET HOUSE, 366-368 LONDON ROAD

WESTCLIFF-ON-SEA, ESSEX, SS0 7HZ

10 OCTOBER 2006

Consolidated Income Statement

for the year ended 30 June 2006

	NOTES	Year ended 30 June 2006 £	Period 1 May 2004 to 30 June 2005 Restated £
Continuing operations			
Revenue		3,745,680	3,009,115
Cost of sales		(1,709,033)	(1,448,048)
Gross profit		2,036,647	1,561,067
Other operating income		16,497	–
Administrative expenses		(1,368,937)	(1,121,215)
Operating profit before exceptional items		684,207	439,852
Exceptional items:			
Loss on sale of subsidiary	4	–	(22,275)
Employee share option costs	4	–	(279,956)
Operating profit		684,207	137,621
Finance costs	5	–	(39,200)
Finance income	5	35,372	5,775
Profit before tax	6	719,579	104,196
Tax	7	(213,176)	(65,440)
Profit for the year		506,403	38,756
Attributable to:			
Equity holders of the parent	22	120,218	128,143

THE NOTES FORM PART OF
THESE FINANCIAL STATEMENTS**Statement of Recognised Income and Expense**

for the year ended 30 June 2006

	NOTES	Year ended 30 June 2006 £	Period 1 May 2004 to 30 June 2005 Restated £
Profit for the financial year		506,403	38,756
Total recognised income and expense for the year		506,403	38,756
Attributable to:			
Equity holders of the parent		120,218	128,143
Earnings per share	10		
Basic		2.12p	0.24p
Diluted		2.09p	0.22p

THE NOTES FORM PART OF
THESE FINANCIAL STATEMENTS

Other than the reallocation of the dividend payable there were no changes to equity on transition to IAS (note 22)

Consolidated Balance Sheet

30 June 2006

	NOTES	Year ended 30 June 2006 £	Period 1 May 2004 to 30 June 2005 Restated £
Assets			
Non-current assets			
Goodwill	11	774,413	–
Other intangible assets	12	819,463	828,832
Property, plant and equipment	13	311,637	83,168
		1,905,513	912,000
Current assets			
Inventories	15	395,193	224,710
Trade and other receivables	16	931,306	546,489
Cash and cash equivalents	17	173,930	1,212,112
		1,500,429	1,983,311
Liabilities			
Current liabilities			
Trade and other payables	18	825,426	1,045,467
Financial liabilities – borrowings			
Bank overdrafts	19	54,228	58,838
Interest bearing loans and borrowings	19	203,775	–
Tax payable		191,975	10,526
		1,275,404	1,114,831
Net current assets			
		225,025	868,480
Non-current liabilities			
Deferred tax	20	124,846	96,456
		124,846	96,456
Net assets			
		2,005,692	1,684,024
Shareholders' equity			
Called up share capital	21	238,368	238,368
Share premium	22	1,455,980	1,455,980
Merger reserve	22	478,526	478,526
Profit and loss account	22	(167,182)	(488,850)
Total shareholders' equity		2,005,692	1,684,024
Total equity			
		2,005,692	1,684,024

THE NOTES FORM PART OF
THESE FINANCIAL STATEMENTS

ON BEHALF OF THE BOARD

P F H STEPHENS

DIRECTOR

P M BARNES FCCA

DIRECTOR

APPROVED BY THE BOARD

10 OCTOBER 2006

Company Balance Sheet

30 June 2006

	NOTES	Year ended 30 June 2006 £	Period 1 May 2004 to 30 June 2005 Restated £
Assets			
Non-current assets			
Intangible assets	12	374,940	443,835
Investments	14	1,546,885	465,000
		1,921,825	908,835
Current assets			
Trade and other receivables	16	112,182	63,205
Cash and cash equivalents	17	98,006	1,212,089
		210,188	1,275,294
Liabilities			
Current liabilities			
Trade and other payables	18	52,257	336,388
Financial liabilities – borrowings			
Bank overdrafts	19	51,757	–
Interest bearing loans and borrowings	19	203,775	–
Tax payable		43,577	10,526
		351,366	346,914
Net current (liabilities)/assets			
		(141,178)	928,380
Non-current liabilities			
Deferred tax	20	22,673	14,724
Net assets			
		1,757,974	1,822,491
Shareholders' equity			
Called up share capital	21	238,368	238,368
Share premium	22	1,455,980	1,455,980
Profit and loss account	22	63,626	128,143
Total shareholders' equity		1,757,974	1,822,491
Total equity			
		1,757,974	1,822,491

THE NOTES FORM PART OF
THESE FINANCIAL STATEMENTS

ON BEHALF OF THE BOARD

P F H STEPHENS

DIRECTOR

P M BARNES FCCA

DIRECTOR

APPROVED BY THE BOARD

10 OCTOBER 2006

Cash Flow Statement

for the year ended 30 June 2006

	NOTES	Year ended 30 June 2006 £	Period 1 May 2004 to 30 June 2005 £
Cash flows from operating activities			
Cash generated from operations	1	337,879	312,543
Interest paid		–	(44,478)
Interest element of hire purchase or finance lease rental payments		–	(315)
Tax paid		(10,533)	–
Net cash from operating activities		327,346	267,750
Cash flows from investing activities			
Purchase of intangible fixed assets		(105,712)	(197,838)
Purchase of tangible fixed assets		(235,897)	(54,195)
Purchase of fixed asset investments		–	–
Sale of intangible fixed assets		–	–
Sale of tangible fixed assets		13,000	8,027
Disposal of subsidiary		–	(1,816)
Purchase of subsidiary, net of cash acquired		(1,080,885)	–
Interest received		35,372	5,775
Net cash from investing activities		(1,374,122)	(240,047)
Cash flows from financing activities			
New loans in year		–	20,000
Loan repayments in year		–	(440,000)
Loans written off		–	(3,714)
Directors' loans		(5,836)	(7,952)
Share issues		–	1,596,575
Share buyback		–	(75,000)
Government grant received		–	80,359
Equity dividends paid		(184,735)	–
Net cash from financing activities		(190,571)	1,170,268
(Decrease)/Increase in cash and cash equivalents		(1,237,347)	1,197,971
Cash and cash equivalents at beginning of year	2	1,153,274	(44,697)
Cash and cash equivalents at end of year	2	(84,073)	1,153,274

THE NOTES FORM PART OF
THESE FINANCIAL STATEMENTS**Notes to the Cash Flow Statement**

for the year ended 30 June 2006

1. Reconciliation of operating profit to net cash inflow from operating activities

	Year ended 30 June 2006 £	Period 1 May 2004 to 30 June 2005 £
Operating profit	684,207	439,852
Depreciation charges	168,238	64,902
Loss on disposal of fixed assets	5,065	1,082
Government grants	(16,497)	–
Increase in inventories	(53,961)	(214,110)
Increase in trade and other receivables	(204,553)	(190,723)
(Decrease)/Increase in trade and other payables	(244,620)	211,540
Net cash inflow from operating activities	337,879	312,543

2. Cash and cash equivalents

The amounts disclosed on the cash flow statement in respect of cash and cash equivalents are in respect of these balance sheet amounts:

	30 June 2006 £	1 July 2005 £
Year ended 30 June 2006		
Cash and cash equivalents	173,930	1,212,112
Bank overdrafts	(54,228)	(58,838)
Shareholders loan	(203,775)	–
	(84,073)	1,153,274
Period ended 30 June 2005		
Cash and cash equivalents	1,212,112	1
Bank overdrafts	(58,838)	(44,698)
	1,153,274	(44,697)

3. Acquisition of subsidiary

During the year the group acquired Vernagene Limited (now Tristel Technologies Ltd). The fair value of assets acquired and liabilities assumed were as follows:

	£
Cash	1,000
Inventories	116,522
Accounts receivable	180,264
Property, plant and equipment	56,963
Intangible assets	6,831
Goodwill	774,413
Trade and other payables	(54,108)
Total purchase price	1,081,885
Less: Cash acquired	1,000
Cash flow on acquisition net of cash acquired	1,080,885

THE NOTES FORM PART OF
THESE FINANCIAL STATEMENTS

Notes to the Financial Statements

for the year ended 30 June 2006

1. Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention and include restatement of comparatives as required for the implementation of IFRS from 1 May 2004. No significant changes to the group's accounting policies or financial position arises from the adoption of the new presentation.

Basis of consolidation

The group financial statements consolidate the accounts of Tristel plc for the year ended 30 June 2006 and of its subsidiary undertakings for the year ended 30 June 2006, or until date of disposal as applicable. The accounting year end of Tristel plc was extended to 30 June in 2005.

On 5 June 2006 the Group acquired the whole of the issued share capital of Vernagene Limited and its name was changed to Tristel Technologies Limited on 28 June 2006. The acquisition of this company has been accounted for using purchase accounting principles in accordance with International Financial Reporting Standard 3. The Tristel Technologies Limited results have been incorporated for the period of ownership.

Turnover

Turnover is the total amount receivable by the group in the ordinary course of business with outside customers for goods shipped as a principal and for services provided, excluding value added tax and trade discounts. Product revenue is recognised upon shipment of product and service income is recognised upon the relating services having been completed or over the term of the contract where relevant.

Goodwill

Acquired goodwill is included at cost and subject to an annual impairment review.

Intangible assets – patents and licences

Patents and licences are included at cost and depreciated in equal annual instalments over a period of ten years which is their estimated useful economic life. Provision is made for any impairment.

Intangible assets – research and development

Research expenditure is written off as incurred. Development expenditure is also written off, except where the directors are satisfied as to the technical, commercial and financial feasibility of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the Group is expected to benefit. Provision is made for any impairment.

Property, plant and equipment

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life or, if held under a finance lease, over the lease term, whichever is the shorter.

Improvements to property	Straight line over the lease term
Plant and machinery	33% on cost
Fixtures and fittings	25% on cost and 20% on cost
Motor vehicles	25% on cost

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost includes materials and direct labour. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete and slow moving and defective items where applicable.

Deferred tax

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Taxation

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantially enacted by the balance sheet date.

Foreign currencies

The financial statements are presented in Sterling and transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Hire purchase and leasing commitments

Assets obtained under hire purchase contracts or finance leases are capitalised in the balance sheet. Those held under hire purchase contracts are depreciated over their estimated useful lives. Those held under finance leases are depreciated over their estimated useful lives or the lease term, whichever is the shorter.

The interest element of these obligations is charged to the income statement over the relevant period. The capital element of the future payments is treated as a liability.

Rentals paid under operating leases are charged to the income statement on a straight line basis.

Pensions

The group operates a defined contribution pension scheme. Contributions payable for the year are charged in the income statement. Differences between contributions payable in the period and those actually paid are shown in the balance sheet as accruals or prepayments.

Government grants

Government grants relating to fixed assets are treated as deferred income and released to the income statement over the expected useful lives of the assets concerned. Other grants are credited to the income statement as the related expenditure is incurred.

1. Accounting policies continued

Share option related charges

In accordance with UITF 17, the Group recognises a charge on employee share options issued at below fair value, equal to the differential between the fair value and exercise price of the option.

Borrowing costs

Costs are charged to the income statement as incurred.

2. Turnover

The turnover and profit before taxation are attributable to the one principal activity of the group.

An analysis of turnover by geographical market is given below:

	Year ended 30 June 2006 £	Period 1 May 2004 to 30 June 2005 £
United Kingdom	3,709,915	2,970,682
Rest of the World	35,765	38,433
Total	3,745,680	3,009,115

3. Employees and directors

	Year ended 30 June 2006 £	Period 1 May 2004 to 30 June 2005 £
Wages and salaries	553,317	405,636
Social security costs	60,300	43,623
Other pension costs	28,928	18,354
	642,545	467,613

The average monthly number of employees during the year was as follows:

	Year ended 30 June 2006 £	Period 1 May 2004 to 30 June 2005 £
Executive directors	2	1
Non-executive directors	3	–
Sales and marketing	7	6
Administration	4	3
	16	10

In addition to the staff costs disclosed above, there were costs of £279,956 included in 2005 as exceptional items comprising a UITF 17 charge of £207,600 and related employers' National Insurance contributions of £72,356 associated with employee share options granted during the previous period.

	Year ended 30 June 2006 £	Period 1 May 2004 to 30 June 2005 £
Directors' emoluments	216,092	150,788
Aggregate gains made by directors on the exercise of share options	–	759,687
Directors' pension contributions	17,704	7,000
The number of directors to whom retirement benefits were accruing was as follows:		
Defined contribution schemes	2	1

No directors exercised share options during the year (2005–3).

Information regarding the highest paid director for the year ended 30 June 2006 is as follows:

	Year ended 30 June 2006 £	Period 1 May 2004 to 30 June 2006 £
Emoluments etc	117,559	99,205
Aggregate gains made on the exercise of share options	–	563,170
Pension contributions to money purchase schemes	11,700	7,000

4. Exceptional items

In accordance with UITF 17, £207,600 was charged to the profit and loss account in 2005 in respect of employee share options granted and exercised during that period, which was then credited to reserves. In addition, the group incurred employer's National Insurance costs of £72,356 in respect of the share options. These costs were treated as exceptional as the options would not have vested had the company not been admitted to AIM in 2005.

No options charge arises in 2006 as the market price of the company's shares at the balance sheet date was below the option price.

The group disposed of one of its subsidiaries in February 2005, resulting in a loss on consolidation of £22,275.

5. Net finance income

	Year ended 30 June 2006 £	Period 1 May 2004 to 30 June 2005 £
Finance income:		
Deposit account interest	33,701	5,775
Other	1,671	–
	35,372	5,775
Finance costs:		
Other interest	–	36
Loan interest	–	38,849
Hire purchase	–	315
	–	39,200
Net finance income/(cost)	35,372	(33,425)

6. Profit before tax

The profit before tax is stated after charging

	Year ended 30 June 2006 £	Period 1 May 2004 to 30 June 2005 £
Cost of inventories recognised as expense	1,709,033	1,448,048
Depreciation – owned assets	46,326	28,024
Depreciation – assets on hire purchase contracts or finance leases	–	2,054
Loss on disposal of fixed assets	5,065	1,082
Patents and licences amortisation	74,488	34,824
Development costs amortisation	47,424	–
Auditors' remuneration	20,221	7,500
Auditors' remuneration for non audit work	–	3,090
Foreign exchange differences	895	–
Operating lease rentals – land and buildings	15,000	18,026
– vehicles and equipment	10,871	19,964
Research costs expensed	59,213	109,970

In addition to the auditors' remuneration disclosed above, share issue costs of £49,700 were incurred in 2005 and included in the share premium account in respect of work completed by the auditors relating to the company's admission to AIM.

7. Tax

Analysis of the tax charge

	Year ended 30 June 2006 £	Period 1 May 2004 to 30 June 2005 £
Current tax:		
Corporation tax	183,779	10,526
Prior year adjustment	7	–
Total current tax	183,786	10,526
Deferred tax:		
Advance capital allowances	18,030	83,420
Losses utilised	6,411	–
Deferred grant income	4,949	(28,506)
Total deferred tax	29,390	54,914
Total tax charge in income statement	213,176	65,440

7. Tax continued

Factors affecting the tax charge

The tax assessed for the year is lower (2005 – lower) than the standard rate of corporation tax in the UK.

The difference is explained below:

	Year ended 30 June 2006 £	Period 1 May 2004 to 30 June 2005 £
Profit on ordinary activities before tax	719,579	104,196
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005 – 30%)	215,874	31,259
Effects of:		
Expenses not deductible for tax purposes	2,586	18,961
Capital allowances in excess of depreciation	(18,030)	(54,970)
Losses utilised	(6,411)	–
Grant income taxed on receipt	(4,949)	24,107
Effect of lower rate tax bands	(1,744)	(6,141)
Enhanced relief on qualifying scientific research expenditure	(3,547)	(2,690)
Current tax charge	183,779	10,526

8. Profit/(loss) of parent company

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's profit for the financial year was £120,218 (2005: £128,143, as restated).

9. Dividends

	2006 £	2005 £
Equity shares:		restated
Paid		
Final for 2005 at 0.5p per share	119,184	–
Interim for 2006 at 0.275p per share	65,551	–
Proposed		
Final for 2006 at 0.725p per share (2005 – 0.5p)	172,817	119,184

10. Earnings per ordinary share

The calculations of earnings per share are based on the following profits and numbers of shares:

	£	£
Retained (loss)/profit for the financial period	£506,403	£38,756
Weighted average number of ordinary shares for basic earnings per share	23,836,820	16,050,830
Weighted average number of ordinary shares for diluted earnings per share	24,195,957	18,002,893

The calculation of the weighted average number of shares is based on the year ended 30 June. The calculation of diluted earnings per share excludes outstanding options on 250,000 ordinary shares at 30 June 2006 which could potentially dilute earnings in the future because they were antidilutive for the year as the exercise price of the options exceeded the fair average value of the shares during the year.

11. Goodwill

Group

	£
Cost	
At 1 July 2005	–
Additions	774,413
At 30 June 2006	774,413
Amortisation	
At 1 July 2005	–
Amortisation for year	–
At 30 June 2006	–
Net book value	
At 30 June 2006	774,413
At 30 June 2005	–

Goodwill arises on the acquisition of Vernagene Limited in the period as the company has adopted the purchase method of accounting. Under UK Generally Accepted Accounting Practice, this asset would be set against the reserves of the group but IAS does not allow for this. The amount will be subjected to impairment review.

The net assets acquired were £307,472 and the total paid, including costs, was £1,081,885.

Company

The company has no goodwill to account for.

12. Intangible assets**Group**

	Patents and licences £	Development costs £	Totals £
Cost			
At 1 July 2005	699,005	384,997	1,084,002
Additions	5,497	100,215	105,712
Acquisition of subsidiary	10,015	–	10,015
At 30 June 2006	714,517	485,212	1,199,729
Amortisation			
At 1 July 2005	255,170	–	255,170
Amortisation for year	74,488	47,424	121,912
Acquisition of subsidiary	3,184	–	3,184
At 30 June 2006	332,842	47,424	380,266
Net book value			
At 30 June 2006	381,675	437,788	819,463
At 30 June 2005	443,835	384,997	828,832

Company

	Patents and licences £
Cost	
At 1 July 2005	699,005
Additions	5,497
At 30 June 2006	704,502
Amortisation	
At 1 July 2005	255,170
Amortisation for year	74,392
At 30 June 2006	329,562
Net book value	
At 30 June 2006	374,940
At 30 June 2005	443,835

13. Property, plant and equipment**Group**

	Improvements to property £	Plant and machinery £	Fixtures and fittings £	Motor vehicles £	Totals £
Cost					
At 1 July 2005	16,205	23,460	63,699	47,292	150,656
Additions	5,024	132,962	10,548	87,363	235,897
Acquisition of subsidiary	–	133,902	17,888	–	151,790
Disposals	–	–	(2,298)	(35,682)	(37,980)
At 30 June 2006	21,229	290,324	89,837	98,973	500,363
Depreciation					
At 1 July 2005	3,301	17,576	30,976	15,635	67,488
Charge for year	3,659	8,638	14,474	19,555	46,326
Acquisition of subsidiary	–	77,642	17,185	–	94,827
Eliminated on disposal	–	–	(2,030)	(17,885)	(19,915)
At 30 June 2006	6,960	103,856	60,605	17,305	188,726
Net book value					
At 30 June 2006	14,269	186,468	29,232	81,668	311,637
At 30 June 2005	12,904	5,884	32,723	31,657	83,168

Company

There are no tangible fixed assets held by the company.

14. Investments**Company**

	Shares in group undertakings £
Cost	
At 1 July 2005	465,000
Additions	1,081,885
At 30 June 2006	1,546,885
At 30 June 2005	465,000

The group or the company's investments at the balance sheet date in the share capital of companies include the following:

Subsidiary**Tristel Solutions Limited**

Country of incorporation: England and Wales

Nature of business: Supply of infection control products

%

Class of shares:	holding
Ordinary	100.00

	2006 £	30 June 2005 £
Aggregate capital and reserves	683,976	326,532
Profit / (loss) for the year/period	357,444	(46,278)

Tristel Technologies Limited

Country of incorporation: England and Wales

Nature of business: Supply of water purification and disinfecting products

%

Class of shares:	holding
Ordinary	100.00

	2006 £	30 June 2005 £
Aggregate capital and reserves	333,072	–
Result for the period of ownership	25,600	–

15. Inventories

	Group	
	2006 £	2005 £
Raw materials	50,087	24,969
Work-in-progress	128,940	67,233
Finished goods	216,166	132,508
	395,193	224,710

16. Trade and other receivables

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Current:				
Trade debtors	710,321	459,411	–	–
Other debtors	47,775	29,133	27,628	27,628
Amount due from group undertakings	–	–	30,101	–
VAT	14,334	–	14,334	32,509
Prepayments and accrued income	158,876	57,945	40,119	3,068
	931,306	546,489	112,182	63,205

No allowance has been made for estimated irrecoverable amounts from the sale of goods. This position has been determined by reference to past default experience.

The directors consider that the carrying amount of trade and other receivables approximates to their value.

The credit risk on the group is primarily attributable to its trade receivables. The amounts in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment had been made where there is an identifiable loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

17. Cash and cash equivalents

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Cash in hand	1,300	23	–	–
Bank deposit account	91,055	1,000,000	91,055	1,000,000
Money market deposit	6,951	–	6,951	–
Bank accounts	74,624	212,089	–	212,089
	173,930	1,212,112	98,006	1,212,089

Cash and cash equivalents comprise cash held by the group and short term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

The credit risk on the group's principal financial assets, bank balances and cash and trade and other receivables has been assessed. That on liquid funds and financial instruments is limited because the holders are banks with high credit ratings assigned by international credit rating agencies.

18. Trade and other payables

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Current:		restated		restated
Trade creditors	400,917	358,867	36,446	–
Amounts owed to group undertakings	–	–	–	98,570
Social security and other taxes	126,124	100,557	–	1,838
Other creditors	14,468	238,630	12,472	235,980
Accruals and deferred income	283,690	341,350	3,339	–
Directors' current accounts	227	6,063	–	–
	825,426	1,045,467	52,257	336,388

19. Financial liabilities – borrowings

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Current:				
Bank overdrafts	54,228	58,838	51,757	–
Shareholders loan	203,775	–	203,775	–
	258,003	58,838	255,532	–

Terms and debt repayment schedule

Group

1 year or less
£

Bank overdrafts	54,228
-----------------	--------

	2006	2005
The average interest rates paid were:		
Bank overdraft	8%	8%
Shareholders loan	203,775	–

Interest is payable at US Prime Rate.

Borrowings are arranged at floating rates thus exposing the company to cash flow interest rate risk. The directors consider that the borrowings are shown at their fair values.

20. Deferred tax**Group**

	2006 £	2005 £
Balance at 1 July	96,456	41,542
Acquisition of subsidiary	(1,000)	–
Accelerated capital allowances	18,030	54,970
Deferred grant income	4,949	(24,107)
Utilisation of losses	6,411	–
Increase in tax rate	–	24,051
Balance at 30 June	124,846	96,456

20. Deferred tax continued**Company**

	2006 £	2005 £
Balance at 1 July	14,724	–
Accelerated capital allowances	7,949	14,724
Balance at 30 June	22,673	14,724

21. Called up share capital

Authorised: Number:	Class:	Nominal value:	2006 £	2005 £
60,000,000	Ordinary	1p	600,000	600,000

Allotted, issued and fully paid: Number:	Class:	Nominal value:	2006 £	2005 £
23,836,820	Ordinary	1p	238,368	238,368

At 30 June 2006 there were 940,000 shares that had been granted under share options and had not been taken up at that date (2005: none).

22. Reserves**Group restated**

	Profit and loss account £	Share premium £	Merger reserve £	Totals £
At 1 July 2005 restated	(488,850)	1,455,980	478,526	1,445,656
Profit for the year	506,403	–	–	506,403
Dividends	(184,735)	–	–	(184,735)
At 30 June 2006	(167,182)	1,455,980	478,526	1,767,324

Company restated

	Profit and loss account £	Share premium £	Merger reserve £	Totals £
At 1 July 2005 restated	128,143	1,455,980	–	1,584,123
Profit for the year	120,218	–	–	120,218
Dividends	(184,735)	–	–	(184,735)
At 30 June 2006	63,626	1,455,980	–	1,519,606

Only the profit and loss account is distributable as the other reserves are of a capital nature.

23. Transactions with directors

During the year Paul Swinney was granted an option over 250,000 of the company's ordinary shares this option is at a price of 59.5p and is exercisable at any time up to 23 December 2015.

24. Related party disclosures**Transactions between the Group and Bruce Green**

Under the terms of a technology licence agreement between the Group and Bruce Green, a shareholder in the Company, royalties of £145,583 (2005: £120,535) were paid during the year ended 30 June 2006 to Bruce Green Limited, a company owned by Mr. Green.

25. Leasing commitments

The following are annual commitments under non-cancellable operating leases:

	Group		Company	
	Land and buildings £	Plant and machinery £	Land and buildings £	Plant and machinery £
Expiring in two to five years	15,000	6,411	15,000	6,411
Expiring in more than five years	26,708	–	–	–

26. Reconciliation of movements in shareholders' funds

Group	2006 £	2005 £
Profit for the financial year	506,403	restated 38,756
Dividends	(184,735)	–
	321,668	38,756
New share capital subscribed	–	1,666,719
Share related charges (UITF 17)	–	207,600
Purchase of own shares	–	(75,000)
Net addition to shareholders' funds	321,668	1,838,075
Opening shareholders' funds	1,684,024	(154,051)
Closing shareholders' funds	2,005,692	1,684,024
Equity interests	2,005,692	1,684,024
Company	2006 £	2005 £
Profit for the financial year	120,218	restated 128,143
Dividends	(184,735)	–
	(64,517)	128,143
New share capital subscribed	–	1,694,347
Net (reduction)/addition to shareholders' funds	(64,517)	1,822,490
Opening shareholders' funds	1,822,491	1
Closing shareholders' funds	1,757,974	1,822,491
Equity interests	1,757,974	1,822,491