



BIOQUELL
Bio-decontamination solutions



Highlights

- group moves into profit
- turnover £12.2 million (H1 2005: £7.0 million), a 74% increase (excluding acquisitions, organic revenue growth was 33%)
- increase in gross margin to 38% (H1 2005: 34%), reflecting higher levels of bio-decontamination and service revenues
- gross expenditure on product development £0.6 million (H1 2005: £0.6 million)
- profit before tax of £0.4 million (H1 2005: loss before tax £0.7 million)
- net cash from operating activities £0.9 million (H1 2005: £0.8 million)
- capital expenditure £0.6 million (H1 2005: £0.5 million)
- net debt £1.6 million (31 December 2005: £1.6 million)

OPERATIONAL

Bio-decontamination division

- turnover £6.9 million (H1 2005: £4.7 million), organic growth of 47%
- strong growth in bio-decontamination equipment and services, particularly in the UK and US
- increased activity in the eradication of "superbugs" – in the UK and internationally
- improved trading across all businesses in the bio-decontamination division, in particular from the defence business
- good progress on the development of new wound healing technology

TRAC (Testing, Regulatory and Compliance) division

- turnover £5.2 million (H1 2005: £2.3 million), a 126% increase
- strong performance from TRAC division
- revenues of c. £3m from two businesses acquired in October 2005 for cash consideration of £321k
- management of Cape changed and costs significantly reduced

"I am delighted that the Group has moved into profit and for the first time BIOQUELL's financial results are just beginning to reflect the significant investment and exciting developments which have been made over recent years. The strong growth in the bio-decontamination equipment and service revenues is a reflection of BIOQUELL's growing international standing in this large market. I am also pleased that more hospitals around the world are beginning to ask BIOQUELL for help to combat problems relating to "superbugs". The robust performance from the newly formed TRAC division is also excellent news for shareholders. We look forward to further progress in the second half."

John Salkeld, Chairman

Chairman's statement



Group moves into profit with revenues increasing 74% to £12.2 million

Overview

The BIOQUELL Group comprises two divisions: Bio-decontamination and TRAC – Testing, Regulatory and Compliance – which includes Cape and the new service businesses, TRL Compliance and KTL, acquired in October 2005.

Results and finance

Revenues for the Group increased by 74% to £12.2 million (H1 2005: £7.0 million). Excluding the two businesses acquired in October 2005, the Group's revenues showed organic growth of 33%. The Bio-decontamination division posted revenues of £6.9 million (H1 2005: £4.7 million), representing organic growth of 47%. The TRAC division posted revenues of £5.2 million (H1 2005: £2.3 million), representing growth of 126%; growth excluding the effect of acquisitions was 5%.

Growth within the Bio-decontamination division principally related to the increase of international and domestic sales of bio-decontamination equipment and services as well as increased revenues from specialist environmental control systems for defence applications. Revenues from the laboratory equipment and after-sales service businesses were broadly flat. Gross margins in the division also increased, reflecting the higher proportion of sales of specialist, patent protected equipment and services where the Group has unique expertise and a growing international reputation.

Demand for the specialist testing, regulatory and compliance services from the TRAC division were strong in the period, particularly in the defence, aerospace and telecoms sectors. The integration of the businesses into one division is continuing and we believe that there are good opportunities to generate further revenues from the businesses' existing clients as well as new clients. The gross margins in the TRAC division were broadly stable.

Gross expenditure on product development in the period was £0.6 million (H1 2005: £0.6 million). This reflected high levels of expenditure on the new wound healing technology being developed by the Group. It also related to the continuing extension of the Clarus range of bio-decontamination equipment and ongoing research into the eradication of "superbugs" from the hospital environment.

Sales and marketing costs remained stable at £1.5 million (H1 2005: £1.5 million) notwithstanding continuing high levels of expenditure in the US as well as the sales and marketing costs associated with the new businesses acquired in October 2005.

Profit before tax was £0.4 million (H1 2005: loss before tax of £0.7 million). The £1.1 million improvement in profitability reflected a combination of factors including higher revenues, increased gross margin, lower costs at the Andover facilities and a full half year's contribution from the newly acquired businesses in the TRAC division which are currently important contributors to the Group's profitability.

The Group does not expect to incur a tax charge in the year principally due to the use of tax allowances relating to capital expenditure and research and development costs.

The Group's net debt at 30 June 2006 was unchanged from 31 December 2005 at £1.6 million despite significant demand for additional working capital from the 74% increase in revenues.

Capital expenditure was £0.6 million (H1 2005: £0.5 million) relating principally to investment in specialist testing equipment for the TRAC division. Depreciation of property, plant and equipment was £0.5 million (H1 2005: £0.4 million); amortisation of intangibles was £0.3 million (H1 2005: £0.2 million). Cash inflow after expenditure on product development and before capital investment and acquisitions was £0.9 million (H1 2005: £0.8 million).

Net assets at 30 June 2006 were £10.6 million (31 December 2005: £10.1 million).

Chairman's statement

Continued



BIOQUELL is seeing increased interest from the US, UK and continental Europe in its "superbug" outbreak eradication service

Bio-decontamination division

BIOQUELL continues to develop its leading international reputation for specialist bio-decontamination equipment and services. This is beginning to be seen in consistently higher levels of orders from clients located outside the UK, including those originated by the Group's sales offices in the United States and France. The Clarus product range is being extended and BIOQUELL will shortly be able to offer better and faster bio-decontamination solutions to clients. At the same time the problems and costs associated with bacteria, viruses and fungi continue to increase, often in a high profile manner, across a broad range of sectors.

We continue to focus significant resources on optimising the use of BIOQUELL's technology to eradicate "superbugs" from hospitals. This includes ongoing research in the US and the UK. Due to heightened press interest in "superbugs" and increasing concerns over litigation, most hospitals are understandably reticent about seeking external help when faced with an endemic or outbreak "superbug" problem. Accordingly BIOQUELL has adopted a discreet and highly professional approach to marketing its bio-decontamination services which is beginning to pay off with increased levels of enquiries and orders.

In the US, BIOQUELL has had an implant team (which comprises BIOQUELL technicians and proprietary equipment) permanently on site to combat "superbugs" at a US hospital for some 15 months and which has achieved a significant reduction in *Clostridium difficile* ("*C. difficile*") infections. Discussions are ongoing to extend the contract for a further year. BIOQUELL is also in discussions with a small number of other hospitals about deploying its "superbug" eradication services. Although the US represents a large potential market we believe that it may take some time to achieve high levels of adoption of BIOQUELL's implant technology in the US healthcare market.

In July 2006 the Healthcare Commission published a report on two outbreaks of *C. difficile* at Stoke Mandeville Hospital in the UK where we assisted in bringing the outbreak under control. As well as commenting favourably on the use of our technology, this report stated more generally, among other things, that:

"The achievement of the Government's targets was seen as more important than the management of the clinical risk inherent in the outbreaks of C. difficile. This was a significant failing."; and

"It is our conclusion that the approach taken by the trust compromised the control of infection and hence the safety of patients. This was a significant failing, and we would re-iterate to NHS boards that the safety of patients is not to be compromised under any circumstances."

Since the publication of this report there has been an increased level of enquiries and orders from UK hospitals relating to BIOQUELL's technology to eradicate "superbugs". We are also seeing increased interest and demand from hospitals in continental Europe for BIOQUELL's "superbug" outbreak eradication service.

Over recent years BIOQUELL has significantly upgraded its CBRN (chemical, biological, radiological and nuclear) weapons filtration systems and related environmental control technology for the defence sector. We are now beginning to see increased levels of demand, including from US vehicle manufacturers. Given the problems in the Middle East and Afghanistan, we anticipate that higher levels of demand for the Group's specialist CBRN filtration systems will continue for some time.

The Group continues to invest significant time and resources in its new wound healing technology to carry out the necessary research and development to bring it to market. A further set of clinical trials designed to determine scientifically the primary mode of action of the technology is planned to start next month. Later in the year we expect to start a large multi-centre randomised controlled trial

to obtain statistically significant data – which will be critical for certain regulatory filings as well as to convince healthcare providers of efficacy. Discussions with the relevant regulatory authorities are ongoing and the application for UK approval is still expected to be made later this year.

TRAC division

Trading in the TRAC (Test, Regulatory and Compliance) division has become stronger during the year. Revenues at Cape (environmental testing) were broadly flat in the period but strong growth in revenues and profitability was seen at TRL Compliance and EMC Projects (electromagnetic compatibility testing) as well as at KTL (specialist telecoms testing). Trading at KTL Inc, based in Silicon Valley in California, has been slightly behind our expectations; however, we are now beginning to see higher levels of activity in the US and are confident of further growth in the second half.

We are investing in specialist equipment to extend the services which the TRAC division businesses can provide, including lightning tests for the aerospace sector and VoIP (voice over internet protocol). We are also monitoring closely the significant investments in WiMax (long-range wireless based broad band technology) being announced by large US telecoms groups and intend to invest when appropriate in testing equipment.

We are in the process of moving and consolidating a number of the sites currently used by TRL Compliance. The costs of these moves have already been fully provided for and once completed will give TRL Compliance significantly more efficient and better equipped facilities to provide high value services to its clients.

The senior management team at Cape has been changed and at the same time we have reduced the cost base of Cape significantly. The benefits of these savings should start to be seen in the second half.

Prospects

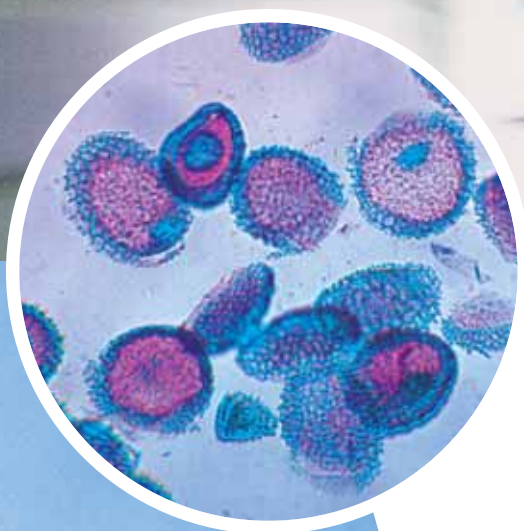
We are delighted that the Group has moved into profit and current trading remains at encouraging levels. We expect improving levels of demand for the Group's bio-decontamination equipment and services – and believe demand is likely to increase from hospitals, particularly for the eradication of "superbugs". The development of the wound healing technology remains on track and the potential size of this market is substantial. We also expect the robust trading performance from the TRAC division to continue. In short, the Group's prospects are good.



John Salkeld

Chairman

19 September 2006



Consolidated income statement

unaudited interim results for the six months ended 30 June 2006

	6 months to 30 June 2006 £'000	6 months to 30 June 2005 £'000	12 months to 31 December 2005 £'000
Revenue	12,171	6,996	17,220
Cost of sales	(7,593)	(4,638)	(10,925)
Gross profit	4,578	2,358	6,295
	38%	34%	37%
Operating expenses:			
Sales & marketing costs	(1,469)	(1,492)	(3,118)
Administration costs before share based payments	(1,757)	(1,107)	(2,608)
Share based payments	(118)	(101)	(196)
Administration costs	(1,875)	(1,208)	(2,804)
R&D and Engineering costs	(790)	(353)	(767)
Profit/(loss) from operations	444	(695)	(394)
Finance costs	(74)	(43)	(107)
Profit/(loss) before tax	370	(738)	(501)
Tax credit on profit/(loss) on ordinary activities	–	78	177
Profit/(loss) for the period attributable to equity holders of the parent	370	(660)	(324)
Earnings/(loss) per share – basic and diluted	0.9p	(1.6p)	(0.8p)

All amounts are derived from continuing operations.

Notes:

- The financial information for the six months ended 30 June 2006 and the comparative figures for the six months ended 30 June 2005 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 11 April 2006 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 2005 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 2005 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.
- Tax credits shown on the Income Statements for 2005 relate to Research and Development costs.
- Earnings/(loss) per share for the half-year has been calculated on the earnings/(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.
- The report was approved by the Board on 19 September 2006.
- 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 2006 £'000	6 months to 30 June 2005 £'000	12 months to 31 December 2005 £'000
Net profit/(loss) for the period	370	(660)	(324)
Actuarial loss on defined benefit pension scheme	–	–	(57)
Exchange differences on the translation of foreign operations	(89)	(31)	105
Prior year adjustment	–	(186)	(186)
Total recognised income/expense since last annual report	281	(877)	(462)

Consolidated balance sheet

	30 June 2006 £'000	30 June 2005 £'000	31 December 2005 £'000
Non-current assets			
Goodwill	665	333	665
Other intangible assets	5,816	4,903	5,666
Property, plant & equipment	3,236	2,890	3,263
	9,717	8,126	9,594
Current assets			
Inventories	1,872	2,534	2,147
Trade and other receivables	5,967	3,487	5,573
Deferred tax	55	55	55
Cash and cash equivalents	–	–	113
	7,894	6,076	7,888
Total assets	17,611	14,202	17,482
Current liabilities			
Trade and other payables	(4,137)	(3,514)	(4,451)
Obligations under finance leases	(103)	–	(30)
Bank overdraft	(922)	(355)	(1,189)
Provisions	(924)	–	(820)
Net current assets	1,808	2,207	1,398
Total non-current liabilities	(918)	(807)	(847)
Total liabilities	(7,004)	(4,676)	(7,337)
Net assets	10,607	9,526	10,145
Equity			
Share capital	4,053	4,018	4,032
Share premium account	10,435	10,298	10,393
Equity reserve	483	270	365
Capital reserve	255	255	255
Translation reserve	(120)	(167)	(31)
Retained earnings	(4,499)	(5,148)	(4,869)
Equity attributable to equity holders of the parent	10,607	9,526	10,145

Consolidated cash flow statement

six months ended 30 June 2006

	6 months to 30 June 2006 £'000	6 months to 30 June 2005 £'000	12 months to 31 December 2005 £'000
Net cash from operating activities	852	816	1,691
Investing activities			
Proceeds on disposal of property, plant & equipment	78	–	46
Purchases of property, plant & equipment	(551)	(479)	(1,192)
Expenditure on product development	(432)	(537)	(1,182)
Acquisition of a subsidiary	–	–	(364)
Net cash used in investing activities	(905)	(1,016)	(2,692)
Financing activities			
Proceeds on issue of ordinary shares	63	15	124
Repayment of borrowings	–	(14)	(25)
Obligations under finance leases	144	(17)	(35)
Net cash from/(used in) financing activities	207	(16)	64
Decrease/(increase) in bank overdraft	154	(216)	(937)
Bank (overdraft)/cash at beginning of year	(1,076)	(139)	(139)
Bank (overdraft)/cash at end of year	(922)	(355)	(1,076)

Note to the cash flow statement

	6 months to 30 June 2006 £'000	6 months to 30 June 2005 £'000	12 months to 31 December 2005 £'000
Operating profit/(loss)	444	(695)	(394)
Adjustments for:			
Depreciation of property, plant & equipment	509	438	950
Amortisation of intangible assets	282	204	442
Share based payments	118	101	196
Gain on disposal of fixed assets	(9)	–	(16)
Increase/(decrease) in provisions	104	(9)	(124)
Operating cashflows before movements in working capital	1,448	39	1,054
Decrease/(increase) in inventories	275	(186)	201
(Increase)/decrease in receivables	(483)	1,152	(854)
(Decrease)/increase in payables	(314)	(146)	1,390
Cash generated by operations	926	859	1,791
Non-equity preference share dividends paid	(6)	(6)	(11)
Interest paid	(68)	(37)	(89)
Net cash from operating activities	852	816	1,691

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 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	4,892	8,388
EU	1,270	99	1,369
ROW	2,165	249	2,414
	6,931	5,240	12,171

Six months ended 30 June 2005

	Bio- decontamination £'000	Testing, regulatory & compliance £'000	Consolidated £'000
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

Business segments

Continued

Year ended 31 December 2005

	Bio- decontamination £'000	Testing, regulatory & compliance £'000	Consolidated £'000
Revenue			
Total revenue	11,483	5,737	17,220
Result			
Segment result	(309)	795	486
Head office costs			(880)
Loss from operations			(394)
Finance costs			(107)
Loss before tax			(501)
Revenue Geographically (Market)			
UK	5,376	5,351	10,727
EU	2,460	60	2,520
ROW	3,647	326	3,973
	11,483	5,737	17,220

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