



WORLD LEADERS IN BIO-DECONTAMINATION, ENVIRONMENTAL CONTROL AND TESTING.



Highlights

BIOQUELL PLC ("BIOQUELL"), the UK leader in specialist bio-decontamination technology and testing / compliance services, announces its interim results for the six months ended 30 June 2007. The highlights are:

- Substantial organic growth in revenues, profit and positive cashflow
- Revenues up 30% to £15.8 million (H1 2006: £12.2 million)
- Bio-decontamination division revenues up 52% to £10.5 million (H1 2006: £6.9 million); TRAC division revenues up 2% to £5.3 million (H1 2006: £5.2 million)
- Pre-tax profit up 400% to £2.0 million (H1 2006: £0.4 million)
- Earnings per share up 378% to 4.3p (H1 2006: 0.9p)
- Net cash from operating activities up 211% to £2.8 million (H1 £0.9 million)
- Net cash on balance sheet of £1.6 million (31 December, 2006: net debt: £(0.6) million)
- Continuing strong levels of orders and revenues from defence-related NBC filtration products within the bio-decontamination division
- Significant level of orders for the new BIOQUELL Z, launched earlier in the year
- Key investment in research and development continuing, including new wound healing technology
- Increasing success in promoting a broader range of the TRAC division's services into large military and aerospace groups

"These are a good set of interim results with significantly increased levels of revenues, profitability and positive cashflow. Sales into the defence sector were strong and this will continue into next year. Orders were also robust for the Group's specialist bio-decontamination products and we are seeing increasing overseas demand from the Group's expanding international distributor network. The TRAC division continues to increase the level of cross selling of its services to blue-chip multinationals and identify further opportunities for growth, although its results in the first half were adversely affected by a major facilities move. Overall we are expecting further good progress in the second half."

John Salkeld, Chairman

Chairman's statement



Revenues up 30% to £15.8 million
Pre-tax profit up 400% to £2 million

Overview

The BIOQUELL Group comprises two divisions:

Bio-decontamination (which includes specialist hydrogen peroxide vapour bio-decontamination equipment for the pharmaceutical, life sciences and healthcare sectors and nuclear, biological and chemical ("NBC") filtration products for the Defence sector) and **TRAC** (which comprises testing, regulatory and compliance services).

Financial results

Revenues for the Group increased by 30% to £15.8 million (H1 2006: £12.2 million). The Bio-decontamination division revenues increased by 52% to £10.5 million (H1 2006: £6.9 million) and TRAC revenues increased by 2% to £5.3 million (H1 2006: £5.2 million). The proportion of the Group's revenues which were derived from overseas sales increased significantly to 54% (H1 2006: 32%).

The increase in revenues was derived from organic growth. The largest element of growth came from defence-related NBC specialist filtration products sold into the US defence sector. Strong order activity was also seen for the Group's specialist hydrogen peroxide vapour ("HPV") bio-decontamination equipment, although manufacturing capacity constraints arising from the large defence orders meant that HPV equipment revenues were down year-on-year. The TRAC division recorded overall revenue growth of 2%; the revenues were adversely affected by temporary disruption from the move of one of the division's EMC testing service businesses.

The consolidated Group gross margin increased to 41% (H1 2006: 38%) reflecting higher levels of activity and improved product mix.

Gross expenditure on product development in the period was £0.6 million (H1 2006: £0.6 million), reflecting ongoing research and development related to new hydrogen peroxide vapour products and wound healing technology.

Sales and marketing costs increased by 7% to £1.6 million (H1 2006: £1.5 million) reflecting increasing levels of support for the Group's international sales into new territories.

Profit before tax increased by 400% to £2.0 million (H1 2006: £0.4 million). The substantially increased level of profit reflects a combination of factors including increased sales of higher margin products, a largely unchanged cost base and significantly improved manufacturing recoveries as a result of higher levels of manufacturing throughput in the Group's Andover-based manufacturing facility, principally related to defence activity.

Earnings per share increased by 378% to 4.3 pence (H1 2006: 0.9 pence). The Group has, under IAS 12, calculated a deferred tax charge (which does not represent a current cash liability) in the interim results of £0.3m, representing an anticipated effective tax rate for the year of 13.1%. This charge reflects the accounting treatment required for the offset of brought forward losses and tax assets (principally associated with share based payments) against increased levels of profitability within the Group. The Group believes it is unlikely to incur a corporation tax charge representing a current cash liability in 2007 due to the utilisation of brought forward tax losses.

An increasing proportion of the Group's revenues are dollar denominated and the weakness of the dollar against sterling in the first half reduced slightly the Group's reported profitability. However, the Group has hedged a significant proportion of its anticipated 2007 dollar denominated revenues at rates more favourable than the current dollar / sterling rate.

Capital expenditure was £0.4 million (H1 2006: £0.6 million); substantially all of this expenditure related to the purchase of new, highly specialist testing equipment for the TRAC division. Depreciation of property, plant and equipment was £0.5 million (H1 2006: £0.5 million) and amortisation of intangibles was £0.3 million (H1 2006: £0.3 million). Cash inflow after expenditure on product development and before capital investment and acquisitions was £2.4 million (H1 2006: £0.5 million).

Chairman's statement

Continued



Net cash at 30 June, 2007 was £1.6 million (31 December, 2006: net debt: £(0.6) million). The increase in the Group's cash balances was achieved despite significant demand for working capital relating to the increased level of revenues. Net assets at 30 June, 2007 were £13.4 million (31 December, 2006: £11.5 million).

Bio-decontamination division

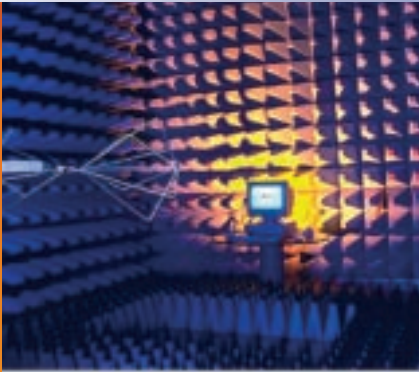
The Group's defence business enjoyed robust NBC filtration system orders and revenues in the first half, principally from US vehicle manufacturers supplying new mine-resistant, ambush protected ("MRAP") vehicles to the United States Department of Defence ("DOD"). The Group has received further MRAP-related orders in the second half. The Group has also recently won a substantial NBC filtration and crew cooling defence order from a Middle Eastern customer. Deliveries against this order will commence at the beginning of 2008 and continue until the end of the first quarter of 2009.

BIOQUELL's specialist low temperature, residue-free hydrogen peroxide vapour based bio-decontamination equipment saw increased activity in the first half, principally from the pharmaceutical and life sciences sector. In part, this was due to the launch of the new BIOQUELL Z room / zone decontamination equipment which has started to sell well. Demand remains robust across Europe and the US – and we anticipate increasing order levels from the Far East, particularly as our expanding international distributor network starts to take market share. We were not able to fulfil all the HPV-related orders in the first half due to manufacturing capacity constraints; however, we anticipate this will reverse in the second half. Demand for the Group's RBDS HPV bio-decontamination service was satisfactory and we are expecting increased levels of demand in the second half.

It is increasingly clear that *Clostridium difficile* ("C.diff") – and in particular the new hyper-virulent NAP1/BI/O27 strain – is causing

more trouble for hospitals in the UK and US than any other "superbug", including MRSA. It is also now generally accepted that environmental contamination plays a substantial role in the transmission of *C.diff*, particularly on high touch surfaces. However, hospitals – and their senior management – remain acutely sensitive to the whole subject of hospital acquired infection ("HAI"), in part due to the issues associated with adverse media coverage / PR and liability, and are accordingly often reluctant to discuss the scale of the challenges facing them. Moreover, as a rule the healthcare profession remains slow to change, suspicious of 'new' technologies, reluctant to discuss issues with non-clinicians and requires high quality scientific research to demonstrate the efficacy of any new intervention. Occasionally this requirement for 'high quality' scientific research ends up being used as an excuse to do nothing. The structure of hospitals is also important – with single rooms helping to reduce "superbug" infection transmission. In the US most hospitals have single or double rooms; in the UK large 'nightingale' open wards are prevalent in the NHS which can contain more than 50 beds – and which make the deployment of BIOQUELL's technology (and effective infection control) substantially more challenging. In the US BIOQUELL is about to start further "superbug" related research in a leading US hospital using its HPV technology. In the UK BIOQUELL continues to increase the level of HPV bio-decontamination service activity it is undertaking in the NHS – with increasing levels of repeat orders and enquiries from new hospitals. However, penetration of this market remains slower than we would like. Nonetheless, the healthcare market remains a potentially substantial market for BIOQUELL's bio-decontamination technology and the Group will continue to increase its sales, marketing and research resources in this sector.

BIOQUELL continues to invest in research and development ("R&D"). In addition to ongoing "superbug" related R&D referred to above, the Group is carrying out development work to broaden



The prospects for the Group are good – and are continuing to improve

its range of HPV bio-decontamination and defence equipment. In addition significant sums are being invested in the development of new wound healing technology – and BIOQUELL is expecting a large scale clinical trial to start next month in order to obtain scientific data to support its efficacy and associated regulatory claims for this new technology. The Group also invested considerable resources in the first half in relation to the DOD's tender for the Joint Material Decontamination System in conjunction with a large US Defence group. The result of this tender is expected shortly.

The number of BIOQUELL specialist HPV bio-decontamination units in the field is increasing significantly, particularly internationally, and in order to meet increased levels of demand the Group is strengthening the management and IT systems of its after-sales service business.

The Group continues to sell its original Astec and Microflow range of laboratory filtration equipment in the UK and overseas; however, pricing and margins remain extremely competitive in this sector, in part due to the prevalence of overseas manufacturers with dollar denominated cost bases.

TRAC division

The integration of the specialist testing, regulatory and compliance service businesses within the TRAC division - and under 'TRAC' branding - continues. TRL Compliance, EMC Projects and Cape Engineering are beginning to win larger orders from multinational aerospace and defence groups, as they demonstrate substantial, well equipped facilities under the TRAC "umbrella".

In the first half TRL Compliance moved its largest EMC testing facility into a new state-of-the-art headquarters in Malvern. Inevitably this move caused a degree of disruption including a year-on-year reduction in revenues; however, now that this move is complete the management team has been able to re-focus on growing the business. (The TRAC division has two more moves planned over the next twelve months to complete the re-configuration and rationalisation of the division's facilities.)

Cape Engineering made reasonable progress in the first half – with hard work from the new senior management team resulting in increased and more consistent profitability; however, there is more work to be done to increase Cape's profit margins.

KTL – the TRAC division's telecoms business – had a satisfactory first half. We believe that this business has the greatest growth prospects in the TRAC division. The telecoms market continues to evolve rapidly with increasing convergence of wireless and wireline technology as well as a plethora of new communications-related technologies such as ZigBee, VDSL, VoIP, WiMAX and Femto. One of the challenges facing KTL is to ensure that it invests in the technology most likely to generate substantial testing revenues. In parallel, KTL's US operations based in Silicon Valley, California has been increasing its market penetration and developing relationships with the key hardware manufacturers located in and around the San José area. Activity levels are increasing and the prospects for consistent and profitable growth from KTL are improving.

Prospects

The prospects for the Group are good – and are continuing to improve. Activity levels for the defence and HPV bio-decontamination equipment have continued at an encouraging level into the second half. R&D continues well – with efficient input from an increasingly confident and competent technical team. The TRAC division is likely to have a better second half than first half despite further planned facility moves. The good start to the year is continuing into the second half.

John Salkeld
Chairman
12 September, 2007

Consolidated income statement

unaudited interim results for the six months ended 30 June 2007

	6 months to 30 June 2007 £'000	6 months to 30 June 2006 £'000	12 months to 31 December 2006 £'000
Revenue	15,823	12,171	25,238
Cost of sales	(9,298)	(7,593)	(15,521)
Gross profit	6,525	4,578	9,717
	41%	38%	39%
Operating expenses:			
Sales & Marketing costs	(1,557)	(1,469)	(2,952)
Administration costs	(1,975)	(1,875)	(4,082)
R&D and Engineering costs	(932)	(790)	(1,362)
Profit from operations	2,061	444	1,321
Finance costs	(66)	(74)	(164)
Profit before tax	1,995	370	1,157
Tax (charge)/credit on profit on ordinary activities	(262)	–	4
Profit for the period attributable to equity holders of the parent	1,733	370	1,161
Earnings per share – basic	4.3p	0.9p	2.9p
– diluted	3.9p	0.9p	2.6p

All amounts are derived from continuing operations.

Notes:

- The financial information for the six months ended 30 June 2007 and the comparative figures for the six months ended 30 June 2006 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. The same accounting policies and methods of computation are followed in the interim financial report as published by the company on 26 March 2007 in its annual financial statements, which are available on the company's website on www.bioquellplc.com.
- The comparative figures for the 12 months to 31 December 2006 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 2006 have been filed with the Registrar of Companies and they did not contain statements under section 237(2) or (3) of the Companies Act 1985.
- The tax charge shown on the income statement represents a deferred tax liability. The charge is based on the Group's effective tax rate for the full year, the calculation of which primarily includes the use of brought forward losses and tax assets arising from share based payments, offset by the capitalisation of research and development expenditure.
- Earnings 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 diluted earnings per share are calculated by including 'live' share options in the denominator.
- The report was approved by the Board on 12 September 2007.
- 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.bioquellplc.com.

Consolidated statement of recognised income and expense

	6 months to 30 June 2007 £'000	6 months to 30 June 2006 £'000	12 months to 31 December 2006 £'000
Net profit for the period	1,733	370	1,161
Actuarial gain on defined benefit pension scheme	–	–	56
Exchange differences on the translation of foreign operations	(161)	(89)	(225)
Total recognised income since last annual report	1,572	281	992

Consolidated balance sheet

	30 June 2007 £'000	30 June 2006 £'000	31 December 2006 £'000
Non-current assets			
Goodwill	730	665	730
Other intangible assets	6,166	5,816	6,108
Property, plant & equipment	3,492	3,236	3,596
	10,388	9,717	10,434
Current assets			
Inventories	2,288	1,872	1,415
Trade and other receivables	5,775	5,967	5,570
Deferred tax	–	55	100
Cash and cash equivalents	2,390	–	306
	10,453	7,894	7,391
Total assets	20,841	17,611	17,825
Current liabilities			
Trade and other payables	(5,302)	(4,137)	(4,072)
Obligations under finance leases	(145)	(103)	(205)
Bank overdraft	–	(922)	–
Deferred tax	(162)	–	–
Provisions	(844)	(924)	(1,136)
Net current assets	4,000	1,808	1,978
Total non-current liabilities	(963)	(918)	(955)
Total liabilities	(7,416)	(7,004)	(6,368)
Net assets	13,425	10,607	11,457
Equity			
Share capital	4,115	4,053	4,069
Share premium account	10,750	10,435	10,506
Equity reserve	584	483	525
Capital reserve	255	255	255
Translation reserve	(435)	(120)	(274)
Retained earnings	(1,844)	(4,499)	(3,624)
Equity attributable to equity holders of the parent	13,425	10,607	11,457

Consolidated cash flow statement

six months ended 30 June 2007

	6 months to 30 June 2007 £'000	6 months to 30 June 2006 £'000	12 months to 31 December 2006 £'000
Net cash from operating activities	2,768	941	3,505
Investing activities			
Proceeds on disposal of property, plant & equipment	1	78	20
Purchases of property, plant & equipment	(389)	(551)	(933)
Expenditure on product development	(373)	(432)	(1,031)
Net cash used in investing activities	(761)	(905)	(1,944)
Financing activities			
Proceeds on issue of ordinary shares	290	63	150
Repayment of borrowings	–	–	(20)
Obligations under finance leases	(62)	144	(132)
Net cash from/(used in) financing activities	228	207	(2)
Increase in cash & cash equivalents	2,235	243	1,559
Cash/(overdraft) at beginning of period	306	(1,076)	(1,076)
Effect of foreign exchange rate changes	(151)	(89)	(177)
Cash/(overdraft) at end of period	2,390	(922)	306

Note to the cash flow statement

	6 months to 30 June 2007 £'000	6 months to 30 June 2006 £'000	12 months to 31 December 2006 £'000
Profit from operations	2,061	444	1,321
Adjustments for:			
Depreciation of property, plant & equipment	480	509	1,042
Amortisation of intangible assets	316	282	589
Share based payments	106	118	188
Loss/(profit) on disposal of fixed assets	11	(9)	(11)
(Decrease)/increase in provisions	(292)	104	251
Operating cashflows before movements in working capital	2,682	1,448	3,380
(Increase)/decrease in inventories	(873)	275	732
(Increase) in receivables	(105)	(394)	(42)
Increase/(decrease) in payables	1,392	(314)	(383)
Cash generated by operations	3,096	1,015	3,687
Deferred tax charge	(262)	–	–
Non-equity preference share dividends paid	(6)	(6)	(11)
Interest paid	(60)	(68)	(171)
Net cash from operating activities	2,768	941	3,505

Business segments

For management purposes the Group is currently organised into two operating divisions – 'Bio-decontamination Solutions' and 'Testing Regulatory and Compliance'. 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 2007

	Bio- decontamination £'000	Testing, regulatory & compliance £'000	Consolidated £'000
Revenue			
Total revenue	10,518	5,305	15,823
Result			
Segment result	1,980	738	2,718
Head office costs			(657)
Profit from operations			2,061
Finance costs			(66)
Profit before tax			1,995
Revenue Geographically (Market)			
UK	3,037	4,280	7,317
EU	1,717	351	2,068
ROW	5,764	674	6,438
	10,518	5,305	15,823

Six months ended 30 June 2006

	Bio decontamination £'000	Testing, regulatory & compliance £'000	Consolidated £'000
Revenue			
Total revenue	6,931	5,240	12,171
Result			
Segment result	168	678	846
Head office costs			(402)
Profit from operations			444
Finance costs			(74)
Profit before tax			370
Revenue Geographically (Market)			
UK	3,496	4,725	8,221
EU	1,270	118	1,388
ROW	2,165	397	2,562
	6,931	5,240	12,171

Business segments

Continued

Year ended 31 December 2006	Bio- decontamination £'000	Testing, regulatory & compliance £'000	Consolidated £'000
Revenue			
Total revenue	14,607	10,631	25,238
Result			
Segment result	749	913	1,662
Head office costs			(341)
Profit from operations			1,321
Finance costs			(164)
Profit before tax			1,157
Revenue Geographically (Market)			
UK	5,574	9,248	14,822
EU	3,129	239	3,368
ROW	5,904	1,144	7,048
	14,607	10,631	25,238

Analysis of net cash/(debt)

	6 months to 30 June 2007 £'000	6 months to 30 June 2006 £'000	12 months to 31 December 2006 £'000
Cash/(bank overdraft)	2,390	(922)	306
Finance Leases – due within one year	(145)	(103)	(205)
– due after one year	(258)	(148)	(260)
Bank Loan – due after one year	(412)	(421)	(410)
Net cash/(debt)	1,575	(1,594)	(569)

Reconciliation of movements in shareholders' funds

	6 months to 30 June 2007 £'000	6 months to 30 June 2006 £'000	12 months to 31 December 2006 £'000
Profit for the period	1,733	370	1,161
Movements in period:			
Issued share capital	46	21	37
Issued share premium	244	42	113
Credit to equity reserve for share based payments	70	118	188
Exchange differences	(125)	(89)	(243)
Actuarial gain on defined benefit pension scheme	–	–	56
Net increase in equity shareholders' funds	1,968	462	1,312
Equity shareholders' funds at beginning of period	11,457	10,145	10,145
Equity shareholders' funds at end of period	13,425	10,607	11,457

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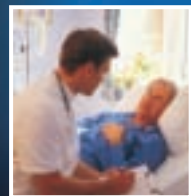
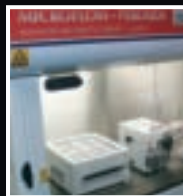
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