

Registration number: 04728199

**Tristel Plc**

**Annual Report and Consolidated Financial Statements**

**for the Year Ended 30 June 2018**

## **Tristel Plc**

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## **Tristel Plc**

### **Company Information**

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#### **Company secretary**

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**Strategic Report for the Year Ended 30 June 2018**

**The Company**

Tristel plc is a manufacturer of infection prevention and contamination control products. Its lead technology is a proprietary chlorine dioxide formulation. The Company addresses three distinct markets:

- The Human Healthcare Market - Hospital infection prevention via the Tristel brand
- The Contamination Control Market - Control of contamination in critical environments via the Crystal brand
- The Animal Healthcare Market - Veterinary practice infection prevention via the Anistel brand

**Chairman's Statement**

We made solid progress during the year to 30 June 2018. Sales grew to £22.2m from £20.3m in 2017, an increase of 10%. For the first time in our history, overseas sales represented more than half of all worldwide sales (51% overseas versus 49% United Kingdom), with overseas sales forging ahead by 19% during the year, whilst UK sales advanced only marginally by 2%. This difference in the pace of growth reflects the high market penetration that Tristel enjoys in the United Kingdom.

Pre-tax profit before share-based payments was £4.7m which was ahead of market expectations and compared to £4.1m last year, an increase of 15%. Our pre-tax profit margin, before share-based payments, which is a key measure of our performance, was 21% (2017: 20.2%). Adjusted earnings per share (EPS), before share-based payments, were 9.16 pence, up from 8.34 pence last year. Basic EPS were 7.62 pence, a 5% decline from last year due to a share-based payment charge of £0.66m (2017: £0.12m). This charge is a non cash item and is a direct consequence of a higher share price as Tristel continues to grow its revenue and profits.

The Company has continued to be highly cash generative and on 30 June 2018 the cash balance was £6.7m (2017: £5.1m). In line with the Company's ordinary dividend policy, the Board is recommending that the final dividend is 2.98 pence (2017: 2.63 pence), an increase of 13.3%. Including the interim dividend of 1.60 pence (2017: 1.40 pence), and the proposed final dividend, the total dividend for the year will be 4.58 pence (2017: 4.03 pence), an increase of 13.6%.

We continued to invest for future growth during the year. We spent £0.5m on product development and testing (2017: £0.2m) and £0.2m on intellectual property protection (2017: £0.2m). Both these expenditures are held in intangible assets. We invested £0.981m in regulatory and product enhancement programmes where we have recognised this cost as an expense. Included in this cost is an amount of £0.5m (2017: £0.5m) relating to the United States. Our project to enter this market commenced in 2014. Since we first initiated this plan our cumulative investment in gaining regulatory approvals in the United States and establishing a commercial structure there has been £1.2m.

Whilst no revenues have yet been generated from the United States, significant progress has been made to build a commercial platform from which to enter the market. During the year we received our first regulatory approval from the Environmental Protection Agency (EPA) for our foam-based Duo product. Since the year-end we have made a second submission to the EPA to extend Duo's product claims as an intermediate level disinfectant, and are well advanced in generating the data for our first submission for a 510(K) approval from the Food and Drug Administration (FDA). This is also for Duo and will position the product as a high-level disinfectant. We have cemented a partnership with Parker Laboratories Inc, (Parker) which means we have put in place manufacturing capability and a national distribution network. We do not yet have employees in the United States but have established a subsidiary.

**Tristel Plc**

**Strategic Report for the Year Ended 30 June 2018 (continued)**

Our people are critical to our success and in this statement, my last address as Chairman, I would like to pay tribute to and thank all our employees who have given service to this Company during the past twenty-five years. At the forthcoming AGM in December I shall retire as Non-Executive Chairman and Director of the Company. I am honoured that your Board has invited me to assume the titular role of Honorary Life President and as the Company's largest shareholder I shall continue to follow Tristel's progress with keen interest.

We are working to appoint new Non-Executive Directors to bring fresh ideas and new experiences to our Board. To ensure continuity as these new appointments bed in, the Board has decided to propose to shareholders at the AGM that Paul Barnes be appointed interim Non-Executive Chairman for a one-year term. Paul has been a Non-Executive director since 2010 and will retire from the Board in December 2020.

This is a time of change, within our Company and in the world at large. However, many things remain the same: our core strategic objective continues to be to achieve consistent and sustainable growth of the business and the value of our shareholders' investment in the Company. We have entered the last year of a three-year financial plan established in October 2016 and the targets set then continue to be the measure and judge of our performance. The targets are to grow revenue within a range of 10% to 15% as an annual average over the three years to June 2019 whilst maintaining a minimum pre-tax margin of 17.5%. We are achieving these objectives and thereby creating the conditions for consistent and sustainable growth in earnings and dividends. Our core objective is grounded in the belief that, over time, share price growth will follow EPS growth and the cash returns we achieve for shareholders.

Tristel was founded in October 1993 and is now a twenty-five year old business. I very much believe that your Company has many more successful years ahead of it.

Francisco Soler

Chairman

16 October 2017

**Strategic Report for the Year Ended 30 June 2018 (continued)**

**Chief Executive's Report**

**Current year - Overview**

Group revenue was up 10%, adjusted pre-tax profit was up 15% and adjusted EPS was up 10%. We ended the year with cash of £6.7m. The Company is debt-free.

In October 2016, we set out our financial plan for the three years to 30 June 2019. Its objectives are sales growth in the range of 10% to 15% per annum as an annual average over the three years, which is a Key Performance Indicator (KPI) of the Company. A second KPI is to achieve a pre-tax profit margin (excluding share-based payment charges) of at least 17.5%. We can report that both these KPI's have been met in 2018, the second year of the current three-year plan.

We are proposing a final dividend of 2.98 pence per share (2017: 2.63 pence), making 4.58 pence (2017: 4.03 pence) in total for the year, an increase of 13.6%. If approved, the final dividend will be paid on 14 December 2018 to shareholders on the register at 16 November 2018. The corresponding ex-dividend date is 15 November 2018.

**Our business: What our marketplace looks like**

Our entire business is focussed on preventing the transmission of microbes from one object or person to another. We pursue this purpose because microbes can be a source of infection to humans and animals. They can cause illness or death and place a heavy cost on individuals and society. We achieve our purpose by applying a very powerful disinfectant - chlorine dioxide - to the target surface or medical instrument.

We are unique worldwide in using chlorine dioxide as a high-performance disinfectant for medical instruments. And we are one of a very few companies worldwide that can legitimately claim to be exclusively an infection prevention business.

Our mission is most relevant to hospitals where the risks of infection to individuals are highest. In the human healthcare market, we brand our products Tristel. The risk of cross infection is also relevant to veterinary practices, or animal hospitals, and in the animal healthcare market we brand our products Anistel. Finally, the control of microbial contamination is very relevant in critical manufacturing environments, for example cleanrooms, and in this market our products are branded Crystel.

A hospital is a vast, multi-faceted organisation. We are not only unique in providing chlorine dioxide as a high-performance disinfectant within hospitals, but we are also unique in our focus upon specific clinical departments within them. We target clinical departments that carry out diagnostic procedures with small heat-sensitive medical instruments. These include: the nasendoscope used in Ear, Nose and Throat departments; the laryngoscope blade used in emergency medicine; tonometers used in ophthalmology, and ultrasound probes used in both women and men's health. In these departments, we are the only simple to implement, affordable, high-performance disinfection method available. Consequently, in geographical markets in which we have been present for some time, we hold truly dominant market positions.

Brexit looms. Our response to the uncertainty surrounding this event is to build inventory of all component parts and finished products. We have advised our continental customers to increase their stockholdings over the coming months in preparation for possible disruption to the supply chain. Based upon available advice, we believe that we will be able to CE mark our disinfectants and sell them within Europe irrespective of the outcome of the Brexit negotiation. The only certainty is that we will experience turbulence this year and our normally predictable pattern of trade will be disrupted to some extent. Notwithstanding this near-term uncertainty, the outlook for the Company remains very positive.

**Strategic Report for the Year Ended 30 June 2018 (continued)**

**Exploring new territories with chlorine dioxide**

In June 2017 we made our first equity investment in Mobile ODT (MODT), the Israeli company that combines smartphone technology with hand-held medical devices to make diagnostics available at the point-of-care. We have expanded our commercial collaboration with MODT to include a version of our Duo product labelled for use with MODT's mobile colposcope and branded Duo EVE in association with MODT's EVA colposcope system. After our 30 June year-end, we have also become MODT's distributor for EVA in the United Kingdom, Australia and New Zealand.

**How We Service Our Market**

Over 95% of our revenues are of repeat consumable products that perform a vital function in hospitals. Their use is for the most part non-discretionary. Our products are typically small packaged goods, requiring no after sales service, other than comprehensive training. Capital sales, service and maintenance do not feature, therefore, in a significant way in our revenue model.

We sell our products directly to end-users in those markets in which we have established a direct operational presence, and through distributors in markets where we have no presence.

**Tristel Plc**

**Strategic Report for the Year Ended 30 June 2018 (continued)**

*Our revenues - by sales channel*

£000's			2017-18	2016-17	Year on year change	Percentage change
Human Healthcare	Direct sales	UK	8,912	8,910	2	0%
		EU	4,087	3,237	850	26%
		ROW	3,961	3,580	381	11%
	Sales to distributors	EU	1,559	1,358	201	15%
		ROW	1,350	1,022	328	32%
Contamination Control	Direct sales	UK	1,258	1,129	129	11%
		EU	34	18	16	89%
		ROW	44	8	36	444%
	Sales to distributors	EU	96	132	(36)	(27)%
		ROW	-	1	(1)	(100)%
Animal Healthcare	Direct sales	UK	96	114	(18)	(16)%
		EU	3	5	(2)	(40)%
		ROW	195	180	15	8%
	Sales to distributors	UK	569	522	47	9%
		EU	56	57	(1)	(1)%
	<b>Group sales</b>		<b>22,220</b>	<b>20,273</b>	<b>1,947</b>	<b>10%</b>



## Strategic Report for the Year Ended 30 June 2018 (continued)

*Our revenues - by technology*

The majority of our sales are of chlorine dioxide (ClO<sub>2</sub>) based products; but we do formulate, manufacture and sell products utilising other disinfectant chemistries. These include quaternary ammonium compounds, peracetic acid and alcohol. In 2018, £3.8m of our sales were of non-chlorine dioxide chemistries representing 17% of the total (2017: £3.6m representing 18%). As our chlorine dioxide product sales increase at a faster pace than non-chlorine dioxide product sales, and as we continue to find ways to persuade customers to switch to chlorine dioxide as a superior disinfection technology, we expect this percentage to continue to decline.

£000's			2017-18	2016-17	Year on year change	Percentage change
Human Healthcare	Direct sales	CI02	16,167	14,877	1,290	9%
		Other	793	850	(57)	(7)%
	Sales to distributors	CI02	1,995	1,715	280	16%
		Other	914	665	249	37%
Contamination Control	Direct sales	CI02	148	47	101	215%
		Other	1,188	1,082	106	10%
	Sales to distributors	CI02	56	36	20	56%
		Other	40	123	(83)	(67)%
Animal Healthcare	Direct sales	CI02	30	1	29	2800%
		Other	264	298	(34)	(11)%
	Sales to distributors	CI02	5	5	-	0%
		Other	620	574	46	8%
	Group sales			22,220	20,273	1,947

*Our revenues - by portfolio and geographical split*

Revenues increased by 10% in the year. UK sales grew by 2% and overseas sales by 19%. Overseas sales are made via two channels: through the Company's wholly-owned subsidiaries in Germany, Poland, Russia, Hong Kong, China, Australia, New Zealand and via third party distributors. Overseas subsidiary sales increased by 18% to £8.32m in the year, whilst overseas sales to distributors increased by 19% to £3.06m.

**Strategic Report for the Year Ended 30 June 2018 (continued)**

**Our Strategic Assets**

We consider the assets that enable the Company to achieve its strategic goals to be:

- Our chlorine dioxide chemistry, about which there are three critically important elements:
  1. The formulation is proprietary;
  2. We remain the only company using chlorine dioxide for the decontamination of medical instruments in the world, which gives us a genuine point of difference from all other infection prevention companies;
  3. The length of time that we have enjoyed this position has allowed us to collate a significant body of knowledge, including published scientific data, the testimony of almost two decades of safe use, a significant global footprint of regulatory approvals and a library of proven compatibility with hundreds of medical instruments, all of which would take a newcomer significant time and cost to match.
- Intellectual property protection - at 30 June 2018, we held 250 patents granted in 36 countries providing legal protection for our products;
- Our people - who hold an unrivalled body of knowledge relating both to infection prevention and to chlorine dioxide.

**Our proprietary chlorine dioxide chemistry**

The competitive advantage that we hold is that we are the only company worldwide using chlorine dioxide to disinfect medical instruments.

With this same chemistry, we have also established a bridgehead in hospital surface disinfection, the veterinary market, and the contamination control market. We are developing a number of new products that could be “game-changers” in these disinfection applications.

Our research and development programme has centred around our chlorine dioxide portfolio, both in terms of chemistry and delivery methods. The key chemistry improvements that are sought relate to an increase in microbial efficacy, a reduction in hazards and improved efficiency of manufacture. In parallel, packaging and delivery forms are being developed that enhance and simplify the user experience.

Our regulatory programme succeeded in attaining 43 approvals for 16 products in 20 countries during the year.

**Our intellectual property protection**

We have 250 patents granted in 36 countries. The progress that the Company has made during the past four years in building its patent portfolio is demonstrated below:

**Strategic Report for the Year Ended 30 June 2018 (continued)**

Year to 30 June	ClO2 foam	ClO2 hand disinfectant	Trigger spray technology	ClO2 decontamination device	ClO2 wipes system	Total Granted patents
<b>2018</b>	12	44	113	54	27	250
<b>2017</b>	12	40	101	49	27	229
<b>2016</b>	12	37	52	29	26	156
<b>2015</b>	11	35	2	23	26	97

**Our people**

At Tristel the basic qualities we seek in our staff are integrity, inquisitiveness and humility. In our management team, we also look for excellent decision making and execution ability and a “know no boundaries” approach. We believe that these qualities can make the highest possible performance achievable. We view our colleagues as a key strategic asset of the business.

**Delivering on our key strategic financial goal**

Our key strategic financial goal is to deliver long term sustainable growth. The two key performance measures that we target are:

- Consistent revenue growth - during the past five years, revenue has grown from £13.5m to £22.2m - an increase of 64%. The compound annual growth rate in revenue since the Company went public in 2005 has been 15%. Our three year target is to grow revenues in the range of 10% to 15% on average each year up to 30 June 2019.
- Maintaining the profitability of the Company - during the year the Company achieved a (before share based payments) pre-tax margin of 21%. The benchmark (before share based payments) pre-tax margin we set for the plan period was 17.5%.

The corollary to achieving these targets is that we are likely to be highly cash generative given the operational cash requirements of the business. If the Board considers that there are no earnings enhancing opportunities to invest excess cash, a special dividend will be paid to shareholders.

The Board’s pursuit of these financial objectives is grounded in the belief that consistent and sustainable increases in earnings and dividends will, over time, result in share price growth.

**Strategic Report for the Year Ended 30 June 2018 (continued)**

**Progress in North America**

In 2014, we explained to our shareholders that we had embarked upon a United States regulatory approvals programme. To date we have focussed upon our chlorine dioxide foam-based product Duo.

We have received approval for Duo from the EPA as an intermediate level disinfectant and will commence manufacture and marketing on a limited scale during the year ending 30 June 2019.

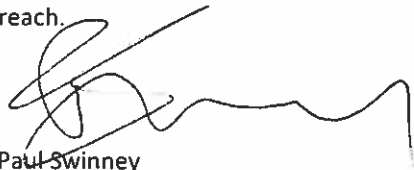
We are preparing a submission to the FDA for Duo as a high-level disinfectant. The intended use patterns will be for intra-cavity ultrasound probes, nasendoscopes, and lastly certain ophthalmic devices. If successful, this will position us in three of the clinical areas in which we are most successful in other geographical markets. We expect to submit the application for 510(K) approval during the financial year ending 30 June 2019.

We have appointed Parker as our contract manufacturer for supply to each of these targeted clinical areas. We have granted Parker marketing rights for Duo's use in ultrasound where they are the market leader in the United States for ultrasound conductive gels. In the ultrasound segment, the contractual arrangement is royalty-based.

**Focus**

We have set objectives which are visible to everyone inside the Company, and we make them equally visible to all other stakeholders.

We look forward to meeting these objectives in the current financial year and continuing the progress of the Company. We look to the future with confidence as Tristel continues to grow and expand its geographical reach.



Paul Swinney  
Chief Executive Officer  
16 October 2018

**Strategic Report for the Year Ended 30 June 2018 (continued)**

**Financial Review**

**Fair review of the business**

**Revenue**

Revenue has increased by 10%. UK sales grew by 2% and overseas sales by 19%. Overseas sales were 51% of the total compared to 47% last year.

**Gross margin**

There have been two countervailing forces behind gross margin. We have seen an increase in the cost of componentry as a consequence of the scarcity of certain chemicals, and an increase in the cost of cardboard and plastics. In parallel, during the year we acquired our Hong Kong distributor's business, gaining their gross profit. The two events negated each other in terms of reported gross margin which has remained static at 77% (2017: 77%).

**Expenses**

This year we have seen an increase of 12% in other administrative expenses (2017: 23%). The number of employees has increased to 124 (2017: 111) across all departments within the Group. An exceptional performance related bonus payment was triggered during the year throughout all tiers of the organisation and accounted for £0.3m of the £6.8m total salary cost. This is not a permanent increase in payroll expense as it relates specifically to the 2018 financial year. The baseline salary increase in 2018 was 2%, with higher discretionary increases for certain employees.

**Share based payments**

The non-cash IFRS2 charge (share based payment charge) for the year was £0.67m (2017: £0.12m). This includes the Board share option scheme approved at the Company's 2017 AGM, which are yet to vest. Details of the scheme can be found on page 98.

**Earnings before interest, tax, depreciation and amortisation**

Reported EBITDA increased by 8% in the year to £5.6m (2017: £5.2m). EBITDA adjusted for share based payments was £6.2m, an increase of 15% on the comparable number (2017: £5.4m).

**Profit before tax and share based payments**

Profit before tax and share based payments of £4.7m increased by 15% (2017: £4.1m) Adjusted pre-tax profit margin increased slightly to 21% from 20% last year.

**Earnings and Dividends**

The Company's policy is to pay out half of EPS to shareholders in the form of an ordinary dividend each year. When declaring dividends, the Board considers the Group's cash resources and the adequacy of its distributable reserves. The conditions that the Board applies to special dividends are that cash reserves should exceed, after payment of the dividend, the minimum operational and investment needs of the business and that the special dividend can be made from available distributable reserves. The Board believes this approach provides a flexible mechanism for managing the maintenance and expansion of the Group's asset base whilst providing a reasonable return to shareholders.

Over the last three years, the Group's total dividends (excluding special dividends) and adjusted EPS have grown at an average growth rate of 38% and 38% respectively.

**Strategic Report for the Year Ended 30 June 2018 (continued)**

Relating to year ended 30 June	Adjusted EPS (pence)	Interim dividend (pence)	Final dividend (pence)	Special dividend (pence)	Total dividend (pence)	Ordinary Dividend cover ratio
2018	9.16	1.60	2.98	None	4.58	2x
2017	8.06	1.40	2.63	None	4.03	2x
2016	6.62	1.14	2.19	3.00	6.33	2x
2015	5.53	0.59	2.14	3.00	5.73	2x
2014	3.28	0.36	1.26	None	1.62	2x

The relationship between ordinary dividends and EPS can also be expressed as a cover ratio which the Board has set at 2 times, and it expects the current policy to continue for the medium term. However, subject to any adverse movement in earnings, financial strength, cash resources and the assessment of future trading, the Board retains the option to allow a temporary fall in the cover ratio to maintain the dividend.

Dividend announcements, approvals and payments are typically expected to follow a set schedule:

Dividend	Status and date announced	Approval	Approximate date	payment
Ordinary interim	Declared February	The Board February	March following the announcement	the
Ordinary final	Recommended October	AGM by shareholders December	December	

**Cash flow**

During the year, net cash flow from operating activities increased to £4.495m. The components of the movement are:

£000's	Year ended 30 June 2018	Year ended 30 June 2017	Movement
Operating profit before share based payments	4,645	4,023	622
Depreciation and amortisation	1,498	1,243	255
Impairment charges and loss on disposal of intangible assets	67	67	-
Income from associate	24	19	5
(Profit)/loss on disposal of plant, property and equipment	(17)	(16)	(1)
Unrealised loss on foreign exchange	(78)	-	(78)
Working capital movements	(520)	(530)	10
Taxation	(1,124)	(454)	(670)
<b>Net cash flow from operating activities</b>	<b>4,495</b>	<b>4,352</b>	<b>143</b>

The key contributors to the year on year cash-flow movement were the increase in operating profit before share-based payments of £0.6m and the tax movement of £0.6m, largely driven by movements in deferred tax on share based payments. Amortisation increased by the amount charged in Asia on the reacquired rights relating to our Hong Kong distributor.

## Tristel Plc

### Strategic Report for the Year Ended 30 June 2018 (continued)

#### Key performance indicators

The Board considers the primary key performance indicators to be:

Measurement	Total Revenue Growth	Non-UK Revenue as a Percentage of Total Revenue	Gross Profit Margin	Adjusted Growth	Pre-tax Profit	Adjusted PBT Margin	Adjusted Earnings per Share (EPS)
Why is this important	Change in the current year revenue compared with the previous year. The measure excludes the effect of movements in currency.	The ratio of non-UK revenue to total revenue.	The ratio of gross profit to revenue.	The year on year increase in profit before tax, adjusted for share based payments.	The ratio of pre-tax profit, adjusted for share based payments, to revenue.	The ratio of pre-tax profit, adjusted for share based payments, to revenue.	Profit after tax, adjusted for share based payments, divided by the weighted average number of shares in issue during the period.
	To meet the strategic objective of delivering long term sustainable growth in EPS, consistent revenue growth must be achieved.	Within the UK, revenue growth rates are slowing as a result of high market penetration. To achieve consistent overall revenue growth, sales from overseas will need to become a higher percentage of total revenue.	Gross margin is a primary indicator of business performance and market competitiveness. In gross margin generally reflects a change in the product mix, market pricing, or both.	The Company's primary financial objective is to deliver sustainable long-term growth in the value of our shareholders' investment in the Company. The primary driver of this will be sustainable profits growth.	A movement in PBT margin indicates changes in profitability.		
Key performance indicator for 2017-18	10% (2016-17: 19%)	51% (2016-17: 47%)	77% (2016-17: 77%)	15% (2016-17: 25%)	21% (2016-17: 20%)		9.16 pence (2016-17: 8.34 pence)

In addition to financial KPIs, the Board measures and monitors various non-financial KPIs, including the maintenance of the Group's quality system and certification required for the design, manufacture and sale of medical devices. The Company is frequently audited by its Notified Body, BSI. The level of success of these audits is measured by the number of major non-conformances. The Notified Body tests all areas of the Group's quality system including customer service, customer satisfaction and product quality assurance. During the year, the Company underwent two audits and a number of desktop reviews. No major non-conformances were reported. The company is compliant to the new versions of the following standards, ISO13485:2016 and ISO9001:2015.

At Tristel the basic qualities we seek in our staff are integrity, inquisitiveness and humility. In our management team, we also look for excellent business decision making and execution ability and a "know no boundaries" approach. We believe that these qualities facilitate achievement of the highest possible performance. We view our colleagues as a key strategic asset of the business. In June 2005 when the company was listed on the London Stock Exchange AIM market, we employed 10 personnel; 13 years later this has increased to 124.

**Strategic Report for the Year Ended 30 June 2018 (continued)**

**Going concern**

The Company's business activities, together with the factors likely to affect its future development, performance and competitive position are set out in this Strategic Report. The future development of the Company is viewed to be via execution of its strategic plan. Economic conditions can create a degree of uncertainty over the level of demand for the Company's products. However, the Board considers there to be no material uncertainties within the business. The Board compiles budget and cash flow forecasts, which are stress tested for potential future influences and events. Funding would be sought if necessary, in the most appropriate and cost effective form, at a level which would provide sufficient headroom to the Company's cash requirements. The Board believes that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue its operational existence for the foreseeable future. Accordingly, the Board has continued to adopt the going concern basis in preparing the annual report and financial statements.

**Principal risks and uncertainties**

The key business risks are considered, documented and acted upon by the senior management team and Board of Directors regularly. The key areas considered are set out below:

**Operations**

The Company's ability to continue to manufacture and supply its products in a timely manner is a prerequisite to maintaining its gross margin and profitability level. This area of risk is kept under constant review, including identifying multiple routes of supply for key materials and services related to the production of the Company's products. A disaster recovery plan is in place and reviewed regularly. The plan sets out the steps required to swiftly relocate people, systems and production to ensure continuity of supply.

**Regulatory and legal approval**

The ability to continue to market the Company's products is inextricably linked to the Company's ability to achieve and maintain regulatory and legal approvals in those countries where the Company has a presence.

The challenges in maintaining worldwide legal and regulatory compliance in respect of financial, environmental, quality and health and safety requirements are significant. Within the UK, legislation with regard to bribery and corporate manslaughter poses a risk to the Company and its officers. Senior members of the Board, supported by specialist advisors, take responsibility for maintaining legal compliance. Through a risk management process the implications of new regulations and legislation are assessed and the necessary changes and mitigation are implemented.

**Brexit**

The group sells into the EU, and has considered potential outcomes after the UK leaves the European Union. Continuity of supply is principally linked to two requirements:

- The ability to CE mark our products. Based upon available advice, it should be possible to achieve this and continue to sell product irrespective of the outcome of the Brexit negotiation.
- To maintain smooth supply of goods cross borders. A disruption to this capability, is almost certain. To mitigate this, stock levels are being built, and transferred ahead of the exit date, meaning that normal patterns of trade will be disrupted to some extent in the next financial year, but overall sales expectations are expected to be achieved.



**Strategic Report for the Year Ended 30 June 2018 (continued)**

**External risks**

The Group's performance is also subject to external macroeconomic conditions and changes in factors such as inflation or public spending. A significant reduction in the supply of funds to the UK National Health Service could negatively affect the Group's revenues.

**Financial risks**

The Group's activities expose it to financial risks including credit and liquidity risk, cash flow risk and exchange rate risk:

**Credit and liquidity risks**

The Group's principal financial assets are cash and receivables. Credit risk is primarily attributable to its trade receivables, which are diversified across a large number of low value customer accounts. In addition, operations in new markets may have a higher than average risk of political or economic instability, and may carry increased credit risk. In each case the risk to the Group is its ability to collect its debts.

Credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The credit risk on trade and other receivables is managed by agreeing appropriate payment terms with customers, obtaining credit agency ratings of all potential customers; by requiring wherever possible payment for goods in advance or upon delivery; and by closely monitoring customer balances due, to ensure they do not become overdue. In addition, careful consideration is given to operations in new markets before the Company enters that market.

The Company policy is to maintain a strong capital base to enhance investor, creditor and market confidence. Surplus funds are placed on time deposits, with cash balances available for immediate withdrawal if required.

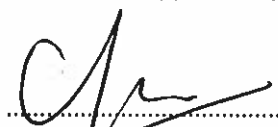
**Cash flow risk**

The Group's cash balances are monitored daily to ensure sufficient funds are held to meet the business needs without the requirement for further financing. To aid with the control of funds, cash flow forecasts are reviewed regularly to allow the required allocation of funds across the Group to be visible and avoid any shortfalls. To further reduce risk, Group entities hold only the cash required for their operational activities. Excess funds are held in the UK.

**Exchange rate risk**

Group exposure to exchange rate risk includes the measurement of overseas operations at the relevant exchange rate and changes in trade payables and receivables as a result of exchange rate movements. Daily exchange rate movements are monitored and any losses or gains incurred are taken to the income statement and reported in the Group's internal management information. Before agreeing any overseas transactions, consideration is given to utilising financial instruments such as hedging and forward purchase contracts.

The Strategic Report which incorporates the Chairman's Statement, Chief Executive's Report and Financial Review, was approved by the Board and signed on its behalf by:

  
.....  
EA Dixon  
Director

16 October 2018

## **Tristel Plc**

### **Directors' Biographies**

#### **Paul Swinney, Chief Executive (Member of Nomination Committee)**

Paul Swinney started his career with Brown, Shipley & Co in 1980. He worked for the European banking operations of Norwest Bank Minneapolis and Maryland National Bank, before joining OSI Finance, a specialist in shipping finance, in 1987. In 1993 he co-founded the business that was to become Tristel plc. He has been Chief Executive and a shareholder since inception and brings the following skills to Tristel's Board:

- Engaging and persuasive
- Able to quickly make assured decisions
- Reflective and adaptable
- Energetic, considerate and no-nonsense

#### **Elizabeth Dixon, Finance Director**

Elizabeth Dixon trained with BDO before moving into industry with the Holiday Property Bond Group, where she developed her career ultimately becoming UK Finance Manager. Having joined Tristel in 2007 as Chief Group Accountant, Elizabeth went on to join the Board of Tristel Solutions Limited in August 2009 and was appointed as Group Finance Director in June 2010. Liz brings the following skills to Tristel's Board:

- Good business awareness and decision-making ability.
- Excellent people skills.
- A logical, analytical and enquiring mind.
- Risk aware without being risk averse.

#### **Francisco Soler, Non-Executive Chairman (Chairman of Nomination Committee and member of Audit and Remuneration Committee)**

Francisco Soler is a founding shareholder of the Group and has been an active investor in a number of companies around the world. Among them, he was a member of the Board of United States Can Company (US Can), a company that was listed on the New York Stock Exchange before being taken private by a private equity group. He was Chairman of Leisure Tennis Limited, the owner of the Harbour Club leisure facility in central London, which was sold to Cannons Group plc in August 1998 and of Harbour Club Milano which was sold to the Aspria Group in 2009. He holds a MBA from Harvard Business School and is a Knight of the Order of Malta. Francisco has been a key shareholder and director in over 20 public and private corporations over his 42 year career in business, and has brought a wealth of experience and knowledge to the Tristel Board.

## **Tristel Plc**

**Paul Barnes, Non-Executive Director** (Chairman of Audit Committee and member of Remuneration and Nomination committee)

Paul Barnes trained and qualified in accountancy practice where he experienced assignments ranging from plc audit to mergers and acquisitions. He has served as Finance Director for a number of publicly listed companies in various sectors on several stock exchanges. Having joined Tristel in 2004 as Finance Director, he transitioned to a non-executive role in June 2010 and in founding Amersham Investment Management, an FCA regulated Investment Management Firm, subsequently also became a Member of the Chartered Institute for Securities and Investment. Paul brings the following skills to Tristel's Board:

- An ability to analyse, question and test business proposals with an eye both for detail and the wider strategic picture
- An articulate and "down to earth" communicator
- A keen understanding of the challenges involved in managing business risks
- A sound grasp of finance and principled guardianship of investors' interests

**David Orr, Non-Executive Director** (Chairman of Remuneration Committee and Member of Audit & Nomination Committees)

David Orr joined Tristel's Board in October 2015 and, since 2016, David has been Chairman of Tristel's Remuneration Committee.

David has extensive experience of operational management at Board level in a manufacturing environment. David has been the Group Managing Director and majority shareholder of Fencor Packaging Group, a privately-owned manufacturer of corrugated packaging, since 1999. He previously served as Non-Executive Director and Chairman of Pendragon Presentation Packaging. His early commercial career included working in the Corporate Finance Department of Robert Fleming & Co.

David read modern languages at Trinity College, Dublin and subsequently spent five years as an Army Officer. David holds a MBA from INSEAD. In April 2018 David completed Cranfield School of Management's Non-Executive Directors' Seminar.

David's experience of running an entrepreneurial manufacturing business brings the following skills to Tristel's Board:

- leadership experience and an in depth understanding managing people and inspiring a team
- knowledge of operational issues and constraints
- a practical and highly experienced approach to risk management
- direct experience of acquiring and integrating businesses
- a focus on integrity and fairness

**Tom Jenkins, Non-Executive Director** (Member of Audit, Remuneration and Nomination Committees)

Tom qualified as a chartered accountant with Arthur Anderson in 1998 and has 16 years' experience supporting ambitious growing businesses. He worked in corporate finance at Dresdner Kleinwort Benson and Bear Stearns before moving into broking, where for six years he was head of equity capital markets at finnCap and a Board member. In 2015, he joined BGF as an investor in their quoted team. Tom brings the following skills to the Tristel Board:

- audit, transaction and advisory experience
- an understanding of the challenges of growing a small, entrepreneurial business, having done this twice as a Director of a Broking firm, and also having advised over 150 small companies
- wide ranging capital markets experience including being a conduit for managing shareholders' interests for small companies

## **Directors' Remuneration Report**

### **Introduction**

It is not a requirement for Companies that have securities listed on AIM to comply with the UKLA Listing Rules and the disclosure provisions under Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. As detailed in the Corporate Governance Report on page 25, following a change to AIM Rule 26 the Board has adopted the Quoted Companies Alliance Corporate Governance Code (QCA Code) and implemented its "comply or explain" provisions.

The Remuneration Committee comprises all Non-Executive Directors under the chairmanship of David Orr. The Committee's constitution and operation are guided by the Company's Terms of Reference for the Remuneration Committee.

### **Remuneration Policy**

All Directors have service agreements that are reviewed annually by the Board. All Board members retire at each Annual General Meeting, and at their own request alongside the recommendation of the Nominations Committee, are put forward for re-election.

### **Executive Directors**

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

The Company's remuneration policy for Executive Directors is:

- To consider the individual's experience and the nature and complexity of their work in order to set a competitive base salary that attracts and retains individuals of the highest quality, whilst avoiding remunerating more than is necessary;
  - To align base salary to the median level for AIM companies of a similar size and profile, with an upper limit for the Executive Management of 2.5% of the prevailing year's Group gross profit;
  - To link remuneration packages to the Group's long-term performance through both bonus schemes and share option plans;
  - To set performance measures which are simple to understand, easy to measure and unambiguous;
  - To set an appropriate balance between fixed and variable pay;
  - To provide post-retirement benefits through payment into defined contribution pension schemes; and
  - To provide employment related benefits including provision of life assurance, car allowance and medical insurances.
- To award share options linked to the performance of the Group.

Executive Directors' remuneration packages are considered annually by the Remuneration Committee in line with Company policy, with a view to attracting, retaining and motivating Executive Directors of the calibre necessary to deliver the strategic milestones of the Board. Remuneration packages comprise a number of elements as follows:

## **Tristel Plc**

### *Base salary*

The base salary is reviewed annually in June. Within the review process, which is undertaken by the Remuneration Committee, regard is given to the profitability and on-going development of the Group and the contribution that the individual makes. Consideration is also given to the need to retain and motivate individuals, with reference made to available information on salary levels in comparable organisations as well as that of the wider workforce of the Company. To assist in this process, the Remuneration Committee draws on the findings of external salary surveys and undertakes its own research.

### *Annual performance incentive*

The performance of Executive Directors is evaluated by the Remuneration Committee on an annual basis with a view to ensuring that there is a sufficiently strong link between performance and reward. The results of performance evaluations are taken into consideration as part of the annual remuneration review.

The Executive Directors are eligible to receive, at the discretion of the Remuneration Committee, an annual bonus. The Remuneration Committee considers the implementation of bonus awards based upon corporate performance targets and measures which align with the long-term interests of shareholders. Stretching and transparent performance targets are put in place with a view to linking clearly the motivation of individuals to the value drivers of the business. The existing Executive Directors' bonus scheme pays out upon the achievement of pre-tax profit in excess of the Company's budget on an annual basis. The maximum annual bonus is capped at 100% of base salary in order to attain an appropriate balance between fixed and variable pay whilst providing an incentive to achieve exceptional performance.

### *Pensions and other benefits*

The Group does not operate a Group pension scheme; instead individuals receive contributions to their private pension arrangements. Other benefits provided are life assurance and private medical insurance. Currently no company cars are provided, but Executive Directors are paid a car allowance.

### *Share options*

Executive Directors may, at the discretion of the Remuneration Committee, be awarded share options. No share retention obligations are placed upon Directors.

## **Non-Executive Directors**

The remuneration of the Non-Executive Directors is determined by the Board as a whole, based on a review of current practices in other equivalent companies. The Non-Executive Directors do not receive any pension payments, nor do they participate in any of the bonus schemes. Non-Executive Directors' expenses incurred travelling to Board and Committee meetings are reimbursed by the Company. Share options have been granted to board members during the year.

## **Wider employee considerations**

Although it is not the Committee's responsibility to set the remuneration arrangements across the Company, it is kept informed of these. In many instances, it is possible for members of staff to qualify for a bonus which largely follows the same structure and applies the same performance targets as for Executive Directors. The Board's view is that Executive Directors, management and staff should be targeted with achieving the same strategic goals and should benefit accordingly. Furthermore, the Committee encourages share ownership amongst all staff and, in accordance with this policy, permanent staff, no matter their pay scale or job role, receive share option grants aggregating 40,000 share options after ten completed years of employment. Periodic awards are made at set intervals that will accumulate to 40,000 share options at the end of the ten-year period. The Executive Management has the discretion to award market priced options after 10 years of employment up to a maximum value of 1 x salary.

## **Tristel Plc**

### **Shareholder engagement**

The Committee seeks and takes into consideration the views of shareholders on remuneration on an ongoing basis and they are invited to make contact directly with the Chairman of the Remuneration Committee at any time should they wish to do so.

### **Annual Remuneration Statement**

On behalf of the Board, I am pleased to present our Remuneration Report for 2018.

During the year, the Company achieved strong profits growth. Revenue increased by 10%. Profit before tax and share based payments increased by 15%, cash balances remained healthy at £6.7m at year end. Ordinary dividends increased by 21%, and the Company's share price grew from 1.905 pence per share at 30 June 2017 to 3.140 pence per share at 30 June 2018.

The Committee has implemented remuneration arrangements that it believes are in line with the Company's strategic objective of creating long term sustainable growth. Bonuses and share option vesting conditions were both linked to financial performance measures and have delivered in full. The Committee is therefore pleased to report that these arrangements are working to the benefit of both the Company's shareholders and its employees.

The Remuneration Committee addressed the following matters during the year:

- During June 2018, the Committee carried out a review of Executive Directors' base salaries to align them to the median for AIM companies with comparable features such as size, complexity, market sector and market capitalisation. This review revealed that base salaries remained in line with median peer group levels. In line with the Group's Remuneration Policy, the Committee agreed to maintain base salaries at their current levels.

Whilst the Committee places a certain degree of emphasis upon benchmark data, it also recognises the central roles played by both Executive Directors in the significant performance improvement the Company has seen in recent years and the Board's desire to retain the existing management team.

- The implementation of a bonus scheme for Executive Directors, payable upon exceptional performance of the business. The scheme operates under a cap of 100% of salary.

The targets for 2017-18 were exceeded and a bonus equating to 16% of salary was awarded.

In line with the Company's policy to grant Executive Directors share options with vesting conditions linked to the Company's performance, the Committee implemented a new scheme which is linked to share price performance. The scheme was approved by shareholders at the Company's 2017 AGM.

During June 2018, the Committee carried out a review of Non-Executive Directors' salaries to align them to the median for AIM companies with comparable features such as size, complexity, market sector and market capitalisation. This review revealed that base salaries remained in line with median peer group levels. In line with the Group's Remuneration Policy, the Committee agreed to maintain base salaries at their current levels.

### **Directors' remuneration**

The Chairman has waived a fee and receives no benefits from the Company. The Chairman's expenses incurred travelling to Board and Committee meetings are reimbursed by the Company.

The Directors received the following remuneration during the year to 30 June 2018:

**Tristel Plc**

<b>Name of director</b>	<b>Salary and fees</b>	<b>Bonus</b>	<b>Taxable Benefits</b>	<b>Gain on exercise of share options</b>	<b>2018 Total (excl. pension)</b>	<b>2017 Total (excl. pension)</b>	<b>2018 Pension</b>	<b>2017 Pension</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Executive</b>								
Paul Swinney	230	36	23	-	289	587	35	28
Elizabeth Dixon	180	28	14	340	562	238	27	23
<b>Non-Executive</b>								
Paul Barnes	35	-	-	-	35	30	-	-
David Orr	35	-	-	-	35	30	-	-
Tom Jenkins	25	-	-	-	25	-	-	-
<b>Aggregate emoluments</b>	<b>505</b>	<b>64</b>	<b>37</b>	<b>340</b>	<b>946</b>	<b>885</b>	<b>62</b>	<b>51</b>

Paul Swinney's service contract contains a provision that, in the event of a change in control of the Group, he will receive a bonus payment equivalent to 150% of his then prevailing annual salary.

Elizabeth Dixon's service contract contains a provision that, in the event of a change in control of the Group, she will receive a bonus payment equivalent to 75% of her then prevailing annual salary.

**Directors' share options**

Aggregate emoluments disclosed in note 9 include the amount charged to the income statement in accordance with IFRS 2 in respect of the fair value of options granted or held by the Directors to acquire ordinary shares in the Company. Details of options held by the Directors are as follows:

## Tristel Plc

	Total options vested at 1 July 2017	Options vesting in the year	Total options exercised at 30 June 2018	Options exercised in the year	Options exercised at 30 June 2018	Total options unexercised at 30 June 2018	Exercise price	Earliest date of exercise	Date of expiry
<b>Executive</b>									
Paul Swinney	250,000	250,000	250,000	-	250,000	-	59.50p	23/12/2005	22/12/2015
	250,000	250,000	250,000	-	250,000	-	53.75p	12/10/2009	12/10/2019
	250,000	250,000	250,000	-	7,500	242,500	53.75p	12/10/2010	12/10/2019
	500,000	-	-	-	-	500,000	65.00p	On change of control	12/10/2019
	414,179	414,179	414,179	-	-	414,179	1.00p	07/01/2016	07/01/2021
	500,000	-	-	-	-	500,000	1.00p	Various	Various
Elizabeth Dixon	60,000	60,000	60,000	-	60,000	-	53.75p	23/07/2008	23/07/2018
	60,000	60,000	60,000	-	60,000	-	53.75p	04/08/2009	04/08/2019
	10,000	10,000	10,000	-	10,000	-	53.75p	21/12/2011	21/12/2021
	87,500	-	-	-	-	87,500	65.00p	On change of control	03/03/2024
	10,000	10,000	10,000	-	10,000	-	79.00p	24/12/2014	24/12/2024
	222,388	222,388	222,388	-	-	222,388	1.00p	07/01/2016	07/01/2021
	400,000	-	-	-	-	400,000	1.00p	Various	Various
<b>Non-Executive</b>									
Paul Barnes	87,500	-	-	-	-	87,500	65.00p	On change of control	12/10/2019
	45,000	-	-	-	-	45,000	1.00p	Various	Various
David Orr	45,000	-	-	-	-	45,000	1.00p	Various	Various
<b>Total number of Board share options</b>	<b>1,526,567</b>	<b>1,526,567</b>	<b>1,526,567</b>	<b>140,000</b>	<b>647,500</b>	<b>2,544,067</b>			

Share options held by the Directors are subject to vesting arrangements over the life of the option as detailed in the specific instances above.

Paul Barnes' change of control options were granted when he was an Executive Director.



## **Tristel Plc**

### **Directors' shareholdings**

The interests of the Directors in the shares of the Company at 30 June 2018 and 30 June 2017 were:

Ordinary 1p shares	30 June 2018	30 June 2017
<b>Executive</b>		
Paul Swinney	468,129	483,129
Elizabeth Dixon	45,000	55,000
<b>Non-Executive</b>		
Francisco Soler	8,423,834	8,413,834
Paul Barnes	575,180	590,180
David Orr	19,511	12,511

The market price of the Company's shares as at 30 June 2018 was 313.95p. The range during the year was 190.50p to 339.50p

(Source - London Stock Exchange).

### **David Orr**

Remuneration Committee Chairman

16 October 2018

## **Corporate Governance**

### **Chairman's Corporate Governance Report**

This Corporate Governance Report has been written with the Quoted Companies Alliance ("QCA") Corporate Governance Code in mind. As Chairman of the Board of Directors, corporate governance is my responsibility.

By following the QCA code, my Board colleagues and I seek to ensure that the Company operates efficiently and effectively and communicates well, to promote confidence and trust in the Company's Board and management. The Board aims to balance the interests and expectations of the Company's many shareholders and stakeholders by observing a transparent set of rules, practices and processes. I believe that by adhering to this clear set of guidelines which clarify authority and responsibility, requiring constant measurement and review, the Company is best placed to manage risk and achieve a high level of performance, both of which are pre-requisites to the Company's long-term success.

### **Corporate Governance Review**

In January 2018 the London Stock Exchange's AIM Rule 26 was amended to require all AIM quoted companies to give details of the corporate governance code that they have decided to apply, to explain how they comply with their chosen code, and, if they depart from the chosen code, to explain where and why. In my view, there are two obvious choices of code: the FRC'S UK Corporate Governance Code and the QCA's Corporate Governance Code (the "QCA Code"). The latter has been drafted with SMEs in mind and the Board has chosen to apply it.

The Board has carried out a detailed review of the requirements of the QCA Code and AIM Rule 26, with respect to both its governance arrangements and practices, and its reporting. The key changes that have resulted from this review are:

- Adoption of the QCA Code and implementation of its "comply or explain provisions"
- An update to this Corporate Governance Report
- Updates to the Terms of reference for each Committee to the board and Matters reserved for the Board of Directors
- The addition to monthly reporting by the management team to the Board of Directors of a Risk Report
- Updates to Directors biographies to highlight the key skills each individual brings to the Board.
- Consideration by the Nominations Committee of the desired make-up of the Board of Directors, and the implementation of a transition and succession plan.

### **Corporate Governance Code**

The QCA Code is based upon the principle that companies need to deliver growth in long-term shareholder value. This requires an efficient, effective and dynamic management framework and should be accompanied by good communication which helps to promote confidence and trust. The QCA Code takes key elements of good governance and applies them in a manner which is workable for the different needs of growing companies. It is constructed around ten broad principles and a set of disclosures. Companies are asked to provide an explanation of how they are meeting the principles through the prescribed disclosures. Where a company departs from the principles the board is asked to provide a well-reasoned explanation for doing so. The following section of this Corporate Governance Report seeks to provide this:

**Corporate Governance (continued)**

**Principle 1 - Establish a strategy and business model which creates long-term value for shareholders**

The Board reviews and re-sets the Company's strategic goals annually. In 2017 the primary goals were established as:

- To increase the Company's value to shareholders; and
- To replicate market penetration achieved in targeted clinical areas in the UK in all overseas markets.

Secondary objectives, goals and "game changing plays" form part of the strategic plan and make an essential contribution to how the Company will deliver medium to long-term growth.

The Company has a clear strategic plan set by the Board, including financial performance targets, an approach to risk and a vision of the values necessary and appropriate to achieve the plan. Via internal reporting and interaction between the Board, management and employees, there is company-wide understanding of how shareholder value will be derived from these principles.

The business strategy, financial targets and key risks are clearly stated within various sections of the Annual Report to ensure that Shareholders can see how the Board intends to deliver long term shareholder value.

**Principle 2 - Seek to understand and meet shareholder needs and expectations**

The Chief Executive Paul Swinney and Finance Director Liz Dixon are the key shareholder liaison contacts alongside the company's public relations advisors Walbrook PR.

The Board actively engages with shareholders at least three times a year, each in a forum which allows management and the Board to hear investors' views. The Company's NOMAD and public relations advisor provide written investor feedback after all investor presentations and meetings. These are shared with the Board. Via communication with the Company's NOMAD and its analyst, together with Regulatory News Service announcements and the Company's Annual Report, the Board gauges investor sentiment, sets expectations and communicates the Company's intentions. The Board sees all write ups on the Company by the financial press, monitors popular online blogs and has a series of online facilities in place that provide a conduit between the Company and shareholders.

**Corporate Governance (continued)**

**Principle 3 - Take into account wider stakeholder and social responsibilities and their implications for long-term success**

Management's close day to day connection with employees combined with periodic engagement surveys, "town hall meetings", and all-staff "Tristel and Me" education sessions, ensure good relations with, and between, employees. These activities allow employees to share their views on ways in which the company can improve products, processes and outcomes. The Board's assessment is that the Company's culture is positive, engaged and energetic, which is reflected in its achievement of its strategic goals.

An appropriate and positive relationship with suppliers and customers is a pre-requisite to the successful operation of the Company and exists in all areas of the business. The Company seeks to find innovative solutions to issues presented by customers which not only strengthens its good relations with those customers but provides immediate feedback allowing the Company to continually re-evaluate its strategic positioning and product offering. Product design and development, which has been vital to the Company's success and continues to be a key day to day function, is driven by the close understanding between management and end users of the Company's products.

The management team works closely with regulators, key opinion leaders and authors of clinical guidelines in all countries, seeking counsel and working in cohort when appropriate. Effective connections and relationships are a key element of the "protective moat" referred to within the Company's strategic plan. Post market surveillance and effective complaints handling are a pre-requisite of the Company's quality accreditation.

**Principle 4 - Embed effective risk management, considering both opportunities and threats, throughout the organisation**

Business opportunities, wins, losses and threats are documented by the management team monthly and shared with the Board. Risks and their mitigating factors are also reported, with high risk situations immediately acted upon. Health & safety risk assessments are a high priority given the nature of the business as a chemical manufacturer, and are completed on a continual basis. Operational risks and uncertainties are discussed daily within the business in departmental meetings. A disaster recovery plan is in place and scenario planning events take place periodically, normally annually. Financial risks are considered by the Board at each Board meeting.

The Board gains assurance that the risk management and related control systems are effective through internal review and assessment, which is part of its continuous improvement strategy.

**Corporate Governance (continued)**

**Principle 5 - Maintain the Board as a well-functioning, balanced team led by the Chair**

The Board receives information and reporting from every geographical and functional part of the business, direct from the responsible individuals, each month. The information, which is always provided in a timely manner, is of a high quality and comprehensive, ensuring that the Board is well informed and has the tools to facilitate proper assessment of matters which require its insight and decision making.

The Board believes that there is an appropriate balance between Executive and Non-Executive Directors (NEDs) on the Board. Tom Jenkins is considered to be an independent Non-Executive Director, by virtue of his short tenure with the business, the fact that he is not a shareholder or linked to the Company via business arrangements. All Directors are encouraged to foster an attitude of independence of character and judgement. That said, the Board does not currently comply with the QCA Code's requirement that at least half of Directors of the Board should be independent NED. Given the size of the business, the Board considers that expanding the Board to appoint additional Directors purely for reasons of independence would not be in shareholders' interests. However, in all new appointments the Board seeks to address the issue of independence.

The relevant experience, skills and personal qualities that each Directors brings to the Board are detailed within the Directors Biographies, published within the Remuneration Report. Each Director keeps their skillset up to date by reading relevant publications and attending external training and personal development courses and workshops.

Each Non-Executive Director is expected to give at least 16 days per annum to the Company's business.

**Principle 6 - Ensure that the Directors collectively have all appropriate skills, capabilities and experience**

The Board consists of individuals with backgrounds and experience in publicly and privately-owned commerce, finance and manufacturing. Collectively, the Board's members have a wide range of experience, personal qualities and capabilities. It is recognized that the Chairman being a major shareholder risk's individual dominance of the Board; however, the Board's view is that the appointment of independent NED's mitigates this risk.

At present, the Board contains two Executive Directors, one male and one female, and four NED's, all of whom are male. Given the size of the business, expansion of the Board to appoint additional Directors purely for reasons of diversity is not considered to be in shareholders' best interests. In all new appointments the Board aims to appoint candidates who bring new and diverse attributes to its complexion.

In accordance with the QCA Code Non Executive Directors are only eligible to serve for up to 9 years. At each Annual General Meeting all other directors are, at the discretion of the Nominations Committee, put forward for re-election.

Paul Barnes has served as a NED for 8 years, prior to which he was an Executive Director. Francisco Soler is a Non Exec Chairman, who has served since the Company's inception and will step down in December 2018, at which time Paul Barnes will take over as Interim Non-Executive Chairman, providing continuity whilst the Board implements additional changes.

**Corporate Governance (continued)**

**Principle 7 - Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement**

The performance and effectiveness of the Board, its committees and individual Directors is reviewed by the Chairman and the Board on an ongoing basis. Training is available should a Director request it, or if the Chairman feels it is necessary. The performance of the Board is measured by the Chairman with reference to the Company's achievement of its strategic goals.

Over the course of the past three years the Board has changed by addition, without rotation. This is considered acceptable as the Company has increased in size and complexity and Board members still have much to contribute. The existing Board size of six is large enough to allow a mix of backgrounds, views and capabilities, whilst still small enough to be dynamic and effective.

The Board is currently in the process of a succession review, as a result of the Chairman of The Board of Directors indicating his intention to step down at the Company's Annual General Meeting in December 2018. The Board continually assesses the candidacy of Tristel staff with respect to succession planning for Executive Management and has in place a short-term plan to be instigated in the event of the loss or incapacity of either CEO or Finance Director.

**Principle 8 - Promote a corporate culture that is based on ethical values and behaviour**

The Board promotes a corporate culture that is based on sound ethical values and behavior through their own actions and words and ensures that these are apparent and understood in every part of the business. They are embodied in three words which describe the core values of the Company: No-Nonsense, Considerate and Energetic. These values are applied consistently to employee personal development and training programs.

By adhering to these values, the Board believes that the Company will maintain a healthy corporate culture, focusing upon what is important, whilst taking a balanced approach to achieving its goals. Infection prevention is a vital yet complex area of healthcare, and hospitals can be reluctant to put their trust in new products and change. The Board feels that if an honest and straightforward approach is taken, whilst supporting customers through the process of adopting new products, the company can best achieve its goals.

The flat hierarchy of the company means that the Board can assess the state of Company's culture easily, which it considers to be positive and spirited at present.

**Principle 9 - Maintain governance structures and processes that are fit for purpose and support good decision-making by the board**

Given that one of the Company's core values is "no-nonsense", the Board seeks to strike a balance between maintaining adequate governance without imposing structures that slow or weaken decision making and progress. The Company's governance structures are fluid and have by necessity adapted over time, hand in hand with the changes to the business. The Board's members are well informed, have access to all parts of the business, and are appropriately equipped through their own skills, experience and personality to make good business decisions.

**Principle 10 - Communicate how the Company is governed and is performing by maintaining dialogue with shareholders and other relevant stakeholders**

This Corporate Governance Report is included within the Corporate Governance section of the Tristel website and is reviewed and updated annually.

**Corporate Governance (continued)**

**Board of Directors**

The Company is controlled by the Board of Directors, which comprises two Executives, one of whom is the Chief Executive Officer, and four NEDs. The role of the Chief Executive Officer and Chairman are separate. The Executive Directors are full time employees of the Company; the NEDs are part time employees who are required to give at least 16 days per annum to their role.

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

The Board is responsible to shareholders for the proper management of the Company and meets formally at least eight times a year to set the overall direction and strategy of the Company, to review operating and financial performance and to consider and advise on senior management appointments. The Board also monitors and approves financial policy and budgets, including capital expenditure. All key operational decisions are subject to Board approval.

The company secretary is responsible for ensuring that Board procedures are followed and that all applicable rules and regulations are complied with. Liz Dixon, Finance Director, performs the role of company secretary, providing an internal advisory role to the Board. The QCA's guidelines state that the role of Company Secretary should not be held by an Executive Director, and as such we do not comply with this requirement. It is the Board's view that the size and complexity of the business does not necessitate a separate role of Company Secretary. Liz Dixon is supported and guided in this role by the Company's legal advisors.

**Board and Committee attendance**

The Board met eight times during the year and its committees met a further 4 times in accordance with their terms of reference. The attendance of the Directors at these meetings is detailed below. On the occasions when a Director is unable to attend a meeting, any comments he has arising from the information pack circulated prior to the meeting are provided to the Chairman.

<b>2017-18</b>	<b>Eligible to attend</b>	<b>Attended</b>
Paul Swinney	9	9
Elizabeth Dixon	8	8
Francisco Soler	12	12
Paul Barnes	12	12
David Orr	12	12
Tom Jenkins	7	7

The Board does not Comply with QCA Code's requirement that the Chairman of the Board of Directors should not sit on any of the Committees to the Board. The Chairman's participation has been necessary due to the small number of Non-Executive Directors available to sit on each Committee. This is no longer the case and will be rectified when the existing Chairman steps down in December 2018.

**Corporate Governance (continued)**

**Committees of the Board**

**Remuneration Committee**

The Remuneration Committee operates under terms of reference which are reviewed annually, meeting at least once per year, and comprises all NEDs under the chairmanship of David Orr. It reviews, inter alia, the performance of the Executive Directors and sets the scale and structure of their remuneration and basis of their service agreements, having due regard to the interests of the shareholders. The Remuneration Committee also determines the allocation of share options to Executive Directors. No Director has a service agreement exceeding one year. One of the policies of the Remuneration Committee is that no individual participates on discussions or decisions concerning his/her own remuneration. The Directors' Remuneration Report is set out in the Annual Report where the work carried out during the past year is detailed.

**Audit Committee**

The Audit Committee operates under terms of reference which are reviewed annually, and comprises all NEDs under the chairmanship of Paul Barnes. It meets at least twice a year and, amongst other duties, overviews the monitoring of the Company's internal controls, accounting policies and financial reporting, and provides a forum through which the external auditors report. It meets at least once a year with the external auditors without Executive management present.

The Company does not comply with the QCA's requirement to publish a separate Audit Committee Report as it believes that the information provided within this Corporate Governance Report gives shareholders adequate information on the committee's activities.

During the year the audit committee met on two occasions to:

- Meet with the Company's external auditors to discuss findings and hear recommendations arising from the annual audit;
- Discuss with the Company's external auditors matters such as compliance with financial reporting standards;
- Approve the terms of engagement and fees of the Company's external auditors;
- Monitor the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company and other related requirements;

The Committee reported formally to the Board on proceedings after each meeting.

**Nominations Committee**

The Nominations Committee operates under terms of reference which are reviewed annually and comprises three NEDs and one Executive Director, under my chairmanship. The Committee meets at least once a year to consider the performance and effectiveness of the Board and its Directors; whether Directors retiring by rotation should be put forward for re-election at the Annual General Meeting; to consider succession planning for Directors and other senior executives; and to identify and nominate for the approval of the Board candidates to fill Board vacancies as and when they arise.



## **Tristel Plc**

### **Corporate Governance (continued)**

We have not engaged an external consultant to evaluate the effectiveness of the Board this year. I have carried out an ongoing review of the Board's collective performance and that of the individual Directors. I have based my review upon the following criteria:

- Strategy design, debate and decision making;
- Leadership style and technique;
- Goal setting, assignment of roles, responsibilities and resources;
- Monitoring, risk management and oversight;

The performance of the Board and its individual Directors is also viewed in the context of the Company's achievement of its strategic goals. During the 2017-18 year these were:

1. To meet analysts' profit forecasts - finnCap profit before tax forecast for 2017-18 was £4.2m, which has been achieved.
2. To meet the Company's strategic financial goals of achieving at least £22.3m of sales by financial year 2019-20 - the company is expected to exceed this goal.
3. To increase the Company's value to shareholders - market capitalization has increased by £56.8m, from £81.4m to £138.2m during the 2017-18 year - this goal has been achieved
4. To replicate the market penetration achieved in targeted clinical areas in the UK in all overseas markets. Whilst this is difficult to measure, the Company has achieved overseas sales growth of 19% which is clear evidence that solid good progress is being made towards this goal. I have concluded that the Board has performed effectively during the 2017-18 financial year.

Directors are subject to election by shareholders at the first opportunity after their appointment. In addition, all Board members retire at each Annual General Meeting, and at their own request alongside the recommendation of the Nominations Committee, are put forward for re-election. All Directors were recommended for re-election at the 2017 AGM.

#### **Relations with shareholders**

The Board considers effective communication with shareholders to be very important and encourages regular dialogue with both institutional and private investors. The Board responds promptly to communications received verbally or in writing. Directors regularly attend meetings with both private and institutional shareholders and analysts throughout the year. Shareholders are given at least 21 days' notice of the Annual General Meeting held in December and Shareholder Open Day held in July, at which shareholders are given the opportunity to discuss the development and performance of the Company. The Company's website, [www.tristel.com](http://www.tristel.com), contains full details of its activities, press releases and other details, as well as share price details, share trading activities and Regulatory News Service (RNS) announcements.

#### **Maintenance of a sound system of internal control**

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

**Corporate Governance (continued)**

The Board continually considers its policies regarding internal control, risk management and business reporting with respect to the major areas of the business and methods used to monitor and control them. In addition to financial risk, the reviews cover operational, commercial, regulatory and health and safety risks. The Board has concluded that an internal audit function is not justified at this juncture. However, this decision is continually reviewed as the operations of the Company develop.

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

**Control environment**

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

**Risk management**

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

**Financial information**

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

**Management of liquid resources**

The Board is risk averse when investing any surplus cash funds. It considers that a minimum cash balance of £3 million is appropriate - providing adequate protection against unexpected events - for the current size of the business, and seeks to adhere to this wherever possible and practicable. Cash exceeding this level, which cannot be used for earnings enhancing investment purposes, is returned to shareholders in the form of a special dividend.

Francisco Soler  
Chairman  
16 October 2018

## **Tristel Plc**

### **Directors' Report for the Year Ended 30 June 2018**

The directors present their report and the consolidated financial statements for the year ended 30 June 2018.

#### **RESULTS AND DIVIDENDS**

There was a profit for the year after taxation amounting to £ 3.272m (2017: £3.417m).

A final dividend of £1.130m (2.63p per share) was paid during the year in respect of the year ended 30 June 2017. (2016: £0.928m (2.19p per share)).

An interim dividend of £0.688m (1.60p per share) was paid during the year in respect of the year ended 30 June 2018 (2017: £0.594m, 1.40p per share); The Directors recommend a final dividend of 2.98p per share (2017: 2.63p per share). If approved, the total distribution of dividends for the year ended 30 June 2018 will be £1.975m (2017: £1.709m).

A review of the Group's performance for the year ended 30 June 2018 is contained in the Chairman's Statement on pages 2 to 3 and the Chief Executive's Report on pages 4 to 10.

#### **Directors' of the group**

The directors, who held office during the year, were as follows:

FA Soler

PC Swinney

EA Dixon

PM Barnes

DWE Orr

TAJ Jenkins (appointed 19 October 2017)

The Group provides Directors and Officers indemnity insurance for the benefit of the Directors of the Group. For the year to 30 June 2018 the policy cost £7,900 (2017: £7,500).

Details of Directors' interests in the share capital of the Company are disclosed in the Directors' Remuneration Report set out on pages 18 to 23.

#### **CORPORATE GOVERNANCE**

Tristel plc is committed to maintaining high standards of corporate governance and has applied strong and appropriate policies, given the size of the Group, its current stage of development and the constitution of the Board. Further details are provided in the Corporate Governance Report.

#### **Directors' interests in shares**

#### **SUBSTANTIAL SHAREHOLDINGS**

Except for the Directors' interests noted above, the Directors are aware of the following who were interested in 3% or more of the Company's equity at 30 June 2018:

**Tristel Plc****Directors' Report for the Year Ended 30 June 2018 (continued)**

	<b>No. of shares</b>	<b>% of issued share capital</b>
Hargreaves Lansdown	3,203,865	7.42%
Charles Stanley Stockbrokers	3,043,882	7.05%
Investec Wealth & Investment	2,434,399	5.64%
Amati Global Investors	1,844,046	4.27%
Unicorn Asset Management	1,635,829	3.79%
Barclays Stockbrokers (EO)	1,612,956	3.73%
Interactive Investor	1,378,637	3.19%

**PRINCIPAL RISKS AND UNCERTAINTIES**

Reference to this topic can be found within the Strategic report on pages 2 to 16.

Reference to the Groups primary research and development advancements can be found within the Chief Executive's report on page 8.

**Directors' Report for the Year Ended 30 June 2018 (continued)**

**Statement of Directors' Responsibilities**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Disclosure of information to the auditor**

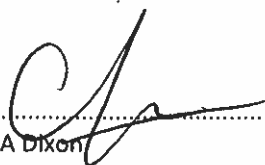
The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the 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 company's auditor is aware of that information.

**Reappointment of auditors**

In accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of Grant Thornton UK LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board on 16 October 2018 and signed on its behalf by:

  
EA Dixon  
Director

16 October 2018

## **Independent auditor's report to the members of Tristel plc**

### **Opinion**

#### **Our opinion on the financial statements is unmodified**

We have audited the financial statements of Tristel plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 30 June 2018, which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.. The financial reporting framework that has been applied in the preparation of the Group financial statements 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.

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 30 June 2018 and of the Group's profit 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 Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Who we are reporting to**

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.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



### Overview of our audit approach

- Overall materiality: £201,000, which represents 5% of the group's profit before taxation;
- Key audit matters were identified as improper revenue recognition, impairment of intangible assets (including goodwill) and share option valuation;
- The principal trading company of the Group is Tristel Solutions Limited, which accounts for 71% of external revenue and 87% of current assets. We performed full scope audit procedures on the financial information of this company and on the financial statements of the parent company; and
- We performed targeted or analytical procedures over the financial information of the other entities in the Group.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Key Audit Matter – Group****How the matter was addressed in the audit – Group****Improper revenue recognition**

The Group has recognised total revenues during the year of £22,220,000 (2017: £20,273,000) arising from the sale of goods.

Under International Standard on Auditing (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumed risk that revenue may be misstated due to fraud.

The Group's principal revenue stream relates to the sale of products to customers. The high volume of transactions across various product categories and geographic regions gives rise to a risk that revenue may not have occurred. We therefore identified revenue occurrence as a significant risk, which was one of the most significant assessed risks of material misstatement.

Our audit work included, but was not restricted to:

- considering whether revenue was accounted for in accordance with the disclosed accounting policy and whether it is consistent with the transfer of risks and rewards, as required under International Accounting Standard (IAS) 18 'Revenue';
- completing analytical review of revenues by month to identify any unusual trends in the year and obtaining corroborative evidence;
- testing cut-off by selecting a sample of transactions immediately pre and post year end to ensure appropriate recognition of transactions near the year end; and
- completing substantive testing over a sample of sales transactions throughout the year and agreeing each transaction selected to delivery documentation and carriage details.

The group's accounting policy on revenue recognition is shown in note 1 to the financial statements and related disclosures are included in note 3.

**Key observations**

Our audit work did not identify any material misstatements in revenue recognised in the year or any material instances of revenue not being recognised in accordance with the stated accounting policy.

**Impairment of intangible assets (including goodwill)**

The Group carries intangible assets and goodwill at a net book value of £6,000,000 and £1,000,000 (2017: £5,900,000 and £1,100,000), respectively. There is a risk that intangible assets including goodwill may be impaired.

For the separable intangible assets being amortised, management review expected revenues and cash flows related to the assets to ensure the recoverable amount exceeds the net book value of the assets at the year end and that no impairment triggers are identified.

Management are required to carry out an annual impairment assessment of goodwill. The impairment model incorporates key assumptions, including the timing and extent of

Our audit work on impairment of intangible assets other than goodwill included, but was not restricted to:

- considering management's assessment of the future revenue streams related to each separable intangible asset to identify any impairment triggers and consider the sufficiency of the assessment performed;
- agreeing the basis of trading forecasts for consistency with actual results and management budgets;
- inquiry to identify key matters and judgements which would impact the assessment, including but not limited to: the basis for forecasted revenues; and assessing the adequacy of the Group's disclosures in respect of impairment tests (see notes 13 and 14) and key judgements and estimates (note 2).

Our audit work on goodwill impairment



**Key Audit Matter – Group**

future revenues and associated net cash flows and discount rates.

Due to the level of estimation uncertainty involved in trading forecasts, we have identified the impairment of intangible assets (including goodwill) as a significant risk, which was one of the most significant assessed risks of material misstatement.

**How the matter was addressed in the audit – Group**

assessment included, but was not restricted to:

- obtaining management's impairment model and considering the sufficiency of the assessment performed in line with IAS 36 'Impairment of Assets';
- checking the mathematical accuracy of the discounted cash flow models;
- assessing the reasonableness of the key assumptions by comparison to historical performance and budgeted growth rates; and
- evaluating the sensitivity to the discount rate used by management.

The group's accounting policies on intangible assets and goodwill are stated in note 1 to the financial statements and management's approach to assessment of impairment is disclosed as a key judgement and estimate in note 2.

**Key observations**

Our audit work did not identify any material impairment of intangible assets (including goodwill) and we identified no other factors which were considered to impact the carrying value of intangible assets.

**Share option valuation**

During the year, Tristel plc granted share options to Directors over 990,000 ordinary shares with vesting conditions linked to the Company's share price performance.

Management are required to fair value the share based payment arising. The company engaged a third party to assist in this assessment.

Based on the nature and quantum of the share awards to the Board, we therefore identified the valuation of share options as a significant risk, which was one of the most significant assessed risks of material misstatement.

Our audit work included but was not restricted to:

- considering whether the share based payment was accounted for in accordance with the disclosed accounting policy and whether it is consistent with the requirements of IFRS 2 'Share-based Payment'
- using our internal valuations team to assist us in evaluating the share option valuation methodology prepared by the Group's third party adviser, including considering the validity of the calculations, the appropriateness of the assumptions used in determining the fair value and the appropriateness of the valuation model; and
- agreeing the award of options to supporting documentation.
- assessing the adequacy of the Group's disclosures in respect of the valuation of share-based payments (see note 26 and key judgements and estimates (note 2)).

The Group's accounting policy on share based payments is shown in note 1 to the financial statements and related disclosures are included in note 26.

**Key Audit Matter – Group****How the matter was addressed in the audit – Group****Key observations**

The fair value of the share options with market performance conditions was considered to be evaluated based on an appropriate model and our audit work did not identify any material errors in the calculations.

No separate key audit matters were identified relating to the audit of the financial statements of the parent company.

**Our application of materiality**

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

<b>Materiality measure</b>	<b>Group</b>	<b>Parent</b>
Financial statements as a whole	£201,000, which is 5% of the group's profit before tax. This benchmark is considered the most appropriate because the Group's key strategic financial goal is to deliver profitable trading growth.  Materiality for the current year is higher than the level that we determined for the year ended 30 June 2017 reflecting the growth achieved in the Group's results in the year.	£156,000, which is 1% of the company's total assets. This benchmark is considered the most appropriate because the parent entity is a holding company and holds the investments in the subsidiary trading companies.  Materiality for the current year is higher than the level that we determined for the year ended 30 June 2017 to reflect the increase in total assets.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality	A specific materiality has been applied to directors' remuneration and related party transactions.	A specific materiality has been applied to directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	£10,050 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£7,800 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

### **An overview of the scope of our audit**

Our audit approach was based on our understanding of the Group's business and is risk based. We take into account the size and risk profile of each entity, any changes in the business and other factors when determining the level of work to be performed at each entity:

- Each subsidiary has its own finance team, with the finance team based in the UK accounting for Tristel plc, the principal trading entity Tristel Solutions Limited and oversight of the Group financial reporting. Although day-to-day processes and controls are separately managed in each overseas subsidiary, Group management are responsible for all judgemental processes including significant risk areas;
- We performed full scope audits of the financial statements of the parent company Tristel plc, and of the financial information of the principal trading entity Tristel Solutions Limited, which is the only component that is individually significant to the Group. For all other entities in the Group, we have completed targeted or analytical procedures to support the Group audit opinion;
- Our audit approach was fully substantive in nature;
- The total percentage coverage of full-scope and targeted procedures over revenue was 95%;
- The total percentage coverage of full scope and targeted procedures over total assets was 96%;
- Component auditors were used to complete targeted audit procedures for two overseas entities. The Group audit team provided instructions to the component auditors regarding the targeted procedures to be completed based on our assessment of the significant areas for Group purposes within each component. The Group audit team reviewed the audit working papers for these significant areas. All other audit work was completed by the Group auditor; and
- Our audit approach in the current year is consistent with 2017.

### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Our opinion on other matters prescribed by the Companies Act 2006 is unmodified**

In our opinion, based on the work undertaken in the course of the audit:  
the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and  
the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report under the Companies Act 2006**

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters in relation to which 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.

**Responsibilities of directors for the financial statements**

As explained more fully in the Statement of Directors' Responsibilities set out on page 35, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.



**Alison Seekings**

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

Cambridge

Date 16 October 2018

**Tristel Plc**

**Consolidated Income Statement for the Year Ended 30 June 2018**

	<b>Note</b>	<b>2018 £ 000</b>	<b>2017 £ 000</b>
Revenue	3	22,220	20,273
Cost of sales		<u>(5,040)</u>	<u>(4,598)</u>
Gross profit		17,180	15,675
Share based payments		(665)	(121)
Depreciation, amortisation and impairments		(1,564)	(1,310)
Administrative expenses		<u>(10,971)</u>	<u>(10,342)</u>
Operating profit	6	3,980	3,902
Finance income		2	4
Other income	5	-	41
Share of profit of equity accounted investees		<u>24</u>	<u>19</u>
Profit before tax		4,006	3,966
Income tax expense	11	<u>(734)</u>	<u>(549)</u>
Profit for the year		<u>3,272</u>	<u>3,417</u>
<b>Profit attributable to:</b>			
Owners of the company		<u>3,272</u>	<u>3,417</u>

**Earnings per share from total and continuing operations attributable to equity holders of the parent**

		<b>2018</b>	<b>2017</b>
Basic - pence	24	7.62	8.06
Diluted - pence	24	7.33	7.80

The above results were derived from continuing operations.

**Tristel Plc**

**Consolidated Statement of Comprehensive Income for the Year Ended 30 June 2018**

	<b>2018</b>	<b>2017</b>
	<b>£ 000</b>	<b>£ 000</b>
Profit for the year	3,272	3,417
<b>Items that will be reclassified subsequently to profit or loss</b>		
Foreign currency translation (losses)/gains	<u>(112)</u>	<u>47</u>
Total comprehensive income for the year	<u>3,160</u>	<u>3,464</u>
<b>Total comprehensive income attributable to:</b>		
Owners of the company	<u>3,160</u>	<u>3,464</u>

## Consolidated Statement of Financial Position as at 30 June 2018

	Note	30 June 2018 £ 000	30 June 2017 £ 000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	1,328	1,409
Goodwill	13	998	1,065
Intangible assets	14	5,954	5,924
Investments	15	589	589
Deferred tax asset	11	399	-
		<u>9,268</u>	<u>8,987</u>
<b>Current assets</b>			
Inventories	16	2,279	2,292
Trade and other receivables	17	4,332	3,745
Cash and cash equivalents	18	6,661	5,088
		<u>13,272</u>	<u>11,125</u>
Total assets		<u>22,540</u>	<u>20,112</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	19	432	427
Share premium		11,058	10,705
Foreign currency translation reserve		(66)	46
Merger reserve		478	478
Retained earnings		6,518	4,399
Equity attributable to owners of the company		<u>18,420</u>	<u>16,055</u>
Non-controlling interests		<u>7</u>	<u>7</u>
Total equity		<u>18,427</u>	<u>16,062</u>
<b>Non-current liabilities</b>			
Deferred tax liability	11	205	175
<b>Current liabilities</b>			
Trade and other payables	22	3,201	3,147
Income tax liability	11	707	728
		<u>3,908</u>	<u>3,875</u>
Total liabilities		<u>4,113</u>	<u>4,050</u>
Total equity and liabilities		<u>22,540</u>	<u>20,112</u>

Approved by the Board on 16 October 2018 and signed on its behalf by:

  
EA Dixon  
Finance Director



**Tristel Plc**

**(Registration number: 04728199)**

**Company Statement of Financial Position as at 30 June 2018**

		<b>30 June 2018 £ 000</b>	<b>30 June 2017 £ 000</b>
	<b>Note</b>		
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	14	3,338	3,396
Investments in subsidiaries, joint ventures and associates	15	3,814	3,149
		<u>7,152</u>	<u>6,545</u>
<b>Current assets</b>			
Trade and other receivables	17	5,772	6,165
Income tax asset		6	6
Cash and cash equivalents	18	2,669	2,767
		<u>8,447</u>	<u>8,938</u>
Total assets		<u>15,599</u>	<u>15,483</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	19	432	427
Share premium		11,058	10,705
Retained earnings		3,989	4,257
Total equity		<u>15,479</u>	<u>15,389</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	11	9	9
<b>Current liabilities</b>			
Trade and other payables	22	111	85
Total liabilities		<u>120</u>	<u>94</u>
Total equity and liabilities		<u>15,599</u>	<u>15,483</u>

The parent company's profit for the financial year was £0.885m (2017: £3.827m) which includes a dividend of £1m (2017: £4.261m) received from its subsidiary companies.

Approved by the Board on 16 October 2018 and signed on its behalf by:

  
EA Dixon  
Director

## Consolidated Statement of Changes in Equity for the Year Ended 30 June 2018

	Share capital £ 000	Share premium £ 000	Foreign currency translation £ 000	Other reserves £ 000	Retained earnings £ 000	Total £ 000	Non- controlling interests £ 000	Total equity £ 000
At 1 July 2017	427	10,705	46	478	4,399	16,055	7	16,062
Exchange difference on translation of foreign operations	-	-	(112)	-	-	(112)	-	(112)
Profit	-	-	-	-	3,272	3,272	-	3,272
Total comprehensive income	-	-	(112)	-	3,272	3,160	-	3,160
Dividends paid	-	-	-	-	(1,818)	(1,818)	-	(1,818)
New share capital subscribed	5	353	-	-	-	358	-	358
Share based payment transactions	-	-	-	-	665	665	-	665
Total transactions with owners	5	353	-	-	(1,153)	(795)	-	(795)
At 30 June 2018	432	11,058	(66)	478	6,518	18,420	7	18,427
At 1 July 2016	421	10,411	(1)	478	3,648	14,957	7	14,964
Profit for the year	-	-	-	-	3,417	3,417	-	3,417
Exchange difference on translation of foreign operations	-	-	47	-	-	47	-	47
Total comprehensive income	-	-	47	-	3,417	3,464	-	3,464
Dividends paid	-	-	-	-	(2,787)	(2,787)	-	(2,787)
New share capital subscribed	6	294	-	-	-	300	-	300
Share based payment transactions	-	-	-	-	121	121	-	121
Total transactions with owners	6	294	-	-	(2,666)	(2,366)	-	(2,366)
At 30 June 2017	427	10,705	46	478	4,399	16,055	7	16,062

**Tristel Plc**

**Company Statement of Changes in Equity for the Year Ended 30 June 2018**

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 July 2017	427	10,705	4,257	15,389
Profit for the year	-	-	885	885
Total comprehensive income	-	-	885	885
Dividends paid	-	-	(1,818)	(1,818)
New share capital subscribed	5	353	-	358
Share based payments	-	-	665	665
Total transactions with owners	5	353	(1,153)	(795)
At 30 June 2018	432	11,058	3,989	15,479
	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 July 2016	421	10,411	3,096	13,928
Profit for the year	-	-	3,827	3,827
Total comprehensive income	-	-	3,827	3,827
Dividends paid	-	-	(2,787)	(2,787)
New share capital subscribed	6	294	-	300
Share based payments	-	-	121	121
Total transactions with owners	6	294	(2,666)	(2,366)
At 30 June 2017	427	10,705	4,257	15,389

## Consolidated Statement of Cash Flows for the Year Ended 30 June 2018

	2018	2017
	£'000	£'000
<b>Cash flows from operating activities</b>		
Profit before tax	4,006	3,966
Adjustments to cash flows from non-cash items		
Depreciation of plant, property & equipment	548	564
Amortisation of intangible asset	950	679
Impairment of intangible asset	67	67
Gain on settlement of pre-existing agreement	-	(41)
Share based payments - IFRS 2	665	121
Profit on disposal of property, plant and equipment	(17)	(16)
Loss on disposal of intangible asset	-	-
Unrealised loss on foreign exchange	(78)	-
Finance income	(2)	(4)
	<u>6,139</u>	<u>5,336</u>
Working capital adjustments		
Decrease/(increase) in inventories	13	(294)
Increase in trade and other receivables	(587)	(1)
Increase/(decrease) in trade and other payables	54	(235)
Corporation tax paid	(1,124)	(454)
<b>Net cash flow from operating activities</b>	<u>4,495</u>	<u>4,352</u>
<b>Cash flows from investing activities</b>		
Interest received	2	4
Purchase of intangible assets	(997)	(419)
Purchase of trade and assets	-	(994)
Purchase of investments	-	(589)
Purchase of property plant and equipment	(516)	(585)
Proceeds from sale of property plant and equipment	63	45
<b>Net cash used in investing activities</b>	<u>(1,448)</u>	<u>(2,538)</u>
<b>Cash flows from financing activities</b>		
Share issues	358	300
Dividends paid	(1,818)	(2,787)
<b>Net cash used in financing activities</b>	<u>(1,460)</u>	<u>(2,487)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<u>1,587</u>	<u>(673)</u>
Cash and cash equivalents at the beginning of the period	5,088	5,715
Exchange differences on cash and cash equivalents	(14)	46
<b>Cash and cash equivalents at the end of the period</b>	<u>6,661</u>	<u>5,088</u>

## Company Statement of Cash Flows for the Year Ended 30 June 2018

	2018	2017
	£'000	£'000
<b>Cash flows from operating activities</b>		
Profit before tax	885	3,890
Adjustments to cash flows from non-cash items		
Non-operating cash flow to fund acquisition	-	(1,060)
Amortisation of intangible asset	244	222
Finance income	(3)	(3)
	<u>1,126</u>	<u>3,049</u>
<b>Working capital adjustments</b>		
Increase in trade and other receivables	393	(330)
Increase/(decrease) in trade and other payables	26	(97)
Corporation tax paid	-	(64)
<b>Net cash flow from operating activities</b>	<u>1,545</u>	<u>2,558</u>
<b>Cash flows from investing activities</b>		
Interest received	3	3
Purchase of intangible assets	(186)	(224)
Purchase of investments	-	(589)
<b>Net cash used in investing activities</b>	<u>(183)</u>	<u>(810)</u>
<b>Cash flows from financing activities</b>		
Share issues	358	300
Dividends paid	(1,818)	(2,787)
<b>Net cash used in financing activities</b>	<u>(1,460)</u>	<u>(2,487)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<u>(98)</u>	<u>(739)</u>
Cash and cash equivalents at the beginning of the period	2,767	3,506
Cash and cash equivalents at the end of the period	<u>2,669</u>	<u>2,767</u>

## **1 Accounting policies**

### **Basis of accounting**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

There have been no new financial reporting standards effective for the year which have impacted the accounting policies stated below. Tristel plc, the Group's ultimate parent company, is a limited liability company incorporated and domiciled in the United Kingdom.

### **Basis of consolidation**

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 30 June 2018. Subsidiaries are entities over which the Group has rights or is exposed to variable returns from its involvement with the investee and has the power to affect those returns by controlling the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

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. These fair values are also used as the basis 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 aggregate of the consideration transferred and the amount of non-controlling interest over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Non-controlling interests, presented as part of equity, represent a proportion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the assets of the parent and the non-controlling interests based on their respective ownership interests.

### **Going concern**

Management have considered the trading performance of the Group with underlying trends and expectations, this forms the basis of the Group's current forecasts. The forecasts in addition to the resources available to the group leave management to believe that the Group will continue for the foreseeable future for a period of not less than twelve months from date of approval of accounts.

**Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)**

**1 Accounting policies (continued)**

**Associates**

Associates are those entities over which the Group has significant influence but which are neither subsidiaries nor interests in joint ventures. Investments in associates are recognised initially at cost and the results of the associate are subsequently accounted for using the equity method. Acquired investments in associates are also subject to purchase method accounting. However, any goodwill or fair value adjustment attributable to the share in the associate is included in the amount recognised as investment in associates.

All subsequent changes to the share of interest in the equity of the associate are recognised in the Group's carrying amount of the investment. Unless otherwise stated changes resulting from the profit or loss generated by the associate are reported in 'share of profits of associates' in the consolidated income statement and therefore affect net results of the Group. These changes include subsequent depreciation, amortisation or impairment of the fair value adjustments of assets and liabilities.

Items that have been recognised directly in the associate's other comprehensive income are recognised in the consolidated other comprehensive income of the Group. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

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

**Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)**

**1 Accounting policies (continued)**

**Changes in accounting policies**

**EU adopted IFRSs not yet applied**

As of 30 June 2018, the following Standards and Interpretations are in issue but not yet effective and have not been adopted early by the Group:

- IFRS 16 Leases (effective 1 January 2019)
- IFRS 17 Insurance contracts (effective 1 January 2021)

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material effect on the financial statements of the Group, except for IFRS 16. Under IFRS 16, the majority of lease obligations of the group, currently accounted for as operating leases, will be recognised as assets on the statement of financial position with a corresponding liability.

**Standards effective from 1 January 2018**

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2018:

- IFRS 9 Financial instruments (effective 1 January 2018)
- IFRS 15 Revenue from contracts with customers (effective 1 January 2018)

**IFRS 15** - 'Revenue from contracts with customers' will be adopted for the financial year commencing 1 July 2018. Currently revenue is recognised on product sales when the Group has transferred to the buyer the significant risks and rewards of ownership, which is generally when the customer has taken undisputed delivery of the goods. Under IFRS 15 the company must evaluate contracts with customers to determine the distinct performance obligations and consider the appropriate timing of revenue recognition based on when control of the product sales has passed to the buyer. Whilst the new financial reporting standard represents significant new guidance, the implementation of this guidance is not expected to have a significant impact on the timing or amount of revenue recognised by the Group in any year.

There have been no new financial reporting standards, interpretations and amendments effective for the first time from 1 July 2017 which have had a material effect on the financial statements.

**Revenue recognition**

Revenue is the amount receivable by the Group in the ordinary course of business with outside customers for the Group's products and for ancillary goods provided, excluding value added tax and trade discounts. Sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership, which is generally when the customer has taken undisputed delivery of the goods. The Group acts as principal for all revenues and its terms throughout the different sectors are identical. The Group acts as the European distributor for Bio-Cide International and incurs all the significant risks and rewards of ownership, such as sole rights to the revenue and associated profits, whilst accepting the costs of buying, storing (including insurance) and distributing the relevant stock holding.



**Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)**

**1 Accounting policies (continued)**

**Foreign currency transactions and balances**

The consolidated financial statements are presented in GBP, which is also the functional currency of the parent company.

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items denominated in a foreign currency at year-end exchange rates are recognised in profit or loss.

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than GBP are translated into GBP upon consolidation. The functional currencies of the subsidiary entities in the Group have remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into GBP at the closing rate at the reporting date. Income and expense items are translated at the average exchange rate. Exchange differences are charged or credited to other comprehensive income and recognised in the foreign currency reserve in equity.

**Tax**

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which an asset can be utilised. 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 associates 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.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, 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

**Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)**

**1 Accounting policies (continued)**

**Property, plant and equipment**

Property, plant and equipment are held at cost less accumulated depreciation and impairment losses. Depreciation is provided at the following annual rates in order to write off each asset less the estimated residual value of property, plant and equipment over their estimated useful economic lives as follows:

Improvements to property - Straight line over the lease term of 10 years

Other property, plant and equipment - Straight line over 3 and 5 years

Furniture, fittings and equipment - Straight line over 4 and 5 years

Motor vehicles - Straight line over 4 years

The residual value and useful economic life of property, plant and equipment are reviewed annually.

**Goodwill**

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

For the purpose of impairment testing, goodwill is allocated to the cash-generating unit acquired. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently where there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period. The details of these assumptions are set out in note 13.

## 1 Accounting policies (continued)

### Intangible assets

#### Patents, trademarks, licences and proprietary technology

Patents, trademarks and licences that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged over the useful life of the asset, on a straight line basis of between 7 and 20 years.

#### Research and development

Research expenditure is written off as incurred. Development expenditure is also written off as incurred, except where the Directors are satisfied, having due regard to the nature and scope of each development project assessed, as to the technical, commercial and financial feasibility of the project. In such cases, the identifiable expenditure of the relevant project is deferred and amortised over the period during which the Group is expected to benefit, as administration costs, as detailed below.

Development costs incurred 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.

Provision is made for any impairment. The amortisation of intangible assets is charged to administrative expenses in the income statement on a straight line basis of between 7 years and 25 years.

In determining the amortisation policy of an intangible asset, its estimated useful economic life in terms of years or the number of stock units likely to be sold, is considered. Where a finite useful economic life of the asset can be estimated, amortisation is calculated from the point at which the asset is brought into use, and charged to the income statement over its lifetime. Where it is considered that an intangible asset has an indefinite useful economic life no amortisation is charged. Instead, in accordance with IAS 36 the asset is tested annually for impairment, comparing the recoverable amount to the carrying amount. The recoverable amount is calculated by reference to future cash flows expected to be generated by the asset. Further details are set out in note 14.

#### Software

Software that is acquired from third parties by the Group is stated at cost less accumulated amortisation and impairment losses. Amortisation is charged over the useful life of the asset, deemed to be 7 years based on historical trends of software utilisation.

**Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)**

**1 Accounting policies (continued)**

**Investments**

Investments in other entities are classified on initial recognition as available-for-sale and are carried at fair value, except where their fair value cannot be measured reliably, in which case they are carried at cost, less any impairment.

The Company's interests in investments include interests in subsidiary undertakings. Investments are recognised initially at cost. Subsequent to initial recognition the financial statements include adjustments in respect of share-based payments and any provision for impairment.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash held by the Group and short term on demand bank deposits with an original maturity of three months or less. The assets are subject to an insignificant risk of change in value. The carrying amount of these assets approximates to their fair value.

**Trade and other receivables**

Trade and other receivables are initially recognised at fair value, plus transaction costs. Subsequently they are measured at amortised cost using the effective interest rate method.

**Inventories**

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

**Trade and other payables**

Trade and other payables, including loans and other borrowings are initially recognised at fair value, net of direct issue costs. Subsequently they are measured at amortised cost using the effective interest rate method.

**Leases**

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

**Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)**

**1 Accounting policies (continued)**

**Impairment of non-financial assets**

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge that has been recognised is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

**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.
- 'Merger reserve' represents merger relief taken in respect of the premium paid on the issue of shares to finance the acquisition of a subsidiary undertaking prior to the Group's IFRS transition date.
- 'Retained earnings' represents all current and prior period profits, losses and share-based payments.
- 'Foreign exchange reserve' comprises foreign currency translation of the financial statements of the Group's foreign entities into GBP.

**Dividends**

Final dividends are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by shareholders, while interim dividends are recognised in the period in which the dividends are paid.

**Defined contribution pension obligation**

For money purchase schemes the amount charged to the income statement in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and the contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

**Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)**

**1 Accounting policies (continued)**

**Share based payments**

In accordance with IFRS 2, the fair value of equity-settled share-based payments to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period on the Group's estimate of shares or options that will eventually vest. In the case of options granted, the fair value is measured by using an appropriate pricing model. Further details are set out in note 26.

Where options are granted over the parent company shares to employees of subsidiary undertakings, the cost of investment in the subsidiary is increased by the fair value of the options granted with a corresponding entry included in equity and assessed for impairment in accordance with IAS 36.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

**Financial assets and liabilities**

***Classification***

A financial instrument is recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Non-derivative financial instruments comprise investments in equity, trade and other receivables, cash and cash equivalents and trade and other payables. Non-derivative financial instruments are recognised initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial liability is an obligation to pay cash or other financial asset, an equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Financial liabilities and equity instruments are classified according to the substance of the contracted arrangements entered into. All interest related charges arising from borrowings, and any changes in an instruments fair value that are reported in profit or loss are included within finance costs or finance income.

## **2 Critical accounting judgements and key sources of estimation uncertainty**

### **Significant judgments and estimates**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The Directors consider that the key judgments and sources of estimation made in preparation of the financial statements relate to the following:

### **Intangible assets, goodwill and investments**

In assessing impairment, management estimates the recoverable amount of each asset or cash generating unit, based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to future trading forecasts and assumptions about determination of a suitable discount rate and assessment of useful life. An impairment charge of £0.67m relating to goodwill has been recognised (see note 13). No impairments against new product developments have been recognised in the year based on expected future revenues.

### **Research and development**

Judgements are based on the information available at each balance sheet date. Economic success of any product development is uncertain at the time of recognition as judgement is required when distinguishing the research and development phases of new product design projects and determining whether the recognition requirements for capitalisation of the development costs are met. Where these conditions are met an impairment review by project is compiled at each balance sheet date.

### **Recognition of deferred tax assets**

The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the crystallisation of the tax asset and the quantum of the Group's future taxable income against which the deferred tax asset can be utilised. This specifically applies to outstanding vested share options at the balance sheet date. In estimating the amount of the deferred tax asset that should be recognised management make judgements based on current forecasts about future taxable profits and expectations of when options will be exercised.

### **Share-based payments**

In accordance with IFRS 2 share options are measured at their fair value at the date of grant. The fair value is then expensed in the income statement on a straight-line basis over the vesting period. The fair value of share options is calculated using either the Black-Scholes or Monte Carlo pricing model, depending upon the vesting conditions of the options. The valuation of share-based payments requires judgements to be made in respect of the number of options that are expected to be exercised and the assumptions used in the model. Changes in these assumptions could result in changes to amounts expensed in the income statement in future periods.

**Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)**

**3 Segmental Analysis**

Management considers the Company's revenue lines to be split into three operating segments, which span the different Group entities. The operating segments consider the nature of the product sold, the nature of production, the class of customer and the method of distribution. The Company's operating segments are identified initially from the information which is reported to the chief operating decision maker.

The first segment concerns the manufacture and sale of infection control and hygiene products that includes the Company's chlorine dioxide chemistry, and are used primarily for infection control in hospitals. This segment generates approximately 90% of Company revenues (2017: 89%).

The second segment which constitutes 4% (2017: 4%) of the business activity, relates to the manufacture and sale of disinfection and cleaning products, principally into veterinary and animal welfare sectors ("Animal healthcare"). During prior years all sales for this segment were made to a distributor who supplied the end user.

The third segment addresses the pharmaceutical and personal care product manufacturing industries ("Contamination control"), and has generated 6% (2017: 7%) of the Company's revenues this year.

The operation is monitored and measured on the basis of the key performance indicators of each segment, these being revenue and gross profit, and strategic decisions are made on the basis of revenue and gross profit generating from each segment.

The Company's centrally incurred administrative expenses and operating income, and assets and liabilities, cannot be allocated to individual segments.



## Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

## 3 Segmental Analysis (continued)

	Human Healthcare £000	Animal Healthcare £000	Contamination Control £000	Total 2018 £000
<b>Revenue</b>				
From external customers	19,869	919	1,432	22,220
Cost of material	4,161	369	510	5,040
<b>Segment gross profit</b>	<b>15,708</b>	<b>550</b>	<b>922</b>	<b>17,180</b>
<b>Gross margin</b>	<b>79%</b>	<b>60%</b>	<b>64%</b>	<b>77%</b>
Centrally incurred income and expenses not attributable to individual segments:				
Depreciation and amortisation of non-financial assets				1,564
Other administrative expenses				10,971
Share-based payments				665
<b>Segment operating profit</b>				<b>3,980</b>
Segment operating profit can be reconciled to Group profit before tax as follows:				
Finance income				2
Results from equity accounted associate				24
<b>Total profit before tax</b>				<b>4,006</b>

## Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

## 3 Segmental Analysis (continued)

	Human Healthcare £000	Animal Healthcare £000	Contamination Control £000	Total 2017 £000
Revenue				
From external customers	18,107	878	1,288	20,273
Cost of material	3,881	223	494	4,598
Segment gross profit	14,226	655	794	15,675
Gross margin	79%	75%	62%	77%
Centrally incurred income and expenses not attributable to individual segments:				
Depreciation and amortisation of non-financial assets				1,310
Other administrative expenses				10,342
Share based payments				121
Segment operating profit				3,902
Segment operating profit can be reconciled to Group profit before tax as follows:				
Finance income				4
Results from equity accounted associate				19
Other income				41
Total profit before tax				3,966

The Group's revenues from external customers are divided into the following geographical areas:

## Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

## 3 Segmental Analysis (continued)

	Human Healthcare £000	Animal Healthcare £000	Contamination Control £000	Total 2018 £000
United Kingdom	8,912	665	1,258	10,835
Germany	3,989	-	34	4,023
Rest of World	6,973	254	135	7,362
<b>Total Revenues</b>	<b>19,874</b>	<b>919</b>	<b>1,427</b>	<b>22,220</b>
	Human Healthcare £000	Animal Healthcare £000	Contamination Control £000	Total 2017 £000
United Kingdom	8,910	636	1,129	10,675
Germany	3,048	62	150	3,260
Rest of World	6,149	180	9	6,338
<b>Total Revenues</b>	<b>18,107</b>	<b>878</b>	<b>1,288</b>	<b>20,273</b>

Revenues from external customers in the Company's domicile (United Kingdom), as well as its other major markets (Rest of the World) have been identified on the basis of internal management reporting systems, which are also used for VAT purposes.

Human healthcare revenues were derived from a large number of customers, but include £5.357m from a single customer which makes up 27% of this segment's revenue (2017: £5.138m, being 28%). Animal healthcare revenues were derived from a number of customers, with the largest customer accountable for £0.186m, which represents 20% of revenue for that segment (2017: £0.180m, 20% from a single customer).

During the year 24.1% of the Group's total revenues were earned from a single customer (2017: 25.3%).

## Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

**3 Segmental Analysis (continued)**

The Group's non-current assets (excluding deferred tax) are divided into the following geographical areas and by segment: -

**Geography**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
United Kingdom	8,596	8,779
Germany	148	132
Rest of the World	125	76
Non-current assets	<u>8,869</u>	<u>8,987</u>

**Segment**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Human Healthcare	6,698	6,611
Animal Healthcare	2,171	2,291
Contamination control	-	85
	<u>8,869</u>	<u>8,987</u>

The Groups current assets and liabilities are shown, where identifiable, by segment, below: -

	<b>Human Healthcare</b>	<b>Animal Healthcare</b>	<b>Contamination Control</b>	<b>Group</b>	<b>Total</b>
<b>2018</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Segment assets	4,340	221	428	8,283	13,272
Segment liabilities	1,181	14	23	2,690	3,908
<b>2017</b>					
Segment assets	4,189	153	346	6,437	11,125
Segment liabilities	1,142	19	26	2,688	3,875

**Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)**

**4 Parent Company Income Statement**

As permitted by Section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of these financial statements. The parent company's profit for the financial year was £0.885m (2017: £3.827m) which includes a dividend of £1m and £0.325m received from its subsidiary companies Tristel Solutions Limited and Tristel GmbH respectively (2017: £4.1m and £0.161m respectively).

**5 Other income**

The analysis of the group's other operating income for the year is as follows:

	<b>2018</b>	<b>2017</b>
	<b>£ 000</b>	<b>£ 000</b>
Gain on settlement of distribution agreement	<u>-</u>	<u>41</u>

**6 Operating profit**

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

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Cost of inventories recognised as an expense	4,696	4,223
Depreciation - owned assets	548	564
Profit on disposal of property, plant & equipment	(17)	(16)
Patents, licences and proprietary technology amortisation	244	222
Development costs and customer relationship amortisation	642	414
Computer software and website amortisation	64	43
Impairment of intangible assets	-	-
Impairment of goodwill	67	67
Gain on settlement of pre-existing agreement	-	(41)
Auditor's remuneration	70	65
Foreign exchange loss/(gain)	59	22
Operating lease rentals - land and buildings	342	342
Operating lease rentals - vehicles and equipment	116	96
Research costs expensed	<u>526</u>	<u>665</u>

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

**7 Finance income and costs**

	<b>2018</b> <b>£ 000</b>	<b>2017</b> <b>£ 000</b>
<b>Finance income</b>		
Interest income on bank deposits	<u>2</u>	<u>4</u>

**8 Staff costs**

The aggregate payroll costs (including directors' remuneration) were as follows:

	<b>2018</b> <b>£ 000</b>	<b>2017</b> <b>£ 000</b>
Wages and salaries	5,456	4,999
Social security costs	411	460
Share-based payment expenses	665	121
Other pension costs	<u>222</u>	<u>165</u>
	<u>6,754</u>	<u>5,745</u>

A charge of £665,000 (2017: £121,000) to share-based payments in accordance with IFRS 2 arises from transactions accounted for as equity-settled share-based payments. This is included within the wages and salaries figures above. No remuneration is paid through the Company.

The average number of persons employed by the group (including directors) during the year, analysed by category was as follows:

	<b>2018</b> <b>No.</b>	<b>2017</b> <b>No.</b>
Executive Directors	2	2
Non-Executive Directors	3	3
Sales, marketing and distribution	45	39
Administration and support	33	28
Production	<u>41</u>	<u>39</u>
	<u>124</u>	<u>111</u>

**9 Directors' remuneration**

The directors' remuneration for the year was as follows:

	<b>2018</b> <b>£ 000</b>	<b>2017</b> <b>£ 000</b>
Remuneration	606	598
Contributions paid to money purchase schemes	62	51
Gain on exercise of options	<u>340</u>	<u>-</u>
	<u>1,008</u>	<u>649</u>

## Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

**9 Directors' remuneration (continued)**

During the year the number of directors who were receiving retirement benefits and share incentives was as follows:

	<b>2018</b>	<b>2017</b>
	<b>No.</b>	<b>No.</b>
Accruing benefits under money purchase pension scheme	<u>2</u>	<u>2</u>

In respect of the highest paid director:

	<b>2018</b>	<b>2017</b>
	<b>£ 000</b>	<b>£ 000</b>
Remuneration	222	301
Company contributions to money purchase pension schemes	27	28
Gain on exercise of options	<u>340</u>	<u>-</u>
	<u>589</u>	<u>329</u>

Remuneration by Director is detailed in the Annual Remuneration Statement on pages 18 to 23.

**10 Auditors' remuneration**

	<b>2018</b>	<b>2017</b>
	<b>£ 000</b>	<b>£ 000</b>
Audit of these financial statements	41	39
Audit of the financial statements of subsidiaries of the company pursuant to legislation	<u>25</u>	<u>23</u>
	<u>66</u>	<u>62</u>
<b>Other fees to auditors</b>		
Audit-related assurance services: review of half year statements	<u>4</u>	<u>3</u>

**11 Income tax**

Tax charged/(credited) in the income statement

	<b>2018</b>	<b>2017</b>
	<b>£ 000</b>	<b>£ 000</b>
<b>Current taxation</b>		
Overseas tax	850	575
UK corporation tax	255	149
UK corporation tax adjustment to prior periods	<u>(2)</u>	<u>12</u>
	1,103	736
<b>Deferred taxation</b>		
Arising from origination and reversal of temporary differences	<u>(369)</u>	<u>(187)</u>
Tax expense in the income statement	<u>734</u>	<u>549</u>

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

11 Income tax (continued)

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2017 – lower than the standard rate of corporation tax in the UK) of 19% (2017 - 19.75%).

The differences are reconciled below:

	2018 £ 000	2017 £ 000
Profit before tax	4,006	3,966
Corporation tax at standard rate	761	783
Adjustment in respect of prior years	(2)	12
Income not taxable	-	(8)
Expenses not deductible for tax purposes	24	58
Tax losses not utilised and other temporary differences	(32)	(147)
Tax rate differences	115	5
Enhanced relief on qualifying scientific research expenditure	(132)	(154)
Total tax charge	734	549

Current Tax Liability

	2018 Group £'000	2017 Group £'000	2018 Company £'000	2017 Company £'000
Corporation Tax at 30 June	707	728	(6)	(6)



## Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

## 11 Income tax (continued)

## Deferred tax

## Group

## Deferred tax assets and liabilities

Deferred tax movement during the year:

	At 1 July 2017 £ 000	Recognised in income £ 000	At 30 June 2018 £ 000
Accelerated tax depreciation	(145)	17	(128)
Acquired intangibles	(217)	20	(197)
Other items (including tax relief on R&D spend)	187	332	519
<b>Net tax (liabilities)/assets</b>	<b>(175)</b>	<b>369</b>	<b>194</b>

Deferred tax movement during the prior year:

	At 1 July 2016 £ 000	On Acquisition £000	Recognised in income £ 000	At 30 June 2017 £ 000
Accelerated tax depreciation	(206)	-	61	(145)
Acquired intangibles	-	(242)	25	(217)
Other items (including tax relief on R&D spend)	70	-	117	187
<b>Net tax assets/(liabilities)</b>	<b>(136)</b>	<b>(242)</b>	<b>203</b>	<b>(175)</b>

## Recognised deferred tax (liability)/asset

Deferred tax liabilities are attributable to the following:

	Fixed asset timing differences £'000	Deferred tax on acquired intangibles £'000	Other temporary differences £'000	Group Total £'000	Company fixed asset timing differences £'000
Balance at 30 June 2016	(206)	-	70	(136)	(9)
Arising on acquisition (Charged)/Credited to Income Statement for the year	61	25	117	203	-
<b>Balance at 30 June 2017</b>	<b>(145)</b>	<b>(217)</b>	<b>187</b>	<b>(175)</b>	<b>(9)</b>
Credited/(Charged) to Income Statement for the year	17	20	332	369	-
<b>Balance at 30 June 2018</b>	<b>(128)</b>	<b>(197)</b>	<b>519</b>	<b>194</b>	<b>(9)</b>

Other temporary differences include tax relief on research and development spend.

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

11 Income tax (continued)

Net deferred tax asset/(liability)	Group £'000	Company £'000
Deferred tax liability	(205)	(9)
Deferred tax asset	399	-
<b>Balance at 30 June 2018</b>	<b>194</b>	<b>(9)</b>

Net deferred tax liability	Group £'000	Company £'000
Deferred tax liability	(205)	(9)
Deferred tax asset	30	-
<b>Balance at 30 June 2017</b>	<b>(175)</b>	<b>(9)</b>

## Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

## 12 Property, plant and equipment

## Group

	Improvements to property £ 000	Furniture, fittings and equipment £ 000	Motor vehicles £ 000	Other property, plant and equipment £ 000	Total £ 000
<b>Cost or valuation</b>					
At 1 July 2016	1,655	105	411	1,180	3,351
Additions	75	10	80	420	585
Disposals	-	-	(140)	(14)	(154)
Foreign exchange movements	-	-	6	7	13
At 30 June 2017	1,730	115	357	1,593	3,795
At 1 July 2017	1,730	115	357	1,593	3,795
Additions	48	27	105	336	516
Disposals	-	-	(115)	(5)	(120)
Foreign exchange movements	-	(2)	2	(5)	(5)
At 30 June 2018	1,778	140	349	1,919	4,186
<b>Depreciation</b>					
At 1 July 2016	1,039	57	190	649	1,935
Charge for year	210	15	86	253	564
Eliminated on disposal	-	-	(108)	(11)	(119)
Foreign exchange movements	-	-	2	4	6
At 30 June 2017	1,249	72	170	895	2,386
At 1 July 2017	1,249	72	170	895	2,386
Charge for the year	116	20	61	351	548
Eliminated on disposal	-	-	(71)	(3)	(74)
Foreign exchange movements	-	-	-	(2)	(2)
At 30 June 2018	1,365	92	160	1,241	2,858
<b>Carrying amount</b>					
At 30 June 2018	413	48	189	678	1,328
At 30 June 2017	481	43	187	698	1,409
At 1 July 2016	616	48	221	531	1,416

**12 Property, plant and equipment (continued)**

**Company**

No property, plant or equipment is held by the Company.

**13 Goodwill**

**Group Goodwill**

Goodwill in the prior year relates to the acquisition of trade and assets from Ashmed Pty Ltd, our Australian distributor (see below). The activity is separately identifiable as the operations of the newly incorporated entity Tristel Pty Ltd and form a single cash generating unit within Human Healthcare.

The balance of the acquired goodwill is in respect of Newmarket Technologies Limited (NTL), formerly Tristel Technologies Limited. On 30 April 2010 the activities of NTL were hived over to Tristel Solutions Limited. The relevant revenue lines are now separately identifiable within Human Healthcare and form a single cash-generating unit within the Group's management reporting.

The Group tests annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the CGU is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre tax rates that reflect current market assessments of the time value of money. Growth rates are based upon industry growth forecasts within the CGU, likewise, changes in selling prices and direct costs are based on recent history and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management. Cash flow forecasts for each CGU are considered, and where deemed appropriate, adjusted to reflect risks specific to the CGU.

For NTL, the rate used to discount the forecast cash flows for goodwill is 15%. With a zero sales growth rate, the net present value of profits expected over the next 5 years exceeds the carrying value of £0.534m, with headroom of £0.457m. However based on the expectation that revenue is forecast to decline at a rate of 10% year on year, an impairment of £0.1m has been recorded.

	<b>Goodwill</b>
	<b>£ 000</b>
<b>Cost or valuation</b>	
At 1 July 2016	779
Additions	465
At 30 June 2017	1,244
At 1 July 2017	1,244
At 30 June 2018	1,244

**Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)**

**13 Goodwill (continued)**

	<b>Goodwill £ 000</b>
<b>Impairment</b>	
At 1 July 2016	112
Impairment	<u>67</u>
At 30 June 2017	<u>179</u>
At 1 July 2017	179
Impairment	<u>67</u>
At 30 June 2018	<u>246</u>
<b>Carrying amount</b>	
At 30 June 2018	<u>998</u>
At 30 June 2017	<u>1,065</u>

**13 Goodwill (continued)**

**Ashmed PTY**

In August 2016, the Group acquired the trade and assets of AshMed Pty, our Australian distributor's business for £1.1m including a contribution to legal costs, giving rise to goodwill of £465,000 and a gain on settlement of the distribution agreement of £41,000. The separate intangibles were recognised in full along with a deferred tax liability arising on the transaction of £242,000. The total acquisition related costs amount to £59,000 and were included in Administrative expenses in the Consolidated Income Statement for the year ended 30 June 2017.

For Ashmed, the assumptions used to determine the recoverable value of goodwill are those regarding discount rates and growth rates. Management has estimated the discount rate as a market-derived WACC of 15%. Growth rates are based upon industry growth forecasts within the CGU and on recent history and expectations of future changes in the market. The net present value of profits expected over the next 8 years exceeds the carrying value of £0.465m, with headroom of £6.8m. A sensitivity analysis has been carried out where growth has been forecast to decline at a rate of 10% year on year, at this level the headroom is £2.74m, as such no impairment has been recorded.

**Company**

The Company has no goodwill.

## Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

## 14 Intangible assets

## Group

	Patents, licences and proprietary technology £ 000	Customer relationships £ 000	Computer software and website £ 000	Development of marketable products £ 000	Total £ 000
<b>Cost or valuation</b>					
At 1 July 2016	5,311	-	222	3,982	9,515
Additions	179	804	89	151	1,223
At 30 June 2017	5,490	804	311	4,133	10,738
At 1 July 2017	5,490	804	311	4,133	10,738
Additions	184	196	124	493	997
Foreign exchange	-	(17)	-	-	(17)
At 30 June 2018	5,674	983	435	4,626	11,718
<b>Amortisation</b>					
At 1 July 2016	1,615	-	19	2,501	4,135
Amortisation charge	222	87	43	327	679
At 30 June 2017	1,837	87	62	2,828	4,814
At 1 July 2017	1,837	87	62	2,828	4,814
Amortisation charge	244	291	64	351	950
At 30 June 2018	2,081	378	126	3,179	5,764
<b>Carrying amount</b>					
At 30 June 2018	3,593	605	309	1,447	5,954
At 30 June 2017	3,653	717	249	1,305	5,924

During the year, an amount of £0.196m was paid to our Hong Kong Distributor, as early settlement of the Distributor agreement, which expired at 30 June 2018, the amount was capitalised and amortised in full within the category of customer relationships.

**Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)**

**14 Intangible assets (continued)**

The Group's approach to reviewing the carrying value of its intangible assets is consistent with the method applied to goodwill held by the Group (set out within note 13 of these financial statements).

The rate used to discount the forecast cash flows for all CGU's is 15%. Where sensitivity analysis has been carried out, it has been via the removal of growth expectations within a CGU.

**Patents, licences and proprietary technology**

Included within patents, licences and proprietary technology are the costs of acquired intellectual property and technological know-how related to the production of a range of products that serves each segment of the Group's activities. In each segment the products have an established footprint, which they have held for some time. The relevant IP and know how allows the group to further develop its customer base, by industry, geographical areas and by the development of new methods of application. The carrying amount of this asset is £2.171m, which includes amortisation for the period of £0.120m. Through management reporting the relevant products are identifiable to form a single cash generating unit (CGU) used for the purpose of an impairment review, tested in accordance with IAS 36. The result of the review shows the value in use exceeds the carrying value of the asset, with headroom of £3.748m. However, a sensitivity review has also been applied by assuming revenue will decline by 15% year on year over a five-year period. The result of this approach shows that the value in use would still exceed the carrying value of the asset, with headroom of £1.602m, as such no impairment has been recorded. In addition, management have set an amortisation policy of 20 years for the remaining balance of the asset, with remaining amortisation life of 18 years. This period has been set based on management's knowledge of the markets that these products serve, and that the IP and technological know-how is expected to remain relevant for this period.

Also included within this category are patents and manufacturing rights to the range of products which address the Human healthcare market, and that are related to the Group's propriety technology. These assets are amortised over their expected useful life of between 7 and 25 years. The Human Healthcare market accounts for approximately 90% of group revenues, notwithstanding this, an impairment review has been conducted and the recoverable amount exceeds the carrying value of the asset of £1.168m by £55.693m.



**14 Intangible assets (continued)**

**Development – Marketable products**

Included within marketable products is the cost of development of the Stella disinfectant equipment. An impairment review has been carried out which took into account an extrapolated revenue forecast for the next five years. The recoverable amount based upon the value in use at the balance sheet date is £2.906m, this leaves headroom of £2.376m, as such the carrying value of the asset of £530k is supported, and no impairment was recorded.

Also included is the cost of development for a range of products that will primarily target the surface disinfectant markets of the segments that the group addresses, this includes new chemistry delivery devices. These are Puffin, Hot Shot & Shot, a two-part capsule system that delivers chemistry to a dispensary device, and several accessory dispensary products. The carrying value of these assets is £419k. An impairment review has been carried out looking at revenue forecasts for a five-year period. The estimated recoverable amount exceeds the carrying value of the asset by £447k, however as some of the products are still in development a sensitivity analysis has been carried out and headroom of £81k remains, as such no impairment is considered necessary.

The balance of this asset category holds a carrying value of £498k, of which £225k relates to the development of a Tristel App that provides traceability functionality, step by step instructions for use, and a web-based administration system for users to report from. The App is to be sold alongside many of Tristel's existing products that are involved in the high-level decontamination of medical devices, and also alongside the Mobile ODT device – EVA, an organisation that the company holds an investment in (page 82). The balance relates to a royalty settlement fee and the cost for the ongoing research and development of new and existing products, primarily for the Human Healthcare market.

**14 Intangible assets (continued)**

**Computer Software and Website**

During the financial year the Group continued its investments in its new operating system (SAP Business One - HANA). At the year end the system was utilised by all but one of the Group's entities. Management took the view that the asset will have a useful life of seven years based on historical trends for software utilisation, new additions in the period are amortised in line with the balance brought forward from the prior year. There are no indicators of impairment of the carrying value of £0.273m. The other element of this category is the Group's new website. In line with IAS 38 management have capitalised the website on the basis of the potential to generate revenue for the Group. The Website went live on the last day of the previous financial year and has a current carrying value of £0.035m. It includes or will include the following functions:

- Electronic ordering platform to interact directly with SAP Business One.
- Online Training portal.
- Distributor sections. Country appointed distributors have access to full technical and marketing information for their areas.

**Customer relationships**

The rate used to discount the forecast cash flows for customer relationships is 15%. Growth rates are based upon industry growth forecasts within the CGU and on recent history and expectations of future changes in the market. The net present value of profits expected over the next 8 years exceeds the carrying value of £0.623m, with headroom of £7.2m. A sensitivity analysis has been carried out where growth has been forecast to decline at a rate of 10% year on year, at this level the headroom is £3.2m, as such no impairment has been recorded.

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

14 Intangible assets (continued)

Company

	Patents, licences and proprietary technology	Total
	£'000	£'000
<b>Cost</b>		
At 30 June 2016	4,702	4,702
Additions	224	224
At 30 June 2017	4,926	4,926
Additions	186	186
At 30 June 2018	5,112	5,112
<b>Amortisation</b>		
At 30 June 2016	1,308	1,308
Charge for year	222	222
At 30 June 2017	1,530	1,530
Charge for year	244	244
At 30 June 2018	1,774	1,774
<b>Net book value</b>		
30 June 2018	3,338	3,338
30 June 2017	3,396	3,396

## Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

## 15 Investments

Group	2018	2017
	£'000	£'000
Investment in MobileODT Ltd	589	589

Further investment of £120,000 was made on 17 July 2018 in MobileODT Ltd.

	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			2018	2017
MobileODT Ltd	Manufacture of intelligent visual diagnostic tools	Israel	3%	3%

## Group subsidiaries

Details of the group subsidiaries as at 30 June 2018 are as follows:

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			2018	2017
Tristel Solutions Limited*	Supply of infection control products	England and Wales	100%	100%
Scorcher Idea Limited*	Development of infection control delivery	England and Wales	100%	100%
Tristel New Zealand*	Supply of infection control products	New Zealand	100%	100%
Tristel Medical Equipment Co Ltd	Supply of infection control products	China	100%	100%
Tristel Asia Limited*	Supply of infection control products	Hong Kong	100%	100%
Tristel International Limited*	Supply of infection control products	England and Wales	100%	100%
Tristel GMBH*	Supply of infection control products	Germany	100%	100%
Tristel Pty Limited*	Supply of infection control products	Australia	100%	100%
Tristel Sp. z.o.o.*	Supply of infection control products	Poland	100%	100%
Medichem International Limited*	Holder of trademarks	England and Wales	50%	50%
Tristel Inc	Dormant	USA	100%	100%
Tristel GK	Dormant	Japan	100%	-
Tristel India Private Limited	Incorporated post year end	India	100%	-
Tristel AG	Incorporated post year end	Switzerland	100%	-

\* indicates direct investment of the company

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

15 Investments (continued)

Group associates

Details of the group associates as at 30 June 2018 are as follows:

Name of associate	Principal activity	Registered office	Proportion of ownership interest and voting rights held by the group	
			2018	2017
Tristel Italia srl * +	Supply of infection control products	Italy	20%	20%

\* indicates direct investment of the company

+ indicates accounted for using the equity method

	2018	2017
	£'000	£'000
Assets	502	369
Liabilities	273	175
Aggregate capital and reserves	229	193
Revenue	465	385
Profit for the period	121	96
Profit for the period attributable to the Group	24	19

## Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

## 15 Investments (continued)

## Company

	Shares in Group undertakings and associate	Other investments	Total
	£'000	£'000	£'000
<b>Cost</b>			
At 30 June 2016	2,872	-	2,872
Capital contributions as a result of share-based payments	121	-	121
Investment in MobileODT Ltd	-	589	589
At 30 June 2017	2,993	589	3,582
Capital contributions as a result of share-based payments	665	-	665
At 30 June 2018	3,658	589	4,247
<b>Impairment</b>			
At 30 June 2016	433	-	433
Movement in the year	-	-	-
At 30 June 2017	433	-	433
Movement in the year	-	-	-
At 30 June 2018	433	-	433
<b>Net book value</b>			
30 June 2018	3,225	589	3,814
30 June 2017	2,560	589	3,149

The total amount recognised in the Company statement of financial position in relation to options granted over the Parent Company shares to employees of subsidiaries during the year amounts to a charge of £665,000 (2017: £121,000).

## 16 Inventories

	Group		Company	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	£ 000	£ 000	£ 000	£ 000
Raw materials and consumables	948	1,592	-	-
Work in progress	5	5	-	-
Finished goods	1,326	695	-	-
	2,279	2,292	-	-

**Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)**

**16 Inventories (continued)**

Included in the above is a stock provision of £95,000 (2017: 136,000) held in respect of both raw materials and finished goods.

**17 Trade and other receivables**

	<b>Group</b>		<b>Company</b>	
	<b>30 June</b>	<b>30 June</b>	<b>30 June</b>	<b>30 June</b>
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>
Trade receivables	3,550	3,088	-	-
Provision for impairment of trade receivables	(95)	(58)	-	-
Net trade receivables	3,455	3,030	-	-
Receivables from related parties	-	-	5,695	6,130
Prepayments	587	559	22	22
Other receivables	290	156	55	13
	4,332	3,745	5,772	6,165

The Directors consider that there are no irrecoverable amounts from the sale of goods other than those already identified and included within the impairment allowance. This position has been determined by reference to past default experience.

The fair value of those trade and other receivables classified as financial instrument loans and receivables are disclosed in the financial instruments note.

The group's exposure to credit and market risks, including impairments and allowances for credit losses, relating to trade and other receivables is disclosed in the financial risk management and impairment note.

A reconciliation of the movement in the allowance for impairment provisions for trade receivables is as follows:

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

17 Trade and other receivables (continued)

Current	30 June	30 June	30 June	30 June
	2018	2017	2018	2017
	Group	Group	Company	Company
	£'000	£'000	£'000	£'000
Impairment provision brought forward	(58)	(29)	-	-
Impairment losses recognised	-	-	-	-
Increase in provision	(37)	(29)	-	-
Impairment provision carried forward	(95)	(58)	-	-

The Directors consider that the carrying amount of trade and other receivables is a reasonable approximation of their fair value.

The credit risk on the Group is primarily attributable to its trade receivables. An allowance for impairment has been made where there was an identifiable loss event which, based on previous experience, was evidence of a reduction in recoverability of the cash flows.

In the animal healthcare segment, the distribution model means that the debt is allocated amongst multiple customers, thereby reducing the credit risk. In the contamination control segment, the credit risk is lessened due to the large number of customers. Credit risk is predominantly within the human healthcare segment.

18 Cash and cash equivalents

	Group		Company	
	30 June	30 June	30 June	30 June
	2018	2017	2018	2017
	£ 000	£ 000	£ 000	£ 000
Cash at bank	6,661	5,088	2,669	2,767

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



**Tristel Plc****Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)****19 Share capital****Allotted, called up and fully paid shares**

	<b>30 June 2018 No. 000</b>	<b>30 June 2018 £'000</b>	<b>30 June 2017 No. 000</b>	<b>30 June 2017 £'000</b>
Ordinary of £0.01 each	43,192	432	42,749	427

	<b>Number</b>	<b>£'000</b>
30 June 2017	42,749,417	427
Issued during the year	442,716	5
30 June 2018	43,192,133	432

442,716 ordinary shares of 1 pence each, related to the exercise of 442,716 share options issued during the year (2017: 584,216), for a total consideration of £358,000, being £5,000 equity and £353,000 share premium. The weighted average exercise price was 80.80 pence.

**20 Obligations under leases and hire purchase contracts****Group****Operating leases**

The total future value of minimum lease payments is as follows:

	<b>30 June 2018 £ 000</b>	<b>30 June 2017 £ 000</b>
Within one year	445	424
In one to five years	1,259	1,466
In over five years	37	257
	<b>1,741</b>	<b>2,147</b>

Leases comprise of non-cancellable operating leases in relation to property and manufacturing equipment.

**Company**

The Company has no lease agreements.

## Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

**21 Pension and other schemes**

The group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the group to the scheme and amounted to £222,000 (2017: £165,000), with £33,000 (2017: £22,000) outstanding at the year end.

**22 Trade and other payables**

	<b>Group</b>		<b>Company</b>	
	<b>30 June</b>	<b>30 June</b>	<b>30 June</b>	<b>30 June</b>
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>
Trade payables	1,748	1,275	33	1
Accruals	990	1,519	78	84
Social security and other taxes	432	353	-	-
Other payables	31	-	-	-
	<b>3,201</b>	<b>3,147</b>	<b>111</b>	<b>85</b>

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

**22 Trade and other payables (continued)**

The fair value of the trade and other payables classified as financial instruments are disclosed in the financial instruments note.

The group's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in the financial risk management and impairment note.

**23 Dividends**

Amounts recognised as distributions to equity holders in the year:

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Ordinary shares of 1p each		
Final dividend for the year ended 30 June 2017 of 2.63p (2016:2.19p) per share	1,130	928
Interim dividend for the year ended 30 June 2018 of 1.60p (2017: 1.40p) per share	688	594
Special dividend of 3p per share paid on the 8 August 2016	-	1,265
	<u>1,818</u>	<u>2,787</u>
Proposed final dividend for the year ended 30 June 2018 of 2.98p (2017: 2.63p) per share	1,287	1,115
<b>Company</b>		
Dividend received from subsidiaries	<u>(1,465)</u>	<u>(4,261)</u>

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

**Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)**

**24 Earnings per share**

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

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Retained profit for the financial year attributable to equity holders of the parent	3,272	3,417
	<b>Shares</b>	<b>Shares</b>
	<b>'000</b>	<b>'000</b>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares for the purpose of basic earnings per share	42,956	42,418
Share options	1,688	1,399
	<b>44,644</b>	<b>43,817</b>
Earnings per ordinary share		
Basic	7.62p	8.06p
Diluted	7.33p	7.80p

A total of 430,000 options of ordinary shares were anti-dilutive at 30 June 2018 (260,000 at 30 June 2017.) Contingent options would be dilutive but are excluded. The Group also presents an adjusted basic earnings per share figure which excludes the share-based payments charge:

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Retained profit for the financial year attributable to equity holders of the parent	3,272	3,417
Adjustments:		
Share based payments	665	121
Net adjustments	665	121
Adjusted earnings	3,937	3,538
Adjusted basic earnings per ordinary share	9.16p	8.34p

**25 Financial risk management and impairment of financial assets**

**Group**

The Group's activities expose it to a number of financial risks including credit risk, cash flow risk and exchange rate risk:

**Credit risk**

The Group's principal financial assets are bank balances and cash, trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables, which are concentrated in a large number of low value customer accounts. In addition, operations in emerging or new markets may have a higher than average risk of political or economic instability and may carry increased credit risk. In each case the risk to the Group is the recoverability of the cash flows.

Credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The credit risk on trade and other receivables is managed by agreeing appropriate payment terms with customers, obtaining credit agency ratings of all potential customers; by requiring wherever possible payment for goods in advance or upon delivery; and by closely monitoring customers balances due, to ensure they do not become overdue. In addition, careful consideration is given to operations in emerging or new markets before the Group enters that market.

**Cash flow risk**

Group cash balances and expected cash flow are monitored on a daily basis to ensure the Group has sufficient available funds to meet its needs.

**Exchange rate risk**

Group exposure to exchange rate risk includes the measurement of overseas operations at the relevant exchange rate and changes in trade payables and receivables as a result of exchange rate movements. Daily exchange rate movements are monitored, and any losses or gains incurred are taken to the income statement and reported in the Group's internal management information. Before agreeing any overseas transactions, consideration is given to utilising financial instruments such as hedging and forward purchase contracts, none of which were in place at the year end.

**Exposure to credit**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

## Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

## 25 Financial risk management and impairment of financial assets (continued)

	2018	2017	2018	2017
	Group	Group	Company	Company
	Carrying amount	Carrying amount	Carrying amount	Carrying amount
	£'000	£'000	£'000	£'000
Cash and cash equivalents	6,661	5,088	2,669	2,767
Trade and other receivables excluding prepayments and VAT	3,745	3,178	5,750	6,143
	<u>10,406</u>	<u>8,266</u>	<u>8,419</u>	<u>8,910</u>

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was:

	2018	2017	2018	2017
	Group	Group	Company	Company
	Carrying amount	Carrying amount	Carrying amount	Carrying amount
	£'000	£'000	£'000	£'000
United Kingdom	3,285	2,333	5,750	6,143
Rest of the World	460	845	-	-
	<u>3,745</u>	<u>3,178</u>	<u>5,750</u>	<u>6,143</u>

The Group's and the Company's trade and other receivables have been reviewed for indicators of impairment. Doubtful debts of £95,000 (2017: £58,000) have been provided against but no other receivables were considered to be impaired.

In addition, some of the unimpaired trade and other receivables are past due as at the reporting date. The age of the trade and other receivables past due but not impaired are as follows:

**Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)**

**25 Financial risk management and impairment of financial assets (continued)**

**Group**

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Not past due	2,854	2,238
Past due 0-30 days	719	657
Past due 31-120 days	172	275
Past due 120 days +	-	8
	<u>3,745</u>	<u>3,178</u>

**Liquidity risk**

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

## Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

## 25 Financial risk management and impairment of financial assets (continued)

## Group

	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	More than 12 months
	£000	£000	£000	£000	£000
<b>30 June 2018</b>					
<b>Non-derivative financial liabilities</b>					
Trade and other payables	2,769	2,769	2,769	-	-
	<u>2,769</u>	<u>2,769</u>	<u>2,769</u>	<u>-</u>	<u>-</u>
<b>30 June 2017</b>					
<b>Non-derivative financial liabilities</b>					
Trade and other payables	2,769	2,769	2,769	-	-
	<u>2,769</u>	<u>2,769</u>	<u>2,769</u>	<u>-</u>	<u>-</u>

## Company

	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	More than 12 months
	£000	£000	£000	£000	£000
<b>30 June 2018</b>					
<b>Non-derivative financial liabilities</b>					
Trade and other payables	111	111	111	-	-
	<u>111</u>	<u>111</u>	<u>111</u>	<u>-</u>	<u>-</u>
<b>30 June 2017</b>					
<b>Non-derivative financial liabilities</b>					
Trade and other payables	85	85	85	-	-
	<u>85</u>	<u>85</u>	<u>85</u>	<u>-</u>	<u>-</u>



## Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

**25 Financial risk management and impairment of financial assets (continued)**

The carrying amounts of the Group's financial assets and liabilities may also be categorised as follows:

	2018	2017	2018	2017
	Group	Group	Company	Company
	£000	£000	£000	£000
<b>Current assets: loans and receivables at amortised cost</b>				
Cash and cash equivalents	6,661	5,088	2,669	2,767
Trade and other receivables	3,754	3,178	5,750	6,143
	<u>10,406</u>	<u>8,266</u>	<u>8,419</u>	<u>8,910</u>

All of the above relate to the IAS 39 category 'loans and receivables'.

	2018	2017	2018	2017
	Group	Group	Company	Company
	£000	£000	£000	£000
<b>Current liabilities</b>				
Trade and other payables	2,769	2,794	111	85
	<u>2,769</u>	<u>2,794</u>	<u>111</u>	<u>85</u>
<b>Non-current liabilities</b>				
Interest bearing loans and borrowings	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

All of the above relate to the IAS 39 category 'other financial liabilities' held at amortised cost.

Liquidity needs are managed by regular review of the timing of expected receivables and the maintenance of cash on deposit.

**Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)**

**25 Financial risk management and impairment of financial assets (continued)**

**Currency risk**

The Group has an element of currency risk as it buys certain chemicals, parts and equipment from overseas manufacturers, sells finished products into overseas markets and holds foreign currency cash balances. The movement in exchange rates following the UK referendum on EU membership means that the Group will face an element of uncertainty in relation to foreign currency transaction and assets in the near term.

**Interest rate**

The Group's financial assets include cash at bank and short-term investments. At 30 June 2018, the average interest rate earned on the temporary closing balances was 0.1% (2017: 0.1%).

**Sensitivity analysis**

The Group's sensitivity to interest rates are considered immaterial.

The Group has an exposure to exchange rates, gains and losses are recognised upon the translation of overseas subsidiary profits, foreign currency cash holdings and non-GBP trade. There is a loss of £59k within these financial statements, shown on page 67 within note 6. This balance consists of an £25k gain originating upon the translation of overseas profits and a £84k loss from the revaluation of cash and open trade balances at the year end.

**Fair values versus carrying amounts**

There is no difference between fair values and carrying amounts of financial assets and liabilities.

**Capital management**

The Group's capital management policy is to maintain a strong capital base so as to enhance investor, creditor and market confidence. The Board's objective is to safeguard the Group's ability to continue as a going concern, to sustain the future development of the business and to provide returns for shareholders, whilst controlling the cost of capital.

The Group monitors capital on the basis of the carrying amount of equity, less cash as presented on the face of the statement of financial position.

In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholder, issue new shares or sell assets.

There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

**25 Financial risk management and impairment of financial assets (continued)**

Capital for the period is summarised as follows:

	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Total equity	18,427	16,062	15,479	15,389
Cash and cash equivalents	(6,661)	(5,088)	(2,669)	(2,767)
Capital	11,766	10,974	12,810	12,622
Total equity	18,427	16,062	15,479	15,389
Borrowings	-	-	-	-
Overall financing	18,427	16,062	15,479	15,389
Capital to overall financing ratio	<b>0.6385</b>	<b>0.6832</b>	<b>0.8276</b>	<b>0.8202</b>

## Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

## 26 Share based payments

During the year ended 30 June 2018 the Group had 50 share-based payment arrangements, under three schemes. Grants in the year are detailed below:

	General employee scheme	General employee scheme	Senior Management scheme	General employee scheme
Grant date	01-Jul-17	19-Oct-17	08-Jan-18	20-Feb-18
Vesting period ends	01-Jul-17	19-Oct-17	24-Jun-19	20-Feb-18
Share price at date of grant	195.0p	295.0p	230.0p	277.50p
Volatility	44.2%	44.2%	44.2%	44.2%
Option life	10 years	10 years	10 years	10 years
Expected dividend yield	1.75%	1.75%	1.75%	1.75%
Risk free investment rate	0.62%	0.62%	0.62%	0.62%
Fair value at grant date	0.530p	0.801p	1.113p	0.754p
Exercise price at date of grant	195.00p	295.00p	1.00p	277.50p

**26 Share based payments (continued)**

The Senior Management Scheme is part of the remuneration package of the Executive Directors of the Company's parent Tristel Plc. Options under this scheme will vest if certain conditions defined in the programme are met. Upon vesting, each option allows the holder to purchase one ordinary share at the stated share price.

Senior Management Scheme (1) is part of the remuneration package of the Executive Directors and Senior Management of the Company's parent Tristel Plc. Options under this scheme will vest if certain conditions defined in the programme are met or vest immediately upon grant. Upon vesting, each option allows the holder to purchase one ordinary share at the stated share price. A performance criteria was achieved and all shares had vested by 30 June 2016.

The General Employee Scheme is part of the remuneration package of certain employees of the Company. Options under this scheme will vest immediately upon grant, or will vest in accordance with a set timescale over 36 months. Upon vesting, each option allows the holder to purchase one ordinary share at the stated share price. If the option holder leaves the employ of the Company the option is forfeited.

The expected volatility is based on historical volatility over the past year. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in the assumptions about a number of options that are expected to become exercised. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised as different to that on vesting.

Fair values for the share option schemes have been determined using the Black-Scholes model, except for the Senior management scheme (1), where fair values have been calculated via the Monte Carlo method.

## Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

## 26 Share based payments (continued)

A reconciliation of option movements over the year to 30 June 2018 is shown below:-

	Senior management scheme	Weighted average exercise price	General employee scheme	Weighted average exercise price	Senior management scheme (1)	Weighted average exercise price
Outstanding at 30 June 2016	1,300,000	59.79p	562,000	80.27p	1,198,017	0.01p
Granted	-	-	310,000	150.32p	-	-
Forfeited	-	-	(10,000)	145.50p	-	-
Exercised	(242,500)	53.75p	(159,550)	104.46p	(182,166)	0.01p
Outstanding at 30 June 2017	1,057,500	54.41p	702,450	101.71p	1,015,851	0.01p
Granted	-	-	460,000	280.98p	990,000	0.01p
Exercised	(140,000)	55.56p	(263,500)	39.29p	(39,216)	0.01p
Outstanding at 30 June 2018	917,500	53.75p	898,950	194.75p	1,966,635	0.01p
Exercisable at 30 June 2017	382,500	54.41p	702,450	105.36p	1,015,851	0.01p
Exercisable at 30 June 2018	242,500	53.75p	898,950	194.75p	975,635	0.01p

The total charge at 30 June 2018 relating to employee share-based payment plans, in accordance with IFRS 2, was £665,000 (2017: £121,000) all of which related to equity-settled share-based payment transactions.

The range of exercise prices for options outstanding at the end of the period is 1p and 295p. The weighted average of the remaining contractual life of options at the end of the period is seven years.

## 27 Related party transactions

All amounts quoted are gross

## Transactions between the Group and Bruce Green

Under the terms of a technology licence agreement between the Group and Bruce Green, a shareholder in the parent company Tristel plc, royalties and commissions related to the Groups patented technology of £252,000 (2017: £188,000) were payable during the year to Bruce Green Limited, a company owned by Mr Green. Appropriate provision has been made for all amounts owed to Bruce Green Limited at 30 June 2018.

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

**27 Related party transactions (continued)**

**Transactions between the Group and David Orr**

Under the terms of supply agreements between the Company and Fencor Packaging Group Limited, a private company incorporated in England and Wales in which Mr David Orr, a non-executive director in the Company, is a director and shareholder, monies totalling £62,000 were payable (2017: £44,000). At 30 June 2018, the Group owed Fencor Packaging Group Limited £3,000 (2017: £5,000). Under the terms of supply agreements between the Company and Manor Packaging Limited, a private company incorporated in England and Wales in which Mr David Orr, a non-executive director in the Company, is a director, monies totalling £386,000 were payable (2017: £352,000). At 30 June 2018, the Group owed Manor Packaging Limited £66,000 (2017: £55,000).

**Transactions between the Group and associate companies**

During the year the group charged its associate company Tristel Italia srl £75,000 (2017: £63,000) in respect of finished goods and was owed £39,000 (2017 £15,000).

**Transactions with Directors**

Dividends were paid to Directors as follows:

	30 June 2018	30 June 2017
	£	£
Paul Swinney	20,987	61,287
Elizabeth Dixon	1,936	3,625
Francisco Soler	362,368	719,222
Paul Barnes	25,397	48,119
David Orr	537	824

**Key management personnel**

**Key management compensation**

	30 June 2018	30 June 2017
	£ 000	£ 000
Salaries and other short-term employee benefits	1,103	1,190
Post-employment benefits	74	59
Share based payment expenses	317	-
	<u>1,494</u>	<u>1,249</u>

The key management figures given above includes Directors.