Tristel

Tristel plc
Annual Report & Accounts

Year ended
30 June 2007

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INSIDE COVER PHOTO

TRISTEL FUSION, WHICH USES NOVEL BURSTABLE SACHET TECHNOLOGY, IS DISTRIBUTED FROM OUR NEW PURPOSE BUILT WAREHOUSE.

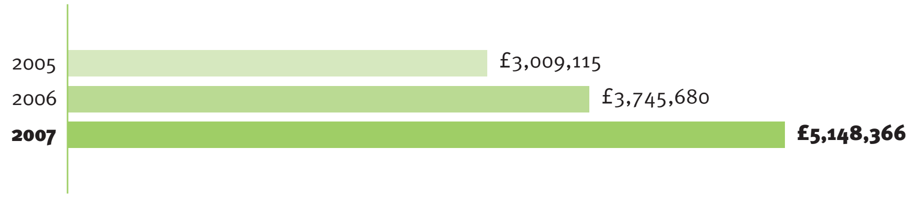
Tristel in focus

This is our third Annual Report as an AIM listed company and I am pleased to report another record year in terms of:

- Turnover
- Profit before tax, amortisation of intangibles, share scheme charges and non-recurring items
- Earnings per share

COMPOUND ANNUAL GROWTH RATES

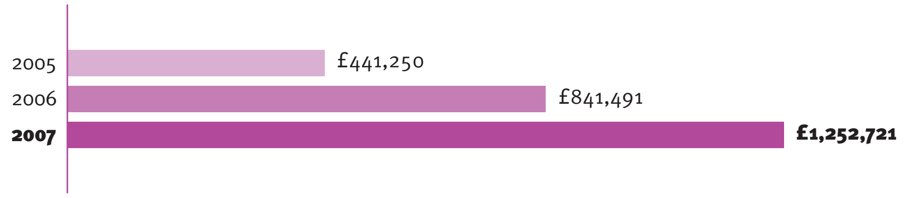
TURNOVER



30.8%

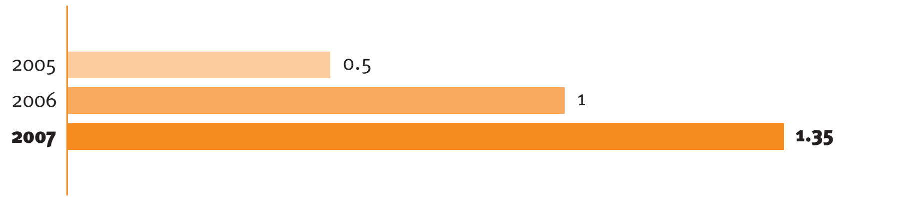
GROSS PROFIT MARGIN

PRE-TAX PROFIT
BEFORE AMORTISATION OF INTANGIBLES, SHARE BASED PAYMENTS AND NON-RECURRING ITEMS



68.5%

DIVIDEND PER SHARE *pence*

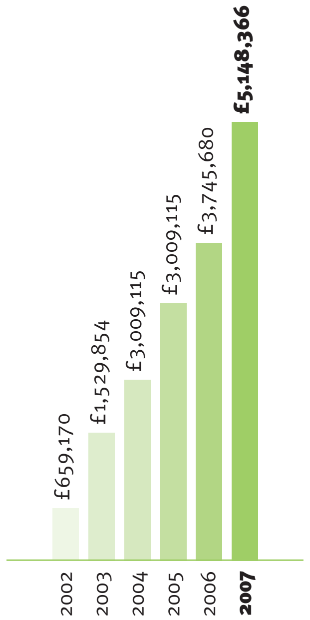


64.3%

BASIC EARNINGS PER SHARE *pence*

10x increase

TURNOVER



Chairman's introduction

With growth in our core domestic healthcare business, a full year contribution from Tristel Technologies (acquired on 5 June 2006), and expansion in our export business, turnover increased by 37% to £5,148,366 (2006: £3,745,680). Pre-tax profit before amortisation of intangibles, share based payments and non-recurring items increased by 49% to £1,252,721 (2006: £841,491) and the operating margin before amortisation of intangibles, share based payments and non-recurring items rose from 21.5% in 2006 to 24.2% in 2007. Profit before tax increased by 9.4% to £786,895 (2006: 719,579), impacted by a non-recurring charge of £349,280.

Both Group subsidiaries performed well during the year. Tristel Solutions, which provides infection control products based on chlorine dioxide chemistry to the healthcare marketplace, increased turnover by 9.9% to £4,015,034 (2006: £3,651,921). Tristel Technologies, which also uses chlorine dioxide chemistry but for legionella control in buildings' water systems (including those of hospitals) and contamination control in the food growing and processing industries, made a full year contribution to turnover of £1,133,332 (2006: one month £93,759). The Group's export sales in the year grew five-fold to £178,365 (2006: £35,765).

One of the most significant developments of the year has been the establishment of an in-house manufacturing capability enabling us to take over production of our products. This major change in our business model involved the relocation of our Newmarket headquarters to manufacturing and warehouse premises of 14,500 sq. ft, the relocation of our Bolton office, a substantial investment in plant, equipment and the fit-out of these new premises, and a significant increase in headcount. I am pleased to report that this major strategic change has been completed smoothly and efficiently and that we are now producing all our chemical products and handling all logistical activities from these two new locations. The Board would like to recognise and thank all our employees for their efforts in effecting these changes.

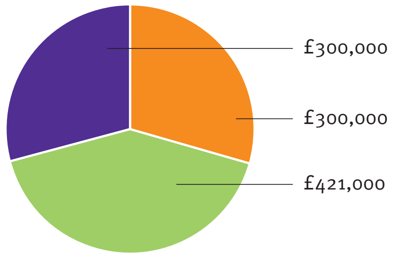
Outlook and future prospects

When I commented on our prospects for 2006-07 in last year's Annual Report, I observed that we were entering the year with a stronger, better balanced mix of activities and products than we have had in the past. I can confidently repeat that observation in October 2007. This past year has seen Tristel plc increase its scale and reach in the infection and contamination control marketplace, with products that we have launched and acquired since our flotation in June 2005 making a significant contribution to our growth. With further innovative products to be launched in the current financial year, we look forward to our future with confidence.

Our basic earnings per share for the year ended 30 June 2007 were 2.3 pence (2006: 2.12 pence). The Board is recommending that the final dividend be increased to 1 penny making a total annual dividend of 1.35 pence, an increase of 35% over 2005-06. The final dividend represents a total payment of £244,429.

Francisco A. Soler
Chairman
29 October 2007

INVESTMENT IN MANUFACTURING



PLANT, EQUIPMENT AND FIT-OUT
ACQUISITION OF MANUFACTURING RIGHTS – CASH
ACQUISITION OF MANUFACTURING RIGHTS – SHARE ISSUE

OPPOSITE PAGE
THE SELECTION OF INNOVATIVE PACKAGING DESIGNED TO HANDLE THE TRISTEL CHLORINE DIOXIDE CHEMISTRY IS AT THE CORE OF THE PRODUCT DEVELOPMENT STRATEGY.

Chief Executive's review of activities

The year ended 30 June 2007 has been transformational for Tristel plc. During the year we broke with the model of outsourced production that we had used since 1998.

Strategic overview

Manufacturing

The decision to change our business model was driven by:

- the expansion of the Group's intellectual property portfolio demanded we gain greater control and protection over our proprietary technology
- the need to achieve continuing improvement in quality control
- the need to accelerate the new product development process
- the need to prepare for the volume growth that we expect to achieve in our strategic plan

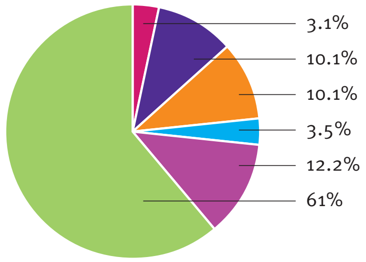
The transition to manufacture has involved a substantial investment. The expenditures incurred are illustrated in the chart 'Investment in manufacturing'.

We forecast that in-house manufacture will result in increased gross margins. Furthermore, we now have in place the production capacity and human resources, supported by technical and scientific personnel recruited in conjunction with establishing production, to meet the increased demand for our products that we forecast from future additions to our product portfolio and from our geographical expansion.

Product innovation - medical

Tristel is a consumable product led business. Our product development philosophy is to create single-use products with unique application features. We enjoy frequent repeat re-ordering for our products and high visibility in our revenue stream. The products require only limited after-sales service and support and we will continue with this business model.

2006–7 TURNOVER BY MARKET SEGMENT



- NEW PRODUCTS FOOD
- NEW PRODUCTS LEGIONELLA
- NEW PRODUCTS MEDICAL
- ENDOSCOPY
- ENT
- OTHER

Future product development plans will entail the supply to users of equipment hardware to enable the use of the Tristel chemistry. In all cases the underlying revenue stream from the Tristel consumables will be of greater economic significance than the hardware revenue stream.

During the year we launched new products targeted at ultrasound, environmental disinfection and laboratories and all have started to achieve significant market penetration. At the same time we have continued to focus upon our historical core business of the United Kingdom mainstream endoscopy market. In this market we continue to be the most widely used disinfectant chemistry in the country and in the Ear, Nose and Throat (ENT) endoscopy market our TRIO wipe system is used in approximately 50% of all ENT departments.

Product innovation – water and food chain

The acquisition of Tristel Technologies has given us a significant presence in the legionella control market (water) and the food growing and processing industries (food chain).

The Tristel Technologies products incorporate a chlorine dioxide chemistry system that is supplied from the United States and differs in certain important respects from our proprietary chlorine dioxide chemistry. Having successfully integrated the Tristel Technologies business during the year and having relocated its blending operation to our Newmarket production facility, our near term strategy is to integrate the best features of the two chemistry systems. As with our medical business, the legionella and food contamination control products are consumables.

Products that did not exist within the Group portfolio on 1st June 2005, the date of our flotation, now account for 23.7% of total sales, validating our product development and acquisition strategy driving future growth.

Geographical expansion

Tristel has a clear strategy to expand its business internationally over the next three to five years. At present, the business model employed is to use distribution partners. When qualifying prospective export markets we look for a regulatory framework that enables the product portfolio, or specific products within the portfolio, to be approved for sale within a reasonable period of time. Furthermore, this must be achievable with an acceptable level of investment, which the distributor bears. These criteria disqualify the most heavily regulated markets such as the United States.

We have been successful in identifying and appointing 22 distribution partners who are either selling Tristel products or are in the process of registering them.

Our progress to date is shown in the diagram 'Tristel overseas markets'. Whilst the level of export sales has still to make a significant contribution to total sales, the platform for more rapid future expansion has been established.

Market overview

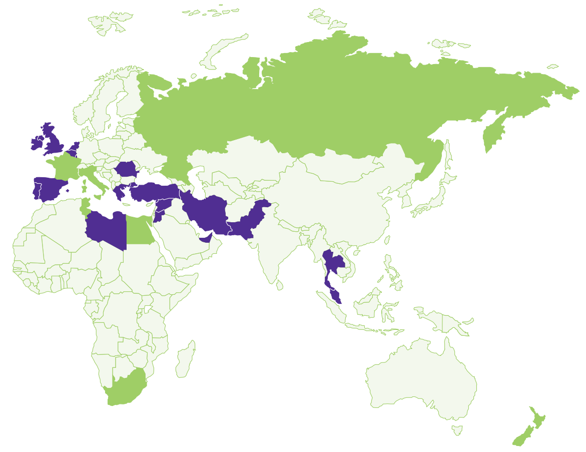
Macro influences

Raising standards of hospital hygiene; controlling the risk of infection in hospitals or the threat of legionella from buildings' water supplies; avoiding the dangers of *salmonella* in food produce – these are the driving forces behind our business. Their importance to our society is obvious even without the media attention that they attract, placing the hygiene and infection control issue firmly on the political agenda in the United Kingdom and abroad.

Whilst the general level of healthcare spending is an important determinant of demand for our products in all the markets in which we operate, we believe that hygiene and infection control are critical expenditures. As long as we continue to deliver products with superior efficacy, greater safety, that are easier to use than those currently employed, our business environment will present opportunities for continued growth.

Chlorine dioxide, the active ingredient in which we have specialised, is, without doubt, a highly effective and safe biocide. Its safety pedigree has been established by over ten years of widespread use in United Kingdom hospitals. Its effectiveness as a biocide is widely documented in scientific journals.

TRISTEL OVERSEAS MARKETS



PURCHASING COUNTRIES
UK, REPUBLIC OF IRELAND, BENELUX: THE NETHERLANDS, BELGIUM & LUXEMBURG, SPAIN, PORTUGAL, ROMANIA, GREECE, LIBYA, TURKEY, JORDAN, SYRIA, IRAN, PAKISTAN, UAE (UNITED ARAB EMIRATES), MALAYSIA, THAILAND

COUNTRIES IN REGISTRATION
ITALY, FRANCE, EGYPT, SOUTH AFRICA, NEW ZEALAND, RUSSIA, TUNISIA

Regulatory influences

The regulatory environment supports our confidence in Tristel's future. Our products are either classified within the European Community as medical devices under the Medical Devices Directive (MDD 93/42/EC) or as biocides under the Biocidal Products Directive (BPB 98/8/EC).

Simplifying a complicated set of regulations, for a disinfectant (irrespective of the chemistry) to be classified as a medical device it has to be used to disinfect another medical device. For the disinfectant to be approved, the manufacturer has to prove its efficacy and safety. Approval enables the product to carry the CE mark. All of our medical products carry the CE mark.

For a more general purpose disinfectant, such as a surface or water disinfectant, it will be classified as a biocide under the Biocidal Products Directive (BPD). Concerned for the impact of the plethora of disinfectant chemistries that have been used for many years, the European Community is in the process of limiting the number of active ingredients that can be used. Sodium chlorite (the main basic ingredient of our products) as the precursor for chlorine dioxide has been approved by the EC and is being supported through the regulatory submission process by a group of sodium chlorite manufacturers. The industry's consensus view is that the cost of submission under the BPD will block the development and introduction of active ingredients that could be future alternatives to those already approved under the BPD. As a supplier of chlorine dioxide products, our long term view is that the regulatory environment is favourable to the disinfection products that we market.

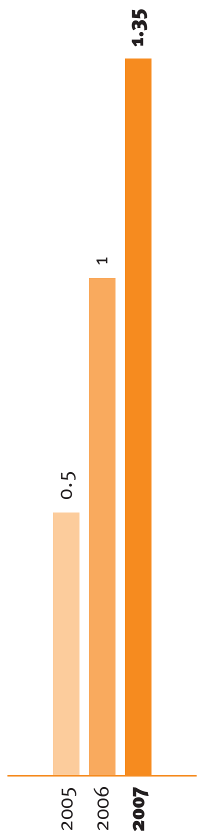
Outside of the European Community, differing countries have their own regulatory bodies. However, in the markets in which we operate, which is worldwide excluding North America, the CE mark is widely accepted.

Competition

In the arena of medical device high-level disinfectants, we believe Tristel is the sole manufacturer of chlorine dioxide products. However, there are a few other chemistries that

OPPOSITE PAGE
UNDERSTANDING THE INSTRUMENT DECONTAMINATION PROCESS ENABLED TRISTEL TO CREATE THE THREE WIPE TRIO SYSTEM THAT IS WIDELY USED FOR THE SMALL SCOPES USED IN EAR, NOSE AND THROAT ENDOSCOPY.

DIVIDEND PER
SHARE *pence*



can compete with chlorine dioxide, the most widely used of which is peracetic acid.

Whilst the emergence of competitor products utilising the chlorine dioxide molecule is a future possibility and would pose a competitive threat, our strategy has been to present specifically packaged products for clearly targeted hospital areas. This strategy differentiates Tristel from disinfectant suppliers who present their products as a homogenous solution for use in all hospital areas. A substantial investment both in terms of cost and time would be required to catch up with Tristel's initial advantage established in the markets in which we operate.

In water disinfection (legionella control) and the food processing and growing industries chlorine dioxide is widely used as the alternative to sodium hypochlorite (chlorine).

Results and finance

Sales

Tristel has enjoyed another strong year of growth. Headline sales growth of 37% included a full year contribution to Group turnover from Tristel Technologies of £1,133,332. Tristel Solutions' turnover increased by 9.9% to £4,015,034.

Margins and operating profit

The gross margin increased to 62.3%, up 7.9 percentage points from last year. The first in-house production of Tristel products commenced in May 2007 and made an initial contribution to improved margins from that date.

Excluding the non-recurring item, amortisation of intangibles and the share based payments, operating profits increased by 54.6% to £1,246,332 and the operating margin rose from 21.5% last year to 24.2% in 2007.

The non-recurring cost relates to an agreement, reached in June 2007, with a company engaged in the United Kingdom endoscopy market, to end an informal arrangement that had operated since 2002. This arrangement had assisted both companies to establish market leading positions in their respective business areas in endoscopy. We agreed to make an ex-gratia goodwill settlement in the amount of £349,280 (together with associated costs) to bring it to a close. The informal arrangement had previously cost the Company £777,802 from the date it commenced to the end of the financial year.

Earnings

The growth in basic earnings per share and diluted earnings per share was 8.5% and 8.1% respectively.

Capital expenditure and investments

The Group has made important investments in the business over the year, with capital expenditure totalling £1,307,469.

The investments were:

- the acquisition of manufacturing rights and know-how cost £600,000. Of the total consideration paid to the vendor, £300,000 was settled in cash and £300,000 by the issue of 606,060 ordinary shares at a price of 49.5 pence per share
- the other capital expenditure related to the establishment of a manufacturing and warehousing facility in Newmarket and the relocation of the Bolton office, and new development projects that are ongoing which include the creation of the 'Stella' sterilising tray and the 'Shine' washer-disinfector for the Ear, Nose and Throat market

The level of investment expenditure incurred during the year will not be recurring in the current financial year.

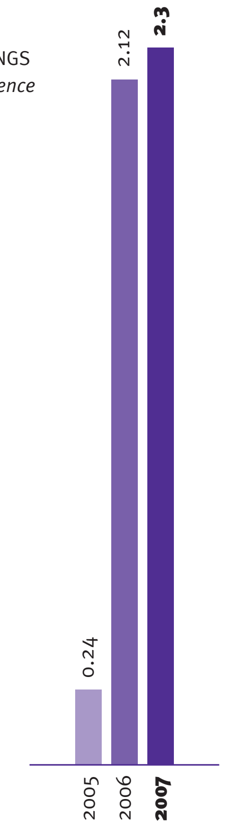
Treasury and deployment of capital

The Group's working capital and capital expenditures have been financed from operating cash flow, utilisation of an invoice discounting facility, term loan and overdraft facilities provided by the Company's bankers, and a £100,000 short term loan provided by one of the Company's shareholders (which has subsequently been repaid).

The Group has adequate debt facilities to fund its foreseeable working capital and capital expenditure needs.

Paul Swinney
Chief Executive
29 October 2007

BASIC EARNINGS
PER SHARE *pence*



New products

One of our key corporate objectives is to maintain a continuous stream of new product ideas. We target niches not currently served by easy to use, safe, affordable disinfecting technology and create products that are specifically formulated, packaged and labelled for them.

STELLA
A STERILISING TRAY FOR ENDOSCOPIC INSTRUMENTS. SINGLE USE OF DISINFECTANT COMBINED WITH AUDIT SYSTEM.

DENTEL
A RANGE OF PRODUCTS FOR DENTAL PRACTICES TO BE LAUNCHED IN THE CURRENT FINANCIAL YEAR.

PASTEL
AN ALTERNATIVE OXIDISING AGENT CHEMISTRY TO BE INTRODUCED WITH STELLA, BROADENING TRISTEL'S OPTIONS IN ENDOSCOPY.

SHINE
ANOTHER OPTION FOR TRISTEL'S ENT CUTOMERS: AN AUTOMATED WASHER-DISINFECTOR FOR NASENDOSCOPES.

SOLO
ALTHOUGH A COMMONPLACE PROCEDURE, SKIN SURFACE ULTRASOUND TRANSDUCERS ARE RARELY DISINFECTED. TRISTEL SOLO FILLS THE VOID.

T.TECH
NEWLY FORMULATED PRODUCTS FOR SPECIFIC APPLICATIONS IN THE FOOD GROWING AND PROCESSING INDUSTRIES.

TRIO
PACKAGED SPECIALLY FOR THE ENT CONSULTANT FOR USE IN THE PRACTICE, THE COMPLETE DECONTAMINATION PROCESS.

Company Information for the year ended 30 June 2007

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

Secretary
P M Barnes FCCA

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Registered number
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Auditors
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Chartered Accountants – Registered Auditors
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Solicitors
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Directors' remuneration report for the year ended 30 June 2007

Introduction
It is not a requirement for Companies that have securities listed on AIM to comply with the disclosure requirements of Directors' Remuneration Report Regulations 2002 or to comply with the UKLA Listing Rules and the disclosure provisions under schedule 7A of the Companies Act 1985. The Remuneration Committee, however, is committed to maintaining high standards of corporate governance and has taken steps to comply with the principles of best practice in so far as it can be applied practically given the size of the Company and the nature of its operations.

Unaudited Information
Remuneration Report
The Board has applied the principles of good governance relating to Directors' remuneration as described below.

Remuneration Committee
The Remuneration Committee comprises the Non-executive Directors under the chairmanship of Mr Peter Stephens. The Committee's constitution and operation is compliant with the provisions of the Combined Code on Corporate Governance. When setting its remuneration policy for Executive Directors, the Committee gives consideration to the provisions and principles of the Combined Code.

Remuneration policy for executive directors
The remuneration policy has been designed to ensure that Executive Directors should receive appropriate incentive and reward given their performance, responsibility and experience. When assessing this, the Remuneration Committee seeks to ensure that the policy aligns the interests of the Executive Directors with those of shareholders.

The Company's remuneration policy for Executive Directors is to:

- Consider the individual's experience and the nature and complexity of their work in order to set a competitive salary that attracts and retains management of the highest quality, whilst avoiding remunerating the Director more than is necessary;
- Link individual remuneration packages to the Group's long-term performance through both bonus schemes and share option plans;
- Provide post retirement benefits through payment into defined contribution pension schemes;
- Provide employment related benefits including provision of life assurance and medical insurances.

Remuneration package for executive directors
Executive Directors' remuneration packages are considered annually and comprise a number of elements as follows:

a) Base Salary
The base salary is reviewed annually in June each year. The review process undertaken by the Remuneration Committee has regard to the profitability and ongoing development of the Group and the contribution that individuals will continue to make. Consideration is also given to the need to retain and motivate individuals and available information on the salary levels in comparable organisations. To assist in this process the Remuneration Committee draws on the findings of external salary surveys and undertakes its own research.

b) Annual Performance Incentive
All Executive Directors are eligible, at the discretion of the Remuneration Committee, for an annual bonus. The Remuneration Committee considers bonus awards, which are capped, at the beginning of each year and any such awards are determined by both the performance of the individual and the Group as a whole for the previous year.

c) Pensions and Other Benefits
The Group does not operate a Group pension scheme; instead individuals receive contributions to their private pension arrangements.

Other benefits provided are life assurance and private medical insurance. Currently no company cars are provided, but Directors are paid an allowance for business miles travelled in accordance with HMRC guidelines.

d) Share Options
Executive Directors may, at the discretion of the Remuneration Committee, be awarded share options. Where share options are to be granted, they will be granted at the closing mid market value of the Company's ordinary shares on the day prior to grant and vest over a period of up to three years.

Directors' remuneration report continued

Remuneration policy for non-executive directors

The remuneration of the Non-executive Directors is determined by the Board as a whole, based on a review of current practices in other equivalent companies. The Non-executive Directors do not receive any pension payments towards private arrangements, nor do they participate in any of the bonus schemes.

The Non-executive Directors each have service agreements which are reviewed annually by the Board. They are included in the one third of Directors subject to retirement by rotation at each Annual General Meeting.

Audited information

Directors' Remuneration

The Directors received the following remuneration during the period to 30 June 2007.

	Salary and fees £'000	Bonus £'000	Taxable Benefits £'000	2007 Total (excl. pension) £'000	2006 Total (excl. pension) £'000	2007 Pension £'000	2006 Pension £'000
Executive							
Mr Paul Swinney	128	12	2	142	119	12	12
Mr Paul Barnes	61	–	3	64	57	6	6
Non-executive							
Mr Francisco Soler	12	–	–	12	21	–	–
Mr Peter Stephens	12	–	–	12	11	–	–
Mr Peter Clarke	12	–	–	12	11	–	–
Mr Antonio Soler	–	–	–	–	–	–	–
Aggregate Emoluments	225	12	5	242	219	18	18

Directors' share options

Aggregate emoluments disclosed above do not include any amounts for the value of the options to acquire ordinary shares in the Company granted to or held by the Directors. Details of options held by the Directors are as follows:

	Total shares granted	Total shares vested at 1 July 2006	Shares vesting in the year to 30 June 2007	Total shares vested at 30 June 2007	Excercise price	Earliest date of exercise	Date of expiry
Executive							
Mr Paul Swinney	250,000	62,500	62,500	125,000	59.75p	23/12/05	22/12/15

The options held by the Directors are subject to vesting arrangements over the life of the options. An initial tranche of options became exercisable on the grant of the options. Further tranches become exercisable over periods ranging from twelve months to thirty-six months following the grant of the options. The balance of options become exercisable in equal instalments in December 2007 and December 2008.

Directors' shareholdings

The interests of the Directors in the shares of the Company at 30 June 2007 and 30 June 2006 were:

	Ordinary 1p shares 30.06.07	Ordinary 1p shares 30.06.06
Executive		
Mr Paul Swinney	2,718,986	2,718,986
Mr Paul Barnes	556,260	556,260
Non-executive		
Mr Francisco Soler	8,627,228	9,627,228
Mr Peter Stephens	593,937	593,937
Mr Peter Clarke	21,811	181,811
Mr Antonio Soler	–	–

The market price of the Company's shares as at 30 June 2007 was 62.5p, and the range during the year was 45.5p to 70p (source - London Stock Exchange).

Corporate governance report for the year ended 30 June 2007

Corporate governance

Companies who have their securities traded on the Alternative Investment Market (AIM) are not required to comply with the disclosure requirements of the Combined Code. The Board, however, has determined that the Company should maintain high standards of corporate governance and whilst not fully complying with the Combined Code, has adopted procedures and has taken steps to adopt the underlying principles, in so far as appropriate given the size of the Company and the nature of its operations.

Board of directors

The Company is controlled by the Board of Directors which comprises two Executives, one of whom is the Chief Executive Officer, and four Non-executive Directors. The role of the Chief Executive Officer and Chairman are separate.

All Directors are able to take independent advice to assist them in their duties if necessary.

The Board is responsible to shareholders for the proper management of the Group and meets formally at least eight times a year to set the overall direction and strategy of the Group, to review operating and financial performance and to consider and advise on senior management appointments. The Board also monitors and approves financial policy and budgets, including capital expenditure. All key operational decisions are subject to Board approval. The Company Secretary is responsible for ensuring that Board procedures are followed and that any and all applicable rules and regulations are complied with.

Directors are subject to election by shareholders at the first opportunity after their appointment. In addition, one third of the Directors are subject to retirement by rotation at each Annual General Meeting.

Committees of the board

Remuneration committee

The Remuneration Committee comprises the Non-executive Directors under the chairmanship of Mr Peter Stephens. It reviews, inter-alia, the performance of the Executive Directors and sets the scale and structure of their remuneration and basis of their service agreements, having due regard to the interests of the shareholders. The Remuneration Committee also determines the allocation of share options to Executive Directors. No Director has a service agreement exceeding one year.

One of the policies of the Remuneration Committee is that no individual participates on discussions or decisions concerning his own remuneration.

The Directors' Remuneration Report is set out on pages 15 and 16.

Audit committee

The Audit Committee comprises the Non-executive Directors under the Chairmanship of Mr Peter Stephens. Under its terms of reference it meets at least three times a year and amongst other duties, overviews the monitoring of the Group's internal controls, accounting policies and financial reporting, and provides a forum through which the external auditors report. It meets at least once a year with the external auditors without Executive Management present.

Relations with shareholders

The Board considers effective communication with shareholders to be very important and encourages regular dialogue with both institutional and private investors. The Board responds promptly to questions received verbally or in writing. Directors regularly attend meetings with institutional shareholders and analysts throughout the year. Shareholders will be given at least 21 days notice of the Annual General Meeting at which they will be given the opportunity to discuss the Group's developments and performance.

The Company's web site www.tristel.com contains full details of the Group's activities, press releases and other details, as well as a link to the relevant web page of the London Stock Exchange web site for share price details, share trading activities and graphs, and Regulatory News Service ("RNS") announcements.

Maintenance of a sound system of internal control

The Directors have overall responsibility for ensuring that the Group maintains a system of internal control to provide them with reasonable assurance that the assets of the Group are safeguarded and that shareholders' investments are protected. The system includes internal controls appropriate for a Group of the Company's size, and cover financial, operational, compliance (including Health and Safety) and risk management areas. There are limitations in any system of internal control, which can provide reasonable but not total assurance with respect to the preparation of financial information, the safeguarding of assets and the possibility of misstatement or loss.

Corporate governance report continued

The Board has considered its policies with regard to internal controls, as set out in the Turnbull Report, and undertook an assessment of the major areas of the business and methods used to monitor and control them. In addition to financial risk, the review covered operational, commercial, regulatory and health and safety. The risk review is an ongoing process with reviews being undertaken on a regular basis.

The key procedures designed to provide an effective system of internal controls that are operating up to the date of sign-off of this report are set out below.

Control environment

There is an organisational structure with clearly defined lines of responsibility and delegation of accountability and authority.

Risk management

The Group employs Directors and senior personnel with the appropriate knowledge and experience for a business engaged in activities in its field of operations, and undertakes regular risk assessments and reviews of its activities.

Financial information

The Group prepares detailed budget and working capital projections, which are approved annually by the Board and are maintained and updated regularly throughout the year. Detailed management accounts and working capital cash flows are prepared on a monthly basis and through written commentary compared to budgets and projections to identify any significant variances.

Management of liquid resources

The Board is risk averse when investing any surplus cash funds. The Group's treasury management policy was adopted in July 2005, and is reviewed periodically.

The Board has considered it inappropriate to establish an internal audit function, given the size of the Group. However, this decision will be reviewed as the operations of the Group develop.

Report of the Directors for the year ended 30 June 2007

The directors present their report with the financial statements of the company and the group for the year ended 30 June 2007.

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 and future developments

The Chairman's introduction on page 2 and the Chief Executive's review of activties on pages 4 to 11 report on activities during the year, post balance sheet events and likely future developments. They also report on the main trends and factors likely to affect the future development, performance and position of the Group's business.

The principal risks and uncertainties facing the Group are considered below.

Operating risks

These include the group's ability to continue to supply in a timely manner the group's existing product portfolio; the timing of developing new products to meet the requirements of customer demands; the successful implementation of new contracts; the achievement of the demanding service levels included in existing customer contracts; prolonged disruption to the group's manufacturing base; the group's ability to attract and retain the right quality and quantity of personnel; the failure of a product supplied by the group and the ability to continue to develop and commercialise new products in such a way to produce a satisfactory level of profitability.

External risks

The group's performance is also subject to external macroeconomic conditions and changes in factors such as exchange rates, interest rates and inflation. An economic downturn due to a cutback on the supply of funds to the National Health Service, in particular, could negatively affect the group's business.

Operations in emerging or new markets may have a higher than average risk of political or economic instability, and may carry increased credit and financial risk.

Financial risks

The group's activities expose it to a number of financial risks including price risk, credit risk, cash flow risk, liquidity risk and exchange rate risk. The use of financial derivatives is governed by the group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives to manage these risks. At present the group does not use financial derivatives.

The group's financial instruments comprise cash and liquid resources.

The main purpose of these financial instruments is the funding of the group's activities. It has been the group's policy throughout the period under review that no trading in financial instruments shall be undertaken.

Credit risk

The group's principal financial assets are bank balances and cash, trade and other receivables. The group's credit risk is primarily attributable to its trade receivables, which are concentrated in a large number of low value customer accounts.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Cash flow risk

The group's activities expose it primarily to the financial risks of changes in interest rates. Interest bearing assets and liabilities are held at fixed rates to ensure certainty of cash flows.

Liquid risk

Group policy is to build and retain sufficient cash balances to meet its anticipated requirements over a two to three year period. Surplus funds are placed on time deposits, with cash balances available for immediate withdrawal if required.

Report of the Directors continued

Results and dividends

There was a profit for the year after taxation amounting to £551,000 (2006 : £506,000).

A final dividend of £172,817 (0.725p per share) was paid during the year in respect of the year ended 30 June 2006.

An interim dividend of £83,429 (0.35p per share) was paid during the year in respect of the year ended 30 June 2007 and the directors recommend a final dividend of 1p per share. The total distribution of dividends for the year ended 30 June 2007 will be £327,858.

A review of the Group's performance for the year ended 30 June 2007 is contained in the Chairman's Statement and the Chief Executive's Report.

Share issue

The company issued 606,060 ordinary shares of 1p during the year for an aggregate consideration of £300,000 in connection with the acquisition of manufacturing rights and know how.

Research and development

The Group continues to invest in research and development. The products currently being developed are expected to make significant contributions to the growth of the business. The Directors regard investment in this area as a prerequisite for success in the medium to long term future.

Directors

The directors shown below have held office during the whole of the period from 1 July 2006 to the date of this report.

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

Other changes in directors holding office are as follows:
A F Soler – appointed 29 June 2007

All of the directors, with the exception of A F Soler, retire by rotation, but will be proposed for re-election at the Annual General Meeting. A F Soler was appointed as an additional director on 29 June 2007 and will also be proposed for re-election at the Annual General Meeting.

Details of directors' interests in the share capital of the Company are disclosed in the Directors' Remuneration Report.

Group's policy on payment of creditors

The company's policy, which is also applied by the group, is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the company at 30 June 2007 were equivalent to 51 (2006: 50) days purchases, based on the average daily amount invoiced by suppliers during the year.

Political and charitable gifts

No political donations or charitable contributions were made during the year (2006 : nil)

Corporate governance

Tristel plc is committed to maintaining high standards of corporate governance. The company complies with the Combined Code 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 the 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 2007.

	Number of shares	% of issued share capital
Giltspur Nominees	1,422,480	5.82%
Invesco Perpetual	882,081	3.61%
Bruce Green	864,016	3.53%
M D Barnard	744,324	3.05%

Report of the Directors continued

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 International Financial Reporting Standards as adopted for use in the European Union. The financial statements are required by law to 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 these 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;
- 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.

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.

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

The auditors, Hedges Chandler, will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD
P M BARNES FCCA
SECRETARY
29 OCTOBER 2007

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 2007 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Company Balance Sheet, the Company Cash Flow Statement, the Consolidated Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes. 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards as adopted for use in the European Union are set out in the Statement of Directors' Responsibilities.

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 whether in our opinion the information given in the Report of the Directors is consistent with the financial statements.

In addition, we report to you if, in our opinion, 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 other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Directors, the Chairman's Statement, the Chief Executive's Report, the Directors' Remuneration Report and the Corporate Governance Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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.

Report of the Independent Auditors continued

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 2007 and of the profit of the group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- 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
29 OCTOBER 2007

Note

The maintenance and integrity of the Tristel plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Income Statement

for the year ended 30 June 2007

	NOTES	2007 £'000	2006 £'000
Revenue		5,148	3,746
Cost of sales		(1,943)	(1,709)
Gross profit		3,205	2,037
Other operating income		20	16
Administrative expenses – share based payments (IFRS2)		(30)	–
Administrative expenses – depreciation and amortisation		(206)	(168)
Administrative expenses – other		(1,859)	(1,201)
Total administrative expenses		(2,095)	(1,369)
Operating profit before exceptional item		1,130	684
Exceptional item	4	(349)	–
Operating profit		781	684
Finance income	5	7	35
Finance costs	5	(1)	–
Net finance income		6	35
Profit before tax		787	719
Taxation	7	(236)	(213)
Profit for the year		551	506
Attributable to:			
Equity holders of the parent		551	506
Earnings per share from continuing operations			
Basic – pence	10	2.30	2.12
Diluted – pence	10	2.26	2.09

All amounts relate to continuing operations. There are no recognised gains and losses other than the profits shown above.

THE NOTES FORM PART OF THESE FINANCIAL STATEMENTS

Consolidated Statement of Recognised Income and Expense

for the year ended 30 June 2007

	2007 £'000	2006 £'000
Profit for the year	551	506
Total recognised income and expense for the year	551	506
Attributable to:		
Equity holders of the parent	551	506

All amounts relate to continuing operations. There are no recognised gains and losses other than the profits shown above.

THE NOTES FORM PART OF THESE FINANCIAL STATEMENTS

Consolidated Balance Sheet

as at 30 June 2007

	NOTES	2007 £'000	2006 £'000
Non-current assets			
Goodwill	11	774	774
Intangible assets	12	1,495	819
Property, plant and equipment	13	734	312
		3,003	1,905
Current assets			
Inventories	15	488	395
Trade and other receivables	16	1,147	931
Cash and cash equivalents	17	38	174
		1,673	1,500
Total assets		4,676	3,405
Capital and reserves attributable to the company's equity holders			
Share capital	22	244	238
Share premium account	23	1,750	1,456
Merger reserve	23	478	478
Retained earnings	23	158	(167)
Equity attributable to equity holders of parent		2,630	2,005
Current liabilities			
Trade and other payables	18	1,369	825
Bank overdrafts	19	165	54
Interest bearing loans and borrowings	19	100	204
Current tax liabilites		230	192
Total current liabilities		1,864	1,275
Non-current liabilities			
Deferred tax liabilities	21	182	125
Total non-current liabilities		182	125
Total liabilities		2,046	1,400
Total equity and liabilities		4,676	3,405

THE FINANCIAL STATEMENTS WERE APPROVED BY THE BOARD OF DIRECTORS ON 29 OCTOBER 2007 AND WERE SIGNED ON ITS BEHALF BY:
P M BARNES FCCA
FINANCE DIRECTOR
29 OCTOBER 2007

THE NOTES FORM PART OF THESE FINANCIAL STATEMENTS

Company Balance Sheet

as at 30 June 2007

	NOTES	2007 £'000	2006 £'000
Non-current assets			
Intangible assets	12	995	375
Investments	14	1,547	1,547
		2,542	1,922
Current assets			
Trade and other receivables	16	358	112
Cash and cash equivalents	17	–	98
		358	210
Total assets		2,900	2,132
Capital and reserves attributable to the company's equity holders			
Share capital	22	244	238
Share premium account	23	1,750	1,456
Retained earnings	23	371	64
Equity attributable to equity holders of parent		2,365	1,758
Current liabilities			
Trade and other payables	18	255	52
Bank overdrafts	19	15	52
Interest bearing loans and borrowings	19	–	204
Current tax liabilities		228	43
Total current liabilities		498	351
Non-current liabilities			
Deferred tax liabilities	21	37	23
Total non-current liabilities		37	23
Total liabilities		535	374
Total equity and liabilities		2,900	2,132

THE NOTES FORM PART OF THESE FINANCIAL STATEMENTS

THE FINANCIAL STATEMENTS WERE APPROVED BY THE BOARD OF DIRECTORS ON 29 OCTOBER 2007 AND WERE SIGNED ON ITS BEHALF BY:
P M BARNES FCCA
FINANCE DIRECTOR
29 OCTOBER 2007

Consolidated Cash Flow Statement

for the year ended 30 June 2007

	NOTES	2007 £'000	2006 £'000
Cash flows from operating activities			
Cash generated from operating activities	1	1,243	333
Interest paid		(1)	–
Corporation tax paid		(129)	(11)
Net cash from operating activities		1,113	322
Cash flows from investing activities			
Interest received		7	35
Purchase of intangible assets		(462)	(105)
Acquisition of subsidiary undertaking (net of cash)		–	(1,081)
Purchases of property, plant and equipment		(545)	(236)
Proceeds from sale of property, plant and equipment		–	13
Net cash used in investing activities		(1,000)	(1,374)
Cash flows from financing activities			
Dividends paid		(256)	(185)
Net cash used in financing acitivites		(256)	(185)
Decrease in cash and cash equivalents		(143)	(1,237)
Cash and cash equivalents at the beginning of the year	2	(84)	1,153
Cash and cash equivalents at the end of year	2	(227)	(84)

THE NOTES FORM PART OF THESE
FINANCIAL STATEMENTS

Notes to the Consolidated Cash Flow Statement

for the year ended 30 June 2007

1. Reconciliation of profit before tax to cash generated from operating activities

	2007 £'000	2006 £'000
Profit before tax	787	719
Adjustments for:		
Depreciation and impairment	119	46
Amortisation of intangible assets	87	122
Share based payments – IFRS2	30	–
Loss of disposal of property, plant and equipment	3	5
Government grants	(20)	(16)
Finance costs	1	–
Finance income	(7)	(35)
	1,000	841
Increase in inventories	(93)	(54)
Increase in trade and other receivables	(216)	(205)
Increase/(decrease) in trade and other payables	552	(249)
Cash generated from operating activities	1,243	333

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 2007 £'000	1 July 2006 £'000
Year ended 30 June 2007		
Cash and cash equivalents	38	174
Bank overdrafts	(165)	(54)
Shareholders' loans	(100)	(204)
	(227)	(84)

	30 June 2006 £'000	1 July 2005 £'000
Year ended 30 June 2006		
Cash and cash equivalents	174	1,212
Bank overdrafts	(54)	(59)
Shareholder loan	(204)	–
	(84)	1,153

Company Cash Flow Statement

for the year ended 30 June 2007

	NOTES	2007 £'000	2006 £'000
Cash flows from operating activities			
Cash generated from/(used in) operating activities	1	710	(121)
Movement in group company balances		32	–
Corporation tax paid		–	(10)
Net cash from/(used in) operating activites		742	(131)
Cash flows from investing activities			
Purchase of intangible assets		(349)	(6)
Acquisition of subsidiary undertaking (net of cash)		–	(1,082)
Interest received		6	34
Net cash used in investing activities		(343)	(1,054)
Cash flows from financing activities			
Dividends paid		(256)	(185)
Net cash used in financing activities		(256)	(185)
Increase/(decrease) in cash and cash equivalents		143	(1,370)
Cash and cash equivalents at the beginning of the year	2	(158)	1,212
Cash and cash equivalents at the end of the year	2	(15)	(158)

THE NOTES FORM PART OF THESE FINANCIAL STATEMENTS

Notes to the Company Cash Flow Statement

for the year ended 30 June 2007

1. Reconciliation of profit before tax to cash generated from/(used in) operating activities

	2007 £'000	2006 £'000
Profit before tax	732	172
Depreciation charges	29	74
Share based payments – IFRS2	30	–
Finance income	(6)	(34)
	785	212
Increase in trade and other receivables	(90)	(49)
Increase/(decrease) in trade and other payables	15	(284)
Cash generated from operating activities	710	(121)

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 2007 £'000	1 July 2006 £'000
Year ended 30 June 2007		
Cash and cash equivalents	–	98
Bank overdrafts	(15)	(52)
Shareholder loan	–	(204)
	(15)	(158)

	30 June 2006 £'000	1 July 2005 £'000
Year ended 30 June 2006		
Cash and cash equivalents	98	1,212
Bank overdrafts	(52)	–
Shareholder loan	(204)	–
	(158)	1,212

Notes to the Consolidated Financial Statements

for the year ended 30 June 2007

1. Accounting policies

Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Commission. These will be those International Accounting Standards, International Financial Reporting Standards and related interpretations (SIC-IFRIC interpretations), subsequent amendments to those standards and related interpretations, future standards and related interpretations issued or adopted by the IASB that have been endorsed by the European Commission. This process is ongoing and the Commission has yet to endorse certain standards issued by the IASB.

Basis of consolidation

The group financial statements consolidate the accounts of Tristel plc for the year ended 30 June 2007 and of its subsidiary undertakings for the year ended 30 June 2007.

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.

Revenue recognition

Turnover is the 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

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently where there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Intangible fixed assets – patents, trademarks and licences

Patents, trademarks and licences that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight line basis over estimated useful lives of intangible assets.

Intangible assets are tested for impairment if there is indication of impairment. Intangible assets are amortised from the date they are brought into use. The estimated useful life of the identified intangible assets is ten years.

Intangible fixed 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.

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

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amount of its tangibles and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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.

Taxation

The charge for current tax is based on the results for the year as adjusted for items, which are non-assessable or disallowed. It is calculated according to local tax rules, using tax rates enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill, negative goodwill nor from the acquisition of an asset, which does not affect either taxable or accounting income.

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2007

1. Accounting policies continued

Taxation continued

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

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.

Government grants

Government grants relating to capital expenditure are treated as deferred income and released to the income statement over the expected useful lives of the assets concerned. Grants of a revenue nature are credited to the income statement so as to match them with the related expenditure to which they relate.

Share based payments

In accordance with IFRS 2 the fair value of equity-settled share-based payments to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period on the Group's estimate of shares or options that will eventually vest. In the case of options granted, the fair value is measured by a Black-Scholes pricing model. Further details are set out in note 22.

Borrowing costs

Costs are charged to the income statement as incurred.

Adopted IFRSs not yet applied

The IFRSs adopted by the EU applied by the Group in the preparation of these financial statements are those that were effective at 30 June 2007. The following Adopted IFRSs were available for early adoption but have not been applied by the Group in these financial statements.

Endorsed

- Amendment to IAS 1 *Presentation of financial statements*
- IFRS 7 *Financial Instruments: Disclosures;* applicable for the year commencing 1 July 2007
- IFRIC 8 *Scope of IFRS 2;* applicable for the year commencing 1 July 2007
- IFRIC 9 *Reassessment of embedded derivatives;* applicable for the year commencing 1 July 2007

Unendorsed

- IFRS 8 *Operating Segments*; applicable for the year commencing 1 July 2009
- IFRIC 10 *Interim financial reporting and impairment*; applicable for the year commencing 1 July 2007
- IFRIC 11 *Group and Treasury share transactions*: applicable for the year commencing 1 July 2007
- IFRIC 12 *Service concession arrangements*; applicable for the year commencing 1 July 2008

These amendments and the new standard are not expected to impact the Group significantly, however, additional disclosure may be required.

2. Segmental analysis

For management purposes, the group reports its entire activities as one business. Accordingly, the Directors consider there to be only one reportable segment, being the development, manufacture and distribution of products utilising the group's core chlorine dioxide technologies.

An analysis by geographic area, stated by customer destination is as follows:

	2007 £'000	2006 £'000
United Kingdom	4,970	3,710
Rest of the World	178	36
	5,148	3,746

3. Employees and directors

	2007 £'000	2006 £'000
Wages and salaries	955	554
Social security costs	78	60
Other pension costs	32	29
Share based payments – IFRS 2	30	–
	1,095	643

The charge to Share based payments in accordance with IFRS 2 arises from transactions accounted for as equity-settled share based payments.

Notes to the Consolidated Financial Statements continued
for the year ended 30 June 2007

3. Employees and directors continued

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

	2007	2006
Directors	2	2
Non-executive directors	3	3
Sales and marketing	11	7
Administration	13	4
Production	2	–
	31	16

	2007 £'000	2006 £'000
Directors' emoluments	242	219
Aggregate pension contributions to money purchase schemes	18	18

The number of directors to whom retirement benefits were accruing was as follows:

	2007	2006
Money purchase schemes	2	2

Information regarding the highest paid director is as follows:

	2007 £'000	2006 £'000
Emoluments	141	119
Aggregate contributions to money purchase schemes	12	12

Key management compensation

	2007 £'000	2006 £'000
Salaries and short-term employee benefits	269	243
Post-employment benefits	18	18
Share based payments – IFRS 2	6	–
	293	261

The key management figures given above include directors

4. Exceptional item

The non-recurring cost relates to an agreement, reached in June 2007, with a company engaged in the United Kingdom endoscopy market, to end an informal arrangement that had operated since 2002. This arrangement had assisted both companies to establish market leading positions in their respective business areas in endoscopy.

The company agreed to make a one off ex-gratia settlement in the amount of £349,280 (together with associated costs) to bring the arrangement to a close. The informal arrangement had previously cost the Company £777,802 from the date it commenced to the end of the financial year.

5. Net finance income

	2007 £'000	2006 £'000
Finance income:		
Deposit account interest	6	34
Staff loan interest	1	1
Other income	–	–
	7	35
Finance costs:		
Bank interest	1	–
Net finance income	6	35

Notes to the Consolidated Financial Statements continued
for the year ended 30 June 2007

6. Profit before tax

The profit before tax is stated after charging/(crediting):

	2007 £'000	2006 £'000
Cost of inventories recognised as expense	1,973	1,709
Depreciation - owned assets	119	46
Loss on disposal of fixed assets	4	5
Patents and licences amortisation	30	74
Development costs amortisation	57	47
Auditors' remuneration	42	20
Foreign exchange differences	–	1
Operating lease rentals		
– land and buildings	38	15
– vehicles and equipment	8	11
Research costs expensed	30	59

	2007 £'000	2006 £'000
A more detailed analysis of auditors' remuneration is provided below:		
Audit services		
– audit of these financial statements	9	7
– audit of financial statements of subsidiaries	30	11
Non-audit fees – taxation services		
– Parent company	1	1
– Subsidiaries	2	1
	42	20

7. Tax

The taxation charge represents:

	2007 £'000	2006 £'000
Current taxation:		
Corporation tax	189	184
Adjustment in respect of earlier years	(10)	–
Total current tax	179	184
Deferred tax:		
Origination and reversal of temporary differences	57	29
Deferred tax	57	29
Total tax charge in income statement	236	213

Factors affecting the tax charge

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	2007 £'000	2006 £'000
Profit on ordinary activities before tax	786	719
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006 - 30%)	236	216
Effects of:		
Expenses not deductible for tax purposes	4	3
Timing differences in capital allowances and depreciation	3	–
Different rate tax bands and change in tax rates	5	(2)
Enhanced relief on qualifying scientific research expenditure	(2)	(4)
Adjustment in respect of prior years	(10)	–
Total tax charge for year	236	213

8. Parent company income statement

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 £533,179 (2006 – £120,218).

Notes to the Consolidated Financial Statements continued
for the year ended 30 June 2007

9. Dividends

Amounts recognised as distributions to equity holders in the year:

	2007 £'000	2006 £'000
Ordinary shares of 1p each		
Final dividend for the year ended 30 June 2006 of 0.725p (2005 – 0.50p) per share	173	119
Interim dividend for the year to 30 June 2007 of 0.35p (2005 – 0.275p) per share	83	66
	256	185
Proposed final dividend for the year ended 30 June 2007 Of 1p (2006 – 0.725p) per share	244	173

The proposed final dividend is subject to approval by shareholders at the forthcoming Annual General Meeting and has not been included as a liability in the financial statements.

10. Earnings per share

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

	2007 £'000	2006 £'000
Retained profit for the financial year attributable to the Equity holders of the parent	551	506

	Shares '000	Shares '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	23,973	23,837
Effect of dilutive potential ordinary shares		
Share Options	355	359
Purpose of diluted earnings per share	24,328	24,196
Earnings per ordinary share		
Basic	2.30p	2.12p
Diluted	2.26p	2.09p

The calculation of the weighted average number of shares is based on the number of shares in issue during the years ended 30 June 2007 and 2006. The calucation of diluted earnings per share includes outstanding options on 522,500 ordinary shares at 30 June 2007.

11. Goodwill

Group – Current year

	£'000
Cost	
At 1 July 2006	774
Additions	–
At 30 June 2007	774
Net book value	
At 30 June 2007	774
At 30 June 2006	774

Group- Prior year

	£'000
Cost	
At 1 July 2005	–
Additions	774
At 30 June 2006	774
Net book value	
At 30 June 2006	774
At 30 June 2005	–

Notes to the Consolidated Financial Statements continued
for the year ended 30 June 2007

11. Goodwill continued

The acquired goodwill in respect of Tristel Technologies Limited was tested for impairment in accordance with IAS 36 and for this purpose the acquisition was identified as a single cash generating unit ("CGU"). The value of goodwill as at 30 June 2007 was evaluated by reference to actual performance against forecasted projections prepared for the CGU prior to the acquisition. In the opinion of the directors no goodwill impairment was considered necessary as projections had been exceeded by actual performance.

Company
The company has no goodwill to account for.

12. Intangible assets

Group – Current year

	Patents and licences £'000	Development costs £'000	Totals £'000
Cost			
At 1 July 2006	712	484	1,196
Additions	649	114	763
At 30 June 2007	1,361	598	1,959
Amortisation			
At 1 July 2006	330	47	377
Amortisation for year	30	57	87
At 30 June 2007	360	104	464
Net book value			
At 30 June 2007	1,001	494	1,495
At 30 June 2006	382	437	819

Group - Prior year

	Patents and licences £'000	Development costs £'000	Totals £'000
Cost			
At 1 July 2005	699	384	1,083
Additions	6	100	106
Acquisition of subsidiary	7	–	7
At 30 June 2006	712	484	1,196
Amortisation			
At 1 July 2005	256	-	256
Amortisation for year	74	47	121
At 30 June 2006	330	47	377
Net book value			
At 30 June 2006	382	437	819
At 30 June 2005	443	384	827

Company – Current year

	Patents and licences £'000
Cost	
At 1 July 2006	705
Additions	649
At 30 June 2007	1,354
Amorisation	
At 1 July 2006	330
Amortisation for year	29
At 30 June 2007	359
Net book value	
At 30 June 2007	995
At 30 June 2006	375

Notes to the Consolidated Financial Statements continued
for the year ended 30 June 2007

12. Intangible assets continued

Company – Prior year	Patents and licences £'000
Cost	
At 1 July 2005	699
Additions	6
At 30 June 2006	705
Amortisation	
At 1 July 2005	256
Amortisation for year	74
At 30 June 2006	330
Net book value	
At 30 June 2006	375
At 30 June 2005	443

The company acquired certain manufacturing rights in April 2007. This acquired intellectual property was tested for impairment in accordance with IAS 36, for this purpose the value of intellectual property was evaluated by reference to increased gross margins that will arise as a result of cost savings in the manufacturing process through the acquisition of these rights. No depreciation was provided on this asset in the current financial year, since the transfer of manufacturing capability was only completed just prior to the year end. In the opinion of the directors no impairment was considered necessary as the cost savings expected through the acquisition of the manufacturing rights will continue to accrue to the company.

13. Property, plant and equipment

Group – Current year	Short leasehold £'000	Improvements to property £'000	Plant and machinery £'000
Cost			
At 1 July 2006	7	21	302
Additions	47	154	186
Disposals	(7)	–	–
At 30 June 2007	47	175	488
Depreciation			
At 1 July 2006	3	7	119
Charge for year	1	9	61
Eliminated on disposal	(3)	-	-
At 30 June 2007	1	16	180
Net book value			
At 30 June 2007	46	159	308
At 30 June 2006	4	14	183

Group – Current year	Fixtures and fittings £'000	Motor vehicles £'000	Totals £'000
Cost			
At 1 July 2006	72	99	501
Additions	114	44	545
Disposals	–	–	(7)
At 30 June 2007	186	143	1,039
Depreciation			
At 1 July 2006	43	17	189
Charge for year	21	27	119
Eliminated on disposal	–	–	(3)
At 30 June 2007	64	44	305
Net book value			
At 30 June 2007	122	99	734
At 30 June 2006	29	82	312

Notes to the Consolidated Financial Statements continued
for the year ended 30 June 2007

13. Property, plant and equipment continued

Group – Prior year	Short leasehold £'000	Improvements to property £'000	Plant and machinery £'000
Cost			
At 1 July 2005	7	16	17
Additions	–	5	133
Acquisition of subsidiary	–	–	152
Disposals	–	–	–
At 30 June 2006	7	21	302
Depreciation			
At 1 July 2005	3	3	15
Charge for year	–	4	9
Acquisition of subsidiary	–	–	95
Eliminated on disposal	–	–	–
At 30 June 2006	3	7	119
Net book value			
At 30 June 2006	4	14	183
At 30 June 2005	4	13	2

Group – Prior year	Fixtures and fittings £'000	Motor vehicles £'000	Totals £'000
Cost			
At 1 July 2005	64	47	151
Additions	10	87	235
Acquisition of subsidiary	-	-	152
Disposals	(2)	(35)	(37)
At 30 June 2006	72	99	501
Depreciation			
At 1 July 2005	31	15	67
Charge for year	14	20	47
Acquisition of subsidiary	–	–	95
Eliminated on disposal	(2)	(18)	(20)
At 30 June 2006	43	17	189
Net book value			
At 30 June 2006	29	82	312
At 30 June 2005	33	32	84

Company
There are no tangible fixed assets held by the company.

14. Investments

Company – Current year	Shares in group undertakings £'000
Cost	
At 1 July 2006 and 30 June 2007	1,547
Net book value	
At 30 June 2007	1,547
At 30 June 2006	1,547

Notes to the Consolidated Financial Statements continued
for the year ended 30 June 2007

14. Investments continued

Company – Prior year	Shares in group undertakings £'000
Cost	
At 1 July 2005 and 30 June 2006	1,547
Net book value	
At 30 June 2006	1,547
At 30 June 2005	1,547

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

Tristel Solutions Limited
Nature of business: Supply of infection control products
Class of shares: Ordinary
Percentage holding: 100%

	2007 £'000	2006 £'000
Aggregate capital and reserves	737	687
Profit for the year	50	361

Tristel Technologies Limited
Nature of business: Supply of water purification products
Class of shares: Ordinary
Percentage holding: 100%

	2007 £'000	2006 £'000
Aggregate capital and reserves	302	333
(Loss)/Profit for the year	(32)	197

15. Inventories

Group	2007 £'000	2006 £'000
Raw materials	448	198
Work-in-progress	–	95
Finished goods	40	102
	488	395

Company
The company has no inventories.

16. Trade and other receivables

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Current:				
Trade receivables	779	710	–	–
Amounts owed by group undertakings	–	–	186	30
Other debtors	86	48	39	28
VAT	14	14	14	14
Prepayments and accrued income	268	159	119	40
	1,147	931	358	112

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 fair 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 has been made where there was an identifiable loss event which, based on previous experience, was evidence of a reduction in recoverability of the cash flows.

Notes to the Consolidated Financial Statements continued
for the year ended 30 June 2007

17. Cash and cash equivalents

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Cash in hand	3	1	–	–
Short term deposits	–	91	–	91
Money market deposits	–	7	–	7
Bank accounts	35	75	–	–
	38	174	–	98

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, cash and bank balances and trade and other receivables has been assessed. Credit risk 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 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Current:				
Trade payables	566	401	57	36
Amounts owed to group undertakings	–	–	188	–
Social security and other taxes	123	126	–	–
Invoice discounting creditor	405	–	–	–
Accruals and deferred income	275	298	10	16
	1,369	825	255	52

19. Financial liabilities – borrowing

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Current:				
Bank overdrafts	165	54	15	52
Other loans	100	204	–	204
	265	258	15	256

Terms and debt repayment schedule

	Group 2007 1 year or less £'000	Group 2006 1 year or less £'000	Company 2007 1 year or less £'000	Company 2006 1 year or less £'000
Bank overdrafts	165	54	15	52
Other loans	100	204	–	204
	265	258	15	256

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. Leasing agreements

Group	Non-cancellable operating leases 2007 £'000	2006 £'000
Within one year	92	–
Between one and five years	389	21
In more than five years	393	27
	874	48

Company
The company has no lease agreements.

Notes to the Consolidated Financial Statements continued
for the year ended 30 June 2007

21. Deferred tax

Group	2007 £'000	2006 £'000
Balance at 1 July	125	97
Profit and loss account charge	57	29
Acquisition of subsidiary	–	(1)
Balance at 30 June	182	125

Company	2007 £'000	2006 £'000
Balance at 1 July	23	15
Profit and loss account charge	14	8
Balance at 30 June	37	23

Group Deferred tax liabilities	Accelerated tax depreciation £'000	Other £'000	Total £'000
Balance at 1 July 2006	150	–	150
Charged to profit and loss account	51	–	51
Balance at 30 June 2007	201	–	201

Deferred tax assets	Tax losses £'000	Other £'000	Total £'000
Balance at 1 July 2006	–	25	25
Charged to profit and loss account	–	(6)	(6)
Balance at 30 June 2007	–	19	19

Net deferred tax liability	
Balance at 30 June 2007	182
Balance at 30 June 2006	125

22. Called up share captial

Authorised: Number:	Class:	Nominal value:	2007 £	2006 £
60,000,000	Ordinary	1p	600,000	600,000

Allotted, issued and fully paid: Number:	Class:	Nominal value:	2007 £	2006 £
24,442,880 (2006 - 23,836,820)	Ordinary	1p	244,429	238,368

The following fully paid shares were allotted during the year at a premium as shown below:

606,060 Ordinary shares of 1p each at 49.5p per share as part of the total consideration of £600,000 to acquire certain manufacturing rights and know-how, the remaining £300,000 being settled in cash.

Notes to the Consolidated Financial Statements continued
for the year ended 30 June 2007

22. Called up share captial continued

Share based payments

During the year ended 30 June 2007 the company had four share based payment arrangements, which are described below:

Type of arrangement	Senior management share option plan	General employee share option plan	General employee share option plan	General employee share option plan
Date of grant	23 December 2005	23 December 2005	9 February 2006	25 May 2007
Share price at grant date	45p	45p	45p	62.5p
Exercise price	59.5p	53.75p	53.75p	53.75p
Number of employees	1	8	2	2
Number of shares under option	250,000	630,000	45,000	240,000
Vesting period (from date of grant)	25% Immediate 25% in 12 months 25% in 24 months 25% in 36 months	25% Immediate 25% in 12 months 25% in 24 months 25% in 36 months	25% Immediate 25% in 12 months 25% in 24 months 25% in 36 months	25% Immediate 25% in 12 months 25% in 24 months 25% in 36 months
Contractual life (years)	10	10	10	10
Expected volatility	20%	20%	20%	27%
Expected life from vesting (years)	3	3	3	3
Risk free rate	4.6%	4.6%	4.6%	5%
Expected dividend yield	2.2%	2.2%	2.2%	2.4%
Possibility of ceasing employment before vesting	–	25%	50%	50%
Fair value per option:				
25% Immediate	2.129p	3.374p	3.482p	1.660p
25% in 12 months	2.894p	4.586p	4.680p	1.810p
25% in 24 months	3.563p	5.647p	5.729p	1.940p
25% in 36 months	4.153p	6.582p	6.655p	2.040p

The expected volatility is based on historical volatility over the past two years (taking account of the short dividend history). The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

A reconciliation of option movements over the year to 30 June 2007 is shown below:

	2007 Number	Weighted average exercise price	2006 Number	Weighted average exercise price
Outstanding at 1 July 2006	925,000	55.30p	–	–
Granted	240,000	53.75p	925,000	55.30p
Forfeited	–	–	–	–
Exercised	–	–	–	–
Outstanding at 30 June 2007	1,165,000	54.98p	925,000	55.30p
Exercisable at 30 June 2007	522,500	55.13p	231,250	55.30p

No options were exercised during the current or previous year.

In the opinion of the directors the total charge to date relating to employee share based payment plans, in accordance with IFRS 2, was £29,941 all of which related to equity-settled share based payment transactions. Of the total charge £17,452 relates to earlier periods which was not considered significant in those periods.

23. Reserves

Group	Retained earnings £'000	Share premium £'000	Merger reserve £'000	Total £'000
At 1 July 2006	(167)	1,456	478	1,767
Profit for the year	551			551
Dividends	(256)			(256)
Share issue – acquisition of intangibles	–	294	–	294
Share based payments – IFRS 2	30	–	–	30
At 30 June 2007	158	1,750	478	2,386

Company	Retained earnings £'000	Share premium £'000	Total £'000
At 1 July 2006	64	1,456	1,520
Profit for the year	533	–	533
Dividends	(256)	–	(256)
Share issue – acquisition of intangibles	–	294	294
Share based payments – IFRS 2	30	–	30
At 30 June 2007	371	1,750	2,121

Notes to the Consolidated Financial Statements continued
for the year ended 30 June 2007

24. Reconciliation of movement in total equity

	Called up share Capital £'000	Share premium account £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 July 2005	238	1,456	478	(488)	1,684
Total recognised income and expenses	–	–	–	506	506
Dividends paid	–	–	–	(185)	(185)
Balance at 30 June 2006	238	1,456	478	(167)	2,005
Total recognised income and expenses	–	–	–	551	551
Dividends paid	–	–	–	(256)	(256)
Issue of shares	6	294	–	–	300
Share based payments – IFRS 2	–	–	–	30	30
	244	1,750	478	158	2,630

25. Releated 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 £170,275 (2006 £145,583) were paid during the year to Bruce Green Limited, a private company incorporated in England and Wales, owned by Mr Green.

Transactions between the Group and Tom Allsworth
Under the terms of a supply agreement between the Group and Medichem, a private company incorporated in England and Wales, in which Mr Tom Allsworth, a shareholder in the Company, is a director and shareholder, monies totalling £479,466 (2006 nil) were paid during the year.

Transactions between the Group and Francisco Soler
On 20 June 2007 the company received a short term loan of £100,000 from World Financial Trading Corporation, repayable by 20 September 2007 and therefore outstanding as at 30 June 2007. The director and shareholder of this company Mr Francisco Soler is a director of World Financial Trading Corporation, a member of the Financial Industry Regulatory Authority (FINRA) in the United States of America.

Transactions between the Parent and subsidiary companies
During the year the company charged its subsidiary companies, Tristel Solutions Limited and Tristel Technologies Limited £460,000 and £400,000 respectively, in respect of management fees.

As at the year end the company was owed £186,358 (2006 £30,101) by its subsidiary company Tristel Solutions Limited, in respect of inter-group transactions.

Also as at the year end the company owed £187,941 (2006 nil) to its subsidiary company Tristel Technologies Limited, in respect of inter-group transactions.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed in each undertakings financial statements.

Transactions with directors
During the year to 30 June 2006, Paul Swinney, a director of the Company, was granted an option over 250,000 of the company's 1p ordinary shares; this option is at a price of 59.5p and is exercisable at any time up to 22 December 2015.

26. Reconciliation of movements in equity

Group	2007 £'000	2006 £'000
Profit for the financial year	551	506
Dividends	(256)	(185)
	295	321
New share capital subscribed	300	–
Share option costs	30	–
Net addition to equity	625	321
Opening equity	2,005	1,684
Closing equity	2,630	2,005

Company	2007 £'000	2006 £'000
Profit for the financial year	533	120
Dividends	(256)	(185)
	277	(65)
New share capital subscribed	300	–
Share option costs	30	–
Net addition/(reduction) to equity	607	(65)
Opening equity	1,758	1,823
Closing equity	2,365	1,758