

TO: CITY EDITORS
FOR IMMEDIATE RELEASE

26 September, 2005

BIOQUELL PLC
Interim results 2005

BIOQUELL PLC, the UK developer of specialist bio-decontamination technology and testing services, today announces its interim results under IFRS for the six months ended 30 June 2005. The highlights are:

FINANCIALS

- Turnover £7.0 million (2004: £7.2 million) – reflecting lower bio-decontamination equipment sales to pharmaceutical groups; however, order intake has increased significantly in the second half
- Gross expenditure on research & development before application of IFRS £0.6 million (2004: £0.5 million)
- Sales & marketing costs £1.5 million (2004: £1.1 million) – reflecting increased sales activity in the US
- Loss before tax £0.7 million (2004: £30,000)
- Net debt £0.9 million (31 December 2004: £0.7 million)
- Net assets £9.5 million (31 December 2004: £10.1 million)

OPERATIONAL

- Sale of first long term, on site implant Room Bio-Decontamination Service (RBDS) contract into a US hospital – discussions about a second RBDS implant contract ongoing with another US hospital
- Increasing levels of emergency and scheduled RBDS being carried out for NHS hospitals
- Assisting US and UK hospitals in combating the new highly toxic strain of *Clostridium difficile* which has recently emerged – hospital acquired infection (so called superbugs) problems continuing to increase globally
- Encouraging results continuing from clinical trials of new wound healing technology – product launch anticipated for next year
- Current record order book for bio-decontamination equipment
- Strong defence order intake including first order for specialist nuclear, biological and chemical filtration equipment in the US
- Significant opportunities to expand Cape and testing services

Commenting on the interim results, John Salkeld, Chairman of BIOQUELL said:

"I am delighted that BIOQUELL has secured its first long term on site RBDS implant contract in a US hospital. It is disappointing that this preventative approach to the control of superbugs has not yet been adopted in the UK, although we are obtaining increasing levels of emergency and scheduled RBDS work in NHS hospitals. I am also pleased to see the continuing, encouraging results from BIOQUELL's new wound healing technology which is in clinical trials; we believe that this technology has substantial potential. Although we saw a decline in bio-decontamination equipment sales in the first half, there has been a significant improvement in the second half.

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Results

The financial information for the BIOQUELL Group published in this document reflects the application for the first time of the new International Financial Reporting Standards ("IFRS"). There have been a number of significant changes affecting the presentation of the information, principally relating to the treatment of research & development costs and the expensing of options. Reconciliation of the previous UK GAAP format and the new IFRS-based format are attached.

Group revenues for the period declined by 2% to £7.0 million (2004: 7.2 million). Notwithstanding the increase in revenues from RBDS and Cape, sales of bio-decontamination equipment to the pharmaceutical sector declined in the first half as anticipated in the preliminary statement in April 2005 and this also affected the overall gross margin. However, there has been a significant improvement in this market in the second half.

Gross expenditure on research & development in the period, prior to the application of IFRS, was £0.6 million (2004: £0.5 million). The slight increase reflects the costs associated with trials of BIOQUELL's unique bio-decontamination technology in hospitals and the costs associated with clinical trials of its new wound healing technology.

Expenditure on sales and marketing increased significantly year on year by £0.4 million. This reflects increased investment in sales activities in the US as well as increased marketing spend across the Group.

The Group remains efficient at managing its working capital. The bank overdraft increased by only £0.2 million in the period (2004: £0.1 million). Depreciation of fixed assets was £0.4 million (2004: £0.4 million). Cash inflow after expenditure on research & development and before capital investment and acquisitions was £0.3 million (2004: £0.5 million).

Bio-decontamination products and services

Hospital Acquired Infection

Hospital Acquired Infection ("HAI") continues to create substantial problems for healthcare providers globally. In recent years the problems associated with Methicillin resistant *Staphylococcus aureus* ("MRSA") have been well publicised. It is now clear that healthcare providers in North America and the UK are facing severe problems with a new, highly toxic strain of *Clostridium difficile* ("*C. difficile*") which is affecting younger patients and in some cases causing death. Multi-drug resistant *Acinetobacter* is also a major problem. In addition to these problematic micro-organisms, healthcare providers are also facing continuing problems from other so-called superbugs comprising bacteria (many of which are increasingly antibiotic resistant), viruses and fungi that patients acquire in hospitals or nursing homes.

First RBDS implant contract

BIOQUELL is helping hospitals in the US and Europe combat superbugs, in particular MRSA, *Acinetobacter* and the new highly toxic strain of *C. difficile*. As part of this BIOQUELL has recently secured its first long term, on site implant contract for its Room Bio-Decontamination Service ("RBDS") in a US hospital. This involves a specialist BIOQUELL RBDS team working closely with the

hospital's Infection Control team and eradicating superbugs from the hospital environment on an ongoing and preventative basis. BIOQUELL is in discussions with a second US hospital relating to an RBDS implant contract. The Board believes that the potential for the healthcare sector remains substantial and winning this first RBDS implant contract in a US hospital should make it significantly easier to win further healthcare RBDS implant contracts.

Emergency RBDS deployments and ongoing trials in hospitals

So far in 2005 BIOQUELL has carried out fee-paying emergency or scheduled RBDS deployments in 12 hospitals in the UK and carried out trials or demonstrations in a further 20. BIOQUELL anticipates that the number of UK hospitals using its emergency RBDS service on a reactive basis will continue to increase. Notwithstanding the significant direct and indirect costs associated with HAI, it is clear that most NHS hospitals are facing significant financial difficulties and the Board now anticipates faster adoption of BIOQUELL's technology in the healthcare sector in North America, particularly for the preventative RBDS implant model. As a result BIOQUELL continues to expand its US operations and is proactively increasing the scale of its sales and marketing operations in North America.

BIOQUELL continues to run trials and carry out research into the eradication of HAI from the hospital environment and monitor the effect on patient infection acquisition rates. The results of a RBDS implant trial in a US hospital, which is being carried out in conjunction with a US Government agency, should be made public later this year.

Life sciences sector

Sales of RBDS continue to grow in the life sciences sector. As already mentioned, sales of BIOQUELL's Clarus range of bio-decontamination equipment into the pharmaceutical sector were slow in the period. However, there are signs that the large pharmaceutical groups are starting to increase their capital expenditure again and the Group currently has a record bio-decontamination equipment order book. Sales of the Clarus PORT, a new rapid cycle bio-decontamination device, are increasing.

International operations

BIOQUELL's operations in the US are expanding. Although the business also experienced a reduced level of order intake for bio-decontamination equipment in the first half, service sales were significantly increased. An office has now been opened on the West coast of the US to allow BIOQUELL to market its products and services to the substantial biotechnology market based around San Francisco.

BIOQUELL's operations in France had a slow first half although order intake is beginning to increase in the second half for bio-decontamination equipment and services from the life sciences sector.

Wound healing

BIOQUELL announced that it had developed novel wound healing technology in its preliminary results in April 2005. Since this time clinical trials have been ongoing and the results continue to look encouraging. A second series of clinical trials have recently started. The scientific and clinical results will be

made public in 2006 by the academic team working with BIOQUELL on this new technology.

Product development and engineering relating to this novel wound healing technology is ongoing. The Board anticipates that a wound healing product will be launched on the market in 2006. The Board believes that this product represents substantial potential value to shareholders.

The wound healing market is large and international. Chronic wounds such as venous leg ulcers affect a significant proportion of the elderly. Other chronic wounds include foot ulcers, pressure sores and surgical wounds. The US National Institute of Nursing Research has published data that suggest that chronic wounds affect up to 4.5 million Americans at a cost of US\$ 9.5 billion a year.

Defence

BIOQUELL has won its first order for specialist nuclear, biological and chemical filtration equipment in the United States. Further orders are anticipated and the results of this division are expected to improve significantly in the second half.

Cape – specialist testing services

Cape continues to grow organically and is actively pursuing a number of outsourcing contracts, particularly where it is able to increase its long term testing order book. Cape is undertaking increasing levels of outsourcing work for Rolls-Royce and Flight Refuelling. It remains clear that a number of large groups are considering more seriously the benefits of outsourcing large elements of their testing programmes.

Regulations relating to EMC (Electro-magnetic compatibility) continue to increase and Cape is exploring ways of expanding substantially its testing service revenues in markets which are driven in large part by increasingly stringent regulations.

Cape believes that certain of its highly specialist testing services have the opportunity to generate high margin revenues in the US. As a result Cape is in the process of setting up a small service office in the US using office space shared with BIOQUELL's bio-decontamination business.

Finance

Net assets at 30 June 2005 were £9.5 million (31 December 2004: £10.1 million).

Net debt at the end of the period was £0.9 million (31 December 2004: £ 0.7 million). The movement in the period showed an increase in the bank overdraft by £0.2 million.

Capital expenditure in the first half was £0.5 million (2004: £0.5 million) which largely related to the expansion of the bio-decontamination service business and investment in fixed assets at Cape.

The Board is proposing the payment of an interim dividend on the first preference shares of 3.75p per share, payable on 28 February 2006 (representing a total payment of £5,625). The record date for this payment will be 27 January 2006. The Board does not believe it to be appropriate to pay a dividend on the ordinary shares at this stage.

Prospects

The prospects for BIOQUELL's bio-decontamination technology in the healthcare sector are improving, particularly following the sale of its first RBDS implant contract into a US hospital. Further, the Board believes that the Group's new wound healing technology has substantial potential. Order intake for bio-decontamination equipment sales has been strong since the period end and the Group currently has record order books.

John Salkeld
Chairman
26 September 2005

Consolidated income statement

unaudited interim results for the six months ended 30 June 2005

	6 months to 30 June 2005 £'000	6 months to 30 June 2004 £'000	12 months to 31 December 2004 £'000
Revenue	6,996	7,151	15,494
Cost of sales	(4,638)	(4,479)	(9,736)
Gross profit	2,358 34%	2,672 37%	5,758 37%
Research & development costs			
- directly expensed (pure research)	(15)	(12)	(29)
- amortised	(178)	(149)	(313)
Sales & marketing costs	(1,476)	(1,099)	(2,304)
Net operating expenses	(3,053)	(2,673)	(5,557)
Operating (loss)/profit	(695)	(1)	201
Finance costs	(43)	(29)	(72)
(Loss)/profit on ordinary activities before tax	(738)	(30)	129
Tax credit on (loss)/profit on ordinary activities	78	72	173
(Loss)/profit for the period	(660)	42	302
(Loss)/earnings per share – basic and diluted	(1.6p)	0.1p	0.8p
Gross expenditure on research & development prior to application of IFRS	(552)	(514)	(936)

Notes:

- On 19 July 2002, the European Parliament adopted Regulation No. 1606/2002 requiring listed companies in the Member States of the European Union to prepare their consolidated financial statements in accordance with International Financial Reporting Standards ('IFRS') from 2005. IFRS will apply for the first time to the Group's Annual report for the year ending 31 December 2005. Consequently the Group's interim results for the six months to 30 June 2005 are presented under IFRS together with restated information for the six months ended 30 June 2004 and the year ended 31 December 2004. Further information on the Group's adoption of IFRS is given under "Explanation of transition to IFRS".
- The financial information for the six months ended 30 June 2005 and the comparative figures for the six months ended 30 June 2004 have not been reviewed or audited by the Group's auditors and have been prepared on the basis of the accounting policies adopted by the Group under IFRS. These accounting policies are set out under 'Statement of Accounting Policies'.
- The unaudited comparative figures for the 12 months to 31 December 2004 have been prepared under IFRS. They do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The unqualified audited accounts for the 12 months ended 31 December 2004, under previous UK GAAP, have been filed with the Registrar of Companies and did not contain statements under section 237(2) or (3) of the Companies Act 1985.
- Tax credits shown on the Income Statement relate to Research and Development costs. There is no change in the recognised deferred tax asset due to the Group's adoption of IFRS.
- The value of intangible assets acquired on the purchase of EMC Projects Ltd is calculated as the anticipated generation of revenue from customers new to the BIOQUELL Group, discounted over five years. This intangible asset is amortised in a straight line over five years.
- Loss per share for the half-year has been calculated on the loss on ordinary activities after taxation, after deducting dividends on non-equity (preference) shares due but not paid, divided by the weighted average number of ordinary shares in issue during the period. The Group's basic and fully diluted earnings per share are equal.
- Copies of this statement will be available to members of the public at the company's registered office: 34A Walworth Road, Andover, Hampshire SP10 5PY and on the Group's website at www.bioquell.com

Consolidated statement of recognised income and expense

	6 months to 30 June 2005 £'000	6 months to 30 June 2004 £'000	12 months to 31 December 2004 £'000
Net (loss)/ profit for the period	(660)	42	302
Exchange differences on the translation of foreign operations	(31)	(26)	(136)
Total recognised net (loss)/profit for the period	(691)	16	166
Prior period adjustment	(186)	-	-
Total recognised income/expense since last annual report	(877)	16	166

Consolidated balance sheet

	30 June 2005 £'000	30 June 2004 £'000 *(restated)	31 December 2004 £'000 *(restated)
Non-current assets			
Goodwill	333	376	333
Other intangible assets	4,903	4,356	4,570
Property, plant & equipment	2,890	2,822	2,849
	8,126	7,554	7,752
Current assets			
Inventories	2,534	2,426	2,348
Trade and other receivables	3,542	4,192	4,646
Cash and cash equivalents	-	146	430
	6,076	6,764	7,424
Total assets	14,202	14,318	15,176
Current liabilities			
Other current liabilities	(3,514)	(3,619)	(3,648)
Bank overdraft	(355)	-	(569)
Net current assets	2,207	3,145	3,207
Non-current liabilities	(807)	(878)	(858)
Total liabilities	(4,676)	(4,497)	(5,075)
Net assets	9,526	9,821	10,101
Equity			
Share capital	4,018	4,011	4,016
Share premium account	10,298	10,242	10,285
Equity reserve	270	86	169
Capital reserve	255	255	255
Translation reserve	(167)	(26)	(136)
Retained earnings	(5,148)	(4,747)	(4,488)
Equity attributable to equity holders of the parent	9,526	9,821	10,101
Total Equity	9,526	9,821	10,101

* Opening equity and inventory balances as at 1 January 2004 have been restated by £186k to reflect the change of accounting policy for material handling charges recognised on the closure of the Group's Weston-super-Mare site in 2002.

Consolidated cash flow statement

six months ended 30 June 2005

	6 months to 30 June 2005 £ 000s	6 months to 30 June 2004 £ 000s	12 months to 31 December 2004 £ 000s
Cash generated by operations	859	996	1,317
Non-equity preference share dividends paid	(6)	(6)	(11)
Net Interest paid	(37)	(23)	(62)
Net cash from operating activities	816	967	1,244
Investing activities			
Proceeds on disposal of property, plant & equipment	-	-	105
Purchases of property, plant & equipment	(479)	(506)	(751)
Expenditure on product development	(537)	(502)	(907)
Acquisition of a subsidiary	-	(204)	(222)
Net cash used in investing activities	(1,016)	(1,212)	(1,775)
Financing activities			
Proceeds on issue of ordinary shares	15	141	188
Repayment of borrowings	(14)	-	(36)
Repayment of obligations under finance leases	(17)	(19)	(29)
Net cash (used in)/from financing activities	(16)	122	123
Increase in bank overdraft	(216)	(123)	(408)
Bank (overdraft) / cash at beginning of year	(139)	269	269
Bank (overdraft) / cash at end of year	(355)	146	(139)

Note to the cash flow statement

	6 months to 30 June 2005 £ 000s	6 months to 30 June 2004 £ 000s	12 months to 31 December 2004 £ 000s
Operating (Loss)/profit	(695)	(1)	201
Adjustments for:			
Depreciation of property, plant & equipment	438	418	855
Amortisation of intangible assets	204	135	312
Cost of share based payments	101	54	137
Loss on disposal of fixed asset	-	-	5
(Decrease)/increase in provisions	(9)	19	102
Operating cashflows before movements in working capital	39	625	1,612
(Increase)/decrease in inventories	(186)	(13)	82
Decrease/(increase) in receivables	1,152	(616)	(776)
(Decrease)/increase in payables	(146)	1,000	399
Cash generated by operations	859	996	1,317

Statement of accounting policies – updated for IFRSs

General

BIOQUELL PLC (the Company) is a Public Limited Company incorporated in the United Kingdom. The financial statements are presented in pounds sterling (£) since that is the currency in which the majority of the Group's transactions are denominated.

Summary of significant accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below. They have been applied consistently throughout the period and in the preceding periods.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries).

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed. Revenue from services is recognised throughout the contract as services are provided or upon completion dependent upon contractual terms.

Property, plant and equipment

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method, on the following bases:

Buildings	10 years
Fixtures and equipment	3 to 8 years

Patents and trademarks

Patents and trademarks are measured initially at purchase cost and are amortised on a straight line basis over their estimated useful lives as part of development expenditure.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour cost and those overheads that have been incurred in bringing the inventories to their present location and condition.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded as the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the profit and loss account using the effective interest method

and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

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 presented separately on the balance sheet. Goodwill is tested for impairment annually and whenever there is an indication that it may be impaired a provision is made for any impairment.

Intangible assets

Intangible fixed assets comprise customer relationships acquired in business combinations and development expenditure. Customer relationships are included at cost, based on the Group valuation methodology, using discounted cash flows, and amortised over their useful lives, deemed to be five years.

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

An internally-generated intangible asset arising from the Group's development activity is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as products, service and new processes related to decontamination solutions)
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives which is deemed to be 15 years. Where no internally-generated intangible asset can be recognised, development expenditure is expensed in the period in which it is incurred.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these 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). Provision is made for any impairment and immediately expensed in the period.

Foreign currencies

Transactions in currencies other than sterling are initially recorded at the rate of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rate prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at the exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

The defined benefit scheme has been closed to new members since May 1990 and related solely to former employees of the Group. The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of the plan assets.

Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005. The Group is able to issue equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Business segments

For management reporting purposes the Group is currently organised into two operating divisions – ‘Decontamination Solutions’ and ‘Test & EMC’. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Six months ended 30 June 2005

	Decontamination Solutions £000s	Test & EMC £000s	Consolidation £000s
Revenue			
Total revenue	4,707	2,289	6,996
Result			
Segment result	(518)	238	(280)
Head office costs			(415)
Loss from operations			(695)
Finance costs			(43)
Loss before tax			(738)

Revenue Geographically (Market)

UK	2,417	2,289	4,706
EU	736	-	736
ROW	1,554	-	1,554
	4,707	2,289	6,996

Six months ended 30 June 2004

	Decontamination Solutions £000s	Test & EMC £000s	Consolidation £000s
Revenue			
Total revenue	5,257	1,894	7,151
Result			
Segment result	211	240	451
Head office costs			(452)
Loss from operations			(1)
Finance costs			(29)
Loss before tax			(30)

Revenue Geographically (Market)

UK	2,692	1,894	4,586
EU	1,411	-	1,411
ROW	1,154	-	1,154
	5,257	1,894	7,151

Year ended 31 December 2004

	Decontamination Solutions £000s	Test & EMC £000s	Consolidation £000s
Revenue			
Total revenue	11,267	4,227	15,494
Result			
Segment result	329	652	981
Head office costs			(780)
Profit from operations			201
Finance costs			(72)
Profit before tax			129

Revenue Geographically (Market)

UK	5,430	4,227	9,657
EU	2,435	-	2,435
ROW	3,402	-	3,402
	11,267	4,227	15,494

Change to Group accounting policies

The Group has reconsidered the basis of accounting for material handling in raw materials as a result of the closure of the Weston-super-Mare site in 2002 and no longer considers it appropriate to include the cost of materials handling in the valuation of inventories. Consequently opening equity and inventories have been reduced by £186k. This valuation has remained substantially unchanged and consequently has no material impact on the income statements for the reported periods.

Explanation of transition to IFRS

IFRS 1 *First-time adoption of International Financial Reporting Standards* sets out the procedures that the Group must follow as it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. The Group is required to establish its accounting policies as at 31 December 2005 and, in general, apply these retrospectively to determine the IFRS opening balance sheet at its date of transition, 1 January 2004. The standard allows a number of exceptions to this general principal. Those that affect the Group are set out below:

- Use of the exemption in IFRS 3 to only restate Business Combinations arising after 1 January 2004.
- Adoption of the amendment to IAS 19 'Employee Benefits', issued in December 2004, in advance of the effective date of 1 January 2006, resulting in actuarial gains and losses arising on the Defined Benefits Scheme being presented in the Statement of Recognised Income and Expense.
- IFRS 2 has been applied to all share options issued after 7 November 2002 and not vested as at 1 January 2005.

Reconciliations of the adjustments to profit and loss for the reported periods are shown below:

Reconciliation of (loss)/profit for the period

	Notes	6 months to 30 June 2005 £'000	6 months to 30 June 2004 £'000	12 months to 31 December 2004 £'000
(Loss)/profit for the period under previous UK GAAP		(892)	(272)	(175)
Adjustments				
Acquired goodwill	1	-	14	46
Development costs	2	359	354	594
Share based payments	3	(101)	(54)	(137)
Amortisation of acquired intangible assets	4	(26)	-	(26)
(Loss)/ profit for the period under IFRS		(660)	42	302

Notes

1. Reversal of goodwill amortisation
2. Development costs capitalised at point of expense (IAS 38)
3. Share option expense (IFRS 2)
4. Amortisation of intangible assets acquired with EMC Projects Ltd

More detailed analysis of the adjustments made to the Group's accounts as a result of the transition from UK GAAP to IFRS follow. Included is a reconciliation of the balance sheet at 1 January 2004, the date of transition to IFRS.

Explanation of Transition to IFRS

Continued

Reconciliation of profit for six months ended 30 June 2005

£000's	Previous UK GAAP	Transition to IFRS	IFRS
Revenue	6,996		6,996
Cost of sales	(4,638)		(4,638)
Gross Margin	2,358		2,358
	34%		34%
Distribution costs	(1,492)		(1,492)
Administration costs	(1,793)	232	(1,561)
Finance costs	(37)	(6)	(43)
Total Costs	(3,322)	226	(3,096)
(Loss)/profit on ordinary activities before tax	(964)	226	(738)

Adjustments:

£232k represents £359k net capitalisation of development expenditure, £101k cost of share based payments and £26k amortisation of acquired intangible assets. Finance costs include the dividend paid on non-equity preference shares.

Reconciliation of profit for the six months ended 30 June 2004

£000's	Previous UK GAAP	Transition to IFRS	IFRS
Revenue	7,151		7,151
Cost of sales	(4,493)	14	(4,479)
Gross Margin	2,658	14	2,672
	37%		37%
Distribution costs	(1,149)		(1,149)
Administration costs	(1,823)	299	(1,524)
Finance costs	(23)	(6)	(29)
Total Costs	(2,995)	293	(2,702)
(Loss)/profit on ordinary activities before tax	(337)	307	(30)

Adjustments:

£299k represents £353k net capitalisation of development expenditure and £54k cost of share based payments. £14k represents reversal of goodwill amortisation

Reconciliation of profit for the year ended 31 December 2004

£000's	Previous UK GAAP	Transition to IFRS	IFRS
Revenue	15,494		15,494
Cost of sales	(9,782)	46	(9,736)
Gross Margin	5,712	46	5,758
	37%		37%
Distribution costs	(2,416)		(2,416)
Administration costs	(3,572)	431	(3,141)
Finance costs	(61)	(11)	(72)
Total Costs	(6,049)	420	(5,629)
(Loss)/profit on ordinary activities before tax	(337)	466	129

Adjustments:

£46k represents a reversal of goodwill amortisation. Valuation of customer relationships acquired with EMC results in amortisation in the period of £26k, which is included in the £431k along with £594k net capitalisation of development expenditure and £137k cost of share based payments. Non-equity preference dividends are now included in Finance costs.

Explanation of Transition to IFRS

Continued

Reconciliation of balance sheet at 31 December 2004 (date of last UK GAAP financial statements)

	Notes	Previous UK GAAP *(restated)	Transition to IFRS	IFRS
Goodwill	1,2	550	(217)	333
Intangible assets	2,3	-	4,570	4,570
Property, plant & equipment		2,849		2,849
Total non-current assets		3,399	4,353	7,752
Inventories		2,348		2,348
Trade and other receivables		3,644		3,644
Other receivables		1,002		1,002
Cash & cash equivalents		430		430
Total current assets		7,424		7,424
Total assets		10,823	4,353	15,176
Current liabilities		(4,217)		(4,217)
Non current liabilities	4,5	(570)	(288)	(858)
Total liabilities		(4,787)	(288)	(5,075)
Total assets less total liabilities		6,036	4,065	10,101
Called up share capital	5	4,166	(150)	4,016
Share premium		10,285		10,285
Equity reserve	6	-	169	169
Capital reserve		255		255
Translation reserve	7	-	(136)	(136)
Profit & loss account		(8,670)	4,182	(4,488)
Total equity		6,036	4,065	10,101

Notes:

1. Reversal of goodwill amortisation (IFRS 3)
2. Net capitalisation of value of customer relationships acquired with EMC Projects Ltd
3. Cumulative capitalised net development expenditure (IAS 38)
4. Pension liability (IAS 19) recognised on the balance sheet
5. Reclassification of preference share capital to non-current liabilities
6. Share based payments (IFRS 2)
7. Exchange gain on translation of foreign operations now shown in translation reserve

* Equity and inventory balances as at 31 December 2004 have been restated by £186k to reflect the change of accounting policy for material handling charges recognised on the closure of the Group's Weston-super-Mare site in 2002.

Explanation of Transition to IFRS Continued

Reconciliation of balance sheet at 30 June 2004

	Notes	UK GAAP *(restated)	Transition to IFRS	IFRS
Goodwill	2	625	(249)	376
Intangible assets	2,3	-	4,356	4,356
Property, plant & equipment		2,822		2,822
Total non-current assets		3,447	4,107	7,554
Inventories		2,426		2,426
Trade and other receivables		3,030		3,030
Other receivables		1,162		1,162
Cash & cash equivalents		146		146
Total current assets		6,764		6,764
Total assets		10,211	4,107	14,318
Current liabilities		(3,619)		(3,619)
Non current liabilities	4,5	(590)	(288)	(878)
Total liabilities		(4,209)	(288)	(4,497)
Total assets less total liabilities		6,002	3,819	9,821
Called up share capital		4,161	(150)	4,011
Share premium		10,242		10,242
Equity reserve	6	-	86	86
Capital reserve		255		255
Translation reserve	7	-	(26)	(26)
Retained Profit & loss		(8,656)	3,909	(4,747)
Total equity		6,002	3,819	9,821

Notes:

2. Net capitalisation of value of customer relationships acquired with EMC Projects Ltd
3. Cumulative capitalised net development expenditure (IAS 38)
4. Pension liability (IAS 19) recognised on the balance sheet
5. Reclassification of preference share capital to non-current liabilities
6. Share based payments (IFRS 2)
7. Exchange gain on translation of foreign operations now shown in translation reserve

* Equity and inventory balances as at 30 June 2004 have been restated by £186k to reflect the change of accounting policy for material handling charges recognised on the closure of the Group's Weston-super-Mare site in 2002.

Explanation of Transition to IFRS Continued

Reconciliation of equity at 1 January 2004 (date of transition to IFRSs)

	Notes	UK GAAP *(restated)	Transition to IFRSs	IFRSs
Goodwill		265		265
Intangible assets	3	-	3,740	3,740
Property, plant & equipment		2,721		2,721
Total non-current assets		2,986	3,740	6,726
Inventories		2,413		2,413
Trade and other receivables		2,731		2,731
Other receivables		773		773
Cash & cash equivalents		269		269
Total current assets		6,186		6,186
Total assets		9,172	3,740	12,912
Current liabilities		(2,470)		(2,470)
Non current liabilities	4,5	(543)	(288)	(831)
Total liabilities		(3,013)	(288)	(3,301)
Total assets less total liabilities		6,159	3,452	9,611
Called up share capital		4,124	(150)	3,974
Share premium		10,139		10,139
Equity reserve	6	-	32	32
Capital reserve		255		255
Profit & loss account		(8,359)	3,570	(4,789)
Total equity		6,159	3,452	9,611

Notes:

3. Cumulative capitalised net development expenditure (IAS 38)
4. Pension liability (IAS 19) recognised on the balance sheet
5. Reclassification of preference share capital to non-current liabilities
6. Share based payments (IFRS 2)

* Opening equity and inventory balances as at 1 January 2004 have been restated by £186k to reflect the change of accounting policy for material handling charges recognised on the closure of the Group's Weston-super-Mare site in 2002