



# IMAGE SCAN HOLDINGS plc

**INTERIM RESULTS 2003**

# IMAGE SCAN HOLDINGS plc

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## CHAIRMAN'S STATEMENT

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### Introduction

I am pleased to present the interim results of Image Scan Holdings plc for the six months ended 31 March 2003 and the Board's view of the Company's prospects for the remainder of this financial year.

### Financial Results

Following the strong finish to the last financial year, sales of £295,000 for the six months to 31 March 2003 were solid and mainly related to the completion of funded non-profit research and development projects. The low gross margin of 12% (2002 full year: 48%) reflects this temporary change in sales mix in the period. I expect the margin to improve significantly as we commence sales of commercial security products.

Overheads of £415,000 include internally funded research and development costs of £91,000. This discretionary cost is 25% (£18,000) up on the same period last year, and nearly at the 2002 full year spend of £118,000. Remaining overheads have been well controlled with an overall reduction of £35,000 below the previous six months level of £450,000.

Bank loans at 31 March 2003 were £110,000 and are reducing at the annual rate of £37,000. Consequently interest payable is minimal at £3,000 in the period. Gearing is 15.9% at the half year compared to 24.6% at 31 March 2002.

The fully diluted loss per share for the period on continuing activities was 2.34p compared to 2.91p at 31 March 2002. Shareholders' funds have been reduced to £691,000 by the reported loss of £380,000. In accordance with previously stated policy, no interim dividend is recommended.

During the period we invested £61,000 in fixed assets, being principally the development of a DEX™ camera system and a specialist X-ray source for ongoing research. The half year cash balance of £595,000 improved by £17,000 in the period, boosted by timing deferrals of certain customer payments and good cash collection from debtors.

### Commercial Overview

#### Security Sector

Given the well publicised increase in security needs and the commitment to improve the ability to detect threats, the primary focus of the Company has been the supply of equipment to provide high quality single and multi-view X-ray imaging systems for security screening of baggage and freight.

During the last six months we have seen the first commercial orders of the 3DX-Camera™ (the core component of the AXIS-3D®) from our alliance partner Rapiscan Security Products Limited ("Rapiscan"). In February of this year, in conjunction with Rapiscan we also commenced trials of the AXIS-3D® system at Heathrow's busiest terminal, Terminal 1. This trial is being sponsored by BAA and the Department for Transport. BAA has recently announced that when the trial reaches a satisfactory conclusion, they would look forward to its wider introduction across their seven UK airports. The indications so far are that the trial is progressing well; the product is meeting expectations and providing an enhanced capability for the security operators of baggage screening machines.

We have also been very active in promoting our AXIS-3D® technology to the world market place. Jointly with Rapiscan we have successfully demonstrated the product at international exhibitions in London, Dubai, Abu Dhabi and Moscow as well as maintaining our own programme of open days for key prospective customers. Considerable interest has been shown from potential buyers and a number of product enquiries are currently being pursued.

The Company is investing heavily in the production engineering of its 3DX-Camera™ and its associated software so that it can efficiently meet the anticipated volumes of product sales whilst still maintaining the exacting standards of this sector and our customers.

In March we completed development of the beta version of the 3D threat image projection ("TIP") software for the USA's Transport Security Administration. The customer is currently installing the TIP software, which is used by end-users to both train and objectively monitor the performance of their security screening operatives. Following the conclusion in June of the funded development programme for the USA market, our efforts will concentrate on the introduction of a UK certified system for use in Europe.

#### Industrial Sector

The initiative to develop a new generation of industrial inspection equipment has resulted in the successful demonstration of the first DEX™ evaluation system in March of this year. The DEX™ system is an in-line X-ray system targeted at high throughput (80 meters per minute line speeds) high resolution (0.1 mm feature size) industrial inspection. This new camera adds to the Company's portfolio of industrial cameras, which can now offer a range of resolutions capable of detecting minimum feature sizes of 0.5 mm down to 5 µm.

The ability to confirm that products are assembled correctly, are safe from latent faults and contain no contaminants brings many benefits to manufacturers including increased customer confidence in the product's efficacy, reduced wastage and product line downtime, together with enhanced demonstrable product quality control.

## IMAGE SCAN HOLDINGS plc

### CHAIRMAN'S STATEMENT (continued)

It is with a focus on these market requirements that the Company has developed a new range of novel single and multi-view, in-line X-ray inspection systems. This product is based on the DEX™ camera and incorporates the unique knowledge of the Company's in-house development team and has been designed to address the high speed (10 products per second) safety critical plastic and plastic/metal components market typical of the drug delivery and pharmaceutical sector.

#### Current trading and outlook

The prospects for the Company's technology remain strong and the Company continues to pursue commercial opportunities in the security and industrial sectors. In particular the BAA trial will now provide an important reference site for the promotion of the AXIS-3D® security screening product. The alliance with Rapiscan is now delivering results and I expect the order intake from them to gain momentum in the second half of the year. With the value of recent quotations to Rapiscan amounting to almost £500,000, the Board considers that prospects are encouraging for receiving sizeable orders before the year end which will place the Company in a strong position for a significant improvement in performance in the following financial year.

Our immediate focus is on developing a growing order intake from Rapiscan over the next four months to carry into the next year. To achieve this, resources have been allocated to enable completion of the production line processes for the 3DX-Camera™. This will have a short term impact on overheads in the second half but will ensure the fulfilment of the expected order intake. Our business model of aligning ourselves with strategic partners is providing us with a proven route to market and will undoubtedly be of significant benefit in transitioning the product development into commercial applications.

The introduction of the new DEX™ camera has already received positive feedback from the test marketing of the product with prospective customers. I expect the second half of this year to see the completion of the product development with an official launch towards the end of this year. Sales of the first systems are anticipated in 2004.

#### Other Matters

The Company continues to benefit from the enormous energy and dedication of its staff, particularly those who have been involved in the Heathrow trial and they are all to be congratulated for their efforts. I look forward to reporting further progress in my statement, which will accompany the full year results to 30 September 2003.

**Nigel J. Tipple,**  
*Chairman*

4 June 2003

### UNAUDITED CONSOLIDATED PROFIT & LOSS ACCOUNT

	6 months to 31 March 2003 (Unaudited) £'000	6 months to 31 March 2002 (Unaudited) £'000	Year to 30 September 2002 (Audited) £'000
<b>Turnover</b>	<b>295</b>	47	503
Cost of sales	(260)	(40)	(263)
<b>Gross profit</b>	<b>35</b>	7	240
Administration expenses	(415)	(385)	(876)
<b>Operating loss</b>	<b>(380)</b>	(378)	(636)
Interest received	3	7	13
Interest payable	(3)	(37)	(42)
<b>Loss on ordinary activities before taxation</b>	<b>(380)</b>	(408)	(665)
Taxation	–	–	62
<b>Loss on ordinary activities after taxation</b>	<b>(380)</b>	(408)	(603)
<b>Loss per share: Basic and fully diluted</b>	<b>(2.34)p</b>	(2.91)p	(4.00)p

## IMAGE SCAN HOLDINGS plc

### UNAUDITED CONSOLIDATED BALANCE SHEET

	31 March 2003 (Unaudited) £'000	31 March 2002 (Unaudited) £'000	30 September 2002 (Audited) £'000
<b>Fixed Assets</b>			
Tangible assets	146	105	109
Intangible assets	185	203	193
	331	308	302
<b>Current assets</b>			
Stock and work in progress	83	62	70
Debtors	141	38	370
Short term investments	165	–	43
Cash at bank and in hand	430	671	535
	819	771	1,018
<b>Creditors – amounts falling due within one year</b>	(386)	(371)	(158)
<b>Net current assets/(liabilities)</b>	433	400	860
<b>Total assets less current liabilities</b>	764	708	1,162
<b>Creditors – amounts falling due after more than one year</b>	(73)	(110)	(91)
<b>Net assets</b>	691	598	1,071
<b>Capital and reserves</b>			
Called up share capital	162	151	162
Share premium account	2,911	2,255	2,911
Profit and loss account	(2,382)	(1,808)	(2,002)
<b>Equity shareholders' funds</b>	691	598	1,071

## IMAGE SCAN HOLDINGS plc

### UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

	Notes	6 months to 31 March 2003 (Unaudited) £'000	6 months to 31 March 2002 (Unaudited) £'000	Year to 30 September 2002 (Audited) £'000
<b>Net cash inflow/(outflow) from operating activities</b>	(a)	<u>79</u>	<u>(632)</u>	<u>(797)</u>
<b>Returns on investments and servicing of finance</b>				
Interest received		3	7	13
Interest paid		<u>(3)</u>	<u>(37)</u>	<u>(42)</u>
		<u>–</u>	<u>(30)</u>	<u>(29)</u>
<b>Taxation</b>				
Corporation tax recovered		<u>19</u>	<u>–</u>	<u>–</u>
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets		(61)	(24)	(75)
Purchase of intangible fixed assets		<u>(2)</u>	<u>(6)</u>	<u>(16)</u>
		<u>(63)</u>	<u>(30)</u>	<u>(91)</u>
<b>Net cash flow before management of liquid resources</b>		<u>35</u>	<u>(692)</u>	<u>(917)</u>
<b>Management of liquid resources</b>				
Withdrawal/(purchase) of short term deposits		<u>(122)</u>	<u>–</u>	<u>370</u>
<b>Financing</b>				
Issue of ordinary share capital		–	982	1,650
Bank loans repaid		(18)	–	(37)
Other loans repaid		<u>–</u>	<u>–</u>	<u>(517)</u>
		<u>(18)</u>	<u>982</u>	<u>1,096</u>
<b>Increase in cash in the period</b>	(b)	<u>(105)</u>	<u>290</u>	<u>549</u>
Note (a) Reconciliation of operating cash flows				
Operating loss		(380)	(378)	(636)
Depreciation		24	23	54
Amortisation		9	–	18
Research and development written off		–	68	71
(Increase)/decrease in stock and work in progress		(13)	(57)	(49)
(Increase)/decrease in debtors		211	(9)	(279)
(Decrease)/increase in creditors		<u>228</u>	<u>(279)</u>	<u>24</u>
<b>Net cash inflow/(outflow) from operating activities</b>		<u>79</u>	<u>(632)</u>	<u>(797)</u>

## IMAGE SCAN HOLDINGS plc

### UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (continued)

Note (b) Analysis of net debt	2002 £'000	Cash flow £'000	2003 £'000
Cash at bank and in hand	535	(105)	430
Debt due within one year	(37)	–	(37)
Debt due after one year	(91)	18	(73)
Current asset investments	43	122	165
	450	35	485

### RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	6 months to 31 March 2003 (Unaudited) £'000	6 months to 31 March 2002 (Unaudited) £'000	Year to 30 September 2002 (Audited) £'000
Opening shareholders' funds	1,071	24	24
Issue of shares – at par	–	19	30
Issue of shares – share premium	–	963	1,620
Loss attributable to members	(380)	(408)	(603)
	691	598	1,071

### 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 30 September 2002.
- (b) The interim statement is neither audited nor reviewed. The figures for the year ended 30 September 2002 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 £380,000 and on 16,502,250 ordinary shares being the weighted average of those in issue during the period.

FRS14 requires presentation of diluted earnings per share (EPS) when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding share options, net loss per share would only be increased by the exercise of out-of-the-money options. Since it seems inappropriate to assume that option holders would act irrationally and there are no other diluting future share issues, diluted EPS equals basic EPS.