

Bio /adj

1. Of, relating to, caused by, or affecting life or living organisms: biological processes such as growth and digestion

Quell /verb

1. Suppress, forcibly put an end to, crush, overcome, reduce to submission



HIGHLIGHTS

FINANCIAL:

- Substantial increase in orders in the period – 21% increase to £21.0 million (2009: £17.3 million)
- As previously reported, challenging trading conditions in the first half – revenues declined by 9% to £18.0 million (2009: £19.8 million), due principally to low CBRN filtration systems (defence) order book and subdued activity from the Life Sciences sector in the UK and internationally
- As expected, profit before tax: £0.5 million (2009: £2.8 million) – reduction of 82%; basic earnings per share: 1.0p (2009: 4.9p)
- Significant net cash position combined with strong balance sheet: net cash of £3.4 million (2009: £4.8 million); net assets of £22.6 million (2009: £20.4 million)

Commenting on the 2010 interim results, Nigel Keen, Chairman of Bioquell PLC, said:



Trading in the first half was difficult and challenging. Although we saw orders grow substantially in the period, their phasing resulted in our revenues and profitability declining.

We are beginning to see activity levels pick up in the USA – and our business in Asia continues to grow strongly. It is also encouraging to see increased sales of our products and bio-decontamination services to combat “superbugs”. The outlook for the second half is improving.

We are delighted that Sir Ian Carruthers, currently Chief Executive of the South West Strategic Health Authority, has agreed to join the Board of Bioquell; he brings with him a wealth of experience of the UK and overseas healthcare systems which will be invaluable for the future development of the Group.



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CHAIRMAN'S STATEMENT

FINANCIAL RESULTS

As we reported in our Interim Management Statement in May, trading conditions were difficult and challenging in the first six months of 2010.

Order intake was encouraging, with orders up 21% year on year to £21.0 million (2009: £17.3 million).

Group revenues were down 9% to £18.0 million (2009: £19.8 million). This reduction occurred within the Bio-decontamination division, with revenues down 17% to £11.9 million (2009: £14.3 million). In contrast, TRaC performed well in the period with revenues up 11% to £6.1 million (2009: £5.5 million).

There were two principal reasons for the reduction in the first half revenues within the Bio-decontamination division:

- we had limited revenues from our CBRN filtration system defence business due to low order books going into 2010; and
- our Life Sciences business was adversely affected by a slowdown in investment in this sector in the Western hemisphere.

Margins declined slightly in the period – from a gross margin in 2009 of 45% to 43% in 2010, reflecting in part the reduction in revenues, the fixed cost nature of our operations and the disruption associated with the move of our manufacturing facilities.

Overheads increased 11% to £7.3 million (2009: £6.6 million). The increase in overheads related entirely to the expansion of our overseas subsidiaries and TRaC. Most of the Bio-decon division's revenues are export-related and accordingly we believe that continued, careful expansion of our international sales and service network is important to secure future organic growth for the Group.

As expected, the combination of reduced levels of revenues (and the associated reduction in overhead recoveries from manufactured products) and higher overheads resulted in a substantial reduction in pre-tax profit to £0.5 million (2009: £2.8 million).

The Group's balance sheet remains strong with net cash of £3.4 million (2009: £4.8 million) and net assets of £22.6 million (2009: £20.4 million).

BIO-DECONTAMINATION DIVISION

Notwithstanding the difficult trading conditions in the first half resulting in a 17% decline in revenues to £11.9 million, we saw a 31% increase in orders for the Bio-decontamination division to £14.3 million (2009: £10.9 million) during the period.

Healthcare

In the first six months of 2010 we saw strong growth in our Healthcare business – which comprises the eradication from the hospital environment of nosocomial pathogens, which cause hospital-acquired infection such as MRSA, *Clostridium difficile* and *Acinetobacter*. This increase in healthcare-related revenues was from equipment sales, including the new Q-10, and the use of our unique RBDS bio-decontamination service, which saw encouraging levels of demand in the UK forward bio-decontamination programmes.

During the first half we adjusted our product offerings to the healthcare sector – which comprise both equipment and service bio-decontamination solutions – and have been rolling this improved selling approach out to our international subsidiaries and overseas distributors. In addition, further independent scientific data were presented in the period at a US infection control conference which showed that "bioquelling" of hospital rooms, where the previous patient was known to be infected with a "superbug", resulted in statistically significant reductions in hospital-acquired infection.

The recent publicity relating to NDM-1 and the emergence of a new antibiotic resistance mechanism in India, Pakistan and the UK underscores the continuing international challenges healthcare providers face with bacteria becoming resistant to antibiotics. We continue to assist hospitals with the eradication of such multi-drug resistant pathogens from the inanimate hospital environment.

Satisfactory progress has been made in the period on the development of our wound-care product, BioxyQuell, particularly in respect of the work required to obtain the relevant regulatory approvals. An additional doctors' surgery has joined the randomised controlled trial and we are seeing reasonable levels of patient enrolment onto the trial.

Life Sciences

As indicated above, our Life Sciences business experienced a challenging first half. The issues adversely affecting our Life Sciences business were complex and are summarised below:

- up until the end of 2009 Bioquell did not appear to be affected significantly by the global recession, although we did see a slowing down in orders at the end of 2009, particularly in the United States;
- subdued order activity continued into the beginning of 2010 although we often experience low order levels at the beginning of each year. However, it subsequently became clear that there was a reduction in investment activity in the life sciences sector in the Western hemisphere and we had insufficient order books to mitigate the consequential shortfall in revenues;
- we have seen a number of large, multi-national pharmaceutical groups ("Big Pharma") take robust and rapid action, particularly in the UK and the US, over the last twelve months to reduce their cost bases in anticipation of a reduction in revenues and margins as their products cease to benefit from patent protection. This included a reduction in capital expenditure investment in the United States and the UK; and
- in order to reduce its cost base and open up access to new markets, Big Pharma has also started to invest in the emerging markets where we have been beneficiaries of such investment. Bioquell AsiaPac experienced strong growth in the period; however, its success was not able to offset the declines in revenue we experienced in Europe and North America. We intend to continue investing in expanding our presence in Asia.

We continue to see strong interest for our portfolio of hydrogen peroxide vapour ("HPV") products and services from the bio-pharmaceutical, bio-technology and research institutions. There is increasing demand for high quality, low temperature, residue-free vapour phase bio-decontamination, particularly as pharmaceutical products become more biologically active or sensitive. Linked to this, we plan to extend the range of our HPV products and these new products will include the use of hydrogen peroxide consumable cartridges.



The BIOQUELL Q-10 is easy to use and incorporates a single use disposable consumable cartridge.

CHAIRMAN'S STATEMENT continued

“ We have a strong balance sheet with £3.4 million of net cash and are in a position to continue to invest in the growth of the Group. ”

BIO-DECONTAMINATION DIVISION CONTINUED**Defence**

Unlike other parts of the Group, our CBRN filtration systems business tends to comprise large contracts which, depending on the phasing of the orders, can result in volatility in the Group's revenues.

We currently have a number of extant submissions for new CBRN filtration system contracts which are being reviewed by a number of customers.

In the first half, we undertook substantial work on the US Department of Defense's ("DoD") Joint Services Sensitive Equipment Decontamination ("JSSED") programme. The JSSED is used to decontaminate sensitive equipment against biological and chemical warfare agents. The first engineering test unit has been delivered to the DoD and the delivery of the first tranche of prototypes is scheduled for later this year. The research, development and engineering work required for the JSSED has taken up very substantial amounts of our resources over the last three years. We look forward to re-directing these resources to new product development in our Life Sciences and Healthcare businesses as the JSSED programme starts to migrate from the research and engineering phase, to requiring significant input from our manufacturing experts. The quantum of the low rate and full rate production contracts for JSSED appear attractive although we do not yet know the start date for any of these manufacturing contracts.

TRAC – TESTING, REGULATORY AND COMPLIANCE

Our TRaC division performed well in what remains a difficult trading environment generally

in the UK. Orders increased 6% to £6.7 million (2009: £6.3 million). Revenues were up 11% to £6.1 million (2009: £5.5 million). We believe that this increase in orders and revenues reflects the success of the TRaC management teams as opposed to any improvement in the underlying trading environment.

The TRaC Telecoms & Radio business showed a significant increase in revenues and profits in the period. We have invested strongly in this business over recent years to position it for profitable growth. We anticipate further increases in activity from telecoms and radio related work, some of which is likely to come from overseas clients.

The investment in a new EMC ("electromagnetic compatibility") testing facility in the North West of England has proceeded to plan and we have now occupied the new site. The start of trading from this new site has been encouraging.

It is our intention to continue to develop TRaC to become the clear leader in specialist testing and compliance services in the UK. The market remains attractive as it is supported by regulatory requirements which generally become more onerous – and consequently clients continue to use TRaC's services. We continue to consider further investments in TRaC, based on appropriate return on capital thresholds.

BOARD APPOINTMENT

It was also announced today that Sir Ian Carruthers OBE, Chief Executive of the South West Strategic Health Authority, has joined the Board of Bioquell PLC as a non-executive director. Sir Ian's experience of the UK and international healthcare systems will be extremely useful for the Board as it develops its strategy for the future.

OUTLOOK AND PROSPECTS

The trading outlook for the Group is improving:

- we are beginning to see our customers in the US life sciences market start to invest again, although activity in the UK remains subdued. Activity in continental Europe is mixed but we have expanded our routes to market in Europe so would expect to see proportionately more activity;
- interest in Bioquell's technology from the international healthcare sector continues to increase. Moreover, it appears that our refined and improved selling proposition is helping to generate increased interest and orders in the market;
- interest in our technology in Asia continues to increase substantially – and we plan to invest further in this part of the world;
- the JSSED programme is proceeding well and the prospects for a substantial manufacturing contract appear encouraging;
- we believe that we are well positioned to win one or more CBRN filtration system contracts;
- TRaC continues to grow and is trading well; and
- consolidated monthly profitability is increasing.

We have a strong balance sheet with £3.4 million of net cash and are in a position to continue to invest in the growth of the Group, including expanding our range of innovative products with captive consumables.

NIGEL KEEN
Chairman
Bioquell PLC
27 August 2010



TRaC focuses its development on the aerospace, defence and telecommunications sectors.

CONSOLIDATED INCOME STATEMENT

Unaudited results for the six months ended 30 June 2010

	6 months to 30 June 2010 £'000	6 months to 30 June 2009 £'000	12 months to 31 December 2009 £'000
Revenue	17,977	19,784	39,233
Cost of sales	(10,258)	(10,924)	(21,654)
Gross profit	7,719	8,860	17,579
Gross profit margin	43%	45%	45%
Operating expenses:			
Sales and marketing costs	(3,590)	(3,033)	(5,916)
Administration costs	(2,443)	(2,384)	(3,922)
R&D and engineering costs	(1,250)	(1,202)	(2,096)
Profit from operations	436	2,241	5,645
Investment revenues	192	623	313
Finance costs	(79)	(92)	(102)
Profit before tax	549	2,772	5,856
Tax charge on profit on ordinary activities	(144)	(715)	(1,553)
Profit for the period attributable to equity holders of the parent	405	2,057	4,303
Earnings per share – basic	1.0p	4.9p	10.3p
– diluted	0.9p	4.5p	9.3p

All amounts are derived from continuing operations.

NOTES

- The financial information for the six months ended 30 June 2010 and the comparative figures for the six months ended 30 June 2009 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 30 March 2010 in its annual financial statements, which are available on the Company's website on www.bioquellplc.com.
- The comparative figures for the twelve months to 31 December 2009 have been prepared under IFRS. They do not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The unqualified audited accounts for the twelve months ended 31 December 2009 have been filed with the Registrar of Companies and they did not contain statements under section 435 and 498(2) or (3) of the Companies Act 2006.
- The tax charge shown on the income statement represents a combined Corporation tax charge and deferred tax liability. The charge is based on the Group's anticipated effective tax rate for the full year.
- Earnings per share for the half year has been calculated on the profit 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.
- Related party transactions: transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in the notes.
- Copies of this statement will be available to members of the public at the Company's registered office:
52 Royce Close, West Portway, Andover, Hampshire SP10 3TS and on the Group's website at www.bioquellplc.com.

PRINCIPAL RISKS AND UNCERTAINTIES

The Board believes that the principal risks and uncertainties facing the Group have not changed materially from those described in the 2009 Annual Report, including the summary of risks and uncertainties set out on page 14. The Group provides complex equipment and specialist services to a large number of clients in the UK and internationally. Accordingly the Group is subject to a broad range of strategic, operational and financial risks and uncertainties, including but not limited to: competition, technological, regulatory, reliance on suppliers, loss of key personnel, currency and credit risks.

GOING CONCERN

The Group has sufficient financial resources to cover budgeted future cash flows, together with contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. The Directors confirm that after making appropriate enquiries they have a reasonable expectation that the Group has adequate finance resources to continue to trade for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge: (i) the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting; (ii) the financial statements give a true and fair view of the assets, liabilities, financial position and profit of the undertaking, included in the consolidation as a whole as required by DTR 4.2.4R; (iii) the Interim Management Report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and a description of principal risks and uncertainties for the remaining six months of the year); and (iv) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

NICHOLAS ADAMS
Group Chief Executive
27 August 2010

MARK BODEKER
Chief Operating Officer & Finance Director
27 August 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Unaudited results for the six months ended 30 June 2010

	6 months to 30 June 2010 £'000	6 months to 30 June 2009 £'000	12 months to 31 December 2009 £'000
Profit for the period	405	2,057	4,303
Exchange differences on translation of foreign operations	10	(276)	(205)
Total comprehensive income for the period	415	1,781	4,098

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unaudited results for the six months ended 30 June 2010

	6 months to 30 June 2010 £'000	6 months to 30 June 2009 £'000	12 months to 31 December 2009 £'000
Profit for the period	405	2,057	4,303
Exchange differences	10	(276)	(205)
Total comprehensive income in the period	415	1,781	4,098
Other movements in the period:			
Issued share capital	13	2	2
Issued share premium	51	18	19
Credit to equity reserve for share-based payments	180	143	294
Charge to equity on exercise of share options under the SARS scheme	(5)	(30)	(16)
Movement in deferred tax charged to equity	(42)	(11)	118
Final dividend for year ended 31 December 2009/2008	(1,010)	(916)	(915)
Net (decrease)/increase in equity shareholders' funds	(398)	987	3,600
Equity shareholders' funds at beginning of period	22,963	19,363	19,363
Equity shareholders' funds at end of period	22,565	20,350	22,963

CONSOLIDATED BALANCE SHEET

Unaudited results at 30 June 2010

	6 months to 30 June 2010 £'000	6 months to 30 June 2009 £'000	12 months to 31 December 2009 £'000
Non-current assets			
Goodwill	691	691	691
Other intangible assets	7,752	6,952	7,460
Property, plant & equipment	12,258	8,942	11,764
	20,701	16,585	19,915
Current assets			
Inventories	1,955	1,443	1,157
Trade and other receivables	7,418	8,129	7,584
Cash and cash equivalents	4,910	6,490	5,941
Derivative financial instruments	111	275	—
	14,394	16,337	14,682
Total assets	35,095	32,922	34,597
Current liabilities			
Trade and other payables	(7,727)	(7,444)	(6,642)
Obligations under finance leases	(93)	(200)	(132)
Borrowings	(105)	(98)	(105)
Current tax liabilities	(350)	(576)	(499)
Deferred tax liabilities	(1,907)	(1,242)	(1,800)
Provisions	(969)	(1,433)	(984)
Net current assets	3,243	5,344	4,520
Total non-current liabilities	(1,379)	(1,579)	(1,472)
Total liabilities	(12,530)	(12,572)	(11,634)
Net assets	22,565	20,350	22,963
Equity			
Share capital	4,175	4,162	4,162
Share premium account	165	113	114
Equity reserve	1,211	820	1,101
Capital reserve	255	255	255
Translation reserve	(41)	(122)	(51)
Special reserve	10,933	10,933	10,933
Retained earnings	5,867	4,189	6,449
Equity attributable to equity holders of the parent	22,565	20,350	22,963

CONSOLIDATED CASH FLOW STATEMENT

Unaudited results for the six months ended 30 June 2010

	6 months to 30 June 2010 £'000	6 months to 30 June 2009 £'000	12 months to 31 December 2009 £'000
Net cash from operating activities	1,373	1,685	6,910
Investing activities			
Purchases of property, plant & equipment	(1,677)	(1,344)	(5,249)
Expenditure on product development	(662)	(651)	(1,575)
Net cash used in investing activities	(2,339)	(1,995)	(6,824)
Financing activities			
Proceeds on issue of ordinary shares	59	20	21
Dividends paid on ordinary shares	—	—	(915)
Decrease in borrowings	(67)	(46)	(79)
Obligations under finance leases	(65)	(146)	(261)
Net cash from financing activities	(73)	(172)	(1,234)
Decrease in cash & cash equivalents	(1,039)	(482)	(1,148)
Cash at beginning of period	5,941	7,097	7,097
Effect of foreign exchange rate changes	8	(125)	(8)
Cash at end of period	4,910	6,490	5,941

NOTES TO THE CASH FLOW STATEMENT

Unaudited results for the six months ended 30 June 2010

	6 months to 30 June 2010 £'000	6 months to 30 June 2009 £'000	12 months to 31 December 2009 £'000
Profit from operations	436	2,241	5,645
Adjustments for:			
Depreciation of property, plant & equipment	1,183	651	1,744
Amortisation of intangible assets	370	403	819
Share-based payments	180	143	294
Loss on disposal of fixed assets	—	—	1
Increase/(decrease) in provisions	15	(167)	(617)
Operating cash flows before movements in working capital	2,184	3,271	7,886
(Increase)/decrease in inventories	(798)	(119)	178
Decrease/(increase) in receivables	165	(733)	(405)
Increase/(decrease) in payables	48	(112)	486
Cash generated by operations	1,599	2,307	8,145
Income tax paid	(228)	(606)	(1,180)
Non-equity preference share dividends paid	(6)	(6)	(11)
Investment revenues	81	82	47
Interest paid	(73)	(92)	(91)
Net cash from operating activities	1,373	1,685	6,910

BUSINESS SEGMENTS

For management purposes the Group is currently organised into two operating divisions – Bio-decontamination and TRaC (“Testing, Regulatory and Compliance”). These divisions are consistent with the internal reporting as reviewed by the Chief Executive. These reportable divisions remain unchanged from the 31 December 2009 consolidated accounts.

Segment information about these businesses is presented below:

SIX MONTHS ENDED 30 JUNE 2010

	Bio-decontamination £'000	TRaC £'000	Consolidated £'000
Revenue			
Total revenue	11,919	6,058	17,977
Result			
Segment result	372	1,078	1,450
Head office costs			(1,014)
Profit from operations			436
Finance costs and investment revenues			113
Profit before tax			549
Tax			(144)
Profit for the period			405
Revenue geographically (market)			
UK	2,870	5,566	8,436
EU	3,010	132	3,142
ROW	6,039	360	6,399
	11,919	6,058	17,977

SIX MONTHS ENDED 30 JUNE 2009

	Bio-decontamination £'000	TRaC £'000	Consolidated £'000
Revenue			
Total revenue	14,292	5,492	19,784
Result			
Segment result	2,558	790	3,348
Head office costs			(1,107)
Profit from operations			2,241
Finance costs and investment revenues			531
Profit before tax			2,772
Tax			(715)
Profit for the period			2,057
Revenue geographically (market)			
UK	4,135	4,942	9,077
EU	3,526	118	3,644
ROW	6,631	432	7,063
	14,292	5,492	19,784

BUSINESS SEGMENTS continued

YEAR ENDED 31 DECEMBER 2009

	Bio-decontamination £'000	TRaC £'000	Consolidated £'000
Revenue			
Total revenue	27,935	11,298	39,233
Result			
Segment result	4,944	1,873	6,817
Head office costs			(1,172)
Profit from operations			5,645
Finance costs and investment revenues			211
Profit before tax			5,856
Tax			(1,553)
Profit for the period			4,303
Revenue geographically (market)			
UK	7,520	9,926	17,446
EU	8,035	382	8,417
ROW	12,380	990	13,370
	27,935	11,298	39,233

DIVIDENDS

	6 months to 30 June 2010 £'000	6 months to 30 June 2009 £'000	12 months to 31 December 2009 £'000
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 31 December 2008 of 2.2 pence per ordinary share	—	(916)	(915)
Final dividend for the year ended 31 December 2009 of 2.42 pence per ordinary share	(1,010)	—	—

The final dividend for the year ended 31 December 2009 was approved by shareholders at the Annual General Meeting held on 17 May 2010 and is therefore included in current liabilities in the balance sheet.

ANALYSIS OF NET CASH

	6 months to 30 June 2010 £'000	6 months to 30 June 2009 £'000	12 months to 31 December 2009 £'000
Cash	4,910	6,490	5,941
Finance leases – due within one year	(93)	(200)	(132)
– due after one year	—	(88)	(41)
Mortgage – due within one year	(105)	(98)	(105)
– due after one year	(1,334)	(1,341)	(1,386)
Net cash	3,378	4,763	4,277



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