Annual Report and Financial Statements

for the year ended 31 December 2011

“This has been a great year for Biome Technologies with the company seeing promising growth in both divisions.”

Paul Mines, CEO, Biome Technologies plc

Officers and advisers

Executive Directors

Paul R Mines	Chief Executive
Declan L Brown[1]	Group Finance Director

Non-Executive Directors

Michael A Kayser	Senior Independent Director
John F Standen	Chairman

Company Secretary

Donna R Simpson-Strange

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[1] Appointed 1 November 2011
[2] Appointed 24 February 2012

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Chairman's statement

2011 was another very encouraging year in our path towards building a sustainable business, with a 42% increase in Group revenues. Strong growth occurred in both of the Group's divisions with Bioplastics revenues growing by 47% and the Stanelco RF Technologies division increasing revenues by 21%.

The effect of this revenue growth and continued cost management was to reduce the year-on-year loss from operations by 46% from £1.9m to £1.0m, slightly ahead of expectations. This is the fifth consecutive year of reduced loss for the Group. It was particularly pleasing to see, at divisional level, both the Bioplastics division reach breakeven in a year for the first time and the Stanelco RF Technologies division improve its profitability levels over 2010.

The first half of the year saw revenue growth exceed the Board's expectations due to significant growth in Bioplastics and the continuation of a sizeable fibre optic furnace build programme within Stanelco RF Technologies. In the second half of the year, revenues in the Bioplastics division, predominantly third party sales at the Group's Biotec joint venture, were impacted by a "force majeure" at a key supplier. This restricted the Group's ability to build upon the growth achieved in the first half. This restraint has now eased and the Group is now holding contingency stocks of both raw materials and finished goods to mitigate the impact of such issues going forward.

While continental Europe remains the predominant market for the Group, significant progress was made in 2011 in broadening our customer base with new customers coming on stream in Asia and the Americas. New legislation and evidence of changes in consumer behaviour continues to help to drive our growth in a number of these countries.

The Stanelco RF Technologies division had another successful year with the Group continuing to benefit from its leading position in the fibre optic furnace market and an encouraging broadening into other industrial applications. The new contract with Durapipe UK, announced in January 2012, demonstrates Stanelco's technological capabilities and is expected to contribute significantly to the division's earnings over the coming years.

In December, it was pleasing to see the first payment of £348,000 of accrued interest from the Biotec JV. This initial return on investment demonstrates the operational gearing and prospective performance of a unit that remains with significant unutilised capacity.

The Group also made positive progress regarding its ongoing litigation involving Biotec, its joint venture partner SPhere and Novamont S.p.A. During the year SPhere has received two German court judgements that Novamont's patent EP '559 and EP '120 are invalid in this territory and Biotec is now engaged in a similar process with the goal to demonstrate that Novamont's patent EP '505 was invalid in Germany. The Board has sought and will continue to seek complete resolution of this matter as soon as it is feasible.

Results

Group revenues increased 42% to £19.1m (2010: £13.4m). The Bioplastics division's revenues grew by 47% to £16.2m (2010: £11.0m) and the RF division's revenues by 21% to £2.9m (2010: £2.4m).

The loss from operations for the year reduced to £1.0m (2010: £1.9m), reflecting revenue growth whilst administration costs were reduced slightly. The loss before taxation was £1.1m (2010: £2.3m), delivering a loss per share of 0.018 pence (2010: 0.047 pence).

Cash

We continue to manage our cash resources prudently whilst we move towards positive earnings and the Group's cash position at 31 December 2011 was £2.4m (2010: £4.0m). In the year, the cash utilised by operations was £1.1m (2010: £1.1m) of which £0.7m was invested in working capital as contingency against future supply side turbulence. In addition, £0.1m was invested during the year in new property, plant and equipment (2010: £0.2m) and £0.4m in product development (2010: £0.4m).

To support the anticipated future growth of the Group and to supplement our cash resources, a secured two-year debt facility of up to £2.0m was put in place in May 2011. This adds considerably to our financial resources and operational flexibility going forward.

Strategy

As stated previously, the Group's mid-term strategy is to:

a) build a leading position in its chosen markets based on patented technology;
b) develop a range of new functional application areas where premiums can be obtained from its existing bioplastics IP base;
c) create and build new bioplastic applications by working intimately with consumer facing international businesses; development will be application led rather than technology led; and
d) drive the businesses' differentiation by developing and retaining a team that is recognised as being at the forefront in developments in application and product engineering.

Biome Bioplastics achieved strong growth with a broadening set of customers across many geographic markets and a focus predominantly on patented products. We believe this growth exceeded that of the general bioplastics market resulting in increased market share. To further this growth going forward, Biome Bioplastics has launched a number of new products into a variety of applications. These products, which are being trialled and tested for their market potential, have been developed in-house by Biome Bioplastics and are consequently owned wholly by the Group.

Whilst we continue to work with a number of consumer facing international businesses, it is becoming clearer that the early adopters in this market will be regional players with quicker methods of trialling such products technically and commercially. Whilst growth in the European market has exceeded our expectations, the uptake in North America has been somewhat slower albeit it is now encouraging to see the Federal Administration taking steps to promote bio-content in its procurement policies.

On the raw material side we have reduced our dependence on a number of key additive suppliers through substitution and increasing the range of starch based material that can be used in our processes.

In Stanelco RF Technologies, we remain the leader in the optical fibre furnace market whilst expanding our product range and customer base, highlighted by the recently signed development contract with Durapipe UK to develop their plastic welding product.

The Board's firm intent remains to continue to accelerate revenue growth whilst controlling costs as it drives the Group towards profitability.

Board and Employees

In October 2011, Susan Bygrave stepped down as Group Finance Director and from the Board after two years of service. We thank her for her considerable contribution to the development of Biome Technologies and wish her well in her future endeavours.

Declan Brown replaced Susan as Group Finance Director and as a member of the Board. Declan has held senior finance positions within blue chip companies with international operations.

Our continued development and drive to profitability is due to the unerring support of our employees who have moved the business forward. Once again they have focussed on growing revenues as fast as possible on a limited budget and these efforts are very much appreciated. I thank them very much for their support.

Outlook

We remain excited by the opportunities that lie ahead for the business. The Group has been growing at a very fast pace over the last few years and, with changes in legislation and consumer behaviour continuing to support the global demand for bioplastics, we expect this momentum to continue into the future.

To date, we have not been impacted adversely, as many other businesses have, by the economic doldrums that are prevalent across the globe. However, as Continental Europe remains the main area for the Group's customers, the Board remains vigilant of the wider economic uncertainties that could impact the Company in 2012 and beyond. Against this backdrop, the Group has been expanding successfully its customer base in both divisions outside Europe.

As we look into 2012 we have to recall that the first quarter turnover in 2011 was the highest of that year. This year's trading with revenues of £2.9m for the first two months (2010: £3.4m) is showing that, whilst we are unlikely to reach 2011 levels in this quarter, we are already seeing monthly revenues comfortably above the levels of the final quarter of last year. We envisage this year's sales in both divisions growing through the year.

To maintain our pace in 2012 will require us to continue to enter new markets, gain market share and achieve further sales for our Biome developed products. At this early stage in the year, we are confident of achieving all of these.

John Standen
Chairman

28 March 2012

Chief Executive's statement

Performance

2011 was an exciting year for the Group with fast growing revenues and reducing losses. It has been especially encouraging to see that the continuing operational progress being made in both businesses is translating into improved financial results.

Significant progress has been made in broadening the customer base across the Group, both in terms of applications and geography, which should provide a robust base for our growth moving forward. We have a growing list of long term customers who continue to support our move into new markets.

There were, of course, a number of challenges in the year with regard to both managing this level of growth and a supply chain that was disrupted by both supply availability and pricing (particularly as currencies have fluctuated during the Euro-zone crisis). It was encouraging to see our growing team respond to and overcome these challenges and I thank them for their ongoing support.

Operational Review

Bioplastics Division

Revenues in the Bioplastics division increased by 47% to £16.2m, an increase of £5.2m above 2010 levels. This growth was derived from a pleasing mix of both new and existing customers in a variety of different applications.

Encouragingly, the division reached breakeven for the first time. With the utilisation of capacity at Biotec of around 50% for the period, this is a good demonstration of how increasing volumes can improve profitability.

Markets

Globally, some 300m tonnes of oil-based plastics are produced and used each year. This uses around four percent of global oil production. Each kilogramme of oil-based plastic typically requires 20 kilowatt hours of energy to manufacture, more than the amount needed to make the same weight of steel. There is an increasing trend for consumers and industry to seek materials that are sustainable and require less energy in their production. This provides an opportunity for bio-based bioplastics.

Whilst oil based plastics are prized for their durability, light weight and long life, it is these very factors that make them one of the environmental threats of the modern world. Most of the oil based plastics produced over the last 50 years remain in land-fill or present in the environment. Compostable bioplastics, such as those produced by Biome Bioplastics, have a role to play in reducing this blight.

The increased growth rate of Biome Bioplastics, and the bioplastic market more broadly in 2011, appears to be driven by a number of specific factors which are expected to continue to drive growth in 2012:

- legislation with regard to plastic products and waste disposal in Europe
- a pick-up in interest in bio-based/biodegradable products in the Americas and Asia
- price rises and volatility in competing oil based materials
- the improved functionality of bioplastics (such as the BiomeHT heat stable range of materials)
- growing awareness of bio-based options for brand owners

The market prospects for Biome Bioplastics are encouraging and the business intends to continue to build its product and customer portfolio.

Raw Materials
The management of raw material inputs is an increasingly important part of the Group's strategy as growth has accelerated. Whilst long run crop prices have proved far more stable than oil prices, they do exhibit some volatility.

Whilst crop prices reached an all time real price high in February 2011 (as measured by the Food and Agricultural Organisation of the United Nations), pricing stabilised through 2011 and some downward movement is now being achieved. Biome Bioplastics continues to use a wide variety of natural inputs and made extensive use of reclaimed material streams in 2011. The business is continuing to broaden its supply base in 2012.

World oil prices have risen in early 2012 and whilst these can impact the business through higher energy costs and the cost of some additives, it does narrow the price differential between bioplastics and their petro-equivalents. Some of Biome's customers appear to choose bioplastics as a hedge against further oil related increases as well as for improved price/cost stability.

Technical Development
The UK based development team has had an exceptionally productive year, splitting its time between supporting trials at existing and new customers, re-formulating existing products to accept different raw material inputs and pushing forward new material development, often in collaboration with significant customers.

The business continues to have a development focus on cellulosic based materials that do not compete for land and water use explicitly with food-based crops and a number of new materials have been trialled in the year. The use of cellulose from managed forests reduces water and fertiliser inputs to such materials.

Underlining the care taken in new product development, an audit in 2011 by BM Trada at the UK development facility saw Biome Bioplastic's Quality Management System accredited to ISO 9001:2008 and its Environmental Management System to ISO 14001:2004.

The technical team has begun to review the opportunities offered by the use of fermentation technology in the manufacture of bio-based materials. It is expected that more work will be undertaken in this area in the coming years.

The majority of the Group's £0.4m investment in product development in the year took place in Biome Bioplastics (2010: £0.4m).

Commercial Activity
The majority of Biome Bioplastic's direct sales are managed by Biome's own sales network. However, in 2011 a number of new agents and distributors were used to access new markets. It is expected that further use will be made of this network as the business grows.

The commercial resources are split between supporting and developing the regionally positioned businesses/brands that are the early adopters in this marketplace whilst also pursuing longer term development opportunities with multi-national groups. It remains clear that the differential pricing of bioplastics remains an obstacle to widespread adoption by some multi-national groups.

Expenses
The management team continued to focus on and seek opportunities to reduce or eliminate cost in the year. Total expenses decreased in 2011 by £0.1m despite the 42% increase in activity levels.

Costs in the UK continue to be impacted by the legacy building lease arrangement at Southampton. The Group leases three buildings at this headquarter location but only uses the smallest one. Whilst one of the unused buildings had a tenant for 2011, the other remained empty and it has proved difficult to find a new tenant in this economic environment. The management continues to be active in marketing this building to explore opportunities to reduce this exposure on both a temporary and permanent basis.

Biotec Production

Biotec, the Group's 50% owned joint venture, continues to cope readily with the growing volumes of Biome Bioplastics and Sphere. In 2011 the total production was around half of the unit's nameplate capacity providing significant upside potential without further capital. Of particular note has been the growing number of new product scale-up and validations being managed by the unit within the normal production schedule.

Analytical and trial work undertaken during 2011 has also indicated that Biotec's nameplate capacity of ~20kt can be increased by around 20% through extended working hours and minor capital investment. This gives the Group sufficient capacity for the foreseable future.

The Group's polymers are manufactured from significant quantities of renewable resources and we are always looking at ways to both improve their performance and to reduce their effect on the natural environment. From July 2011, the energy used at Biotec comes only from renewable energy installations. In a new agreement, this energy is provided by Energiehandelsgesellschaft West gmbH and is derived from hydroelectric power stations in Austria. This supply is fully accredited to TÜV-Criteria EE-02-05/01 and a certificate of compliance has been made available to our customers on request.

Biotec Litigation

The Board announced on 29 May 2007 that it was evaluating claims against Biotec's technology made by Novamont S.p.A ("Novamont"), an Italy based competitor. Subsequent updates have clarified that Novamont had brought proceedings against Biotec and SPhere, France, and certain group companies of SPhere claiming infringement of the French and Italian designations of Novamont's European Patent Numbers EP '505, EP '559 and EP '120. These actions were taken by Novamont in both the French court and in two courts in Italy (Milan and Turin).

The first court judgment on this matter was received in France in April 2010 and was in favour of Biotec in that no proof of infringement was found for all three Novamont patents (above) and certain claims of EP '120 were found to be invalid. Various appeal paths in the French court are available to all parties. The cases in Milan and Turin are ongoing.

In 2011 Biome and its JV partner, SPhere, sought to emphasise the broader validity of Biotec's position. To this end, following proceedings, SPhere has now received two German court judgements that Novamont's patent EP '559 and EP '120 are invalid in this territory. Subsequently, Novamont has appealed the EP '559 decision and could appeal the EP '120 decision. Biotec is now engaged in a similar process with the goal to demonstrate that Novamont's patent EP '505 was invalid in Germany, prior to its expiry in January 2009. In the context of this process, Novamont declared in a legally binding way that it will refrain from claiming any damages from Biotec in connection with the German part of patent EP '505.

Biome and Biotec continue to take professional and technical advice with regard to this litigation. The Board has sought and will continue to seek complete resolution of this matter as soon as it is feasible.

Competition in Bioplastic Materials

The bioplastic market is an attractive market space with high levels of growth, significant potential for scale, a limited number of competitors, and patents providing protection to many of the new materials being promoted.

The last year has seen a range of competitive activity with some players struggling to adjust to rising volumes, some new entrants seeking to exploit the opportunity and others consolidating their positions.

The Board considers the Bioplastics Division to be in an excellent position for this competitive race with a low-cost production facility, a strong set of capable products and good intellectual property protection. The business remains active in developing and reinforcing all aspects of its competitive position and will be robust in ensuring that its intellectual property is not being infringed.

Stanelco RF Technologies Division

Stanelco RF Technologies is a growing specialist engineering business focused on the design and manufacture of electrical/electronic systems based on advanced radio frequency technology.

The business has successfully built on the solid growth of recent years with 2011 revenues increasing by 21% to £2.9m (2010: £2.4m). Continued focus on cost controls and manufacturing efficiencies delivered an operating profit of £585,000 (2010: £413,000).

The business continues to focus on four key revenue streams:

Optical Fibre Furnace Systems

Stanelco RF Technologies is a world leader in the design and manufacture of induction furnace systems used in the manufacture and processing of quartz glass "preforms" to produce optical fibre. Operating at temperatures up to 2500C, a typical system consists of an induction furnace, electrical power generator and control system, all designed and manufactured in-house. 17 of such furnaces were sold by the Division in 2011 (2010: 21) and it is believed that this is a significant proportion of all such sales globally.

Plastic Welding Equipment

In addition to a family of standard products, the business is increasingly providing bespoke equipment to applications requiring high integrity sealing. Hand-held, mobile and fully automated static solutions are provided to a multitude of end-user applications including nuclear, medical and industrial applications.

Induction Heating Equipment

During 2011 the business launched a new family of equipment capable of providing rapid, highly controlled heating solutions to a wide range of industrial applications. Materials of widely ranging composition and size can be heated in a clean, fast and cost efficient way using both standard and bespoke solutions operating in the range from one to many hundreds of kilowatts.

Service and Spares

The business continues to support its large installed equipment base through the provision of maintenance support and specialist spares across the globe.

Global demand for optical fibre continues to rise driven by ongoing infrastructure expansion in developing countries and steadier telecom and internet network expansion in Western markets. This growth translates into continued steady demand for our induction furnace systems as our customers continue to invest in increasing manufacturing capacity. Additionally, there is an increasing trend of customers taking in-house the manufacture of quartz glass "preforms" which is creating a requirement for additional furnace systems for glass processing applications such as stretching, shaping and sintering. The division appears well placed to continue to capitalise on this demand.

Recent efforts to broaden the product offering into new induction heating applications has resulted in a number of successes for the business, most notably the previously reported development and supply contract with Durapipe UK, a leading pipe system manufacturer. Building on this success, early investigations are underway to explore opportunities in further new market areas such as melting and forging.

Financial review

The summary results for the Group are shown below. It should be noted that for both the financial year 2011 and the 2010 comparative, the Board has chosen to proportionally consolidate the results of Biotec rather than account for its shareholding using the equity method because Biotec's manufacturing facility is seen as an integral part of the Group's Bioplastics operation. As such 50% of Biotec's results and balances are stated below.

LIKE-FOR-LIKE COMPARISONS	2011 £'m	2010 £'m	Growth
Revenues			
Biotec	9.8	7.5	31%
Biome Bioplastics	6.2	3.4	82%
Licence income	0.2	0.1	
Total Bioplastics	16.2	11.0	47%
RF Technologies	2.9	2.4	21%
Total revenues	**19.1**	**13.4**	**42%**
Loss from operations			
Bioplastics	0.0	(0.8)	
RF Technologies	0.6	0.4	
Central costs	(1.6)	(1.5)	
Loss from operations	**(1.0)**	**(1.9)**	
Non-current assets	10.3	10.7	
Inventories	2.8	0.7	
Trade and other receivables	6.3	6.8	
Cash	2.4	4.0	
Trade and other payables	(4.1)	(2.6)	
Promissory notes	(2.7)	(3.4)	
Obligations under finance leases	(0.1)	(0.3)	
Net assets	**14.9**	**15.9**	

Revenues

Group revenues increased in the year from £13.4m to £19.1m driven by strong growth in both the Group's divisions.

In the Bioplastics division, revenues grew by 47%, with 82% growth in the UK Bioplastics business, Biome Bioplastics, and 31% growth in Biotec's third party revenues. Sales growth in third party revenues declined in the second half of the year due to the limited availability of a key raw material. This issue has now been addressed by the supplier.

In RF Technologies, revenues grew by 21% in 2011, bolstered once again by strong sales into the fibre optic market.

Operating profits/(losses)

The Group's loss from operations for the year reduced from £1.9m to £1.0m.

For the full year, the Bioplastics division broke even for the first time despite a £0.1m impairment in the goodwill associated with Aquasol and £0.1m legal costs associated with the Novamont claim. Strong growth in the first half of the year was impacted in the second half by material constraints. Whilst these constraints eased in the fourth quarter there remained some continuing market volatility.

The RF Division made a £0.6m profit in the year, compared with £0.4m in 2010 owing to an increase in revenues and tight cost control enabling an increase in the operating profit margin.

Central costs for the year were £1.6m compared to £1.5m in 2010, which reflects an increase in rates on the vacant property and tax advice with regard to the import of cheaper raw materials from the far east. As in 2010, the directors have waived their bonus entitlements for 2011.

Product development costs of £0.4m (2010: £0.4m) were capitalised in the year. Tax R&D claims resulted in a tax credit received in the year of £0.1m (2010: credit of £0.1m).

Finance related credits and charges, including foreign exchange gains and losses, totalled £0.2m for the year (2010: £0.3m). This included a £0.1m loss (2010: £0.3m) relating to the retranslation of intercompany balances.

The Group's loss before tax for the year was £1.1m (2010: loss before tax of £2.3m), giving a loss per share of 0.018p (2010: loss per share of 0.047p).

Cashflow

	2011 £'m	**2010 £'m**
Cashflow		
Loss from operations	(1.0)	(1.9)
Adjustment for non-cash items	0.6	0.6
Movement in working capital	(0.7)	0.2
Cash utilised by operations	**(1.1)**	**(1.1)**
Corporate taxation received	0.2	-
Net interest received/(payable)	0.1	-
Purchase of property, plant & equipment	(0.1)	(0.2)
Investment in product development	(0.4)	(0.4)
Other cash movements	-	(0.1)
Cash outflow before financing	**(1.3)**	**(1.8)**
Proceeds from share issue	-	2.7
Repayment of finance leases	(0.3)	(0.1)
Net increase/(decrease) in cash	**(1.6)**	**0.8**
Opening cash balance	4.0	3.2
Closing cash balance	**2.4**	**4.0**

The cash utilised from operations before working capital movements was £0.4m (2010: £1.3m) reflecting the reduced loss from operations during 2011 compared to the prior period. In addition, the planned increase in inventories of both raw materials and finished goods utilised a further £0.7m of working capital. There was, therefore, an adverse swing in working capital of £0.9m compared to the previous year. As a result, the cash utilised by operations during 2011 was £1.1m (2010: £1.1m).

The increase in inventories, within both Biotec and Biome Bioplastics, is designed to ensure that any further supply issues with the raw materials can be mitigated and restrict future impacts on our customers and revenues.

£0.1m was invested in the year in new property, plant and equipment (2010: £0.2m) and £0.4m in product development (2010: £0.4m).

Before financing activities, the cash outflow for the year was £1.3m, a reduction of £0.5m compared with 2010.

The closing cash position was £2.4m (2010: £4.0m) reflecting the performance described above.

Going concern

The directors have reviewed forecasts and budgets for the coming year which have been drawn up with appropriate regard for the current macroeconomic environment and the particular circumstances in which the Group operates. These were prepared with reference to historic and current industry knowledge, taking future growth into account. As a result of this process, at the time of approving the financial statements, the directors consider that the Company and the Group have sufficient resources to continue in operational existence for the foreseeable future and, accordingly, that it is appropriate to adopt the going concern basis in the preparation of the financial statements. As with all business forecasts, no guarantee can be given that the going concern basis will remain appropriate, given the inherent uncertainty about future events.

Key performance indicators (KPIs)

The Board is focussed on a number of KPIs that are used to measure performance. The Group's performance against these metrics for 2011 was as follows:

Target	**Performance**
Growth in total revenues	increased by £5.7m (42%)
Growth in bioplastic revenues by Biome Bioplastics	increased by £2.8m (82%)
Growth in total gross margin	increased by £0.9m (34%)
Reduction in loss from operations	reduced by £0.9m (47%)

Paul Mines
Chief Executive Officer

28 March 2012

Directors' report

The directors present their Annual Report and the audited Financial Statements of Biome Technologies plc for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Group's operations are focussed in two distinct areas; Bioplastics and Radio Frequency. The Bioplastics division produces a biodegradeable and sustainable range of products. Such products are capable of replacing conventional oil-based plastics and have diverse application including flexible films, moulded products, extruded sheets and food wraps. The Radio Frequency (RF) division has worldwide renown in the design and installation of specialist RF furnaces, welders and induction equipment.

The subsidiary undertakings affecting the profits or net assets of the group in the year are listed in Note 9 to the financial statements.

BUSINESS REVIEW

A review of the Group's business and an indication of likely future developments is contained within the Chairman's statement and the Chief Executive's statement on pages 3 to 12. These statements are incorporated into this Report by reference.

RESULTS AND DIVIDENDS

The financial results of the Group are set out in the consolidated statement of comprehensive income on page 39.

The directors do not recommend payment of a dividend (2010: nil per share).

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the nature of the Company's strategy are subject to a number of risks. The directors have set out below the principal risks facing the business. The directors continually review the risks identified below and, where possible, processes are in place to monitor and mitigate such risks.

Political, economic and regulatory environment

The Group is subject to political, economic and regulatory factors in the various countries in which it operates. There may be a change in government regulation or policies which materially and/or adversely affect the Group's ability to successfully implement its strategy.

The directors aim to keep abreast of developments as they affect these factors and modify their strategy where this is appropriate.

Fluctuations in exchange rate may affect product demand in different regions and may adversely affect the profitability of products provided by the Group in foreign markets where payment is made for the Group's products in local currency.

The directors are informed regularly of the potential impact of exchange rate movements on the business and act to mitigate any adverse movements wherever possible.

The assets and liabilities of the Group's 50:50 joint venture Biotec are denominated in Euro as are the inter-company loans with that business. Fluctuations in the Euro exchange rate could consequently have a material impact on the Group's financial position or results.

The Group's products and manufacturing processes utilise a number of raw materials and other commodities. The markets for these materials and commodities may be subject to high price volatility and the Group may be constrained if there is limited supply.

The Group continually seeks to reduce its dependence on a small number of raw materials. It negotiates best possible prices and actively seeks new sources of raw material.

Some of the Group's products are employed in the food and pharmaceutical industries, both of which are highly regulated. There is a risk that the Group may lose contracts or be subject to fines or penalties for any non-compliance with the relevant industry regulations.

The Group ensures staff are well versed in the regulatory environment of its end use industries and regularly reviews its product portfolio to ensure compliance with relevant regulations.

Intellectual property

Although the Group attempts to protect its intellectual property, there is a risk that patents will not be issued with respect to applications now pending. Furthermore, there is a risk that patents granted or licensed to Group companies may not be sufficiently broad in their scope to provide protection against other third party technologies.

The Group takes professional advice from experienced patent attorneys and works hard to win patents applied for and to ensure that the scope is sufficiently broad.

Other companies are actively engaged in the development of bioplastics. There is a risk that these companies may have applied for (or been granted) patents which impinge on the areas of activity of the Group.

This could prevent the Group from carrying out certain activities or, if the Group manufactures products which breach (or may appear to breach) the patents there is a risk that the Group could become involved in litigation which could be costly and protracted and ultimately be liable for damages if the breach is proven.

The Group keeps up-to-date with its competitors' product developments and patent portfolios and aims to ensure that no infringements occur. Professional advice is sought from experienced patent attorneys if there are any concerns.

Competition

There is a risk that competitors may be able to develop products and services that are more attractive to customers than the Group's products and services.

The Group aims to be ahead of the competition by continual development of its products targeted at specific customer requirements.

Commercialisation

There is a risk that the Group will not be successful in the commercialisation of its products.

The Group develops many products and some may not prove to be successful. The directors ensure that regular reviews of product development are undertaken so that unsuccessful developments can be terminated early in their life cycle. If a project is deemed not commercial then the capitalised costs are written off.

Customers

The Group's ability to generate revenues for a number of its products is reliant on a small number of customers. If one of these was to significantly reduce its orders it could have a significant impact on the Group's results.

The Group is constantly adding to its customer base and, as its revenues grow, becoming increasingly less dependent on any single customer.

Financial risks

The Group uses various financial instruments including cash, lease finance, equity and various items such as trade receivables and trade payables that arise directly from its operations. The existence of these instruments exposes the Group to a number of financial risks, the main ones being exchange rate risk, liquidity risk, interest rate risk and credit risk. The directors review and agree policies for managing each of these risks and these are summarised in Note 22 to the financial statements.

Raw Materials

The Group is reliant on a few key suppliers to manufacture its products. If one of these was to cease supplying the market it could have a significant impact on the Group's ability to fulfil its orders.

The Group is constantly adding to its supply base and testing alternative sources of raw materials.

KEY CONTRACTUAL ARRANGEMENTS

There are no contractual arrangements which are considered essential to the business of the Group, other than the Biotec joint venture arrangement.

RESEARCH AND DEVELOPMENT

The continuous advancement of technology and processes by the Group means costs are incurred each year in research and development. For the year under review these costs amounted to £396,000 (2010: £447,000), of which £357,000 (2010: £391,000) was capitalised.

ENVIRONMENT

The Group is committed to the care of the environment, the prevention of pollution and the maintenance of environmental controls as they relate to the business. The Group ensures that all its activities are carried out in line with the applicable environmental legislation. An essential feature of environmental management is a commitment to improving environmental performance and reducing the environmental impacts of travelling, waste generation and disposal.

EMPLOYEES

One of the Group's key assets is the technical know-how which is embedded in its employees. People are the key driver of the Group's success through their technical and management capabilities. It is, therefore, essential that the Group attracts the best people and retains and develops those who are already working for it. The Group consequently tries to provide attractive, competitive remuneration structures and give on-going training to develop its skill base.

The Group's policy is that, where it is reasonable and practicable within existing legislation, all employees, are treated in the same way in matters relating to their employment, training and career development.

SOCIAL RESPONSIBILITY

The Board recognises that acting in a socially responsible way benefits the community, our customers, shareholders, the environment and employees alike. The Group's focus on the development of bioplastics is entirely in keeping with this philosophy.

CHARITABLE DONATIONS

During the year the Group did not make any charitable donations (2010: £nil).

GOING CONCERN

The Group had cash resources of £2.4m at 31 December 2011. The cash utilised by operations in the year, before working capital movements, was £0.4m.

The group has also entered into a two year secured debt facility, expiring May 2013, of up to £2m with Fortis Commercial Finance. This facility is governed by various attributes of the debtor balance of Biome Bioplastics. As at 31 December 2011 no amounts had been drawn against this facility.

The directors have reviewed forecasts and budgets for the coming year, which have been drawn up with appropriate regard for the current macroeconomic environment and the particular circumstances in which the Group operates. These were prepared with reference to historic and current industry knowledge, taking future growth into account. As a result of this process, at the time of approving the financial statements, the directors consider that the Company and the Group have sufficient resources to continue in operational existence for the foreseeable future, and accordingly, that it is appropriate to adopt the going concern basis in the preparation of the financial statements.

As with all business forecasts, the directors' statement cannot guarantee that the going concern basis will remain appropriate given the inherent uncertainty about future events.

SUBSTANTIAL SHAREHOLDING

The Company has been notified that the following shareholders held a beneficial interest of 3 per cent or more of the Company's issued share capital as at 31 January 2012.

	Ordinary shares of 0.1p each	
	Percentage	**Number**
VA Pereira	9.61	565,369,184
JM Rushton-Turner	9.45	556,126,257
Schroder Investment Management Limited	4.59	270,032,510

SHARE CAPITAL AND CONTROL

The share capital of the Company, issued and unissued, consists entirely of one class of ordinary shares of 0.1p each. Each share ranks equally and carries the same rights to vote and receive dividends. No restrictions exist on the transfer or holding of the shares. Full details of the rights and obligations attaching to the Company's shares, in addition to those conferred by their holders by law, are set out in the Company's Articles of Association, a copy of which can be obtained by writing to the Company Secretary.

At the AGM held on 5 May 2011, the directors were authorised to allot equity securities for cash up to a maximum of approximately ten per cent of the issued share capital. The directors intend to renew this authority at the next AGM when this authority will expire. At the present time the directors have no plans to exercise this authority.

At the last AGM the directors were given the power to purchase equity securities up to a maximum of ten per cent of the issued share capital. The power expires at the end of the next AGM and the directors intend renewing this authority. Purchases of shares by the company will only be undertaken where they are in the best interests of the Company and its shareholders. Shares repurchased in accordance with the authority will either be cancelled or held to help the Company meet its existing share option plans.

At the last AGM the directors were given the power to allot relevant securities up to a maximum of approximately one third of the issued share capital. The directors intend renewing their authority at the next AGM when this power expires. The directors were also given the authority to allot further relevant securities up to a maximum of approximately one third of the issued share capital. This additional authority may only be applied to fully pre-emptive rights issues. The directors intend renewing their authority at the next AGM when this power expires.

The Company offers a number of share plans for its employees. The rights attached to ordinary shares which are the subject of awards within any of the Company's share plans are not available until any share award or option is exercised and the shares are allotted or transferred to that awardee.

Changes to the Articles of Association must be approved by special resolution of the Company.

The directors do not believe there are any significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control of the Company following a successful takeover bid.

There are no agreements between the Company and its directors or employees providing for compensation for loss of office or employment that occurs because of a successful takeover bid.

DIRECTORS AND DIRECTORS' INTERESTS

The directors who served during the year and their beneficial interests in the shares of the Company were as follows:

	Ordinary shares of 0.1p each	
	31 December 2011	31 December 2010
Michael A Kayser (Senior Independent Non-Executive Director)	**10,000,000**	10,000,000
John F Standen (Chairman)	**25,708,168**	24,245,050
Paul R Mines (Chief Executive)	**50,403,192**	49,297,609
Susan J Bygrave (Group Finance Director)	**—**	—
Declan L Brown (Group Finance Director)	**2,000,000**	—

Susan J Bygrave resigned as Group Finance Director on 31 October 2011 and Declan L Brown was appointed in this position on 1 November 2011.

Share options granted to directors are set out in the Directors' Remuneration Report on pages 23 to 26. Except as disclosed in that report, there were no other transactions between directors and the Company or its subsidiaries.

In accordance with the Articles of Association the appointment of new directors must be ratified by the shareholders at the AGM following their appointment. In addition, one third of the directors of the Company must retire by rotation and seek re-election by the shareholders at each AGM. Every director should seek re-election by shareholders at least every three years.

Accordingly, Declan L Brown, having been appointed as a director since the last AGM stands for election at the forthcoming AGM and John F Standen retires by rotation and offers himself for re-election.

BOARD OF DIRECTORS

Further to the changes noted above the Board of Directors comprises:

John F Standen, Age 63, Non Executive Chairman
John spent the majority of his career in corporate finance and was Chief Executive of Corporate Finance for BZW from 1993 to 1995. He retired from Barclays plc in 1998 and has since been a non-executive Chairman or Director of a number of quoted companies. He is currently Chairman of Lavendon Group plc and, in a voluntary capacity, Chairman of the Council of the University of Hull.

Michael A Kayser, Age 56, Senior Independent Non Executive Director
Michael has extensive experience in both the chemicals sector and in senior management positions. This experience includes being Group Finance Director at Laporte plc for five years and Finance Director of Guinness Brewing Worldwide. He is currently Non-Executive Director of Stobart Group plc and Chairman of their Audit Committee.

Paul R Mines, Age 48, Chief Executive Officer
For the eight years to 2006, Paul was CEO of Betts Group Holdings Ltd having led a management buy-out of the company from Courtaulds plc. An engineer with an MBA from London Business School, Paul spent his earlier career at Courtaulds plc and ICI plc. He was recently Non-Executive Chairman of CEL-F Solar Systems Limited and is a Director of Windmine Limited.

Declan L Brown, Age 38, Group Finance Director
Declan was appointed Group Finance Director on 1 November 2011. Prior to joining Biome Technologies plc, he was Chief Financial Officer for V. Ships Capital, part of V Group, the world's largest shipping services provider. Prior to this he worked at Philip Morris Limited, Sappi Fine Paper plc, Standard Bank plc and KPMG, with whom he qualified as a chartered accountant.

CORPORATE GOVERNANCE

The corporate governance report on pages 18 to 22 forms part of the Directors' report.

PAYMENT POLICY AND PRACTICE

It is the Group's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of those terms and to abide by them. Trade creditors at the year end amount to 52 days' purchases (2010: 44 days), based on average supplier invoicing during the year.

AUDITORS

Grant Thornton UK LLP have expressed their willingness to continue in office. In accordance with Section 489(4) of the Companies Act 2006 a resolution to reappoint Grant Thornton UK LLP as auditors of the Company will be proposed at the forthcoming AGM.

By Order of the Board

Donna R Simpson-Strange
Company Secretary

28 March 2012

Corporate governance report

The Group is committed to business integrity, high ethical values and professionalism in all its activities. As an essential part of this commitment the Group supports the highest standards in corporate governance. The Board is accountable to the company's shareholders for good governance and this statement and the Directors' remuneration report describe how the principles of good governance set out in the UK Corporate Goverance Code, published by the Financial Reporting Council are applied within the company. While the Company, by virtue of its AIM listing, is not required to comply with the UK Corporate Goverance Code, the directors consider continued compliance appropriate to its size to be best practice.

The Corporate governance report forms part of the Directors' report on pages 13 to 17.

THE BOARD

Throughout 2011, the board comprised the non-executive chairman, one other non-executive director and two executive directors. On 31 October 2011 the Group Finance Director, Susan J Bygrave, resigned from the board and was replaced on 1 November 2011 by Declan L Brown. Biographical details of each of the directors, which illustrate their range of experience, are set out in the Directors' Report on pages 13 to 17.

The non-executive directors are considered by the board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement.

The division of responsibilities between the non-executive chairman and chief executive is clearly established and is understood by the board. The non-executive chairman is responsible for the overall strategy of the Group with the chief executive officer being responsible for implementing the strategy and for the day to day running of the Group.

The senior independent director is Michael A Kayser and he is the director whom shareholders may contact if they feel their concerns are not being addressed through the normal channels. The non-executive directors meet at least once a year without the executive directors present.

The individual committee responsibilities of the directors are as follows:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
J F Standen (Non-Executive Chairman)	Chairman	Member	Member	Chairman
M A Kayser (Senior Independant Non-Executive Director)	Member	Chairman	Chairman	Member
P R Mines (Chief Executive)	Member	*	*	*
D L Brown[1] (Group Finance Director)	Member	*	*	*

[1]Appointed 1 November 2011

All directors are subject to election at the AGM immediately following their appointment and to re-election every three years.

The chairman and senior non-executive director provide a wide range of skills and experience to the Group. They bring an independent judgement on issues of strategy, performance, risk and people through their contribution at board and committee meetings. After careful consideration, the Board has concluded that JF Standen was independent throughout the year, and that MA Kayser was independent throughout the year. In arriving at this conclusion the Board has applied the criteria set out in provision set out in B.1.1 of the UK Corporate Governance Code. JF Standen's and MA Kayser's shareholdings in the Company are considered to be too small to affect their independence.

BOARD PROCEDURES

The board met formally on 12 occasions during the year and individual attendance at those and the Board Committee meetings is set out in the table below. All board members are supplied with information in a form and of a quality appropriate to enable them to discharge their duties. Board and committee papers are sent out as appropriate before meetings take place.

There is an agreed Schedule of Matters reserved for the board for collective decision including:

- determining the strategy and control of the Group
- amendments to the structure and capital of the Group
- approval of financial reporting and internal controls
- approval of capital and revenue expenditure of a significant size
- acquisitions and disposals; and
- corporate governance matters and approval of Group policies and risk management strategies.

To enable the board to perform its duties effectively all directors have full access to all relevant information and to the services of the Company Secretary whose responsibility it is for ensuring that board procedures are followed. The appointment and removal of the Company Secretary is a matter reserved for the board.

There is an agreed procedure whereby directors wishing to take independent legal advice in the furtherance of their duties may do so at the company's expense. Appropriate training is available to all directors on appointment and on an ongoing basis as required.

The terms of reference for each of the Board Committees are available on request from the Company Secretary.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The following table shows the attendance of directors at meetings of the board and of the Audit, Remuneration and Nomination Committees of the board during the year to 31 December 2011.

	Board	Audit Committee	Remuneration Committee	Nomination Committee
J F Standen	12	3	1	1
MA Kayser	12	3	1	1
P R Mines	12	*	*	*
S J Bygrave	7	*	*	*
D L Brown	2	*	*	*
Number of meetings in the year	12	3	1	1

Where an asterisk appears in the table the director listed is not a member of the committee.

BOARD EFFECTIVENESS

During the year an appraisal of the board, each Board Committee, and the performance of the individual directors was carried out. The appraisal of the board and the committees was undertaken using questionnaires and a summary of the responses was reviewed by the chairman prior to the submission of the results to the whole board.

RELATIONS WITH SHAREHOLDERS

The company recognises the importance of communicating with its shareholders, including its employee shareholders, to ensure that its strategy and performance are understood. This is achieved principally through the Interim Report, the Annual Report and the AGM. In addition, a range of corporate information is available to investors on the company's website.

The Chairman, the Chief Executive and the Finance Director are primarily responsible for investor relations. Feedback from major shareholders is reported to the board and discussed at its meetings. Formal presentations are made to institutional shareholders following the announcement of the company's full year and interim results. The board recognises that the AGM is the principal forum for dialogue with private shareholders. All directors normally attend the AGM and are available to answer any questions that shareholders may wish to raise.

The Notice of Meeting is sent to shareholders at least 21 days before the meeting. Shareholders vote on a show of hands, unless a poll is validly called and after each such vote the number of proxy votes received for and against the resolution is announced.

THE REMUNERATION COMMITTEE

The Remuneration Committee operates under written terms of reference and is comprised of the chairman and the independent non-executive director. Details can be found in the Directors' Remuneration Report on pages 23 to 26.

NOMINATION COMMITTEE

The Nomination Committee operates under written terms of reference. Its principal duty is the nomination of suitable candidates for the approval of the board to fill executive and non-executive vacancies on the board. The Nomination Committee comprises the non-executive chairman and the independent non-executive director. The meetings of the committee are chaired by the chairman. The committee's responsibilities include:

- regularly reviewing the structure, size and composition including the skills, knowledge and experience required of the board compared to its current position and make recommendations to the board with regard to any changes
- giving full consideration to succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the company and what skills and expertise are therefore needed on the board in the future
- being responsible for identifying and nominating for the approval of the board candidates to fill board vacancies as and when they arise
- before making an appointment, evaluating the balance of skills, knowledge and experience on the board and, in the light of this evaluation prepare a description of the role and capabilities required for a particular appointment
- keeping up to date and fully informed about strategic issues and commercial changes affecting the company and the market in which it depends
- reviewing annually the time required for non-executive directors. Performance evaluation should be used to assess whether the non-executive directors are spending enough time to fulfil their duties
- ensuring that on appointment to the board, non-executive directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside board meetings
- keeping under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace
- advising the board on succession planning for executive board appointments; and
- considering any other matters the board may request.

Following the appointment of a new director, the chief executive in conjunction with the Company Secretary, is responsible for ensuring that a full, formal and tailored induction to the company and to their function within the company is given.

During the summer of 2011, on behalf of the board, the Chief Executive, supported by the Chairman, undertook a search for the appointment of a new Group Finance Director. A formal and transparent search process was followed, including the preparation of a job description and candidate specification against which to evaluate candidates. From the list of applicants, the Chief Executive drew up a shortlist of suitable candidates for interview by himself, the Chairman and the Senior Independent non-executive Director. After careful consideration of the candidates, the team made a recommendation to the board which subsequently resulted in the appointment of Declan L Brown on 1 November 2011.

AUDIT COMMITTEE

The Audit Committee operates under written terms of reference, which were reviewed during the year, meets at least twice a year and is comprised of both non-executive directors. Michael A Kayser, senior independent non-executive director, chairs the committee. The committee, taken as a whole, is considered to have significant recent and relevant financial experience. The Chief Executive and Finance Director normally attend meetings by invitation and the committee also meets with the external auditors without management present.

The external auditors attended all of the meetings (in part if appropriate) and have direct access to the committee chairman. The Company Secretary acts as secretary to the committee. The chairman of the committee attends the AGM to respond to any shareholder questions that might be raised on the committee's activities.

The committee's responsibilities include:

- reviewing the effectiveness of the Group's financial reporting and internal control procedures for the identification, assessment and reporting of risks
- reviewing with the external auditors the nature and scope of their planned work
- reviewing the half year and annual financial statements before submission to the board, focusing particularly on:
  - any changes in accounting policies and practices
  - major judgemental areas
  - significant adjustments resulting from the audit
  - the going concern assumption
  - compliance with accounting standards
  - compliance with applicable stock exchange and legal requirements.
- discussing any problems and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss (in the absence of the executive directors and other management, where necessary)
- reviewing the cost-effectiveness, independence and objectivity of the external auditors
- considering the major findings of internal investigations and management's response; and
- considering any other matters the board may request.

The committee has the power to engage outside advisers if it considers it to be necessary.

The committee met three times during the year and its agenda is linked to events in the company's financial calendar. The agenda is mostly cyclical such that the committee chairman approves the agenda on behalf of all members.

The committee also liaises with the external auditors on the continuity and rotation of key partners from the external auditors in accordance with the Ethical Standards of the ICAEW.

The Group policy on the provision by the external auditors of audit and non-audit services, which is based on the principle that the external auditors should only undertake non-audit services where they are the most appropriate provider, categorises such services between:

- auditor permitted services – those services which are acceptable for the auditors to provide and the provision of which can be engaged without referral to the Audit Committee (e.g. regulatory and other specialist financial reporting)
- auditor excluded services – those engagements that the Audit Committee and the board do not consider appropriate for the auditors to undertake (e.g. provision of outsourced financial or operational management functions)
- auditor authorised services – those services for which it is appropriate to consider the use of the external auditors and for which the specific approval of the Audit Committee is required before the auditors are permitted to provide the service (e.g. transaction support and advisory work, such as due diligence).

The policy defines the types of services falling under each category and sets out the criteria to be met and the internal approvals required prior to the commencement of any assignment. The Audit Committee reviews an analysis of all services provided by the external auditors. The policy is reviewed annually by the Audit Committee and approved by the board.

The disclosure of the fees payable to Grant Thornton UK during the year are set out in Note 3 to the financial statements. The external auditors and committee chairman have regular dialogue concerning matters of independence and a report is made formally to the committee on this matter at least once a year. The Audit Committee is satisfied with the level of fees, independence, objectivity and effectiveness of Grant Thornton UK LLP. Accordingly a resolution for the re-appointment of Grant Thornton UK LLP as auditors of the company will be proposed at the forthcoming AGM.

The Group does not have a dedicated internal audit function. The board annually reviews the need for such a function and has done so during the year. During the year, there were no adverse trends evident from the monitoring of internal controls or unexpected or unacceptable results of a material nature and this has led the board to conclude that at present a dedicated internal audit function is not necessary. The board will continue to keep this matter under review.

RISK MANAGEMENT AND INTERNAL CONTROL

The board is responsible for the Group's system of internal control and for reviewing its effectiveness. It is the role of management to implement the board's policies on risk and control through the design and operation of appropriate internal control systems. For the whole of the year under review and up to the date of approval of the Annual Report and Financial Statements, the board has had formal procedures in place to ensure that it is in a position to consider all the significant aspects of internal control and has worked closely with the external auditors in assessing and ensuring their effectiveness.

The board has conducted its annual review of the effectiveness of the Group's system of internal control.

This review has covered all controls including operational, compliance and risk management procedures, as well as legislative and financial. The process is summarised as follows:

- Operating management is charged with the ongoing responsibility for identifying risks facing each of the operating units and for putting in place procedures to mitigate, manage and monitor risks, to include Anti-Bribery Procedures.
- Operating units review all business risks and set out the significant risks to the operations, the controls in place and additional controls which could be implemented
- The risk and control identification and management process is monitored and periodically reviewed by Group executive management
- The key elements of the controls framework within which the Group operates are:
  - an organisational structure with clearly defined lines of responsibility, delegation of authority and reporting requirements
  - an embedded culture of openness of communication between operating company management and the Group executive management on matters relating to risk and control
  - defined expenditure authorisation levels
  - operating reviews covering all aspects of each business are conducted by Group executive management each month
  - a comprehensive system of financial reporting. An annual budget for each operating company is prepared in detail and approved by the board. Monthly actual results are reported against budget and prior year and the forecast for the year is revised where necessary. Any significant changes and adverse variances are questioned by the board and remedial action is taken where appropriate. There is daily cash reporting to the Group Finance Director and periodic reporting to the board on the Group's tax and treasury position.

The system of internal control is designed to manage rather than eliminate the risk of failing to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The risk framework as outlined above, gives reasonable assurance that the structure of controls in operation is appropriate to the Group's situation and that there is an acceptable level of risk throughout the business.

The board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group; that this has been in place for the year under review and up to the date of approval of the Annual Report and Financial Statements.

Directors' remuneration report

The Remuneration Committee comprises the two non-executive directors and is chaired by Michael A Kayser, senior independent non-executive director. The Remuneration Committee advises the board on individual directors' remuneration packages. The Remuneration Committee met once during the year to 31 December 2011. The Committee has access to independent advice where it considers it appropriate. The Remuneration Committee considers recommendations from the Chief Executive.

REMUNERATION POLICY

The remuneration policy is set by the board. The Remuneration Committee provides advice to the board on the remuneration package of each director. Directors take no part in decisions affecting their own remuneration. The main objectives of the company's executive remuneration policy are to provide remuneration packages that will attract, retain and motivate individuals of an appropriate calibre and ensure that the interests of the executive directors are aligned with those of the shareholders. The remuneration of executive directors consists of five elements: basic salary, a significant element of performance-related bonus, benefits in kind, share based payments and pension provision. Remuneration details for each director are set out on page 26.

BASIC SALARY

The basic annual salary for each of the executive directors is determined by the Remuneration Committee having regard to their performance and market practice. It is the aim of the Committee to reward directors competitively and on the broad principle that their remuneration should be based around the median remuneration paid to senior management of comparable public companies, but also having regard to the financial performance of the Group.

PERFORMANCE-RELATED INCENTIVES

Annual performance-related bonuses are considered and awarded based on the performance of both the individuals and the Group and are awarded on the recommendation of the Remuneration Committee. The amount awarded is determined at the end of the financial period by the Committee and takes into account the overall financial performance of the Group.

The executive directors waived their rights to receive bonuses in respect of 2011 in support of the Group's growth strategy. Their bonuses in respect of 2010 had also been waived.

SHARE BASED PAYMENTS

The Remuneration Committee considers that long-term incentives should form an important part of senior executives' remuneration in order to reward the achievement of the company's growth, thereby aligning the interests of executives with the interests of shareholders.

SHARE OPTIONS

Until 2010, the Committee considered share options to be the most appropriate type of long-term incentive.

From 2007, the policy of the Remuneration Committee was to grant share options to a selected group of key executives (including the executive directors) under the terms of the Stanelco plc 2005 Unapproved Share Option Plan, up to a maximum value of 200 per cent of base salary in any one financial year. On expiration of three years from the date of grant, if the share price of the company's shares is equal to Xp then 25 per cent of the options will become available for exercise. The proportion of options available will increase pro rata up to 100 per cent if the share price is Yp or greater. For grants made on 4 July 2007, X and Y were 2.0p and 5.0p respectively. For all subsequent grants X and Y have been 1.0p and 2.5p respectively.

Until 2010, the Committee considered that the use of share price targets provided the clearest and simplest alignment between executive rewards and the returns to shareholders.

PUBLIC EQUITY PLAN

Biome Technologies plc Public Equity Plan (the "PEP") was approved by shareholders on 14 June 2010. Under the terms of this plan executives are entitled to share a pool of value which equates to 15% of the increase in the value of the Group, based on total shareholder return, over and above a minimum hurdle of 10% per annum (non-compounded), over a three or four year period (as determined by the Remuneration Committee), subject to a financial underpin.

The financial underpin requires the Remuneration Committee to be satisfied at the end of the performance period that the pool of value to be distributed to the executives is consistent with the Group's underlying performance in respect of (i) growth in earnings, (ii) profit margins and (iii) gearing. Following a review of the Group's performance against these measures, the Remuneration Committee may scale back (but not increase) the pool of value to be distributed.

Once it has been created, the pool of value will then be notionally allocated to participants in the PEP (executives and senior management) pro rata to the number of points they hold relative to 1,000,000 – being the maximum number of points which may be awarded under the PEP. 50% of the value so allocated to a participant will potentially be available at the end of the performance period with the other 50% potentially being available 12 months after the end of the performance period (subject to continued employment). The distributions are expected to be made in shares.

On 4 October 2010, the Board entered into an agreement with the chairman which mirrors the terms of the PEP. Under this agreement, subject to the total shareholder return and financial underpin described above, John Standen will be paid a cash sum equal to 0.9% of the additional value created in excess of the minimum hurdle rate on the same basis that value can be made available under the PEP.

SERVICE CONTRACTS

All directors have service contracts. Each executive director has a service contract that may continue in force until their normal retirement date. These contracts do not contain provisions for pre-determined compensation that exceeds salary and benefits in kind for the notice period.

Directors' contracts and termination notices:

	Date of contract	Termination notice Director	Termination notice company	Renewable
Non-Executives				
Michael A Kayser	6 Oct 2010	None	None	Annually
John F Standen	26 Feb 2007	None	None	Annually
Executives				
Paul R Mines	16 April 2007	4 months	12 months	Normal retirement date
Declan L Brown	1 November 2011	6 months	6 months	Normal retirement date

PENSIONS

The company makes contributions to individual pension schemes for the executive directors at 10 per cent of basic salary.

The non-executive directors do not receive any pension contribution.

DIRECTORS' SHARE OPTIONS

Stanelco plc 2005 Unapproved Share Option Plan and Stanelco plc Employment Benefit Trust.

As at 31 December 2011, the following options had been appointed to sub trusts by the Trustees of the Stanelco plc Employee Benefit Trust for the benefit of the following directors and their families:

	Date Granted	Date exercisable	Date option lapses	Exercise price	Ordinary Shares of 0.1p each 31 December 2007
Paul R Mines	4 July 2007	4 July 2010	3 July 2017	0.52p	57,692,308
	28 April 2008	28 April 2011	27 April 2018	0.80p	37,500,000
	24 April 2009	24 April 2012	23 April 2019	0.61p	49,180,328

The exercise price of the options granted under the above scheme is equal to the market value of the shares at the time when the options were granted. The performance conditions attached to the share options are detailed on page 24.

DIRECTORS' AWARDS UNDER THE PUBLIC EQUITY PLAN

Biome Technologies plc Public Equity Plan ("the PEP").

As at 31 December 2011, the following awards had been granted under the PEP:

	Date Awarded	Number of points
Paul R Mines	4 Oct 2010	350,000

The performance conditions attached to the awards are detailed on page 24.

On 4 October 2010, the Board entered into an agreement with the chairman which mirrors the terms of the PEP. Under this agreement, subject to the total shareholder return and financial underpin described above, John Standen will be paid a cash sum equal to 0.9% of the additional value created in excess of the minimum hurdle rate on the same basis that value can be made available under the PEP.

The company's share price on 31 December 2011 was 0.17p (31 December 2010: 0.19p) and traded during the year at prices between 0.14p and 0.34p (2010: 0.10p and 0.39p).

DIRECTORS' REMUNERATION DURING THE YEAR

	Year ended 31 December 2011					
	Base salary/fees	Bonuses	Car allowances	Benefits in kind	Total	Year ended 31 December 2010 Total
	£	£	£	£	£	£
Paul R Mines	**105,000**	—	**6,720**	**1,717**	**113,437**	137,340
Susan J Bygrave	**86,042**	—	**5,600**	**549**	**92,191**	134,158
Declan L Brown	**19,167**	—	**1,120**	—	**20,287**	—
John F Standen	**31,500**	—	—	—	**31,500**	38,250
Michael A Kayser	**17,000**	—	—	—	**17,000**	3,945
Elizabeth J Filkin	—	—	—	—	—	18,333
Total	**258,709**	—	**13,440**	**2,266**	**274,415**	332,026

The Company made contributions to individual pension schemes as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
	£	£
Paul R Mines	**10,500**	12,750
Susan J Bygrave	**8,604**	12,538
Declan L Brown	**1,917**	—
	21,021	25,288

By Order of the Board

Michael A Kayser
Chairman of the Remuneration Committee

28 March 2012

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' 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 to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). The directors have elected to prepare the parent company financial statements in accordance with IFRSs. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and group for that period. In preparing these financial statements, the directors are required to:

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

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

In so far as each of the directors is aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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.

On behalf of the Board

Paul Mines
Chief Executive Officer
Declan Brown
Group Finance Director

28 March 2012

Report of the Independent auditor

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BIOME TECHNOLOGIES PLC

We have audited the financial statements of Biome Technologies plc for the year ended 31 December 2011 which comprise the group and parent company statement of financial position, the group statement of comprehensive income, the group and parent company statements of cash flow, the group and parent company statements of changes in equity and the related notes . The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 27, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

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

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

NORMAN ARMSTRONG
SENIOR STATUTORY AUDITOR
for and on behalf of
GRANT THORNTON UK LLP
STATUTORY AUDITOR
CHARTERED ACCOUNTANTS

SOUTHAMPTON
28 March 2012

Principal accounting policies

BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 December 2011.

The financial statements have been prepared under the historical cost convention. The measurement bases and principal accounting policies of the Group are set out below.

The financial statements have been prepared on a going concern basis as the directors believe that the Group has access to sufficient resources to continue in business for the foreseeable future. This is discussed more fully in the Directors' Report on pages 13 to 17.

ADOPTION OF NEW AND REVISED STANDARDS

The consolidated financial statements have been prepared in accordance with the accounting policies adopted in the last annual financial statements for the year to 31 December 2010.

As of 31 December 2011, the following standards and interpretations are in issue but not effective for accounting periods commencing on 1 January 2011:

- IFRS 9 Financial Instruments (effective 1 January 2013)
- IAS 19 Employee Benefits (effective 1 January 2013)
- IFRS 10 Consolidated Financial Statements (effective 1 January 2013)
- IFRS 11 Joint Arrangements (effective 1 January 2013)
- IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2013)
- IFRS 13 Fair Value Measurement (effective 1 January 2013)
- IAS 28 Investments in Associates and Joint Ventures (effective 1 January 2013)
- IAS 27 Separate Financial Statements (effective 1 January 2013)
- Deferred Tax: Recovery of Underlying Assets - Amendments to IAS 12 Income Taxes (effective 1 January 2012)

The Group does not intend to apply any of these pronouncements early.

BASIS OF CONSOLIDATION

The Group financial statements consolidate those of the company and all of its subsidiary undertakings drawn up to 31 December 2011. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

At 31 December 2011 the subsidiary undertakings were Stanelco RF Technologies Limited, InGel Technologies Limited, Biome Bioplastics Limited (formerly Adept Polymers Limited) and Aquasol Limited. In addition, the company owned 50% of the joint venture headed by Biotec Holding GmbH. The Group has accounted for Biotec on a proportional consolidation basis as a joint venture.

The assets and liabilities of the Stanelco plc Employee Benefit Trust ("EBT") are included within the consolidated statement of financial position on the basis that the Group has the ability to exercise control over the EBT.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with by the acquisition method. The acquisition method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of the fair value of the consideration transferred over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

JOINT VENTURE

A joint venture is an entity over which the Group has joint control under contractual agreement and which is not a subsidiary. The Group's investment in its joint venture is accounted for under the proportional method of accounting. Under this method the group accounts include its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. The statement of comprehensive income of the Group includes its share of the income and expenses of the jointly controlled entity.

GOODWILL

Goodwill represents the excess of the the fair value of the consideration transferred over the fair value of the Group's share of the identifiable separable net assets acquired. Goodwill is recognised as an intangible asset and is subsequently tested for impairment. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units. Cash-generating units to which the goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. Any impairment is recognised immediately within administrative expenses in the statement of comprehensive income.

Goodwill written off to reserves prior to date of transition to IFRS at 1 November 2004 remains in reserves. There is no re-instatement of goodwill that was amortised prior to transition to IFRS. Goodwill previously written off to reserves is not written back to profit or loss on subsequent disposal.

REVENUE

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding VAT and trade discounts. Revenue is recognised upon the performance of services or transfer of risk to the customer.

Sale of goods

Revenue from the sale of goods occurs in the Bioplastics and RF Applications divisions. Revenue from sales of goods is recognised when all the following conditions have been satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, usually upon physical delivery of the goods to the customer or transfer of the goods to the customers nominated courier;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

The Group is involved in rendering services which include servicing, maintenance, consultancy, bespoke assembly and installation activities. When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the balance sheet date. The outcome of the transaction is deemed to be able to be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably
- it is probable that the economic benefits associated with the transaction will flow to the entity
- the stage of completion of the transaction at the year end can be measured reliably and can be estimated by reference to the proportion of time required to complete the service and be accepted by the customer, and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Where a contract for goods or services involves delivery of several different elements and is not fully delivered or performed by the year end, revenue is recognised based on the proportion of the fair value of the elements completed to the fair value of the overall contract.

Rental income

Rental income received for assets leased to third parties is recognised in profit or loss across the lease term. Lease incentives are spread over the term of the lease.

Interest

Interest is recognised using the effective interest method which calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Royalties

Royalties are recognised on an accruals basis in accordance with the substance of the relevant agreement.

Royalty income is generally based upon a percentage of revenue of specific product within the licensee's portfolio. Income is recognised within the corresponding period within which the licensee's revenue was generated where this information is available. In the absence of revenue information from a licensee a best estimate is used as the basis of estimation. Royalty income in 2011 is entirely based upon information provided by the licensee and no estimates were required.

Dividends

Dividends are recognised when the shareholders rights to receive payment is established.

INTANGIBLE ASSETS

Internally generated intangible assets are amortised on a straight-line basis over their useful lives.

Research and development

Expenditure on research is recognised as an expense in the period in which it is incurred.

Development costs are capitalised when all the following conditions are satisfied:

- completion of the intangible asset is technically feasible so that it will be available for use or sale
- the Group intends to complete the intangible asset and use or sell it
- the Group has the ability to use or sell the intangible asset
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- the expenditure attributable to the intangible asset during its development can be measured reliably

Development costs not meeting the criteria for capitalisation are expensed in the period in which they are incurred. The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Until completion of the development project, the assets are subject to impairment testing only. Amortisation commences upon completion of the asset, and is shown within 'Recurring Administrative Expenses' on the consolidated statement of comprehensive income.

Capitalised development costs are amortised over a period of five years.

Assets acquired as part of a business combination

In accordance with IFRS 3 Business Combinations, an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group.

PROPERTY, PLANT AND EQUIPMENT

Depreciation

Property, plant and equipment are stated at cost or valuation, net of depreciation and any provision for impairment. Leasehold equipment is included in property, plant and equipment only where it is held under a finance lease. No depreciation is charged during the period of construction.

Depreciation is provided on all property, plant and equipment at rates calculated to write off their cost less estimated residual value over their expected useful lives on a straight line basis, as follows:-

Property	3 to 20 years
Plant and Equipment	3 to 20 years
Fixtures and Fittings	5 to 10 years
Motor vehicles	4 years

Residual value and useful lives are reviewed at least annually. Land is not depreciated.

Disposal of assets
The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in profit or loss.

IMPAIRMENT TESTING OF GOODWILL, OTHER INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the directors monitor the related cash flows.

Goodwill, other individual assets or cash-generating units that include goodwill, other intangible assets with an indefinite useful life, and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro-rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently re-assessed for indications that an impairment loss previously recognised may no longer exist.

LEASED ASSETS

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to profit or loss over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to profit or loss on a straight line basis over the lease term. Lease incentives are spread over the term of the lease.

INVENTORIES

Stock and work in progress is stated at the lower of cost and net realisable value. Cost is calculated using the first-in-first-out method and consists of material and direct labour costs, together with an appropriate proportion of production overheads based upon normal levels of activity.

TAXATION

Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the date of the statement of financial position.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in profit or loss, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity. Tax relating to items recognised in other comprehensive income is recognised in other comprehensive income.

FINANCIAL ASSETS

Financial assets held by the group comprise loans and receivables. Financial assets are assigned to a category by management on initial recognition, depending on the purpose for which they were acquired. The designation of financial assets is re-evaluated at every reporting date.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are recognised at fair value plus transaction costs.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables, cash and cash equivalents are classified as loans and receivables.

Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in profit or loss.

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

An assessment for impairment is undertaken at least at each date of statement of financial position. A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for derecognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Group retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for derecognition if the Group transfers substantially all the risks and rewards of ownership of the asset, or if the Group neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset.

Investments in subsidiaries and joint ventures in the parent company accounts are initially measured at cost less impairment charges. Impairment is reviewed on an annual basis.

FINANCIAL LIABILITIES

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. The Group's financial liabilities are trade and other payables and promissory notes payable. Financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance charges in the statement of comprehensive income. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Financial liabilities are initially recorded at fair value net of issue costs and then subsequently measured at amortised cost.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, demand deposits and highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

During the year the group entered into a secured debt facility of up to £2m with Fortis Commercial Finance. This facility is for two years and is governed by various attributes of the debtor balance of Biome Bioplastics. As at the year end no amounts had been drawn against the facility.

EQUITY

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares net of expenses of the share issue
- "Share options reserve" represents equity-settled share-based employee remuneration until such share options are exercised
- "Translation reserve" represents the differences arising from translation of investments in overseas subsidiaries
- "Retained losses" represents retained losses.

FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the date of the statement of financial position. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in profit or loss in the period in which they arise.

The assets and liabilities in the financial statements of foreign subsidiaries and related goodwill are translated at the rate of exchange ruling at the date of the statement of financial position. Income and expenses are translated at the average monthly rate where this is a reasonable approximation of the transaction date rate. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are recorded in the "Translation reserve".

PENSIONS

The Group makes payments to defined contribution schemes. Contributions to the defined contribution pension schemes are charged to profit or loss in the year in which they become payable.

SHARE-BASED PAYMENT

Equity and cash settled share-based payment

The Group issues equity-settled and cash-settled share-based payments to directors and employees of the parent company which must be measured at fair value and recognised as an expense in profit or loss, with a corresponding increase in equity in the case of equity-settled payments, and liabilities in the case of cash-settled awards. The fair values of equity-settled payments are measured at the dates of grant using option-pricing models, taking into account the terms and conditions upon which the awards are granted. Cash-settled share-based payments are measured at their fair value as at the balance sheet date. The fair value is recognised over the period during which employees become unconditionally entitled to the awards, subject to the Group's estimate of the number of awards which will be forfeited, either due to employees leaving the Group prior to vesting or due to non-market based performance conditions not being met. Where an award has market-based performance conditions, the fair value of the award is adjusted for the probability of achieving these via the option pricing model. The total amount recognised in the income statement as an expense is adjusted to reflect the actual number of awards that vest, except where forfeiture is due to the failure to meet market-based performance measures.

EMPLOYEE BENEFIT TRUST

The assets and liabilities of the Employee Benefit Trust (EBT) have been included in the Group accounts. Any assets held by the EBT cease to be recognised in the consolidated statement of financial position when the assets vest unconditionally in identified beneficiaries.

The costs of purchasing own shares held by the EBT are shown as a deduction against equity. The proceeds from the sale of own shares held increase equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the consolidated statement of comprehensive income.

CRITICAL ACCOUNTING JUDGEMENTS

Areas where the directors believe critical accounting judgement is required are:-

Evaluation of levels of control and influence

The determination of level of influence the Group has over a business is often a mix of contractually defined and subjective factors that can be critical to the appropriate accounting treatment of entities in the consolidated accounts. In the case of Biotec, the Group's shareholding in Biotec is 50% and from 1 January 2010 the Group has accounted for Biotec as a joint venture using proportional consolidation.

Capitalisation of development costs

In determining whether development costs should be capitalised it needs to be established, inter alia, whether completion of the intangible asset is technically feasible, whether the intangible asset will generate probable future economic benefits and whether there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset. Development costs are capitalised if they meet these conditions and the other less subjective conditions detailed in "Research and development" section of the accounting policies.

Leasing

The group has a number of lease agreements. These agreements are classified and treated as either operating leases or finance leases, as defined under IAS17.

Finance leases are those where the terms of the lease substantially transfer the risks and rewards incidental to ownership of an asset. Finance leases are recognised on the statement of financial position as an asset and a liability. Operating leases are leases other than finance leases with the expense recognised in profit or loss over the time period the asset is used.

Litigation

On 29 May 2007 the board advised that it was evaluating claims against Biotec's technology made by Novamont (a competing bioplastics business). Subsequently, Novamont brought proceedings against Biotec and SPhere and certain group companies of SPhere claiming infringement of the French and Italian designations of Novamont's European Patent Numbers EP 0 327 505, EP 0 947 559 and EP 0 937 120. These actions were taken by Novamont in the French court and in two courts in Italy (Milan and Turin).

On 16 April 2010, the french Court notified Biotec of its finding in Biotec's favour in relation to the patent infringement claims made by Novamont and one of Biotec's invalidity claims (in relation to patent EP 0 937 210). Further action by either party by way of appeal in the French Court remains possible. The cases in Milan and Turin continue and Court decisions may be expected within 12 months.

Biome and Biotec continue to take professional and legal advice with regard to this litigation and are confident of further successful court outcomes. The Board has sought and will continue to seek the complete resolution of this matter as soon as possible.

Intragroup balances

Intragroup balances and loans are all determined to be current and immediately repayable upon demand. Therefore, the balances are held at amortised cost and foreign exchange differences related to them are recognised in profit or loss.

KEY SOURCES OF ESTIMATION UNCERTAINTY

Goodwill and Investments

The directors make an assessment of the carrying value of goodwill and investments at least annually. For the purposes of assessing impairment assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill and investments are allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows. Discussion of assumptions and sensitivities is included in Note 7 to these financial statements.

Provisions

Within the Group there are a number of short term provisions. The carrying amount of the provisions is estimated based on the estimated net realisable value of inventories, recoverability of debtors and other likely costs.

Inventories

Initial measurement of inventories is at cost. Subsequent to initial recognition the group measures inventories at the lower of cost or net realisable value. Impairment losses are recognised as and when they occur. The write down is determined on an item by item basis or based on a group of items where such an assessment is not practical. In accordance with this policy during the year certain slow moving stock items were impaired by a value of £38,123 below their initial cost with the impairment expensed to the consolidated statement of comprehensive income.

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 £'000	2010 £'000
REVENUE	1a – 1d, 2	**19,068**	13,442
Cost of sales	10	**(15,582)**	(10,795)
GROSS PROFIT		**3,486**	2,647
Recurring administrative expenses	3a – 3b, 5	**(4,526)**	(4,591)
LOSS FROM OPERATIONS		**(1,040)**	(1,944)
Investment income		**190**	52
Finance charges	4	**(57)**	(68)
Foreign exchange loss		**(209)**	(295)
LOSS BEFORE TAXATION		**(1,116)**	(2,255)
Taxation	6a	**64**	86
LOSS FOR THE YEAR		**(1,052)**	(2,169)
Other comprehensive income:			
Exchange differences on translating foreign operations		**(113)**	(127)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(1,165)**	(2,296)
Loss for the year attributable to:			
Equity holders of the parent		**(1,052)**	(2,189)
Minority interest		**—**	20
LOSS FOR THE YEAR		**(1,052)**	(2,169)
Total comprehensive income for the year attributable to:			
Equity holders of the parent		**(1,165)**	(2,316)
Non controlling interest		**—**	20
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(1,165)**	(2,296)
Basic and diluted loss per share – pence		**(0.018)**	(0.047)

The calculation of earnings per share is based on the loss attributable to the equity holders of the parent for the year of £1,052,000 (2010: loss of £2,189,000) and a weighted average of 5,884,866,333 (2010: 4,616,163,063) ordinary shares in issue.

Details of share options which could potentially dilute basic earnings per share in future periods are given in Note 17.

Consolidated statement of financial position

AS AT 31 DECEMBER 2011

	Note	2011 £'000	2011 £'000	2010 £'000	2010 £'000
NON-CURRENT ASSETS					
Goodwill	7	**7,289**		7,583	
Other intangible assets	7	**1,348**		1,138	
Property, plant and equipment	8a	**1,651**		1,936	
			10,288		10,657
CURRENT ASSETS					
Inventories	10	**2,763**		708	
Trade and other receivables	11a	**6,269**		6,811	
Cash and cash equivalents		**2,399**		3,963	
			11,431		11,482
TOTAL ASSETS			**21,719**		22,139
CURRENT LIABILITIES					
Trade and other payables	12a	**4,090**		2,562	
Promissory notes payable	14	**2,666**		3,408	
Obligations under finance leases	15	**94**		158	
			6,850		6,128
NON-CURRENT LIABILITIES					
Obligations under finance leases	15	**—**		97	
			—		97
TOTAL LIABILITIES			**6,850**		6,225
NET ASSETS			**14,869**		15,914

AS AT 31 DECEMBER 2011

	Note	2011 £'000	2010 £'000
EQUITY			
Share capital	16	**5,885**	5,885
Share premium account		**38,623**	38,623
Share options reserve	17	**862**	742
Translation reserves		**985**	1,098
Retained losses		**(31,486)**	(30,434)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**14,869**	15,914
Non controlling interest		**—**	—
TOTAL EQUITY		**14,869**	15,914

The financial statements were approved by the Board on 28 March 2012.

Signed on behalf of the Board of Directors

Paul R Mines **(Chief Executive)**

Declan L Brown **(Group Finance Director)**

28 March 2012

The accompanying accounting policies and notes form an integral part of the financial statements.

Company registration No: 1873702 (England and Wales)

Company statement of financial position

AS AT 31 DECEMBER 2011

	Note	2011 £'000	2011 £'000	2010 £'000	2010 £'000
NON-CURRENT ASSETS					
Property, plant and equipment	8b	**20**		21	
Investments	9	**5,322**		4,250	
			5,342		4,271
CURRENT ASSETS					
Trade and other receivables	11b	**361**		391	
Amounts owed by related parties	27	**13,040**		13,641	
Cash and cash equivalents		**838**		2,641	
			14,239		16,673
TOTAL ASSETS			**19,581**		20,944
CURRENT LIABILITIES					
Trade and other payables	12b	**767**		696	
Amounts due to subsidiary undertakings	27	**588**		588	
			1,355		1,284
NON-CURRENT LIABILITIES			**—**		—
TOTAL LIABILITIES			**1,355**		1,284
NET ASSETS			**18,226**		19,660

AS AT 31 DECEMBER 2011

	Note	**2011** £'000	2010 £'000
EQUITY			
Share capital	16	**5,885**	5,885
Share premium account		**37,895**	37,895
Share options reserve	17	**667**	547
Retained losses		**(26,221)**	(24,667)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**18,226**	19,660

The financial statements were approved by the Board on 28 March 2012.

Signed on behalf of the Board of Directors

Paul R Mines **(Chief Executive)**

Declan L Brown **(Group Finance Director)**

28 March 2012

Company registration No: 1873702 (England and Wales)

The accompanying accounting policies and notes form an integral part of the financial statements.

Consolidated statement of changes in equity

AS AT 31 DECEMBER 2011

	Share capital £'000	Share premium account £'000	Share options reserve £'000	Translation reserves £'000	Retained losses £'000	Total equity attributable to equity holders of the parent £'000	Non-controlling interest £'000	TOTAL EQUITY £'000
Balance at 1 January 2011	5,885	38,623	742	1,098	(30,434)	15,914	—	15,914
Share options issued in share based payments	—	—	120	—	—	120	—	120
Transaction with owners	—	—	120	—	—	120	—	120
Loss for the year	—	—	—	—	(1,052)	(1,052)	—	(1,052)
Other comprehensive income: Exchange differences on translation of foreign operations	—	—	—	(113)	—	(113)	—	(113)
Total comprehensive income for the year	—	—	—	(113)	(1,052)	(1,165)	—	(1,165)
Balance at 31 December 2011	5,885	38,623	862	985	(31,486)	14,869	—	14,869
Balance at 1 January 2010	3,078	38,623	611	1,225	(28,112)	15,425	3,533	18,958
Share options issued in share based payments	—	—	131	—	—	131	—	131
Issue of share capital	2,807	—	—	—	(133)	2,674	—	2,674
Transaction with owners	2,807	—	131	—	(133)	2,805	—	2,805
Loss for the year	—	—	—	—	(2,189)	(2,189)	20	(2,169)
Other comprehensive income: Exchange differences on translation of foreign operations	—	—	—	(127)	—	(127)	—	(127)
Total comprehensive income for the year	—	—	—	(127)	(2,189)	(2,316)	20	(2,296)
Reclassification of Biotec as a Joint Venture	—	—	—	—	—	—	(3,553)	(3,553)
Balance at 31 December 2010	5,885	38,623	742	1,098	(30,434)	15,914	—	15,914

Company statement of changes in equity

AS AT 31 DECEMBER 2011

	Share capital	Share premium	Share options reserve	Retained losses	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2011	5,885	37,895	547	(24,667)	19,660
Share options issued in share based payments	—	—	120	—	120
Transaction with owners	—	—	120	—	120
Loss for the year	—	—	—	(1,554)	(1,554)
Total comprehensive income for the year	—	—	—	(1,554)	(1,554)
Balance at 31 December 2011	5,885	37,895	667	(26,221)	18,226
Balance at 1 January 2010	3,078	37,895	416	(22,807)	18,582
Share options issued in share based payments	—	—	131	—	131
Issue of share capital	2,807	—	—	(133)	2,674
Transaction with owners	2,807	—	131	(133)	2,805
Loss for the year	—	—	—	(1,727)	(1,727)
Total comprehensive income for the year	—	—	—	(1,727)	(1,727)
Balance at 31 December 2010	5,885	37,895	547	(24,667)	19,660

Consolidated statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER 2011

	2011	2010
	£'000	£'000
Loss after tax	**(1,052)**	(2,169)
Adjustment for:-		
Taxation	**(64)**	(86)
Foreign exchange loss	**209**	295
Finance charges	**57**	68
Investment revenue	**(190)**	(52)
Loss from operations	**(1,040)**	(1,944)
Adjustment for:-		
Amortisation and impairment of intangible assets	**272**	177
Depreciation of property, plant and equipment	**381**	372
Share based payments	**120**	131
Profit on disposal of property, plant and equipment	**—**	—
Foreign exchange (loss)/gain	**(90)**	(45)
Operating cash flows before movement in working capital	**(357)**	(1,309)
Decrease/(increase) in inventories	**(2,101)**	719
Decrease/(increase) in receivables	**(321)**	(1,256)
Increase in payables	**1,673**	765
Cash utilised by operations	**(1,106)**	(1,081)
Corporation tax received	**150**	—
Interest paid	**(199)**	(35)
Net cash outflow from operating activities	**(1,155)**	(1,116)
Investing activities		
Interest received	**331**	19
Cash reduction on reclassification of Biotec as a joint venture	**—**	(138)
Proceeds on disposal of property, plant and equipment	**—**	—
Investment in intangible assets	**(358)**	(391)
Purchase of property, plant and equipment	**(122)**	(152)
Net cash used in investing activities	**(149)**	(662)
Financing activities		
Repayment of obligations under finance lease	**(250)**	(146)
Proceeds of issue of ordinary share capital	**—**	2,674
Net cash from financing activities	**(250)**	2,528
Net increase/(decrease) in cash and cash equivalents	**(1,554)**	750
Cash and cash equivalents at beginning of year	**3,963**	3,219
Effect of foreign exchange rate changes	**(10)**	(6)
Cash and cash equivalents at end of year	**2,399**	3,963

Company statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER 2011

	2011	2010
	£'000	£'000
Loss after tax	(1,554)	(1,727)
Adjustment for:-		
Foreign exchange loss	115	257
Intergroup impairment charge	—	—
Investment revenue	(213)	(79)
Loss from operations	(1,652)	(1,549)
Adjustment for:-		
Depreciation of property, plant and equipment	5	5
Share based payments	120	131
Foreign exchange	15	(7)
Operating cash flows before movement in working capital	(1,512)	(1,420)
Increase in receivables	(854)	(1,175)
Increase/(decrease) in payables	71	(167)
Cash utilised by operations	(2,295)	(2,762)
Tax received	—	—
Interest paid	—	—
Net cash outflow from operating activities	(2,295)	(2,762)
Investing activities		
Interest received	496	14
Purchase of property, plant and equipment	(4)	(2)
Net cash used in investing activities	492	12
Financing activities		
Proceeds of issue of ordinary share capital	—	2,674
Net cash from financing activities	—	2,674
Decrease in cash and cash equivalents	(1,803)	(76)
Cash and cash equivalents at beginning of year	2,641	2,717
Cash and cash equivalents at end of year	838	2,641

The accompanying accounting policies and notes form an integral part of the financial statements.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2011

1a. **SEGMENTAL INFORMATION BY BUSINESS ACTIVITY FOR THE YEAR ENDED 31 DECEMBER 2011**

	Bioplastics 2011 £'000	RF Technologies 2011 £'000	Central Costs 2011 £'000	Total 2011 £'000
Revenue				
External sales	**16,164**	**2,904**	**—**	**19,068**
Depreciation/amortisation	(391)	(131)	(5)	(527)
Impairment	(125)	—	—	(125)
Share based payments	—	—	(139)	(139)
(LOSS)/PROFIT FROM OPERATIONS	**9**	**585**	**(1,634)**	**(1,040)**
Interest received				190
Finance charges				(57)
Foreign exchange gain				(209)
LOSS BEFORE TAXATION				**(1,116)**
Taxation				64
LOSS FOR THE YEAR				**(1,052)**
CAPITAL EXPENDITURE				
Property, plant and equipment	116	2	4	**122**
Intangible assets	293	64	—	**357**
TOTAL ASSETS	19,199	1,301	1,219	**21,719**

The Group is managed through three divisions, Bioplastics, RF Technologies and Central costs. These reportable segments are the three strategic divisions for which monthly financial information is provided to the chief operating decision maker.

The Bioplastics division comprises of Biome Bioplastics Limited, Aquasol Limited and the Group's interest in its joint venture, Biotec. Only 50% of Biotec's assets and liabilities are included in the balance sheet and only 50% of its revenues and expenses are included in the Group's consolidated statement of comprehensive income. The division supplies a range of bioplastic resins that replace existing oil based materials in a wide variety of applications.

The RF Technologies division comprises of Stanelco RF Technologies. RF Technologies involves the design and manufacture of electrical/electronic systems based on advanced radio frequency technology.

The Central costs division comprises of senior management, corporate and administration functions, as well as facilities costs.

1b. SEGMENTAL INFORMATION BY GEOGRAPHICAL REGION FOR THE YEAR ENDED 31 DECEMBER 2011

	Non-current assets 2011 £'000	Total assets 2011 £'000	Tangible assets Capital expenditure 2011 £'000	Intangible assets Capital expenditure 2011 £'000
Germany	8,421	12,140	67	—
UK	1,867	9,579	55	357
	10,288	**21,719**	**122**	**357**

	Revenue 2011 £'000
France	9,493
Finland	2,774
UK	1,576
Italy	1,005
Switzerland	1,279
China	769
Brazil	647
Other	1,525
	19,068

1c. SEGMENTAL INFORMATION BY BUSINESS ACTIVITY FOR THE YEAR ENDED 31 DECEMBER 2010

	Bioplastics 2010 £'000	RF Technologies 2010 £'000	Central Costs 2010 £'000	Total 2010 £'000
Revenue from external customers	**11,048**	**2,394**	**—**	**13,442**
Depreciation/amortisation	(348)	(95)	(5)	(448)
Impairment	(101)	—	—	(101)
Share based payments	—	—	(136)	(136)
(LOSS)/PROFIT FROM OPERATIONS	**(809)**	**413**	**(1,548)**	**(1,944)**
Investment revenue				52
Finance charges				(68)
Foreign exchange gain				(295)
LOSS BEFORE TAXATION				**(2,255)**
Taxation				86
LOSS FOR THE YEAR				**(2,169)**
CAPITAL EXPENDITURE				
Property, plant and equipment	122	28	2	**152**
Intangible assets	289	102	—	**391**
TOTAL ASSETS	16,917	2,169	3,053	**22,139**

1d. SEGMENTAL INFORMATION BY GEOGRAPHICAL REGION FOR THE YEAR ENDED 31 DECEMBER 2010

	Non-current assets 2010 £'000	Total assets 2010 £'000	Tangible assets Capital expenditure 2010 £'000	Intangible assets Capital expenditure 2010 £'000
Germany	8,881	11,131	80	—
UK	1,776	11,008	72	391
	10,657	**22,139**	**152**	**391**

	Revenue 2010 £'000
France	7,424
Finland	2,014
Italy	869
UK	749
Other	2,386
	13,442

The Group is managed through its two divisions Bioplastics and RF Applications. The revenue presented relates to external customers. There are no sales between divisions. Sales to SPhere, who owns the other 50 per cent of Biotec, accounted for 52 per cent of the Group's sales for 2011 (2010: 56 percent) and are reported within the results of the Bioplastics division.

Revenue is attributed to individual countries based on the location of the customer.

2. REVENUE

	2011 £'000	2010 £'000
Sales of goods	**18,855**	13,268
Sales of services	**52**	66
Royalty income	**161**	108
	19,068	13,442

3a. ADMINISTRATIVE EXPENSES

	2011 £'000	2010 £'000
Administrative expenses include:		
Depreciation, amortisation and impairment:		
Other intangible fixed assets, owned	**272**	177
Property, plant and equipment, owned	**209**	202
Property, plant and equipment, leased	**172**	170
(Profit)/loss on disposal of property, plant and equipment	**—**	—
Hire of plant and machinery	**4**	13
Operating lease rentals: Land and buildings	**282**	282
Operating lease income: Land and buildings	**(113)**	(183)
Share based payments – equity settled	**120**	131
Share based payments – cash settled	**19**	5
Bad debt provision	**29**	20

3b. AUDITORS' REMUNERATION

	2011 Grant Thornton UK LLP £'000	2010 Grant Thornton UK LLP £'000
Audit of the parent company	**15**	15
Audit of subsidiaries of company pursuant to legislation	**11**	11
Non audit services:		
Other services pursuant to legislation	**12**	4
Taxation services	**54**	45
Due diligence	**—**	72
Total charged to consolidated statement of comprehensive income	**92**	147
Reporting accountant	**—**	69
Total	**92**	216

4. FINANCE CHARGES

	2011 £'000	2010 £'000
Finance leases	**18**	33
Other interest	**7**	2
Interest on promissory notes	**32**	33
	57	68

5. DIRECTORS AND EMPLOYEES

The average monthly number of persons (including Directors) employed by the Group during the year was:

	Group		Company	
	2011	2010	**2011**	2010
	Number	Number	**Number**	Number
Management	**9**	9	**5**	5
Administration	**7**	9	**2**	3
Sales	**2**	3	**—**	—
Manufacturing and engineering	**16**	17	**—**	—
	34	38	**7**	8
	£'000	£'000	**£'000**	£'000
Staff costs:				
Wages and salaries	**1,558**	1,671	**443**	523
Social security costs	**221**	229	**51**	59
Pension costs – personal pension contribution	**52**	65	**30**	36
	1,831	1,965	**524**	618
Directors' remuneration				
Short term employment benefits	**305**	371	**305**	371
Pension costs – personal pension contributions	**21**	25	**21**	25
	326	396	**326**	396

The Group has identified key management personnel as the executive and non-executive directors.

A detailed breakdown of directors' emoluments is contained in the Directors' Remuneration Report.

Share options charges related to executive directors included within administrative expenses relating to key personnel is a charge of £28,000 (2010: charge of £68,000).

6a. TAXATION

Analysis of charge in year

	Group	
	2011	2010
	£'000	£'000
Current income tax		
Current income credit/charge	**14**	(1)
Adjustments in respect of prior periods:	**(78)**	(85)
Total current income tax (note 6b)	**(64)**	(86)
UK Corporation tax	**(78)**	(85)
Overseas Corporation tax	**14**	(1)
Total consolidated corporation tax credit	**(64)**	(86)

6b. TAXATION

Factors affecting tax charge for year

	Group	
	2011	2010
	£'000	£'000
Loss on ordinary activities before taxation	**(1,116)**	(2,255)
Tax thereon at UK statutory income tax rate 26.5% (2010: 28.0%)	**(296)**	(631)
Expenses not deductible for tax purposes	**41**	42
Additional deduction for research and development expenditure	**(97)**	(91)
Other short term temporary differences	**(1)**	(55)
Unrelieved tax losses and other deductions	**491**	822
Utilisation of tax losses	**(172)**	(73)
Capital allowances in the period in excess of depreciation	**34**	(14)
Adjustment in respect of prior periods	**(78)**	(85)
Total UK corporation tax	**(78)**	(85)
Overseas corporation tax	**14**	(1)
Tax credit for the year	**(64)**	(86)

The Group has estimated trading losses of £30.6m (2010: £30.0m) available indefinitely for carry forward against future trading profits. The Company has estimated trading losses of £11.2m (2010: £10.0m) available indefinitely for carry forward against future trading profits. The Group had capital losses of £1.5m (2010: £1.5m). Deferred tax assets have not been recognised in respect of these losses as there is insufficient certainly of future taxable profits against which to utilise them.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill relating to Aquasol	Goodwill relating to Biotec GmbH	Other intangible assets	Total
	£'000	£'000	£'000	£'000
Group				
Cost:				
At 1 January 2010	1,991	15,025	7,882	24,898
Reclassification of Biotec as a joint venture	—	(7,475)	(25)	(7,500)
Exchange differences	—	(267)	—	(267)
Additions	—	—	391	391
At 1 January 2011	1,991	7,283	8,248	17,522
Exchange differences	—	(169)	—	(169)
Additions	—	—	357	357
At 31 December 2011	**1,991**	**7,114**	**8,605**	**17,710**
Accumulated amortisation and impairment:				
At 1 January 2010	1,590	—	7,034	8,624
Provided in the year - charge for the year	—	—	76	76
- impairment for the year	101	—	—	101
At 1 January 2011	1,691	—	7,110	8,801
Provided in the year - charge for the year	—	—	147	147
- impairment for the year	125	—	—	125
At 31 December 2011	**1,816**	**—**	**7,257**	**9,073**
Net book value:				
At 31 December 2011	**175**	**7,114**	**1,348**	**8,637**
At 31 December 2010	**300**	**7,283**	**1,138**	**8,721**

7. **GOODWILL AND OTHER INTANGIBLE ASSETS** continued

Goodwill has been allocated to the specific Cash Generating Units (CGU) to which it relates. It is then added to the related net assets of that CGU. The total is compared to the recoverable amount of the CGU, which is calculated on the basis of value in use. Value in use is calculated using a Discounted Cash Flow forecast (DCF) model.

The discount rate used in the DCF model is 12.25% (2010: 12.25%). This represents Biome Technologies' cost of equity and in the absence of debt is the Weighted Average Cost of Capital for the Group. The cash flows for Biotec are projected over a period of 5 years with a terminal value calculated as a multiple of the fifth year's free cash flow. A multiple of 8 has been used in the DCF models for Biotec, based on historical performance and the market in which it operates. The cash flows for Aquasol are projected until the expiry of its last patent. The cash flows, discount rate and multiplier are considered appropriate by the directors having regard to Biome Technologies recent and projected performance and input from external advisors of the group. The Aquasol DCF model includes patent royalties with no expenses. The Biotec DCF model is based upon a detailed forecast of revenue and expenses. The goodwill in Aquasol has been impaired by £125,000 in 2011 and its book value at 31 December 2011 now equates to the value in use calculated using the DCF. Any reasonably possible change in the discount rate would have an immaterial effect on the carrying value of goodwill relating to Aquasol. Biotec's forecast sales growth would have to decrease by 38.4% or the gross margin achievable would have to decrease by 12.7% before an impairment would be required.

Including related net assets the relevant asset value of Aquasol is £175,000 and Biotec £8,421,000. The value in use calculated using DCF exceeds the relevant asset value for Biotec. The sensitivity of the assumptions has also been checked to ensure that the environment would have to be substantially changed before impairment is required. Biotec's multiplier would have to reduce by 4.2 or the discount rate increased to 24.8% to require impairment. The value in use exceeds the relevant asset value for Biotec by £5,180,000.

Other Intangible Assets comprise £1,342,000 (2010: £1,121,000) of capitalised development costs and £6,000 (2010: £17,000) of software licenses. The remaining amortisation period on the £1,342,000 of other intangible assets at 31 December 2011 is a weighted average of 4.5 years (2010: 4.7 years).

Of the £1,342,000 of capitalised development costs, £970,000 relates to Bioplastics and £372,000 to RF Applications.

8a. **PROPERTY, PLANT AND EQUIPMENT** Group

	Land, buildings and leasehold improvements	Plant and equipment	Fixtures and fittings	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost:					
At 1 January 2010	2,710	4,137	233	14	7,094
Reclassification of Biotec as a joint venture	(1,345)	(2,509)	—	(7)	(3,861)
Exchange differences	(48)	(89)	—	—	(137)
Additions	35	115	2	—	152
Disposals	—	—	(52)	—	(52)
At 1 January 2011	1,352	1,654	183	7	3,196
Exchange differences	(31)	(57)	—	—	(88)
Additions	1	120	1	—	122
Disposals	—	—	—	—	—
At 31 December 2011	1,322	1,717	184	7	3,230
Depreciation:					
At 1 January 2010	405	2,388	193	3	2,989
Reclassification of Biotec as a joint venture	(252)	(1,726)	—	(1)	(1,979)
Exchange differences	(9)	(61)	—	—	(70)
Provided in the year	60	301	9	2	372
Disposals	—	—	(52)	—	(52)
At 1 January 2011	204	902	150	4	1,260
Exchange differences	(8)	(54)	—	—	(62)
Provided in the year	62	313	3	3	381
Disposals	—	—	—	—	—
At 31 December 2011	258	1,161	153	7	1,579
Net book value:					
31 December 2011	**1,064**	**556**	**31**	**—**	**1,651**
Net book value:					
31 December 2010	1,148	752	33	3	1,936

8a. PROPERTY, PLANT AND EQUIPMENT Group continued

Included above are assets held under finance leases or hire purchase contracts as follows:	Property, plant and equipment £'000
Net book values:	
At 31 December 2011	25
At 31 December 2010	196
Depreciation charge for the year:	
31 December 2011	172
31 December 2010	170

8b. PROPERTY, PLANT AND EQUIPMENT Company

	Land, buildings and leasehold improvements £'000	Plant and equipment £'000	Fixtures fittings and equipment £'000	Total £'000
Cost:				
At 1 January 2010	25	10	—	35
Additions	—	—	2	2
Disposals	—	—	—	—
At 1 January 2011	25	10	2	37
Additions	—	4	—	4
Disposals	—	—	—	—
At 31 December 2011	25	14	2	41
Depreciation:				
At 1 January 2010	9	2	—	11
Charge for year	3	2	—	5
Disposals	—	—	—	—
At 1 January 2011	12	4	—	16
Charge for year	3	2	—	5
Disposals	—	—	—	—
At 31 December 2011	15	6	—	21
Net book value:				
At 31 December 2011	**10**	**8**	**2**	**20**
At 31 December 2010	13	6	2	21

9. INVESTMENTS

	Total
	£'000
Investments Company	
Cost:	
31 December 2010	6,373
Additions in year	1,072
31 December 2011	7,445
Diminuation in value:	
31 December 2010 and 31 December 2011	2,123
Net book value at 31 December 2011	**5,322**
Net book value at 31 December 2010	4,250

In the opinion of the directors, the aggregate value of the company's investment is not less than the amount included in the company statement of financial position. The investments relate to Aquasol and Biotec GmbH. Details of the impairment testing performed on goodwill relating to these CGU's can be found in Note 7.

The addition of £1,072,000 in the year relates to the recapitalisation of Biotec, where £1,072,000 of loans from Biome Technologies plc were exchanged for contributions into the capital reserve.

The results of Biotec, of which the company owns 50 per cent, have been proportionally consolidated since 1 January 2010. The amounts included in the 2011 financial statements are:

	2011
	£'000
Non-current assets	8,347
Current assets	3,813
Current liabilities	(2,404)
Non-current liabilities	—
Share of net assets	9,756
Revenue	9,832
Operating costs	(9,314)
Finance charges	(74)
Taxation	(14)
Share of profit for the year after taxation	430

These amounts are before the elimination of intragroup trading and balances.

9. INVESTMENTS continued

Holding of more than 20 per cent.

The Company holds more than 20 per cent of the share capital of the following companies:

Company	Country of registration	Class	Percentage of shares held
Stanelco RF Technologies Limited	England and Wales	2 Ordinary £1 shares	100
InGel Technologies Limited	England and Wales	9,500 Ordinary "A" 1p shares	93.7
Biome Bioplastics Limited*	England and Wales	2 Ordinary £1 shares	100
Aquasol Limited	England and Wales	29,000 Ordinary £1 shares	100
Biotec Holding GmbH	Germany	1 Ordinary Share of €25,000	50
bio-tec Biologische Naturverpackungen GmbH & Co. KG	Germany	1 Ordinary Share of €51,200 (Held by Bio-tec Holding GmbH)	50
bio-tec Biologische Naturverpackungen Forschungs-und Entwicklungs GmbH	Germany	1 Ordinary Share of €26,000 (Held by Bio-tec Holding GmbH)	50

*Formerly Adept Polymers Limited

Stanelco RF Technologies Limited is involved in the development, manufacture and supply of Radio Frequency applications equipment. InGel Technologies Limited is a dormant company. Biome Bioplastics Limited is a company that specialises in the formulation and manufacture and sale of bioplastics. Aquasol Limited specialises in designing packaging solutions and has specific expertise in water soluble packaging. Biotec Holding GmbH Group was acquired in September 2005 and 50 per cent was disposed of to SPhere (formerly SP Metal) of France. Biotec is one of the world's leading exponents of starch technology and specialises in formulations for packaging, pharmaceutical and edible applications.

All companies are wholly owned by Biome Technologies plc except for:
InGel Technologies Limited in which a 6.3 per cent shareholding is held by Cardinal Health 409 Incorporated (formerly R.P. Scherer Corporation). Biotec Holding GmbH in which a 50 per cent shareholding is held by SPhere and from 1 January 2010 the Group has accounted for Biotec as a joint venture on a proportional basis.

10. INVENTORIES

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Raw materials and consumables	**1,237**	516	**—**	—
Work in progress	**36**	45	**—**	—
Finished goods and goods for resale	**1,490**	147	**—**	—
Total	**2,763**	708	**—**	—

Cost of sales in the consolidated statement of comprehensive income relates to the cost of goods sold and includes direct production labour costs for goods produced at Biotec GmbH but not for goods produced at Stanelco RF Technologies Ltd.

At 31 December 2010 RF stock with a purchase cost of £1,758,000 had been impaired down to a value of £79,000; during 2011 £3,000 of this stock has been sold or scrapped and the remainder has been impaired by a further £38,000.

11a. **TRADE AND OTHER RECEIVABLES** Group

	2011	2010
	£'000	£'000
Trade receivables	**2,497**	2,276
Promissory notes receivable	**2,698**	3,440
Other receivables	**540**	425
Prepayments and accrued income	**534**	670
Total	**6,269**	6,811

An allowance has been made for estimated irrecoverable amounts from the sale of goods of £49,000 including £20,000 of the 2010 allowance. This allowance has been determined by reference to past default experience. The directors consider that the carrying amount of trade and other receivables approximates their fair value.

The average credit period taken on the sale of goods is 33 days. Before accepting any new customer, the Group uses external credit scoring systems to assess the potential customer's credit quality and define credit limits per customer.

Ageing of past due but not impaired receivables is as follows

	2011	2010
	£'000	£'000
60 - 90 days	**61**	33
90 - 120	**14**	108
120 +	**203**	118
Total	**278**	259

Promissory notes receivable are amounts due from companies in the Biotec Holding GmbH Group to the Company. The balance shown reflects the 50 per cent of the notes which is not eliminated on consolidation. The amount due represents the principal loans plus unpaid interest. Interest is calculated at one per cent per annum. The promissory notes are repayable with one months' notice. On this basis the notes are included on the balance sheet at the face value which is equivalent to fair value.

Promissory notes are denominated in Euros and appreciate and depreciate with fluctuations between the Euro and Sterling accordingly.

11a. TRADE AND OTHER RECEIVABLES Group continued

Movement in allowance for doubtful debts:

	2011 £'000	2010 £'000
Balance at the beginning of the period	**70**	52
Exchange differences	**—**	(2)
Amounts written off as uncollectible	**(50)**	—
Impairment losses recognised	**29**	20
Total	**49**	70

In determining the recoverability of a trade receivable the directors consider any changes in the credit quality of the trade receivable from the date credit was initially granted to the reporting date. The concentration of credit risk is limited by the customer base being large and unrelated. Accordingly, the directors believe that there is no further provision required in excess of the allowance for doubtful debts.

Ageing of impaired receivables is as follows:

	2011 £'000	2010 £'000
120 + days	**49**	70
Total	**49**	70

11b. TRADE AND OTHER RECEIVABLES Company

	2011 £'000	2010 £'000
Trade receivables	**37**	36
Other receivables	**138**	168
Prepayments and accrued income	**186**	187
Total	**361**	391

Details of the intragroup receivables can be found in Note 27.

11b. TRADE AND OTHER RECEIVABLES Company continued

Ageing of past due but not impaired receivables is as follows:

	2011 £'000	2010 £'000
90 - 120	—	—
120 +	—	—
Total	—	—

Movement in allowance for doubtful debts:

	2011 £'000	2010 £'000
Balance at the beginning of the period	—	3
Provided in the year	—	—
Provision transferred to subsidiary	—	(3)
Total	—	—

In determining the recoverability of a trade receivable the directors considers any changes in the credit quality of the trade receivable from the date credit was initially granted to the reporting date. The concentration of credit risk is limited to the customer base being large and unrelated. Accordingly, the directors believe that there is no further provision required in excess of the allowance for doubtful debts.

Ageing of impaired receivables is as follows:-

	2011 £'000	2010 £'000
120+	—	—
Total	—	—

12a. TRADE AND OTHER PAYABLES Group

	2011 £'000	2010 £'000
Trade payables	**3,224**	1,272
Other taxation and social security costs	**47**	47
Other creditors	**125**	151
Accruals and deferred income	**694**	1,092
Total	**4,090**	2,562

12b. TRADE AND OTHER PAYABLES Company

	2011 £'000	2010 £'000
Trade payables	**259**	233
Other taxation and social security costs	**34**	31
Other creditors	**72**	75
Accruals and deferred income	**402**	357
Total	**767**	696

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 52 days. For all suppliers, no interest is charged if the trade payable exceeds the credit period.

The carrying amount of all trade and other payables is a reasonable approximation of fair value.

Details of the intragroup payables can be found in Note 27.

13. FINANCIAL INSTRUMENTS

Categories of financial instruments

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Financial assets				
Loans and receivables	**8,134**	10,104	**14,053**	16,486
Financial liabilities recorded at amortised cost				
Trade and other payables	**4,042**	2,515	**1,321**	1,253
Borrowings (promissory notes)	**2,667**	3,408	**—**	—

The Group's treasury function provides services to the business, co-ordinates access to domestic and international financial markets and monitors and manages financial risk relating to the operations of the Group.

Net foreign currency monetary assets

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Euros	**1,290**	1,091	**73**	283
US Dollars	**—**	7	**—**	7

All of the Group and Companies financial instruments are considered to be held at an approximation to fair value.

13. **FINANCIAL INSTRUMENTS** continued

Maturity of financial liabilities

Contractual undiscounted cash flows in respect of financial liabilities are as follows:

Group

2011	0-60 days £'000	61 days - 6 months £'000	7 months - 1 year £'000	13 months - 2 years £'000	2-5 years £'000	Total £'000
Trade and other payables	4,042	—	—	—	—	4,042
Borrowings (promissory notes)	2,667	—	—	—	—	2,667
Finance leases	94	—	—	—	—	94
Total	**6,803**	**—**	**—**	**—**	**—**	**6,803**

2010	0-60 days £'000	61 days - 6 months £'000	7 months - 1 year £'000	13 months - 2 years £'000	2-5 years £'000	Total £'000
Trade and other payables	2,515	—	—	—	—	2,515
Borrowings (promissory notes)	3,408	—	—	—	—	3,408
Finance leases	29	59	88	98	—	274
Total	**5,952**	**59**	**88**	**98**	**—**	**6,197**

Company

2011	0-60 days £'000	61 days - 6 months £'000	7 months - 1 year £'000	13 months - 2 years £'000	2-5 years £'000	Total £'000
Trade and other payables	1,321	—	—	—	—	1,321
Total	**1,321**	**—**	**—**	**—**	**—**	**1,321**

2010	0-60 days £'000	61 days - 6 months £'000	7 months - 1 year £'000	13 months - 2 years £'000	2-5 years £'000	Total £'000
Trade and other payables	1,253	—	—	—	—	1,253
Total	**1,253**	**—**	**—**	**—**	**—**	**1,253**

14. PROMISSORY NOTES

Group

Promissory notes payable are amounts due from companies in the Biotec Holding GmbH Group to the 50 per cent shareholder, SPhere. Amounts due represent the principal loans plus unpaid interest. Interest is calculated at one per cent per annum on the outstanding loans.

The promissory notes are repayable with one months' notice. On this basis the notes are included on the balance sheet at the face value which is equivalent to fair value.

The promissory notes are not subject to interest rate risk as interest is fixed at 1 per cent.

The promissory notes are denominated in Euros and appreciate and depreciate with fluctuations between the Euro and Sterling accordingly.

15. OBLIGATIONS UNDER FINANCE LEASES Group

Obligations under finance leases

	2011 **£'000**	2010 £'000
Within one year	**95**	176
In the second to fifth years	**—**	98
Minimum lease payments	**95**	274
Interest to be charged	**(1)**	(19)
Present value of minimum lease payments	**94**	**255**
Current liabilities	94	158
Non-current liabilities	—	97
Total	**94**	**255**

The average lease terms is five years. For the year ended 31 December 2011 the effective borrowing rate was 12.25 per cent (2010: 12.25 per cent).

There are no finance leases in the parent company.

16. SHARE CAPITAL

	2011 £'000	2010 £'000
Allotted, issued and fully paid: Ordinary shares of 0.1p each		
At 1 January: 5,884,866,333 (2010: 3,078,340,917)	**5,885**	3,078
Issued in the year: Nil (2010: 2,806,525,416)	—	2,807
At 31 December: 5,884,866,333 (2010: 5,884,866,333)	**5,885**	5,885

All ordinary shares carry equal participation in assets, rights to dividends and voting power.

There were no transaction costs deducted directly from equity in 2011.

Transaction costs deducted directly from equity in 2010 totalled £835,000. £702,000 was deducted from share premium and £133,000 from retained profits.

17. SHARE OPTIONS RESERVE

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Opening balance	**742**	611	**547**	416
Income and expenditure charge for the year in respect of the fair value of share based payments under share option awards	**120**	131	**120**	131
Closing balance	**862**	742	**667**	547

Under International Financial Reporting Standard No. 2: Share Based Payments (IFRS 2) the fair value of share based payments are expensed in profit or loss throughout their vesting period. In accordance with the transitional provisions of IFRS 2, the fair value calculations have only been applied in respect of share based payment transactions granted after 7 November 2002 that had not vested by 1 November 2005.

Share option award schemes

The Group operates various equity-settled share option schemes (the "Schemes") for certain employees.
The awards outstanding can be summarised as follows:

	2011 Number of ordinary shares	2010 Number of ordinary shares
Scheme		
Enterprise Management Incentive Schemes (EMI)	**7,797,223**	7,797,223
Stand alone unapproved share options	**26,609,492**	26,609,492
Stanelco plc 2005 Unapproved Share Option Plan and Stanelco plc Employment Benefit Trust (2005 USOP)	**346,296,135**	394,656,791
Total	**380,702,850**	429,063,506

Share schemes

The EMI share option scheme is a HM Revenue and Customs approved scheme. Options are granted by the Board to employees of the company and UK subsidiaries at an exercise price equal to the market price at the date of grant. The options have a three year vesting period and can be exercised from commencement of the third anniversary and expiring ten years from the date of grant. Stand alone unapproved share options are granted to specific employees. Vesting and exercise terms are the same as those of the EMI scheme. The 2005 USOP scheme provides for the grant of options to executives and employees and Trustees of the Stanelco plc Employment Benefit Trust. Options are granted at an exercise price based on the market value on the date of grant. Options have a three year vesting period and can be exercised from the commencement of the third anniversary and expiring ten years from the date of grant. Performance conditions restrict the number of shares excercisable, further details can be found in the Director's remuneration report on pages 23 to 26 of this Report.

17. **SHARE OPTIONS RESERVE** continued

	Stand alone options	2005 USOP	EMI
Balance outstanding at 1 January 2010	26,609,492	394,656,791	8,797,223
Granted	—	—	—
Lapsed	—	—	(1,000,000)
Balance outstanding at 31 December 2010	26,609,492	394,656,791	7,797,223
Exercise prices of options outstanding at the period end in the range	2.56p - 10.7p	0.43p - 0.8p	3.875p - 19p
Weighted average exercise price of options outstanding at the year end	3.641p	0.608p	7.96p
Weighted average contractual life in months of options outstanding at the year end	24	91	50
Exercisable at the year end	26,609,492	—	7,797,223
Weighted average exercise price of options currently exercisable at the year end	3.641p	n/a	7.96p

	Stand alone options	2005 USOP	EMI
Balance outstanding at 1 January 2011	26,609,492	394,656,791	7,797,223
Granted	—	—	—
Lapsed	—	(48,360,656)	—
Balance outstanding at 31 December 2011	26,609,492	346,296,135	7,797,223
Exercise prices of options outstanding at the period end in the range	2.56p - 10.7p	0.43p - 0.8p	3.875p - 19p
Weighted average exercise price of options outstanding at the year end	3.64p	0.608p	7.96p
Weighted average contractual life in months of options outstanding at the year end	12	79	38
Exercisable at the year end	26,609,492	236,132,200	7,797,223
Weighted average exercise price of options currently exercisable at the year end	3.64p	0.608p	7.96p

17. **SHARE OPTIONS RESERVE** continued

The weighted average exercise prices of options granted, exercised and lapsed during the year in pence were:

Year ended 31 December 2010

pence	Stand alone options	2005 USOP	EMI
Options granted	—	—	—
Options exercised	—	—	—
Options lapsed	—	—	8.19p

Year ended 31 December 2011

pence	Stand alone options	2005 USOP	EMI
Options granted	—	—	—
Options exercised	—	—	—
Options lapsed	—	0.61p	—

The weighted average share price at the date of exercise of options during the year was:

pence	Stand alone options	2005 USOP	EMI
Year ended 31 December 2010	—	—	—
Year ended 31 December 2011	—	—	—

Outstanding share options by exercise price ranges	2011		2010	
	Total	Exercisable	Total	Exercisable
Stand alone options				
0.01p to <5p	**26,209,492**	**26,209,492**	26,209,492	26,209,492
5p to <10p	**—**	**—**	—	—
10p to <15p	**400,000**	**400,000**	400,000	400,000
15p to 19p	**—**	**—**	—	—
Total	**26,609,492**	**26,609,492**	26,609,492	26,609,492
2005 USOP				
0.01p to <5p	**346,296,135**	**—**	394,656,791	—
5p to <10p	**—**	**—**	—	—
10p to <15p	**—**	**—**	—	—
15p to 19p	**—**	**—**	—	—
Total	**346,296,135**	**—**	394,656,791	—
EMI				
0.01p to <5p	**4,972,223**	**4,972,223**	4,972,223	4,972,223
5p to <10p	**—**	**—**	—	—
10p to <15p	**1,500,000**	**1,500,000**	1,500,000	1,500,000
15p to 19p	**1,325,000**	**1,325,000**	1,325,000	1,325,000
Total	**7,797,223**	**7,797,223**	7,797,223	7,797,223

17. SHARE OPTIONS RESERVE continued

Public Equity Plan (PEP)

Under the terms of this plan executives are entitled to share a pool of value which equates to 15% of the increase in the value of the Group, based on total shareholder return, over and above a minimum hurdle of 10% per annum (non-compounded), over a three or four year period (as determined by the Remuneration Committee), subject to a financial underpin.

The financial underpin requires the Remuneration Committee to be satisfied at the end of the performance period that the pool of value to be distributed to the executives is consistant with the Group's underlying performance in respect of (i) growth in earnings, (ii) profit margins and (iii) gearing. Following a review of the Group's performance against these measures, the Remuneration Committee may scale back (but not increase) the pool of value to be distributed.

Once it has been created, the pool of value will then be notionally allocated to participants in the PEP (executives and senior management) pro rata to the number of points they hold relative to 1,000,000 – being the maximum number of points which may be awarded under the PEP. 50% of the value so allocated to a participant will potentially be available at the end of the performance period with the other 50% potentially being available 12 months after the end of the performance period (subject to continued employment). The distributions are expected to be made in shares.

Additionally an agreement exists with the chairman which mirrors the terms of the PEP. Under this agreement, subject to the total shareholder return and financial underpin described above a cash sum will be paid equal to 0.9% of the additional value created in excess of the minimum hurdle rate on the same basis that value can be made available under the PEP.

	Points at 01/01/2011	**2011 points allocation**	**Points at 31/12/2011**
Points allocated to specific individuals	885,000	(200,000)	685,000
Points retained and available for allocation	115,000	200,000	315,000
Total	**1,000,000**	**—**	**1,000,000**

The Directors have used a basic simulation model to determine the fair value of these awards using a probability-based assessment of total shareholder return over the 4 year performance period to calculate an expected value for the pool of value as at the end of that period. The model provides an estimated fair value that the Directors consider to be acceptable in the context of the materiality of the scheme. The base share price used in this model is 0.13 pence. The total fair value at award date is determined to be £466,885, which is being recognised as a charge to the income statement over the vesting period of 5 years.

18. PROFIT AND LOSS ACCOUNT Company

	2011 £'000	2010 £'000
Opening balance	**(24,667)**	(22,807)
Excess expenses on issue of share capital	**—**	(133)
Retained loss for the year	**(1,554)**	(1,727)
Closing balance	**(26,221)**	(24,667)

In accordance with the concession granted under Section 408 Companies Act 2006, the profit and loss account of the holding company has not been separately presented. The retained loss of the holding company for the year is £1,554,000 (2010: retained loss £1,727,000).

19. CAPITAL COMMITMENTS

The Group had no capital commitments at 31 December 2011 and 31 December 2010.

20a. COMMITMENTS UNDER OPERATING LEASES – LESSEE

At 31 December the Group and Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2011 £'000	2010 £'000
Land and buildings:		
Within one year	**282**	282
In the second to fifth years inclusive	**1,126**	1,126
After five years	**1,175**	1,456
Other operating leases:		
Within one year	**14**	11
In the second to fifth years inclusive	**26**	—
Total	**2,623**	2,875

None of the leases have any discounted periods or breakpoints within their remaining term.

20b. COMMITMENTS UNDER OPERATING LEASES – LESSOR

At 31 December the Group and Company had outstanding commitments for future lease receipts under non-cancellable operating leases, receivable as follows:

	2011 £'000	2010 £'000
Land and buildings:		
Within one year	**112**	112
In the second to fifth years inclusive	**364**	448
After five years	**—**	28
Total	**476**	588

The leases relate to an industrial unit surplus to the requirements of the group. The lease had an initial discounted period, which had expired by the end of 2009. The lease has a break point in 2012.

21. PENSION COMMITMENTS

The Group makes contributions to personal pension plans schemes based on contractual terms. The contribution charge for the year was £52,000 (2010: £65,000).

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group and Company's financial instruments arise directly from operations and include cash, trade receivables, trade payables, lease finance and equity. The use of these instruments exposes the Group and Company to risk relating to exchange rate, liquidity, interest rates and credit.

Foreign currency exchange rate risk

Within the Group, Bioplastics sales are predominantly priced in Euros which is the same currency in which purchases are made. This largely mitigates exchange rate risk. RF Applications sales are predominantly quoted in Sterling. The bespoke nature of most RF Applications sales allow for adverse and beneficial exchange rate movements to be reflected in the quoted price. The Group does not enter into forward foreign currency contracts. The assets and liabilities of Biotec are denominated in Euros. During 2010 a 4% depreciation of the Euro against Sterling resulted in a foreign exchange loss of £251,000 in the loss for the year from the translation of intercompany balances and a £127,000 loss in the foreign exchange reserve in the consolidated statement of financial position. During

22. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** Continued

2011 a 2% depreciation of Euro against Sterling resulted in a foreign exchange loss of £129,000 in the loss for the year from the translation of intercompany balances and a £113,000 loss in the foreign exchange reserve in the consolidated statement of financial position. Future appreciation or depreciation of the Euro against Sterling will result in materially similar foreign exchange gains or losses in the consolidated statement of comprehensive income and consolidated statement of financial position.

The total foreign exchange loss recognised in the loss for the year in 2011 was £209,000 (2010: loss £295,000). This comprised a foreign exchange loss from trading of £80,000 (2010: loss £44,000) and a loss from the retranslation of intercompany balances of £129,000 (2010: loss £251,000).

Interest rate risk

Currently the Group and Company do not have any Loans or Floating Rate Borrowings. Exposure to interest rate fluctuations is primarily with interest received on its cash asset. An increase or decrease of 1 per cent in market interest rates would have a circa £24,000 effect on interest income during 2011. Trade receivable and payables do not ordinarily attract interest and are therefore subject to fair value interest rate risk. Interest on all Hire Purchase agreements and promissory notes is fixed and therefore free from interest rate risk.

The interest rate exposure of the financial assets and liabilities of the Group as at 31 December 2011 is shown in the table below. The table includes trade receivables and payables as these do not attract interest and are therefore subject to fair value interest rate risk.

Group

Interest rate	**Fixed**	**Floating**	**Zero**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets				
Cash and cash equivalents	—	2,399	—	2,399
Trade and other receivables	2,698	—	3,037	5,735
Totals	**2,698**	**2,399**	**3,037**	**8,134**
Financial liabilities				
Trade and other payables	—	—	4,042	4,042
Lease finance	94	—	—	94
Promissory notes	2,667	—	—	2,667
Totals	**2,761**	**—**	**4,042**	**6,803**

Company

Interest rate	**Fixed**	**Floating**	**Zero**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets				
Cash and cash equivalents	—	838	—	838
Trade and other receivables	5,396	—	7,819	13,215
Totals	5,396	838	7,819	14,053
Financial liabilities				
Trade and other payables	—	—	1,321	1,321
Totals	—	—	1,321	1,321

Liquidity risk

The Group and Company fund activities from existing cash resources. Liquidity is managed over the medium terms with appropriate steps taken to ensure adequate cash is available to fund the Group and Company's activities.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT Continued

Credit risk

The Group and Company's principal financial assets are cash and trade receivables. The credit risk associated with cash is reduced through deposits being split across a number of British Banks. The credit risk arising from the Group and Company's trade receivables is reduced through prescribing credit limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed on a regular basis in conjunction with debt ageing and collection history. Note 13 provides information regarding the effects of credit risk to the Group and Company.

23. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group manages its Equity as capital. The Group has no external debt finance and hence gearing is not measured. The promissory notes held in Biotec are excluded for the purposes of monitoring capital.

The Group manages its capital to ensure the entities in the Group are able to continue as going concerns whilst maximising the long-term return to stakeholders.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent. Equity comprises issued share capital, reserves and retained losses as disclosed in the consolidated statement of changes in equity.

The Group adheres to the capital maintenance requirements as set out in the Companies Act.

Capital for the reporting periods under review is summarised as follows:

	2011 £'000	2010 £'000
Total equity	14,869	15,914
Cash and cash equivalents	2,399	3,963
Capital	17,268	19,877

24. CONTRACTS IN WHICH DIRECTORS HAVE AN INTEREST

There are no contracts within which the directors have an interest.

25. CONTINGENT LIABILITIES

On 29 May 2007 the Board advised that it was evaluating claims against Biotec's technology made by Novamont (a competing bioplastics business). Subsequently, Novamont brought proceedings against Biotec and SPhere and certain group companies of SPhere claiming infringement of the French and Italian designations of Novamont's European Patent Numbers EP 0 327 505, EP 0 947 559 and EP 0 937 120. These actions were taken by Novamont in the French court and in two courts in Italy (Milan and Turin).

On 16 April 2010, the French Court notified Biotec of its finding in Biotec's favour in relation to the patent infringement claims made by Novamont and one of Biotec's invalidity claims (in relation to patent IP 0 937 120). Further action by either party by way of appeal in the French court remains possible. The cases in Milan and Turin continue and Court decisions may be expected within 12 months.

Biome and Biotec continue to take professional and technical advice with regard to this litigation and are confident of further successful court outcomes. The Board has sought and will continue to seek the complete resolution of this matter as soon as possible.

26. CONTROL

The Company's ordinary shares are publically traded on the Alternative Investment Market (AIM) of the London Stock Exchange. There is no single controlling party.

27. RELATED PARTY TRANSACTIONS

Details of share holdings in subsidiary and joint venture companies are shown in the note detailing Fixed Asset Investments. Transactions between the Company and its subsidiary and joint venture companies, which are related parties, have been eliminated on consolidation. The year end balances between the Company and its subsidiary and joint venture companies are shown below:

	Amounts owed by related parties		Amounts owed to related parties	
	2011	**2010**	**2011**	**2010**
	£'000	**£'000**	**£'000**	**£'000**
Stanelco RF Technologies Limited	**2,304**	3,355	**—**	—
InGel Technologies Limited	**—**	—	**—**	—
Biome Bioplastics Limited	**5,340**	3,406	**—**	—
Aquasol Limited	**—**	—	**(588)**	(588)
Stanelco Inc	**—**	—	**—**	—
Biotec Holding GmbH	**5,396**	6,880	**—**	—
Total	**13,040**	13,641	**(588)**	(588)

Included in the above are provisions against certain inter-company receivables as follows:

	2011	**2010**
	£'000	**£'000**
Stanelco RF Technologies Limited	**10,000**	10,000
Stanelco Inc	**—**	813
Biome Bioplastics Limited	**2,442**	2,442
Ingel Technologies Ltd	**39**	39
Total	**12,481**	**13,294**

Intergroup provisions	**2011**	**2010**
	£'000	**£'000**
Balance at the beginning of the year	**13,294**	13,269
Impact of foreign exchange movements	**—**	25
Impairment losses recognised	**—**	—
Amounts written off	**(813)**	—
Total	**12,481**	**13,294**

The balances are held at amortised cost. Impairment is assessed by calculating the present value of estimated future cashflows discounted at 12.25%.

No collateral or guarantees are held for intergroup receivables and all are repayable on demand.

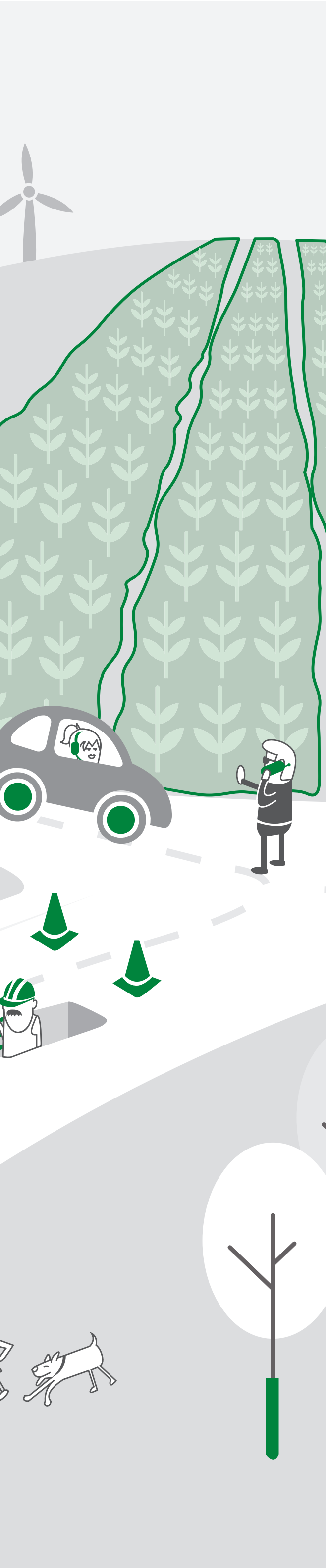
Intergroup Trading

- Biome Bioplastics finished products purchases from Biotec during 2011 were £6,446,000 (2010: £3,292,000).
- Raw materials sold to Biotec during 2011 were £5,793,000 (2010: £2,194,000).
- Amounts due from Biotec in respect of trading at 31 December 2011 were £287,000 (2010: £30,728).

Biome Bioplastics
Intelligent plastics, naturally.

Our fastest growing division, Biome Bioplastics, is now the #1 supplier of starch-based bioplastics in the UK and one of the biggest suppliers of starch-based bioplastics in Europe.

Biome Bioplastics
The everyday made extraordinary



From horticulture to electronics, our bioplastics are suitable for an impressive range of applications.

Horticulture/Agriculture

Providing the strength and versatility of conventional plastics whilst saving cost on disposal. Independent tests also prove our sustainably sourced products can enhance soil fertility on decomposition.

Food service

Biome Bioplastics are suitable for a wide range of catering products from coffee cup lids to disposable aprons and can be disposed through the composting of food waste.

Personal care/Cosmetics

From razors and toothbrushes to cosmetic bottles and feminine hygiene products, our range of bioplastics can help your products care for both people and the environment.

Fibres/Non-wovens

Many natural materials are now being replaced with plastics, our products can be spun into fibres and used in non-woven materials, offering a natural alternative.

Packaging

Biome Bioplastics can be used for a wide range of packaging items, offering product protection with the potential for composted or digestive disposal.

Electronics

Biome Bioplastics is supporting forward thinking manufacturers in this sector. Bioplastic cases and boxes can be formed into most product shapes delivering suitable structural performance.

Automotive

Automakers are addressing materials as part of the drive to manufacture more sustainable vehicles. Bioplastics can be moulded and formed conventionally whilst offering greatly enhanced environmental credentials.

Industrial

Bioplastics meet industrial demand for both long-life and cost-effective materials that underpin the sustainability of operations. Products are optimised for films, fibres, coatings, moulded and roto-moulded items.

Construction

Legislation in the form of 'The Code for Sustainable Homes' is driving a change in construction. Bioplastics have a part to play in providing more sustainable materials and reducing embedded energy and waste.

Office products

Our materials are used in cost-effective office products with impeccable bio-credentials. Whether it's a pen or a folder, bioplastics suggest both quality and responsibility.

Why bioplastics?

A more sustainable product

Bioplastics reduce the use of non-renewable, oil-based resources, which are increasingly scarce and unstable in price.

Lower embodied energy

Bioplastics take less energy to produce and convert to finished products. This means lower manufacturing costs and lower emissions, helping companies meet corporate objectives and environmental policies.

Improving carbon footprints

Biomass feedstock absorbs carbon dioxide and bioplastic manufacture uses less energy in production.

Managed end-of-life

Bioplastics often biodegrade and compost, completing the virtuous cycle back to nature. Durable plant-based bioplastics can be recycled as well as their conventional equivalents.

Intelligent benefits

Bioplastics can be engineered to have novel technical characteristics such as vapour control and tactile properties. Tailored to biodegrade after a determined period of time, they can also enrich the soil on decomposition.

"The range and capability of our products are continually expanding, they are already in more places than you might imagine. In the next decade we will see bioplastics become part of our every day lives."

Paul Mines, CEO, Biome Bioplastics

biome bioplastics

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