biome technologies plc

Annual Report and Financial Statements

for the year ended 31 December 2012

" 2012 has seen complexity reduced allowing greater focus on wholly owned IP. The business has a strong base of technology, good working partnerships with a number of customers of high potential and the resources to maximise commercial exploitation"

Paul Mines, CEO, Biome Technologies plc

Officers and advisers

Executive Directors

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

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Michael A Kayser	Senior Independent Director
John F Standen	Chairman

Company Secretary

Donna R Simpson-Strange

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[1] Resigned 30 November 2012

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Chairman's statement

2012 marked a year of significant change for the Group. The abrupt reduction in demand in the European bioplastics markets during the second quarter created a highly challenging business environment. Subsequently, the Group has shifted its focus further towards its strategy of targeting opportunities in the bioplastic market that require higher functionality and are market leading in their application.

The sale of the Group's 50% share in Biotec Holding GmbH ("Biotec") for £5.2m on 1 October 2012 has enabled the Bioplastic Division to focus its attention on the commercialisation and development of its wholly owned intellectual property where there is a strong product offering and the Board sees significant potential for growth. Notably, the Biotec sale also eliminates the Group's liability with regard to the Novamont litigation and provides a significant cash inflow which generates further options for delivering sustainability.

Despite some turbulence in the market, the Stanelco RF Technologies Division had another profitable year and continues to develop its leading position in the optical fibre furnace market whilst broadening its portfolio.

Results

Pro-forma Group revenues (including consolidation of Biotec for nine months) were £11.0m (2011: £19.1m). The decrease was predominantly due to legislative changes within the European bioplastics market, which negatively impacted demand. Including the mitigation from a further cost reduction exercise initiated in May, the Group loss after taxation, excluding exceptional items was £2.4m (2011: loss of £1.1m). The loss after taxation on continuing activities was £2.0m (2011: loss of £1.3m). The loss associated with the Biotec discontinuing activities was £0.4m (2011: profit of £0.3m). Including the discontinued activities and the exceptional loss of £3.4m on the sale of Biotec, the loss per share was 0.098 pence (2011: loss per share of 0.018 pence).

The wholly owned Bioplastics Division experienced a reduction in revenues to £3.4m (2011: £6.4m) as demand fell and the business reduced sales of products previously bought (and sold on) from Biotec following the separation. The Biotec revenues are disclosed as discontinued activities and on a proportional basis were £5.4m to the date of its sale (2011: £9.8m). The resulting operating loss for the continuing Division was £1.0m (2011: £0.4m).

The Stanelco RF Technologies Division had another profitable year, albeit reduced operating profits of £0.4m (2011: £0.6m) as some revenues from Asia were delayed over the period end. The Division's revenues were £2.3m (2011: £2.9m). In January 2012, Stanelco announced a new development and supply contract with Durapipe, as the Company continues to successfully diversify and expand its product range.

In the last quarter of 2012, following the sale of Biotec, the Group's revenues were £0.8m. The majority of this revenue was generated in the RF Division and this sales profile is expected to continue until the Bioplastics Division's most promising projects, referred to below, move into their manufacturing phase.

Cash

The Group's cash resources continued to be managed prudently throughout the year with the cash position at 31 December 2012 at £6.3m (31 December 2011: £2.4m). Over the year, the cash utilised by continuing operations was £0.8m (2011: £1.4m), which benefited from a £0.7m reversal in working capital as balances relating to Biotec were wound down. As a result of the sale of Biotec the Group received a net cash inflow of £5.0m. There was no significant investment in the year in new property, plant and equipment (2011: £0.1m) and £0.3m in product development (2011: £0.4m).

The Group's existing debt facility remained unused throughout 2012 and, given current cash balances and working capital requirements, the facility was terminated on 22nd January 2013 resulting in modest future cost savings.

Strategy

Biome Bioplastics

The sale of Biotec has allowed a tighter focus on this Division's strategy of targeting opportunities in the bioplastic market that require higher functionality and are market leading in their application. In the short term, this involves a focus on the markets where Biome differentiated products are in demand, particulalry those requiring thermal stability and modified rheology for coating.

In this context, the two most promising projects underway are:

- Single use foodservice products - The pre-launch evaluation work with a leading manufacturer of high performance food service products continues to progress well. This is a project that was first initiated in 2009 and the customer has committed significant resources to the product's deployment to date. The optimised product is now in the late stage of testing for composting performance and high-speed manufacture. Technical and commercial progress is running slightly ahead of schedule and market testing is expected to start in the third quarter.

- Single use coffee capsules - This project is also progressing according to expectations. Begun in 2010, detailed formulation work through 2011 and 2012 led to market testing in the fourth quarter of 2012. Subsequently, an initial launch was undertaken in January 2013 with some 40 tonnes of bioplastic delivered. Manufacturing of the product is now scaling up in the USA with a view to launching with a broader range of end-use coffee brands through the year. Demand projections continue to be firm.

Whilst the expected growth trajectories of both these applications is strong, they are still in their development phase. Their actual performance and contribution to the Group will become clearer during the second half of the year when they are expected to pass into a predominantly manufacturing phase.

With maturing interest in these novel bioplastics from the food service/coffee markets, the Bioplastics Division has been broadening its contact with potential customers in these sectors in both Europe and the USA. There are encouraging signs from this market and a number of other trials have been initiated.

To support the expected manufacturing requirements arising from these projects, the Division has been evaluating and trialling with a small number of potential toll-converters. This work is proceeding well with a UK based manufacturer with significant capacity and large scale trials are now being undertaken.

The Division has also been investigating opportunities for the manufacture of bio-based materials through the use of synthetic biology. This is an emerging technology and Biome has a small number of exploratory collaborations with both academic and industrial partners. The UK Government has identified the commercialisation of synthetic biology as an area of high priority where the UK can build a world leading position. The Board is identifying ways to accelerate business in this area, without depleting the Group's cash resources with the full development costs and is awaiting the result of a grant application to the Technology Strategy Board (a Government body charged with making the UK a global leader in innovation). The result of this application is expected in the near future.

Stanelco RF Technology

The Stanelco RF Technologies Division continues to see a wider variety of opportunities opening up as the business grows. There was a subdued end to 2012 as a number of optical fibre furnace deliveries were delayed due to some uncertainties in the Chinese fibre market; this market is expected to return to growth as the current year unfolds. Progress continues on the Durapipe project and the delivery timing for ten pre-production units will be finalised following time-based testing of the final pipe-work over the next quarter.

Neil Martin, who has ably led this Division for the past 4 years has decided to step down from commercial life in February 2013 and we thank him for the transformation in performance he has brought to the business over the past few years. Paul Mines (our Group CEO) will lead this Division for the time being whilst we recruit a replacement Managing Director.

Group

The Group continues to challenge all aspects of its cost base as exemplified by the cost reduction programme initiated in May 2012. In this context, the legacy long leases on three buildings in Southampton remain a significant drag on the path towards profitability and the Board is exploring a number of strategies that might mitigate this outflow. To this end, Bailey Watkins LLP (a specialist property consultancy) has been engaged to support the Board in determining whether early termination of one or more of the leases is in the economic interest of the Group. Discussions are underway with the landlord. Separately, the Board continues to market these buildings vigorously as available for sub-lease.

As outlined previously, the Board is assessing the potential scope for returning funds to shareholders that may be in excess of those required in the medium term. This would require a Court sanctioned re-organisation of capital, given the large accumulated losses and substantial share premium accounts on the Group's balance sheet. Furthermore, an evaluation of the cash requirements in the medium term must be predicated on, amongst other things, greater clarity on the legacy cost issues described above.

Board and Employees

In November 2012, Declan Brown stepped down as Group Finance Director and from the Board. We thank him for his strong support and contribution during his tenure and wish him well for the future.

Michael Kayser, Senior Independent Non-Executive Director, has taken over the Finance Director's duties on a part time and interim basis.

I would like to thank all employees for their help and support during this year of change. We have a great team in place, ably led by Paul Mines, and they will continue to move the Group forward towards sustainability.

Outlook

Biome continues to progress with new products and technologies to improve its future prospects and develop new markets. It is particularly encouraging to see a number of these technologies at an advanced stage on the path towards commercialisation in both Bioplastics and RF Technologies.

Our main focus this year will be both to actively promote and support the growth of our Divisions and to reduce our ongoing legacy liabilities.

It is expected that the prospects for the two leading bioplastic projects will emerge more clearly in the second half of 2013 and that the Group's performance for this year will be weighted accordingly.

John Standen
Chairman

27th March 2013

Chief Executive's statement

Performance

After a strong 2011, the Group entered 2012 with the clear expectation that the Bioplastics Division would drive growth for the Group in the year. However in the second quarter it became clear that the upheaval in the European bioplastic markets would fundamentally change these plans. Legislative uncertainty in Europe, predominantly in Italy, caused disequilibrium in the supply and demand balance for both Biome Bioplastics and Biotec's external customers.

The immediate action was to implement cost cutting measures at the end of May 2012, designed to save the Group £0.6m on an annualised basis. This was enacted quickly and recurring administrative expenses, excluding Biotec and non-cash items, in 2012 were £2.5m compared to the 2011 level of £2.8m.

The long term strategy of the business in the bioplastics area has been to differentiate Biome Bioplastics from other competitors through a focus on the development and commercialisation of highly functional innovative materials. Whilst Biotec was contained within the Group's portfolio, this had to be balanced with the requirement to drive rapid low-margin volume growth in order to fill the dedicated high-volume factory. The approach from SPhere SA to buy the Group's 50% stake in Biotec was welcomed. It not only provided cash inflow and eliminated the ongoing impact of the litigation with Novamont, but this also freed up significant management and technical resource to work exclusively on developing and commercialising Biome's more differentiated product offering.

The changes of 2012 have reduced the Group's complexity and allowed us to work on a more focused basis. Although the markets remain uncertain in 2013, the business has an excellent base of technology, good working partnerships with a number of multinationals and the resources to maximise commercial exploitation.

Operational Review

Bioplastics Division

Revenues in the Bioplastics division decreased to £8.7m, (2011: £16.2m). This drop is a result of the reduced market demands and Biotec's revenue only being recorded to the Group until divesting its ownership on 1st October 2012.

Markets

The production price of biodegradable plastics is currently over twice that of a traditional petro-chemical plastic. Adoption of biodegradable plastics is therefore reliant on legislation as well as consumer demand. During 2011, the Italian market for bioplastics became one of the largest in Europe following the implementation of regulations mandating the use of biodegradable products for shopping bags. As such the Italian market became a key element to the overall supply and demand equilibrium for bioplastics.

In the first half of 2012, customers of the Division reported subdued demand for their own bioplastic end products, particularly in the markets of southern Europe. In May 2012, the Group became aware that the financial penalty for non-compliance with the Italian regulations (enforced in 2011) would be deferred. This resulted in a significant slow down in the adoption rate in the Italian market with many final users reverting to oil based materials. The result for the industry was a broader disruption to the supply and demand balance of bioplastics in Europe. Whilst attempts continue in Italy to re-implement legislation in favour of bioplastic bags, the certainty, form and timing of any such laws remains unclear.

Several other markets for bioplastics, including Brazil and Germany, also saw set-backs to legislation or agreed implementations in 2012. This leads to a broader conclusion that the adoption of bioplastics in low value end-uses (such as bags) will remain uncertain, particularly in geographies where consumers and politicians are exposed to the headwinds of economic austerity.

In regard to our high-performance ranges, where Biome has leading products based on wholly owned IP, market interest remains strong. It is not an accident that the two bioplastic projects of potential, mentioned in the Chairman's report, that show most promise for commercial success are linked to the single serving consumer coffee market. This is a market of significant scale that has been growing rapidly and where the packaging cost is a minor portion of the finished product, enabling brands greater freedom to consider bio-based alternatives.

Sale of Biotec

On 1st October 2012, the Company disposed of its 50% holding in Biotec Holding GmbH, together with an associated shareholder loan of €6.2m made by the Company to Biotec, to SPhere S.A. for £5.2m in cash. The disposal of Biotec resulted in an exceptional charge of £3.4m in the Group's consolidated statement of comprehensive income.

The board of directors of the Company concluded that the transaction was in the best interests of the shareholders for a number of reasons. In particular:

- the demand for biodegradable plastic polymers manufactured by Biotec and sold by Biome and SPhere had reduced significantly during 2012. This followed the suspension of legislation in Italy banning the use of conventional plastic shopping bags and the deferment of legislation or voluntary adoption for similar applications in other territories. This change to legislation has had a materially adverse impact on sales in this market with the timing of the return of growth uncertain;
- the ongoing cost of litigation with Novamont was likely to limit the returns from Biotec in the short to medium term;
- the overhead costs of a large scale factory and the cost base of the current product chemistry limited the margins available;
- the low margin characteristic of the plastic bag market drove a requirement for significant volume through Biotec;
- Biome's own strategy and technology development path was focused on materials with higher functionality and margins than those achieved through Biotec; and
- It was likely that the production technology required for the intellectual property being developed by Biome would have required different process technology in due course.

It should also be noted that as at 31 December 2011 the goodwill included in Biotec's balance sheet amounted to £7.1m. Given the market downturn in bioplastics that was experienced throughout 2012 it is likely that an impairment charge would have been required on the Biotec goodwill if it had not been sold.

In conclusion, the sale has enabled the Company to focus on, and accelerate, the development and commercialisation of its own wholly owned intellectual property which will deliver the strategy of selling high-margin, application-led products with enhanced levels of functionality.

Technical Development

During 2012, the UK-based development team has allocated its time between supporting trials with existing and new customers, re-formulating existing products and pushing forward new material development, often in collaboration with significant customers. With the sale of Biotec, the UK team is now able to focus solely on the development and commercialisation of the Company's wholly owned intellectual property.

Significant further development work was undertaken on cellulosic based materials that include raw materials that do not compete for land and water use with food-based crops. This has produced a high temperature resistant product (BiomeHT) which allows the use of biodegradable plastics at a temperature higher than mainstream biodegradable plastics. This material has been produced in limited quantities at a toll-manufacturer in the UK and work continues to scale-up this process.

There are now three product ranges that we are actively promoting where we believe we have a differentiated product in the market:

BiomeHT	Enhanced temperature performance (compostable)
BiomeEasyflow	Low viscosity for coating/lamination (compostable)
BiomeEP	Surface modified for lamination (compostable)

BiomeEasyflow is a modified rheology product that has promise for the coating of paper and board. Laboratory work has progressed well in the last 12 months and customer trials have begun.

To ensure our next generation of bioplastics can challenge the dominance of oil-based plastics, and ultimately replace them in wider applications, research and development is required that tackles the intrinsic synthesis of bioplastics that keeps costs high and limits performance. Biome Bioplastics has partnered with, amongst others, the University of Warwick's Centre for Biotechnology and Biorefining that is pioneering some leading edge work in the use of synthetic biology to achieve this. The business is awaiting the result of a grant application to fund a collaboration with Warwick made to the Technology Strategy Board (a Government body charged with making the UK a global leader in innovation).

Investment in Biome Bioplastics product development in the year was £0.2m (2011: £0.3m).

Expenses

As a result of the turbulence experienced in the market during 2012, the Group entered into a streamlining process in May 2012 with the aim of reducing £0.6m from the cost base on an annualised basis. For 2012 the recurring administrative expenses of the Group excluding Biotec and non-cash items (depreciation, amortisation, and impairment charges) reduced £0.3m from the 2011 levels to £2.6m.

The management team continues to focus on reducing costs although it will also incur some additional cost in order to expedite the commercialisation of products using its own wholly owned intellectual property.

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. The management are investigating a number of options to mitigate the financial impact of these onerous leases.

Stanelco RF Technologies Division

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

The business has continued its profitability of recent years whilst looking to diversify its product offering to complement its core fibre optic furnace business. Revenues in 2012 at £2.3m were lower than in the comparable period (2011: £2.9m) as a number of optical fibre furnace orders were delayed due to some turbulence in the Chinese fibre market. To help mitigate the impact of this slippage in revenue there has been continued focus on cost controls and manufacturing efficiencies to minimise the impact on operating margin. Operating profit for the period was £0.4m (2011: £0.6m).

In addition, it was announced on 23 January 2013 that Stanleco has been appointed as the UK sales and service agent for Forsstrom High Frequency AB, "Forsstrom", a world leading supplier of high frequency welding equipment which extends Stanelco's product offering into larger plastic welding equipment.

The business focuses on four key revenue streams:

Optical Fibre Furnace Systems

Stanelco RF Technologies is one of the world's leaders 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. Each system is bespoke to the customer's exact requirements. 10 such furnaces were sold by the Division in 2012 (2011: 17) and it is believed that this is a significant proportion of all such sales globally.

The global demand for optical fibre experienced some turbulence towards the end of 2012 due to lack of visibility of demand of end fibre in China (possible linked to government change). This meant that orders for a number of furnaces expected towards the end of 2012 were delayed. With the rising cost of energy, a number of customers have been looking at furnaces which operate more efficiently. During the year, the Stanelco RF team has been developing more efficient furnaces which will look to capitalise on this. These new furnaces utilise novel insulating materials that are "transparent" to RF fields.

Plastic Welding Equipment

These units are used in a multitude of end-user applications including the nuclear, medical and industrial sectors. The equipment is provided in hand-held, mobile or fully automated static solutions dependent on the customers requirements. The recently announced collaboration with Forsstrom will help to broaden the businesses access in this sector and will extend the Division's product offering of larger welding equipment.

Induction Heating Equipment

During 2012 the business continued its work on a new family of equipment capable of providing rapid, highly controlled heating solutions to a wide range of industrial applications. This includes the Durapipe project where Stanelco RF has been contracted by Durapipe UK to develop a new and innovative portable welding system.

Service and Spares

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

Financial review

The summary results for the Group are shown below. It should be noted that for both the financial year 2012 and the 2011 comparative, under IFRS, the result of Biotec has been reclassified as a discontinuing activity with the 2012 result being to the point of the joint venture's sale on 1st October 2012. The revenues and results for Biome Bioplastics include sales of Biotec produced products sold to external customers.

	2012	2011	Growth
PRO-FORMA LIKE-FOR-LIKE COMPARISONS	**£'m**	**£'m**	
Revenues			
Biome Bioplastics	3.4	6.4	(47)%
RF Technologies	2.3	2.9	(21)%
Revenues - continuing operations	**5.7**	**9.3**	**(39)%**
Discontinued operations - Biotec	5.3	9.8	(46)%
Total revenues	**11.0**	**19.1**	**(42)%**
Loss from operations			
Biome Bioplastics	(1.0)	(0.5)	(100)%
RF Technologies	0.4	0.6	(33)%
Central costs	(1.5)	(1.6)	6%
Loss from operations - continuing operations	**(2.1)**	**(1.5)**	**(40)%**
Discontinued operations - Biotec	(0.1)	0.5	(120)%
Loss from operations	**(2.2)**	**(1.0)**	**(120)%**
Non-current assets	1.5	10.3	
Inventories	0.4	2.8	
Trade and other receivables	1.1	6.3	
Cash	6.3	2.4	
Provisions	(0.2)	-	
Trade and other payables	(1.0)	(4.1)	
Promissory notes	-	(2.7)	
Obligations under finance leases	-	(0.1)	
Net assets	**8.1**	**14.9**	

Revenues

Group revenues, including those of Biotec, decreased in the year from £19.1m to £11.0m driven mainly by the disruption to the volume market in Europe and the sale of Biotec.

In Biome Bioplastics, revenues fell by 47% as the delay in the enforcement of the Italian legislation caused disruption to the supply and demand balance within the European market. External sales of Biotec were down 46% due to the change to Italian legislation and also the results being included only up to the point of the sale of the Group's shares in Biotec on 1 October 2012

In RF Technologies, revenues slipped 21% in 2012 as furnace orders anticipated for the end of 2012 were delayed due to some turbulence in the Chinese fibre optic market.

Operating profits/(losses)

The Group's loss from operations on a like for like proforma basis for the year increased from £1.0m to £2.2m.

At the end of May 2012, the Group announced that it would be taking steps to reduce costs by approximately £0.6m per annum. Recurring administrative expenses across the Group, excluding Biotec, in 2012 were £3.1m (2011: £3.2m). When the non cash effects of depreciation, amortisation, and goodwill impairment are removed the recurring administrative expenses in 2012 were £2.5m (2011: £2.8m), a drop of £0.3m compared to the prior year showing that the Group is on target to achieve these cost savings. As in 2011, the directors have waived their bonus entitlements for 2012.

Product development costs of £0.3m (2011: £0.4m) were capitalised in the year. Tax R&D claims resulted in a tax credit received in the year of £0.1m (2011: credit of £0.1m).

On continuing activities, finance related credits and charges, including foreign exchange gains and losses, totalled £0.01m for the year (2011: £0.06m). The foreign exchange loss of £0.3m (2011: £0.1m) relating to the revaluation of the loan to Biotec is included within result from discontinued operations.

The Group also incurred £3.4m of exceptional costs in the year. These exceptional items relate solely to the disposal of Biotec. The exceptional loss on disposal comprised total consideration of £5.2m less goodwill £0.1m, net assets of £3.9m, loan held in parent company of £5.0m, directly attributable disposal costs of £0.5m, and plus cumulative translation differences recognised in equity of £0.9m.

The Group's loss after tax, after exceptional items on the sale of Biotec, for the year was £5.8m (2011: loss after tax of £1.1m), giving a loss per share of 0.098p (2011: loss per share of 0.018p).

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Balance sheet

Post the sale of Biotec the Group has a significantly slimmed down balance sheet with no goodwill existing as at 31 December 2012. The carrying value of intangible assets relate to capitalised development costs predominantly within Biome Bioplastics for the Group's own intellectual property and product range going forward.

As at 31 December 2012 there is £1.2m of capitalised development costs within the Group's balance sheet of which £0.9m relates to BiomeHT and BiomeEasyflow. An assessment is made at least annually which assumes future potential market take up of the products and the margins achievable.

In addition, with the sale of Biotec there is lower working capital in the Group and the promissory notes receivable, and payable were extinguished as part of the sale.

Cashflow

	2012 £'m	2011 £'m
Cashflow		
Loss from continuing operations	(2.1)	(1.5)
Adjustment for non-cash items	0.6	0.4
Movement in working capital	0.7	(0.3)
Cash utilised by continuing operations	**(0.8)**	**(1.4)**
Corporate taxation received	0.1	0.1
Investment activities	(0.3)	(0.1)
Cash outflow before financing - continuing operations	**(1.0)**	**(1.4)**
Disposal of joint venture (net of expenses)	5.0	-
Net increase/(decrease) in cash - continuing operations	**4.0**	**(1.4)**
Cash outflow before financing – discontinued operations	(0.6)	0.1
Financing activities – discontinued operations	0.5	(0.3)
Net increase/(decrease) in cash - all operations	**3.9**	**(1.6)**
Opening cash balance	2.4	4.0
Closing cash balance	**6.3**	**2.4**

The cash utilised from operations before working capital movements was £1.5m (2011: £1.1m) reflecting the increased loss from operations during 2012 compared to the prior period. As a result of the sale of Biotec, working capital decreased within Biome Bioplastics as inventories were wound down and trade debtors and creditors were reduced. There was, therefore, a positive swing in working capital of £1.0m compared to the previous year. As a result, the cash utilised by operations during 2012 was £0.8m (2011: £1.4m).

The net cash inflow of £0.5m within financing activities in discontinued operations mainly reflects the bank loan taken out within Biotec in July 2012.

There was negligible investment in the year in new property, plant and equipment (2011: £0.1m) and £0.3m in product development (2011: £0.4m).

The closing cash position was £6.3m (2011: £2.4m) reflecting the sale of Biotec in the year.

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.

Employees

With the streamlining process there were a number of redundancies and I thank both the outgoing members of the team for their contributions to the Group and also to the remaining members of the team who continue to show innovation in both the product and commercial positions we are developing.

Paul Mines
Chief Executive Officer

27th March 2013

Directors' report

The directors present their Annual Report and the audited Financial Statements of Biome Technologies plc for the year ended 31 December 2012.

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 (2011: 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 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.

Some of the Group's products, namely in the Bioplastics division, require customers to transition away from traditional petro-chemical plastics to biodegradable plastics which the Group produces. There is a risk that the customer take up is delayed or fails to materialise.

The Group seeks to align its products with customers who are requiring biodegradable options as an alternative to their traditional petro-chemical plastics.

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 is seeking to become 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.

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 £325,000 (2011: £396,000), of which £265,000 (2011: £357,000) 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 (2011: £nil).

GOING CONCERN

The Group had cash resources of £6.3m at 31 December 2012. The cash utilised by continuing operations in the year, before working capital movements, was £1.5m.

The Group's debt facility with BNP Commercial Finance (previously Fortis Commercial Finance) had remained unused during 2012 and, given the Group's cash balances, was therefore terminated on 22 January 2013.

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.

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 2013.

	Ordinary shares of 0.1p each	
	Percentage	**Number**
VA Pereira	10.04	590,864,184
JM Rushton-Turner	9.45	556,126,257

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 25 April 2012, the directors were authorised to allot equity securities for cash up to a maximum of 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 to renew 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 to renew 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 to renew 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 2012	31 December 2011
Michael A Kayser (Senior Independent Non-Executive Director)	**10,000,000**	10,000,000
John F Standen (Chairman)	**25,708,168**	25,708,168
Paul R Mines (Chief Executive)	**50,403,192**	50,403,192
Declan L Brown (Group Finance Director)	**2,000,000**	2,000,000

Declan L Brown resigned as Group Finance Director on 30 November 2012.

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, Paul R Mines 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 64, 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 57, 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 49, 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.

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 30 days' purchases (2011: 52 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.

During the year ended 31 December 2012 the Board and Audit Committee approved an extension to the engagement term of the Senior Statutory Auditor responsible for the audit opinion in relation Biome Technologies Plc. The term was extended from 5 to 6 years to ensure continued audit quality. The Audit Committee is satisfied that this extension does not in any way prejudice the objectivity and independence of the auditor.

By Order of the Board

Donna R Simpson-Strange
Company Secretary

27 March 2013

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 2012, the board comprised the non-executive chairman, one other non-executive director and two executive directors. On 30 November 2012 the Group Finance Director, Declan L Brown, resigned from the Board and was replaced on a part time interim basis by Michael A Kayser, Senior Independent Non-Executive Director.

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 Independent Non-Executive Director)	Member	Chairman	Chairman	Member
P R Mines (Chief Executive)	Member	*	*	*

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 in B.1.1 of the UK Corporate Governance Code. JF Standen's shareholding and participation in the Public Equity Scheme and MA Kayser's shareholdings in the Company are considered to be too small to affect their independence.

Following the departure of Declan Brown on 30 November 2012 there has been a reallocation of duties of the financial directorate. Whilst some of the duties and day to day activities have been absorbed by the Financial Controller the majority of the board and shareholder obligations are being done on a temporary basis by Michael Kayser. Given Michael Kayser is not involved in the day to day decision making of the Company and this is not deemed a long term part of Michael Kayser's role, the board has deemed that this has not affected Michael Kayser's independence as an independent non-executive director.

BOARD PROCEDURES

The board met formally on 13 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 2012.

	Board	Audit Committee	Remuneration Committee	Nomination Committee
J F Standen	13	2	1	—
MA Kayser	12	2	1	—
P R Mines	13	*	*	*
D L Brown	12	*	*	*
Number of meetings in the year	13	2	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.

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 two 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 Chief Executive 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 2012. 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 2012 in support of the Group's growth strategy. Their bonuses in respect of 2011 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	7 Oct 2010	None	None	Annually
John F Standen	23 Feb 2007	None	None	Annually
Executives				
Paul R Mines	16 April 2007	4 months	12 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 2012, 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 2012, 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 2012 was 0.08p (31 December 2011: 0.17p) and traded during the year at prices between 0.08p and 0.22p (2011: 0.14p and 0.34p).

DIRECTORS' REMUNERATION DURING THE YEAR

	Year ended 31 December 2012					
	Base salary/fees	**Bonuses**	**Car allowances**	**Benefits in kind**	**Total**	Year ended 31 December 2011 Total
	£	**£**	**£**	**£**	**£**	£
Paul R Mines	**127,500**	—	**8,160**	**1,740**	**137,400**	113,437
Susan J Bygrave	—	—	—	—	—	92,191
Declan L Brown	**107,186**	—	**6,160**	**1,328**	**114,674**	20,287
John F Standen	**38,250**	—	—	—	**38,250**	31,500
Michael A Kayser	**21,792**	—	—	—	**21,792**	17,000
Total	**294,728**	—	**14,320**	**3,068**	**312,116**	274,415

The Company made contributions to individual pension schemes as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
	£	£
Paul R Mines	**15,000**	10,500
Susan J Bygrave	—	8,604
Declan L Brown	**10,542**	1,917
	25,542	21,021

By Order of the Board

Michael A Kayser
Chairman of the Remuneration Committee

27 March 2013

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 consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). The Group 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.

The directors confirm that:

- 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 as directors in order 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

27 March 2013

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 2012 which comprise the consolidated and parent company statement of financial position, the consolidated statement of comprehensive income, the consolidated and parent company statements of cash flow, the consolidated and parent company statements of changes in equity, principal accounting policies 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 2012 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
27 March 2013

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 2012.

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.

The directors have prepared 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 knowlege, 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.

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 2011.

As of 31 December 2012, the following standards and interpretations are in issue but not effective for accounting periods commencing on 1 January 2012:

- IFRS 10 Consolidated Financial Statements (effective 1 January 2014)
- IFRS 11 Joint Arrangements (effective 1 January 2014)
- IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2014)
- IFRS 13 Fair Value Measurement (effective 1 January 2013)
- IAS 27 Separate Financial Statements (effective 1 January 2014)
- IAS 28 Investments in Associates and Joint Ventures (effective 1 January 2014)

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 2012. 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 2012 the subsidiary undertakings were Stanelco RF Technologies Limited, InGel Technologies Limited, Biome Bioplastics Limited (formerly Adept Polymers Limited) and Aquasol Limited. On 1 October 2012 the company disposed of its 50% holding in its joint venture headed by Biotec Holding GmbH.

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 consolidation 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. The joint venture is included in the Group's financial statements as a discontinued operation.

PROFIT OR LOSS FROM DISCONTINUED OPERATIONS

A discontinued operation is a component of the group that either has been disposed of or is classified as held for sale, that represents a separate major line of business or geographical area of operations and is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired entirely with a view to resale. Profit or loss from discontinued operations, including prior year components of profit or loss, is presented in a single amount in the statement of comprehensive income. This amount, which comprises the post-tax profit or loss of discontinued operations and the post-tax gain or loss resulting from the measurement and disposal of assets classified as held for sale is analysed in note 6. The disclosures for discontinued operations in the prior year relate to all operations that have been discontinued by the latest presented year end.

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

Revenues includes the sale of biodegradable and sustainable products in Bioplastics and the sale of optical fibre furnace systems, plastic welding equipment, induction heating equipment and spares in RF Applications divisions. Revenue from the sales of these 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 RF Applications division is involved in rendering services which include servicing, maintenance, consultancy, bespoke assembly and installation activities in relation to the equipment described above. 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 based upon a percentage of revenue of specific products 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 2012 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.

Exceptional items

The Group presents as exeptional items, on the face of the statement of comprehensive income, those material items of income and expense which, because of their nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance during the period, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

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 '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.

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".

On disposal of a foreign operation the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recorded as part of the gain or loss on disposal.

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 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.

In the Company accounts where the grants relate to subsidiary employees the initial fair value and any subsequent adjustments are recognised as an addition to the cost of investment in the subsidiary company over the vesting period.

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.

CRITICAL ACCOUNTING JUDGEMENTS

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

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 the "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.

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 in individual accounts of the respective entities.

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.

Intangible assets

The directors make an assessment of the carrying value of the intangible assets at least annually forecasting cash flows from the relevant products. These forecasts make an assumption on potential market take up of the products and the margins achievable. During the year, and as a direct result of the sale of the Group's holding in Biotec, an impairment charge was taken on those development activities that relate solely to the Biotec investment.

Property leases

The Group has property lease obligations for three properties in Southampton of which only one is occupied by the operations of the Group. Of the remaining two, one is let to a third party tennant and the other is currently vacant. An accrual exists for the vacant unit of £222,000 which is an estimate of the void letting and potential rent free period that will be required to let the vacant unit. The board is looking at all options available to it with regards these buildings and is looking at strategies to mitigate the potential cash outflows including sub-letting and/or early termination of the leases with the landlord.

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 Before exceptional items £'000	2012 Exceptional items £'000	**2012 Total £'000**	2011 Total £'000
Continuing Operations					
REVENUE	1a-1d, 2	5,652		**5,652**	9,235
Cost of sales	10	(4,596)		**(4,596)**	(7,472)
GROSS PROFIT		1,056		**1,056**	1,763
Administrative expenses	3a-3b, 4	(3,107)		**(3,107)**	(3,235)
LOSS FROM OPERATIONS		(2,051)		**(2,051)**	(1,472)
Investment income		10		**10**	149
Foreign exchange loss		(23)		**(23)**	(88)
LOSS BEFORE TAXATION FROM CONTINUING OPERATIONS		(2,064)		**(2,064)**	(1,411)
Taxation	5a	73		**73**	78
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		(1,991)		**(1,991)**	(1,333)
Discontinued operations	6	(365)	(3,413)	**(3,778)**	281
LOSS FOR THE YEAR		(2,356)	(3,413)	**(5,769)**	(1,052)
Other comprehensive income:					
Retranslation reserve on disposal		—	(854)	**(854)**	—
Exchange differences on translating foreign operations		(216)		**(216)**	(113)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(2,572)	(4,267)	**(6,839)**	(1,165)
Basic and diluted loss per share – pence (continuing and discontinuing operations)				**(0.098)**	(0.018)
Basic and diluted loss per share – pence (continuing operations)				**(0.034)**	(0.023)
Basic and diluted (loss)/profit per share – pence (discontinuing operations)				**(0.064)**	0.005

The calculation of earnings per share is based on the loss attributable to the equity holders of the parent for the year of £5,769,000 (2011: loss of £1,052,000) and a weighted average of 5,884,866,333 (2011: 5,884,866,333) ordinary shares in issue.

Details of share options which could potentially dilute basic earnings per share in future periods are given in Note 18.

Consolidated statement of financial position

AS AT 31 DECEMBER 2012

	Note	2012 £'000	2012 £'000	2011 £'000	2011 £'000
NON-CURRENT ASSETS					
Goodwill	7	**—**		7,289	
Other intangible assets	7	**1,213**		1,348	
Property, plant and equipment	8a	**302**		1,651	
			1,515		10,288
CURRENT ASSETS					
Inventories	10	**369**		2,763	
Trade and other receivables	11a	**1,128**		6,269	
Cash and cash equivalents		**6,275**		2,399	
		7,772			11,431
TOTAL ASSETS			**9,287**		21,719
CURRENT LIABILITIES					
Provisions	12	**222**		—	
Trade and other payables	13a	**931**		4,090	
Promissory notes payable	15	**—**		2,666	
Obligations under finance leases	16	**—**		94	
			1,153		6,850
TOTAL LIABILITIES			**1,153**		6,850
NET ASSETS			**8,134**		14,869

AS AT 31 DECEMBER 2012

	Note	2012 £'000	2011 £'000
EQUITY			
Share capital	17	**5,885**	5,885
Share premium account		**38,623**	38,623
Share options reserve	18	**966**	862
Translation reserves		**(85)**	985
Retained losses		**(37,255)**	(31,486)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT AND TOTAL EQUITY		**8,134**	14,869

The financial statements were approved by the Board on 27 March 2013.

Signed on behalf of the Board of Directors

Paul R Mines **(Chief Executive)**

27 March 2013

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 2012

	Note	**2012 £'000**	**2012 £'000**	2011 £'000	2011 £'000
NON-CURRENT ASSETS					
Property, plant and equipment	8b	**17**		20	
Investments	9	**558**		5,322	
			575		5,342
CURRENT ASSETS					
Trade and other receivables	11b	**427**		361	
Amounts owed by related parties	28	**5,966**		13,040	
Cash and cash equivalents		**5,164**		838	
			11,557		14,239
TOTAL ASSETS			**12,132**		19,581
CURRENT LIABILITIES					
Provisions	12	**222**		—	
Trade and other payables	13b	**489**		767	
Amounts due to subsidiary undertakings	28	**589**		588	
			1,300		1,355
NON-CURRENT LIABILITIES			**—**		—
TOTAL LIABILITIES			**1,300**		1,355
NET ASSETS			**10,832**		18,226

AS AT 31 DECEMBER 2012

	Note	2012 £'000	2011 £'000
EQUITY			
Share capital	17	**5,885**	5,885
Share premium account		**37,895**	37,895
Share options reserve	18	**771**	667
Retained losses		**(33,719)**	(26,221)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**10,832**	18,226

The financial statements were approved by the Board on 27 March 2013.

Signed on behalf of the Board of Directors

Paul R Mines **(Chief Executive)**

27 March 2013

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 2012

	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	TOTAL EQUITY £'000
Balance at 1 January 2012	5,885	38,623	862	985	(31,486)	14,869	14,869
Share options issued in share based payments	—	—	104	—	—	104	104
Transaction with owners	—	—	104	—	—	104	104
Loss for the year	—	—	—	—	(5,769)	(5,769)	(5,769)
Other comprehensive income: Exchange differences on translation of foreign operations	—	—	—	(216)	—	(216)	(216)
Reversal on sale of Biotec	—	—	—	(854)	—	(854)	(854)
Total comprehensive income for the year	—	—	—	(1,070)	(5,769)	(6,839)	(6,839)
Balance at 31 December 2012	5,885	38,623	966	(85)	(37,255)	8,134	8,134
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

Company statement of changes in equity

AS AT 31 DECEMBER 2012

	Share capital	Share premium	Share options reserve	Retained losses	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2012	5,885	37,895	667	(26,221)	18,226
Share options issued in share based payments	—	—	104	—	104
Transaction with owners	—	—	104	—	104
Loss for the year	—	—	—	(7,498)	(7,498)
Total comprehensive income for the year	—	—	—	(7,498)	(7,498)
Balance at 31 December 2012	5,885	37,895	771	(33,719)	10,832
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

Consolidated statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	2011
	£'000	£'000
Loss after tax - continuing activities	(1,991)	(1,333)
Adjustment for:-		
Taxation	(73)	(78)
Foreign exchange loss	23	88
Investment revenue	(10)	(149)
Loss from operations - continuing operations	(2,051)	(1,472)
Adjustment for:-		
Amortisation and impairment of intangible assets	420	262
Depreciation of property, plant and equipment	55	58
Share based payments	123	120
Foreign exchange (loss)/gain	(21)	(30)
Operating cash flows before movement in working capital	(1,474)	(1,062)
Decrease/(increase) in inventories	362	(575)
Decrease/(increase) in receivables	788	363
Increase/(decrease) in payables	(475)	(98)
Cash utilised by continuing operations	(799)	(1,372)
Cash utilised by discontinuing operations	(592)	266
Cash utilised in operations	(1,391)	(1,106)
Corporate tax received	73	150
Interest paid - discontinued operations	—	(199)
Net cash outflow from operating activities	(1,318)	(1,155)
Investing activities		
Continuing operations		
Interest received	10	322
Investment in intangible assets	(265)	(357)
Purchase of property, plant and equipment	(6)	(55)
Net cash used in investing activities - continuing operations	(261)	(90)
Discontinuing operations		
Proceeds from disposal of joint venture – net of cash	4,991	—
Interest received	—	9
Purchase of property, plant and equipment	(23)	(68)
Net cash used in investing activities - discontinuing operations	4,968	(59)
Net cash used in investing activities	4,707	(149)
Financing activities		
Discontinuing activities		
Proceeds from borrowings	597	—
Repayment of obligations under finance lease	(90)	(250)
Net cash used in financing activities	507	(250)
Net increase/(decrease) in cash and cash equivalents	3,896	(1,554)
Cash and cash equivalents at the beginning of the year	2,399	3,963
Effect of foreign exchange rate changes	(20)	(10)
Cash and cash equivalents at end of year	6,275	2,399

Company statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	2011
	£'000	£'000
Loss after tax	**(7,498)**	(1,554)
Adjustment for:-		
Foreign exchange loss	**266**	115
Exceptional charges	**4,572**	—
Intergroup impairment charge	**1,222**	—
Investment revenue	**(48)**	(213)
Loss from operations	**(1,486)**	(1,652)
Adjustment for:-		
Depreciation of property, plant and equipment	**4**	5
Share based payments	**104**	120
Foreign exchange	**(5)**	15
Operating cash flows before movement in working capital	**(1,383)**	(1,512)
Decrease/(increase) in receivables	**459**	(854)
(Increase)/decrease in payables	**(53)**	71
Cash utilised by operations	**(977)**	(2,295)
Tax received	**—**	—
Interest paid	**—**	—
Net cash outflow from operating activities	**(977)**	(2,295)
Investing activities		
Interest received	**10**	496
Proceeds from repayment of loans to joint venture	**200**	—
Proceeds from disposal of joint venture	**5,094**	—
Purchase of property, plant and equipment	**(1)**	(4)
Net cash used in investing activities	**5,303**	492
Financing activities		
Proceeds of issue of ordinary share capital	**—**	—
Net cash from financing activities	**—**	—
Increase/(decrease) in cash and cash equivalents	**4,326**	(1,803)
Cash and cash equivalents at beginning of year	**838**	2,641
Cash and cash equivalents at end of year	**5,164**	838

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

1a. SEGMENTAL INFORMATION BY BUSINESS ACTIVITY FOR THE YEAR ENDED 31 DECEMBER 2012

	Bioplastics 2012 £'000	RF Technologies 2012 £'000	Central Costs 2012 £'000	Total 2012 £'000
Revenue				
Continuing operations				
External sales	**3,387**	**2,265**	**—**	**5,652**
Depreciation/amortisation	(153)	(143)	(4)	(300)
Impairment	(175)	—	—	(175)
Share based payments	—	—	(123)	(123)
(LOSS)/PROFIT FROM CONTINUING OPERATIONS	**(977)**	**411**	**(1,485)**	**(2,051)**
Interest received				10
Finance charges				—
Foreign exchange gain				(23)
LOSS BEFORE TAXATION FROM CONTINUING OPERATIONS				**(2,064)**
Taxation				73
LOSS AFTER TAXATION FROM CONTINUING OPERATIONS				**(1,991)**
DISCONTINUED OPERATIONS AND EXCEPTIONAL CHARGES				**(3,778)**
LOSS FOR THE YEAR				**(5,769)**
CAPITAL EXPENDITURE				
Property, plant and equipment	6	—	—	**6**
Intangible assets	198	67	—	**265**
TOTAL ASSETS	2,188	1,491	5,608	**9,287**

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 and Aquasol Limited. During the financial year the Group disposed of its 50% joint venture, Biotec, which was previously included in this division but is now disclosed as a discontinued activity. 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 2012

	Non-current assets 2012	Total assets 2012	Tangible assets Capital expenditure 2012	Intangible assets Capital expenditure 2012
	£'000	£'000	£'000	£'000
UK	1,515	9,287	6	265
	1,515	**9,287**	**6**	**265**

	Revenue 2012
	£'000
Finland	1,756
UK	679
China	646
India	642
Switzerland	503
US	406
Brazil	232
Other	788
	5,652

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

	Bioplastics 2011	RF Technologies 2011	Central Costs 2011	Discontinued Operations 2011	Total 2011
	£'000	£'000	£'000	£'000	£'000
Revenue from external customers	**6,331**	**2,904**	**—**		**9,235**
Depreciation/amortisation	(59)	(131)	(5)		(195)
Impairment	(125)	—	—		(125)
Share based payments	—	—	(139)		(139)
(LOSS)/PROFIT FROM CONTINUING OPERATIONS	**(423)**	**584**	**(1,633)**		**(1,472)**
Investment revenue					149
Finance charges					—
Foreign exchange gain					(88)
LOSS BEFORE TAXATION FROM CONTINUING ACTIVITIES					**(1,411)**
Taxation					78
Loss after taxations from continuing activities					**(1,333)**
Discontinued operations					281
LOSS FOR THE YEAR					**(1,052)**
CAPITAL EXPENDITURE					
Property, plant and equipment	27	2	4	89	**122**
Intangible assets	293	64	—	—	**357**
TOTAL ASSETS	7,060	1,301	1,219	12,139	**21,719**

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

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

	Revenue 2011
	£'000
Finland	2,775
UK	1,576
Italy	1,005
Switzerland	942
China	770
Brazil	648
Germany	312
United States of America	299
Other	908
	9,235

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 made by the Group's joint venture, Biotec, are not listed here as they are accounted for as a discontinued operation.

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

The Group had one customer (2011: one customer) who accounted for revenues of £1.7m (2011: £2.8m), which accounts for more than 10% of Group revenues.

2. REVENUE

	2012	2011
	£'000	£'000
Sales of goods	**5,399**	9,022
Sales of services	**79**	52
Royalty income	**174**	161
	5,652	9,235

3a. ADMINISTRATIVE EXPENSES

	2012 £'000	2011 £'000
Administrative expenses include:		
Depreciation, amortisation and impairment:		
Other intangible assets, owned	**420**	262
Property, plant and equipment, owned	**55**	58
Hire of plant and machinery	**5**	7
Operating lease rentals: Land and buildings	**282**	282
Operating lease income: Land and buildings	**(121)**	(113)
Share based payments – equity settled	**104**	120
Share based payments – cash settled	**19**	19
Bad debt provision	**15**	16

3b. AUDITORS' REMUNERATION

	2012 Grant Thornton UK LLP £'000	2011 Grant Thornton UK LLP £'000
Audit of the parent company	**18**	15
Audit of subsidiaries of company pursuant to legislation	**14**	11
Non audit services:		
Other services pursuant to legislation	**10**	12
Taxation services	**36**	54
Total charged to consolidated statement of comprehensive income	**78**	92

4. **DIRECTORS AND EMPLOYEES**

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

	Group		Company	
	2012	2011	**2012**	2011
	Number	Number	**Number**	Number
Management	**5**	6	**5**	5
Administration	**3**	4	**2**	2
Sales	**3**	2	**—**	—
Manufacturing and engineering	**8**	7	**—**	—
Discontinued operations	**11**	15	**—**	—
	30	34	**7**	7
	£'000	£'000	**£'000**	£'000
Staff costs:				
Wages and salaries	**1,002**	930	**473**	443
Social security costs	**115**	107	**56**	51
Pension costs – personal pension contribution	**64**	52	**36**	30
Discontinued operations	**530**	742	**—**	—
	1,711	1,831	**565**	524
Directors' remuneration				
Short term employment benefits	**348**	305	**348**	305
Pension costs – personal pension contributions	**26**	21	**26**	21
	374	326	**374**	326

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 £4,832 (2011: charge of £28,000).

5a. **TAXATION**

Analysis of charge in year	Group	
	2012	2011
	£'000	£'000
Current income tax		
Current income credit/charge	**—**	—
Adjustments in respect of prior periods:	**(73)**	(78)
Total current income tax (note 5b)	**(73)**	(78)
UK Corporation tax	**(73)**	(78)
Overseas Corporation tax	**—**	—
Total consolidated corporation tax credit	**(73)**	(78)

5b. **TAXATION**

Factors affecting tax charge for year	Group	
	2012	2011
	£'000	£'000
Loss on ordinary activities before taxation	**(2,064)**	(1,411)
Tax thereon at UK statutory income tax rate 24.5% (2011: 26.5%)	**(506)**	(374)
Expenses not deductible for tax purposes	**73**	41
Additional deduction for research and development expenditure	**(95)**	(97)
Other short term temporary differences	**6**	(1)
Unrelieved tax losses and other deductions	**550**	569
Utilisation of tax losses	**0**	(172)
Capital allowances in the period in excess of depreciation	**(28)**	34
Adjustment in respect of prior periods	**(73)**	(78)
Total UK corporation tax	**(73)**	(78)
Overseas corporation tax	**—**	—
Tax credit for the year	**(73)**	(78)

The Group has estimated trading losses of £25.6m (2011: £23.3m) available indefinitely for carry forward against future trading profits. The Company has estimated trading losses of £12.5m (2011: £11.2m) available indefinitely for carry forward against future trading profits. The Group had capital losses of £1.5m (2011: £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.

6. DISCONTINUED OPERATIONS AND EXCEPTIONAL ITEMS

	2012	2011
	£'000	£'000
Revenue	**5,359**	9,832
Cost of sales	**(4,428)**	(8,110)
Gross profit	**931**	1,722
Recurring administrative expenses	**(1,026)**	(1,290)
(Loss)/Profit from discontinued operations	**(95)**	432
Investment income	**2**	9
Finance charges	**(8)**	(25)
Foreign exchange loss	**(263)**	(121)
Operating loss before exceptional loss on disposal	**(364)**	295
Exceptional items:		
Loss on carrying value of Biotec	**(3,785)**	—
Transaction costs	**(112)**	—
Foreign exchange transaction gain	**854**	—
Writedown of inventories	**(168)**	—
Bad debt provision	**(52)**	—
Impairment of intangible assets	**(149)**	—
(Loss)/Profit before taxation from discontinued operations	**(3,776)**	295
Taxation	**(2)**	(14)
(Loss)/Profit after taxation from discontinued operations	**(3,778)**	281

On 1st October 2012 the Group sold its 50% interest and associated loans to SPhere S.A. for £5.2m. The above shows the trading performance to the point of sale based on its 50% shareholding. The exceptional items relate directly to the sale of Biotec.

The exceptional loss on disposal of £3,413,000 comprised total consideration of £5,200,000 less goodwill of £74,000, net assets sold of £3,940,000, loan held in parent company of £4,971,000, directly attributable disposal costs of £482,000, and plus cumulative translation differences recognised in equity £854,000.

The write down of inventories, bad debt provision and impairment of intangible assets, occurred in the bioplastics division as a result of the Biotec disposal and have therefore been treated as an exceptional item in relation to discontinued operations.

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 2011	1,991	7,283	8,248	17,522
Exchange differences	—	(169)	—	(169)
Additions	—	—	357	357
At 1 January 2012	1,991	7,114	8,605	17,710
Exchange differences	—	(338)	—	(338)
Additions	—	—	265	265
Disposal of Biotec	—	(6,776)	(5,920)	(12,696)
At 31 December 2012	**1,991**	**—**	**2,950**	**4,941**
Accumulated amortisation and impairment:				
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 1 January 2012	1,816	—	7,257	9,073
Provided in the year - charge for the year - continuing operations	—	—	245	245
- charge for the year - discontinuing operations	—	—	6	6
- impairment for the year	175	—	149	324
Disposal of Biotec	—	—	(5,920)	(5,920)
At 31 December 2012	**1,991**		**1,737**	**3,728**
Net book value:				
At 31 December 2012	**—**	**—**	**1,213**	**1,213**
At 31 December 2011	**175**	**7,114**	**1,348**	**8,637**

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 goodwill in relation to Biotec GmbH has been derecognised on disposal of the joint venture.
The goodwill in relation to Aquasol has been impaired by £175,000 in 2012 to zero net book value following expiry of its patents.

Other Intangible Assets comprise £1,213,000 (2011: £1,348,000) of capitalised development costs and in 2011: £6,000 of software licenses. The remaining amortisation period on the £1,213,000 of other intangible assets at 31 December 2012 is a weighted average of 4.2 years (2011: 4.5 years).

Of the £1,213,000 of capitalised development costs, £894,000 relates to Bioplastics and £319,000 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 2011	1,352	1,654	183	7	3,196
Exchange differences	(31)	(57)	—	—	(88)
Additions	1	120	1	—	122
Disposals	—	—	—	—	—
At 1 January 2012	1,322	1,717	184	7	3,230
Exchange differences	(63)	(120)	—	—	(183)
Additions - continuing operations	—	7	—	—	7
Additions - discontinuing operations	4	19	—	—	23
Disposals - continuing operations	—	(2)	(1)	—	(3)
Disposals - discontinuing operations	—	(4)	—	—	(4)
Disposals - sale of Biotec	(1,073)	(1,058)	(13)	(6)	(2,150)
At 31 December 2012	190	559	170	1	920
Depreciation:					
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 1 January 2012	258	1,161	153	7	1,579
Exchange differences	(16)	(104)	—	—	(120)
Provided in the year - continuing operations	13	39	3	—	55
Provided in the year - discontinued operations	34	101	—	—	135
Disposals - continuing operations	—	(1)	(1)	—	(2)
Disposals - discontinued operations	—	(3)	—	—	(3)
Disposals - sale of Biotec	(185)	(844)	9	(6)	(1,026)
At 31 December 2012	104	349	164	1	618
Net book value:					
31 December 2012	**86**	**210**	**6**	**—**	**302**
Net book value:					
31 December 2011	1,064	556	31	—	1,651

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 2012	—
At 31 December 2011	25
Depreciation charge for the year:	
31 December 2012	—
31 December 2011	172

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 2011	25	10	2	37
Additions	—	4	—	4
Disposals	—	—	—	—
At 1 January 2012	25	14	2	41
Additions	—	1	—	1
Disposals	—	—	—	—
At 31 December 2012	25	15	2	42
Depreciation:				
At 1 January 2011	12	4	—	16
Charge for year	3	2	—	5
Disposals	—	—	—	—
At 1 January 2012	15	6	—	21
Charge for year	2	1	1	4
Disposals	—	—	—	—
At 31 December 2012	17	7	1	25
Net book value:				
At 31 December 2012	**8**	**8**	**1**	**17**
At 31 December 2011	10	8	2	20

9. INVESTMENTS

	Total
	£'000
Investments Company	
Cost:	
31 December 2011	7,445
Disposals in year	(4,695)
31 December 2012	2,750
Diminuation in value:	
31 December 2011	2,123
Impairment charge in year	69
31 December 2012	2,192
Net book value at 31 December 2012	**558**
Net book value at 31 December 2011	5,322

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, as at 31 December 2012, relate to Aquasol with the disposal in the year being the Group's 50% holding in Biotec.

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

*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.

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). During the year the Group had a 50% investment in Biotec Holding GmbH wich was accounted for as a joint venture on a proportional basis until its sale on 1 October 2012.

10. **INVENTORIES**

	Group		Company	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Raw materials and consumables	**143**	1,237	**—**	—
Work in progress	**104**	36	**—**	—
Finished goods and goods for resale	**122**	1,490	**—**	—
Total	**369**	2,763	**—**	—

Cost of sales in the consolidated statement of comprehensive income relates to the cost of goods sold.

At 31 December 2011 RF stock with a purchase cost of £1,758,000 had been impaired down to a value of £43,000; during 2012 £14,000 of this stock has been sold or scrapped and the remainder has been impaired by a further £29,000.

11a. TRADE AND OTHER RECEIVABLES Group

	2012 £'000	2011 £'000
Trade receivables	**443**	2,497
Promissory notes receivable	**—**	2,698
Other receivables	**257**	540
Prepayments and accrued income	**428**	534
Total	**1,128**	6,269

An allowance has been made for estimated irrecoverable amounts from the sale of goods of £87,000 including £20,000 of the 2011 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 maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

The average credit period taken on the sale of goods is 29 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

	2012 £'000	2011 £'000
60 - 90 days	**52**	61
90 - 120	**41**	14
120 +	**67**	203
Total	**160**	278

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.

These promissory notes were sold to SPhere S.A. as part of the sale of Biotec on 1 October 2012.

11a. TRADE AND OTHER RECEIVABLES Group continued

Movement in allowance for doubtful debts:

	2012 £'000	2011 £'000
Balance at the beginning of the period	**49**	70
Exchange differences	**—**	—
Amounts written off as uncollectible	**(29)**	(50)
Impairment losses recognised	**67**	29
Total	**87**	49

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:

	2012 £'000	2011 £'000
120 + days	**87**	49
Total	**87**	49

11b. TRADE AND OTHER RECEIVABLES Company

	2012 £'000	2011 £'000
Trade receivables	**106**	37
Other receivables	**143**	138
Prepayments and accrued income	**178**	186
Total	**427**	361

Details of the intragroup receivables can be found in Note 28.

11b. **TRADE AND OTHER RECEIVABLES** Company continued

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

	2012 £'000	2011 £'000
90 - 120	**6**	—
120 +	**64**	—
Total	**70**	—

Movement in allowance for doubtful debts:

	2012 £'000	2011 £'000
Balance at the beginning of the period	**—**	—
Provided in the year	**—**	—
Provision transferred to subsidiary	**—**	—
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:-

	2012 £'000	2011 £'000
120+	**—**	—
Total	**—**	—

12. **PROVISIONS**

	2012 £'000	2011 £'000
Balance at the beginning of the period	**—**	—
Provided in the year	**—**	—
Reclassification from Trade and Other Payables	**222**	—
Balance at the end of the period	**222**	—

The Group has property lease obligations for three properties in Southampton of which only one is occupied by the operations of the Group. Of the remaining two, one is let to a third party tennant and the other is currently vacant. The provision of £222,000 is for the vacant unit and is an estimate of the void letting and potential rent free period that will be required to let the unit. The board is currently looking at all options available to it with regards these buildings.

13a. TRADE AND OTHER PAYABLES Group

	2012	2011
	£'000	£'000
Trade payables	**497**	3,224
Other taxation and social security costs	**28**	47
Other creditors	**97**	125
Property lease accruals	**—**	222
Accruals and deferred income	**309**	472
Total	**931**	4,090

13b. TRADE AND OTHER PAYABLES Company

	2012	2011
	£'000	£'000
Trade payables	**131**	259
Other taxation and social security costs	**28**	34
Other creditors	**97**	72
Property lease accruals	**—**	222
Accruals and deferred income	**233**	180
Total	**489**	767

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 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.

The property lease accrual of £222,000 in 2011 has been reclassified as a provision in the current year. The prior year has not been restated due to its immateriality in the 2011 balance sheet.

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

14. FINANCIAL INSTRUMENTS

Categories of financial instruments

	Group		Company	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Financial assets				
Loans and receivables	**6,975**	8,134	**11,379**	14,053
Financial liabilities recorded at amortised cost				
Trade and other payables	**861**	3,820	**1,008**	1,099
Borrowings (promissory notes)	**—**	2,667	**—**	—

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	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Euros	**630**	1,290	**3**	73
US Dollars	**159**	—	**158**	—

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

14. **FINANCIAL INSTRUMENTS** continued

Maturity of financial liabilities

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

Group

2012	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	861	—	—	—	—	861
Total	**861**	**—**	**—**	**—**	**—**	**861**

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	3,820	—	—	—	—	3,820
Borrowings (promissory notes)	2,667	—	—	—	—	2,667
Finance leases	94	—	—	—	—	94
Total	**6,581**	**—**	**—**	**—**	**—**	**6,581**

Company

2012	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	1,008	—	—	—	—	1,008
Total	**1,008**	**—**	**—**	**—**	**—**	**1,008**

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	1,099	—	—	—	—	1,099
Total	**1,099**	**—**	**—**	**—**	**—**	**1,099**

15. 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.

The promissory note obligation was derecognised on the sale of the Group's 50% share in Biotec on 1 October 2012.

16. OBLIGATIONS UNDER FINANCE LEASES Group

Obligations under finance leases

	2012	2011
	£'000	£'000
Within one year	**—**	95
In the second to fifth years	**—**	—
Minimum lease payments	**—**	95
Interest to be charged	**—**	(1)
Present value of minimum lease payments	**—**	**94**
Current liabilities	—	94
Non-current liabilities	—	—
Total	**—**	**94**

The average lease term is five years. For the year ended 31 December 2012 the effective borrowing rate was 12.25 per cent. The finance lease was held at Biotec, a 50% owned joint venture, and expired in February 2012. The Group's holding in Biotec was sold on 1 October 2012.

There are no finance leases in the parent company.

17. SHARE CAPITAL

	2012	2011
	£'000	£'000
Allotted, issued and fully paid: Ordinary shares of 0.1p each		
At 1 January: 5,884,866,333 (2011: 5,884,866,333)	**5,885**	5,885
Issued in the year: Nil (2011: Nil)	**—**	—
At 31 December: 5,884,866,333 (2011: 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 2012.

18. SHARE OPTIONS RESERVE

	Group		Company	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Opening balance	**862**	742	**667**	547
Income and expenditure charge for the year in respect of the fair value of share based payments under share option awards	**104**	120	**104**	120
Closing balance	**966**	862	**771**	667

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:

	2012 Number of ordinary shares	2011 Number of ordinary shares
Scheme		
Enterprise Management Incentive Schemes (EMI)	**7,797,223**	7,797,223
Stand alone unapproved share options	**16,400,000**	26,609,492
Stanelco plc 2005 Unapproved Share Option Plan and Stanelco plc Employment Benefit Trust (2005 USOP)	**346,296,135**	346,296,135
Total	**370,493,358**	380,702,850

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.

18. **SHARE OPTIONS RESERVE** continued

	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	0.608	7.96p

	Stand alone options	2005 USOP	EMI
Balance outstanding at 1 January 2012	26,609,492	346,296,135	7,797,223
Granted	—	—	—
Lapsed	(10,209,492)	—	—
Balance outstanding at 31 December 2012	16,400,000	346,296,135	7,797,223
Exercise prices of options outstanding at the period end in the range	3.5p - 10.7p	0.43p - 0.8p	3.875p - 19p
Weighted average exercise price of options outstanding at the year end	4.29p	0.608p	7.96p
Weighted average contractual life in months of options outstanding at the year end	9	65	26
Exercisable at the year end	16,400,000	346,296,135	7,797,223
Weighted average exercise price of options currently exercisable at the year end	4.29p	0.608p	7.96p

18. 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 2011

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

Year ended 31 December 2012

pence	Stand alone options	2005 USOP	EMI
Options lapsed	2.62p	—	—

Outstanding share options by exercise price ranges	2012		2011	
	Total	Exercisable	Total	Exercisable
Stand alone options				
0.01p to <5p	**16,000,000**	**16,000,000**	26,209,492	26,209,492
10p to <15p	**400,000**	**400,000**	400,000	400,000
Total	**16,400,000**	**16,400,000**	26,609,492	26,609,492
2005 USOP				
0.01p to <5p	**346,296,135**	**—**	346,296,135	—
Total	**346,296,135**	**—**	346,296,135	—
EMI				
0.01p to <5p	**4,972,223**	**4,972,223**	4,972,223	4,972,223
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

18. 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 01/01/2012	**2012 points allocation**	**Points at 31/12/2012**
Points allocated to specific individuals	685,000	100,000	785,000
Points retained and available for allocation	315,000	(100,000)	215,000
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.

19. PROFIT AND LOSS ACCOUNT Company

	2012 £'000	2011 £'000
Opening balance	**(26,221)**	(24,667)
Excess expenses on issue of share capital	**—**	—
Retained loss for the year	**(7,498)**	(1,554)
Closing balance	**(33,719)**	(26,221)

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 £7,498,000 (2011: retained loss £1,554,000).

20. CAPITAL COMMITMENTS

The Group had no capital commitments at 31 December 2012 and 31 December 2011.

21a. 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:

	2012 £'000	2011 £'000
Land and buildings:		
Within one year	**282**	282
In the second to fifth years inclusive	**1,126**	1,126
After five years	**893**	1,175
Other operating leases:		
Within one year	**14**	14
In the second to fifth years inclusive	**13**	26
Total	**2,328**	2,623

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

21b. 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:

	2012 £'000	2011 £'000
Land and buildings:		
Within one year	**121**	112
In the second to fifth years inclusive	**288**	364
After five years	**—**	—
Total	**409**	476

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.

22. PENSION COMMITMENTS

The Group makes contributions to personal pension plans schemes based on contractual terms. The contribution charge for the year was £64,000 (2011: £52,000).

23. 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. During 2012 a 5% depreciation of Euro against Sterling resulted in a foreign exchange loss of £263,000 in the loss for the year from the translation of intercompany balances and a £216,000 loss in the foreign exchange reserve in the consolidated statement of financial position as a result of the 50% holding in Biotec and associated promissory notes. Future appreciation or depreciation of the Euro against Sterling will result in lower foreign exchange gains or losses due to the sale of the Group's holding in Biotec on 1 October 2012.

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT Continued

The total foreign exchange loss recognised in the loss for the year in 2012 was £87,000 (2011: loss £209,000). This comprised a foreign exchange loss from trading of £24,000 (2011: loss £80,000) and a loss from the retranslation of intercompany balances of £263,000 (2011: loss £129,000).

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 2012. Trade receivable and payables do not ordinarily attract interest and are therefore subject to fair value interest rate risk.

The interest rate exposure of the financial assets and liabilities of the Group as at 31 December 2012 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	—	6,275	—	6,275
Trade and other receivables	—	—	701	701
Totals	**—**	**6,275**	**701**	**6,976**
Financial liabilities				
Trade and other payables	—	—	861	861
Lease finance	—	—	—	—
Promissory notes	—	—	—	—
Totals	**—**	**—**	**861**	**861**

Company

Interest rate	**Fixed**	**Floating**	**Zero**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets				
Cash and cash equivalents	—	5,164	—	5,164
Trade and other receivables	—	—	6,215	6,215
Totals	—	5,164	6,215	11,379
Financial liabilities				
Trade and other payables	—	—	1,008	1,008
Totals	—	—	1,008	1,008

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.

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

Credit risk

The Group and Company's principal financial assets are cash and trade receivables. 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 14 provides information regarding the effects of credit risk to the Group and Company.

24. **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 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.

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.

	2012	**2011**
	£'000	**£'000**
Total equity	8,134	14,869
Cash and cash equivalents	6,275	2,399

25. **CONTRACTS IN WHICH DIRECTORS HAVE AN INTEREST**

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

26. **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) and are undergoing the appeals process.

With the disposal of Biotec on 1 October 2012, the Group no longer has any obligation or liability with respect to this ligitation.

27. **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.

28. RELATED PARTY TRANSACTIONS

Details of share holdings in subsidiary and joint venture companies are shown in note 9. 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	
	2012	**2011**	**2012**	**2011**
	£'000	**£'000**	**£'000**	**£'000**
Stanelco RF Technologies Limited	**2,115**	2,304	**—**	—
InGel Technologies Limited	**—**	—	**—**	—
Biome Bioplastics Limited	**3,851**	5,340	**—**	—
Aquasol Limited	**—**	—	**(589)**	(588)
Stanelco Inc	**—**	—	**—**	—
Biotec Holding GmbH	**—**	5,396	**—**	—
Total	**5,966**	13,040	**(589)**	(588)

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

	2012	**2011**
	£'000	**£'000**
Stanelco RF Technologies Limited	**10,000**	10,000
Stanelco Inc	**—**	—
Biome Bioplastics Limited	**3,595**	2,442
Ingel Technologies Ltd	**39**	39
Total	**13,634**	**12,481**

Intergroup provisions	**2012**	**2011**
	£'000	**£'000**
Balance at the beginning of the year	**12,481**	13,294
Impact of foreign exchange movements	**—**	—
Impairment losses recognised	**1,153**	—
Amounts written off	**—**	(813)
Total	**13,634**	**12,481**

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 - Up to the Sale of the Group's 50% Shareholding in Biotec

- Biome Bioplastics finished products purchases from Biotec during 2012 were £3,123,000 (2011: £6,446,000).
- Raw materials sold to Biotec during 2012 were £1,617,000 (2011: £5,793,000).

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