IMAGE SCAN HOLDINGS plc

INTERIM RESULTS 2002

IMAGE SCAN HOLDINGS plc

CHAIRMAN'S STATEMENT

Introduction

It gives me pleasure to present the interim results of Image Scan Holdings plc for the six months ended 31st March 2002. This is my first communication with shareholders since the Company's ordinary shares were admitted to the Alternative Investment Market (AiM) of the London Stock Exchange on 25th April 2002. I am pleased to record that the commercial development of the Company continues, with some notable advances in our core business, which are discussed below.

Financial Results

Sales of £47,000 on continuing operations for the period to 31st March 2002 were in line with expectations. The reduced gross profit for the period of 14.9% (85% for the year ended 30th September 2001) reflects the investment involved in developing two new prototypes. Recurring overheads – excluding research and development (R&D) costs – were £298,000 (£490,000 for the previous financial year); these reflect the Board's policy of increasing infrastructure and manpower resources spending in accordance with the Business Plan.

Interest payable of £37,000 (£95,000 for the previous financial year) was made up of the servicing costs of a £517,000 loan, now repaid, and continuing bank loans of £147,000.

The loss per share for the period on continuing activities – on a fully diluted basis – was 2.89 pence, compared to the last full year's loss of 4.37 pence per share. During the period under review, 1,818,182 new shares were issued at 55 pence per share, and 80,856 at 60 pence per share, raising in aggregate £982,000 net of expenses.

Accounting Policy

All R&D costs have previously been capitalised on a "by project" basis. The Board, having now reviewed this policy, considers it appropriate to expense all costs associated with R&D programmes as they are incurred, unless these costs can be expected to lead to commercial revenue within the short term. Accordingly, certain previously capitalised medical R&D costs amounting to £68,000 have been written off during the period under review, and have been included in the figure of £385,000 for administration expenses.

All patent costs have been retained as capital investment, and the sum of £203,000 will be amortised, at a rate to be determined, when commercial income is being generated from the sale of the technology involved (other than for demonstration or evaluation purposes only).

Industry Background

The events of 11th September 2001 have significantly changed the public's perception of the priority which should be accorded to products which have the potential to improve security. Capital equipment purchases related to security control and monitoring have hitherto been regarded as "grudge" purchases, but are now being perceived in a more positive light, namely as contributors to personal safety, and are being marketed as such to end consumers, including the travelling public.

Security Applications

Our subsidiary, Baggage Scan Ltd has seen a marked increase in interest for its products, with significant orders having been received for AXIS-3D® baggage inspection systems from the British government, and for the supply of OEM X-ray camera systems for use in existing suppliers' equipment. During the period under review, orders were also received for the development of two new products:

C-Safe – a portable scanner for high resolution, *in situ* screening of abandoned baggage
X-Check – a device for auditing the date and time that specific freight or luggage items were X-ray scanned

Industrial Applications

Significant progress has been made in the industrial inspection arena as a result of long-term initiatives which were a particular focus of management attention during the period under review. This progress is more specifically described below, under "Post Balance Sheet Events".

Post Balance Sheet Events

The Company has announced two significant agreements since the end of the period under review, which serve to validate the Company's technology, and its approach to commercial markets:

- An agreement was signed with Bespak to produce a novel, multiple view X-ray imaging system to inspect a range of that customer's drug delivery and drug dispensing products, with the purpose of enabling Bespak to identify potential manufacturing and/or assembly faults
- The Company received in April 2002 a contract, valued at £198,000, to investigate extending performance of its VIXION™ industrial inspection system, and to develop specific paradigms which would enable customers to design X-ray "inspectability" into their products

Pursuant to a Placing & Open Offer, the Company issued 1,150,000 new shares in April at 65 pence per share, to raise £611,000 after expenses. In consequence, there are now 16,250,203 shares in issue.

CHAIRMAN'S STATEMENT (continued)

Human Resources
I am pleased to confirm the appointment of Ray Gibbs, FCA, as Finance Director immediately following the completion of the Placing & Open Offer and admission to AiM on 25th April 2002. Two new technical staff and a Financial Controller have been recruited since the end of the period under review, in accordance with the Company's Business Plan.

Current Trading
The Company continues to pursue commercial opportunities identified in the security and industrial inspection sectors. The present order book has risen, in line with the directors' expectations, to £750,000, reflecting the significant order described above for VIXION™, together with a general increase in customer activity. Delivery of orders received is scheduled to be spread over the remainder of this year and next year, leading me to view the prospects for the balance of the current financial period with cautious optimism.

Conclusion
Technology innovation, and the extension of the Company's intellectual property portfolio, remain at the heart of our activity. The focus for the immediate future will be the promotion of additional, long-term commercial relationships with established, value-added distributors and customers, along the lines of the recently announced agreement with Bespak. I look forward to reporting further progress in my Statement, which will accompany the full year figures to 30th September 2002.

Nigel J. Tipple
Chairman

28th June 2002

UNAUDITED CONSOLIDATED PROFIT & LOSS ACCOUNT

		6 months to 31st March, 2002 (Unaudited) £'000		Year to 30th September, 2001 (Audited) £'000
Turnover		**47**		62
Cost of sales		**(40)**		(9)
Gross profit		**7**		53
Administration expenses		**(385)**		(490)
Operating loss		**(378)**		(437)
Interest received	**7**		8	
Interest payable	**(37)**	**(30)**	(95)	(87)
Loss on ordinary activities before taxation		**(408)**		(524)
Taxation		**–**		–
Loss on ordinary activities after taxation		**(408)**		(524)
Dividends		–		–
Loss per share: Basic		**(2.91)p**		(4.36)p
Fully diluted		**(2.89)p**		(4.37)p

IMAGE SCAN HOLDINGS plc

UNAUDITED CONSOLIDATED BALANCE SHEET

	31st March, 2002 (Unaudited) £'000	30th September, 2001 (Audited) £'000
Fixed Assets		
Tangible assets	**105**	104
Intangible assets	**203**	265
	308	369
Current assets		
Work in progress	**62**	5
Debtors	**38**	29
Cash at bank and in hand	**671**	436
	771	470
Creditors – amounts falling due within one year	**(371)**	(687)
Net current assets/((liabilities)	**400**	(217)
Total assets less current liabilities	**708**	152
Creditors – amounts falling due after more than one year	**(110)**	(128)
Net assets	**598**	24
Capital and reserves		
Called up share capital	**151**	132
Share premium account	**2,255**	1,292
Capital reserve	**(51)**	(51)
Profit and loss account	**(1,757)**	(1,349)
Equity shareholders' funds	**598**	24

IMAGE SCAN HOLDINGS plc

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

	Notes	**6 months to 31st March 2002 (Unaudited) £'000**	Year to 30th September 2001 (Audited) £'000
Net Cash outflow from operating activities	(a)	**(632)**	(457)
Returns on investment and servicing of finance			
Interest received		**7**	8
Interest paid		**(37)**	(95)
		(30)	(87)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(24)**	(101)
Purchase of intangible fixed assets		**(6)**	48
		(30)	(53)
Net cash flow before management of liquid resources and financing		**(692)**	(597)
Financing			
Issue of ordinary share capital		**982**	996
Increase in debt – secured loan		**–**	97
		982	1,093
Increase in cash in the period	(b)	**290**	496

Note (a) Reconciliation of operating loss to operating cash flows

Operating loss	**(378)**	(437)
Depreciation	**23**	42
Development costs written off	**68**	–
(Increase)/decrease in work in progress	**(57)**	28
(Increase)/decrease in debtors	**(9)**	29
(Decrease)/increase in creditors	**(279)**	(119)
Net cash outflow from operating activities	**(632)**	(457)

Note (b) Analysis of net debt

	2001 £'000	Cash flow £'000	**2002 £'000**
Cash at bank and in hand	436	235	**671**
Bank overdraft	(37)	37	**–**
Debt due within one year	(37)	–	**(37)**
Debt due after one year	(128)	18	**(110)**
	234	290	**524**

IMAGE SCAN HOLDINGS plc

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	6 months to 31st March 2002 (Unaudited) £'000	Year to 30th September 2001 (Audited) £'000
Opening shareholders' funds	**24**	(448)
Issue of shares – at par	**19**	21
Issue of shares – share premium	**963**	975
Loss attributable to members	**(408)**	(524)
	598	24

NOTES TO THE UNAUDITED INTERIM STATEMENT

1 **Basis of Preparation**

(a) The interim statement has been prepared in accordance with the accounting policies set out in the Company's Annual Report and Accounts for the year ended 30th September 2001 with the exception of development costs which are now written off as incurred.

(b) The interim statement is neither audited nor reviewed. The figures for the year ended 30th September 2001 do not comprise statutory accounts for the purpose of section 240 of the Companies Act 1985 and have been extracted from the Company's full accounts for that year, which received an unqualified Auditors' Report and did not contain a statement under section 237(2) or (3) of the Companies Act 1985. The accounts have been filed with the Registrar of Companies.

(c) Basic loss per ordinary share is based on the loss on ordinary activities after taxation of £408,000 and on 14,020,358 ordinary shares being the weighted average of those in issue during the period.

The fully diluted loss per ordinary share is based on the loss on ordinary activities after taxation of £408,000 and on 14,098,994 ordinary shares. The number of shares is based upon the weighted average number of shares in issue during the period together with 78,636 shares deemed to have been issued at nil consideration pursuant to the options outstanding.

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