



# IMAGE SCAN HOLDINGS plc

**INTERIM RESULTS 2004**

# 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 2004 and the Board's view of the Company's prospects for the remainder of this financial year.

### Financial Results

Sales for the six months were disappointing at £149,000 (2003: £295,000). The main reason for this was the delay in the launch of the 3D conventional screening product, although it was encouraging to see sales emerging through the industrial sector. Sales to Rapiscan Security Products Limited ("Rapiscan") amounted to £43,000 with over £100,000 coming from the sale of two special industrial waste screening units to GE Healthcare. In the period there were no "cost only" funded R&D projects (2003: £250,000) and, as a consequence of the change in sales mix, margins were impressive at 52% (2003: 12%).

Overheads at £680,000 (2003: £415,000) increased significantly. As stated in my previous report, we embarked on a proactive, focused marketing campaign and the general sales, marketing and trial costs increased in the period by £110,000. Staff costs increased by £60,000 to £346,000 and depreciation rose by £34,000.

We have continued to invest in, as well as market our products. Research and development costs in the period were £69,000 (2003: £91,000) and expensed in accordance with our group accounting policy. Capital expenditure in the period of £91,000 includes an industrial x-ray demonstration unit, an AXIS-3D® trial machine and new product prototypes.

The loss for the period, after R&D tax credits of £24,000, was £572,000 (2003: £380,000), a loss per share of 3.04p (2003: 2.34p). In accordance with current policy there is no dividend proposed.

Net cash increased in the period by £257,000 as a consequence of the capital raised on 29 October 2003. Bank loans were reduced by £19,000 to £73,000, while the cash balance at the period end was £466,000.

### Commercial Overview

#### Security Sector

The sales and marketing initiative that was started during our last financial period has continued with the promotion of the AXIS-3D® on a worldwide basis by both Image Scan and our commercial partner, Rapiscan. The formal launch of the product by Rapiscan, which is identified by them as their model 3D20, was announced in January 2004. For logistical reasons the worldwide sales launch only commenced in April for the markets excluding USA, with the American launch only completed as late as this June. However, the on-going promotional activities by both parties has resulted in Rapiscan's agents, distributors and potential customers beginning to respond with requests for quotations and invitations to tender that specify 3D20 technology. Few sales have yet come through from this process, but prospects for the next 6 to 12 months look very encouraging as qualifying leads start to emerge.

To support the marketing efforts for the Image Scan technology into the security sector, the Company sponsored an independent trial of the 3D20 at the Rampton Maximum Security Hospital in Nottinghamshire, UK. This completed in March and, even with little room for improvement from the highly proficient operators at Rampton, the trial clearly demonstrated that there was an improvement in detecting prohibited items when using 3D as opposed to operating in 2D mode. Of particular comfort was the reaction of users who openly endorsed the excellence of the product stating that the resolution of the images was extremely clear enabling the easy detection of prohibited items.

#### Industrial Sector

Following the positive response we received at the October trade show Vision 2003 in Stuttgart, Image Scan took a stand at the IPOT trade show at the NEC in February this year. As a result of these and other targeted marketing efforts, we are now experiencing a significant increase in sales enquiries for our industrial inspection technologies; in fact we are approaching a six fold increase on this time last year. Most gratifying of all has been the sale of industrial inspection systems to GE Healthcare.

In line with the Company's strategy, these early sales of industrial inspection equipment are direct sales to the end user, not through a third party, so that we can establish a small but significant portfolio of blue chip customer reference sites in which we are in full control of the whole technology delivery process. This will provide the Company with a strong platform to review its long term strategy and identify the right partner(s) as we move forward.

#### Current trading and outlook

Recognition by the security sector of our core competences in image acquisition, analysis and presentation has led to two orders outside of our Rapiscan relationship. One order, for the high resolution detector system for a small vehicle inspection unit for the British Government, was delivered in early June. The other order, related to the development of a critical component of a new generation of computer based training software for the aviation security sector, is due for delivery in July 2004.

Although we are now firmly focused on the marketing of our current portfolio of products, and in particular the AXIS-3D® the Company is also maintaining its emphasis on new product development. With new products such as the 100cm x 80cm tunnel AXIS-3D® due for delivery in 2 months time and a novel large area detector panel for explosive ordinance disposal applications due for release in the 4th quarter 2004, dependence on a single product in the security sector will be reduced.

The extended launch time of the AXIS-3D® has introduced significant delays in the anticipated sales of this new product. However, on the positive side, the response to the 3D20 (see Rapiscan's website <http://www.rapiscan.com/3d20.html> for more product details) both during the pre-launch marketing and immediately following the launch has been extremely encouraging

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## CHAIRMAN'S STATEMENT (continued)

and the Company believes that the medium term prospects for the product remain very high, although we believe that the sales have been delayed by up to 9 months from our original estimates in October 2003.

The Company remains focused on developing and providing best-in-class solutions for the security sector and can now also boast one of the best 2D X-ray systems available today within the aviation security sector. As an example of how this core competence translates into potential sales, the Company was approached and recently delivered a prototype 2D camera for a customer that will provide significant additional functionality to their main product range. It is anticipated that during the following year we will see the integration of this new 2D camera into their production systems providing a significant ongoing revenue stream for the Company independent of the Rapiscan agreement.

Initial reaction to our industrial offerings has been very positive and we have witnessed, in the period to date, an early uptake of our systems by two major blue chip manufacturers. The recent order for another industrial inspection unit from a major automotive component supplier takes the combined value for these orders to over £190,000. There are also significant opportunities for additional sales from both of these customers. These orders have proven our marketing strategy in terms of helping customers identify their inspection requirements and providing a technical solution from our modular range of X-ray systems. The orders, both won in the face of technical competition, endorse the capability of the Company.

### Strategic Direction

The Company has spent over 7 years developing and evaluating hardware and software imaging techniques and algorithms for applications worldwide. The Board believes that it has finally reached a point where the technology is universally accepted, and now commercially viable in both the security and industrial sectors. Capturing market share in both sectors is paramount in order to gain a dominant position. Only with at least one significant industrial partner can this market share be achieved quickly and with maximum efficiency. In that regard, and in order to secure the commercial future and financial position of the Company, we have undertaken a review of the options available to the business and have sought strategic industrial investment. The Company has received a proposal and is currently in an advanced stage of discussion that may lead to a final offer to acquire a strategic holding in the Company's issued share capital by way of an equity injection.

Shareholders will be advised of the outcome of these discussions in due course.

### Other Matters

As a final point I should like to offer my personal thanks and acknowledgement to the unwavering loyalty and dedication I see from the staff on a day-to-day basis. It is their skill and expertise that has put this Company at the forefront of its technological sector.

**Ian Johnson,**  
*Chairman*

28 June 2004

## UNAUDITED CONSOLIDATED PROFIT & LOSS ACCOUNT

	6 months to 31 March 2004 (Unaudited) £'000	6 months to 31 March 2003 (Unaudited) £'000	Year to 30 September 2003 (Audited) £'000
<b>Turnover</b>	<b>149</b>	295	510
Cost of sales	(71)	(260)	(389)
<b>Gross profit</b>	<b>78</b>	35	121
Administration expenses	(680)	(415)	(960)
<b>Operating loss</b>	<b>(602)</b>	(380)	(839)
Interest received	9	3	8
Interest payable	(3)	(3)	(7)
<b>Loss on ordinary activities before taxation</b>	<b>(596)</b>	(380)	(838)
Taxation	24	–	50
<b>Loss on ordinary activities after taxation</b>	<b>(572)</b>	(380)	(788)
<b>Loss per share: Basic and fully diluted</b>	<b>(3.04)p</b>	(2.34)p	(4.00)p

# IMAGE SCAN HOLDINGS plc

## UNAUDITED CONSOLIDATED BALANCE SHEET

	31 March 2004 (Unaudited) £'000	31 March 2003 (Unaudited) £'000	30 September 2003 (Audited) £'000
<b>Fixed Assets</b>			
Tangible assets	256	146	222
Intangible assets	171	185	179
	<u>427</u>	<u>331</u>	<u>401</u>
<b>Current assets</b>			
Stock and work in progress	24	83	27
Debtors	211	141	128
Short term investments	–	165	–
Cash at bank and in hand	466	430	209
	<u>701</u>	<u>819</u>	<u>364</u>
<b>Creditors – amounts falling due within one year</b>	<u>(394)</u>	<u>(386)</u>	<u>(427)</u>
<b>Net current assets/(liabilities)</b>	<u>307</u>	<u>433</u>	<u>(63)</u>
<b>Total assets less current liabilities</b>	<u>734</u>	<u>764</u>	<u>338</u>
<b>Creditors – amounts falling due after more than one year</b>	<u>(36)</u>	<u>(73)</u>	<u>(55)</u>
<b>Net assets</b>	<u>698</u>	<u>691</u>	<u>283</u>
<b>Capital and reserves</b>			
Called up share capital	193	162	162
Share premium account	3,867	2,911	2,911
Profit and loss account	(3,362)	(2,382)	(2,790)
<b>Equity shareholders' funds</b>	<u>698</u>	<u>691</u>	<u>283</u>

# IMAGE SCAN HOLDINGS plc

## UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

	6 months to 31 March 2004 (Unaudited) £'000	6 months to 31 March 2003 (Unaudited) £'000	Year to 30 September 2003 (Audited) £'000
<b>Net cash inflow/(outflow) from operating activities</b>	(a) <b>(626)</b>	79	(238)
<b>Returns on investments and servicing of finance</b>			
Interest received	9	3	8
Interest paid	(3)	(3)	(7)
	<b>6</b>	–	1
<b>Taxation</b>			
Corporation tax recovered	–	19	97
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets	(91)	(61)	(189)
Purchase of intangible fixed assets	–	(2)	(4)
	<b>(91)</b>	(63)	(193)
<b>Net cash flow before management of liquid resources</b>	<b>(711)</b>	35	(333)
<b>Management of liquid resources</b>			
Withdrawal/(purchase) of short term deposits	–	(122)	43
<b>Financing</b>			
Issue of ordinary share capital	987	–	–
Bank loans repaid	(19)	(18)	(36)
	<b>968</b>	(18)	(36)
<b>Increase in cash in the period</b>	(b) <b>257</b>	(105)	(326)

Note (a) Reconciliation of operating cash flows

Operating loss	(602)	(380)	(840)
Depreciation	57	24	76
Amortisation	8	9	18
(Increase)/decrease in stock and work in progress	3	(13)	43
(Increase)/decrease in debtors	(59)	211	195
(Decrease)/increase in creditors	(33)	228	270
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(626)</b>	79	(238)

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## UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (continued)

Note (b) Analysis of net debt

	2003 £'000	Cash flow £'000	2004 £'000
Cash at bank and in hand	209	257	466
Debt due within one year	(37)	–	(37)
Debt due after one year	(55)	19	(36)
	<u>117</u>	<u>276</u>	<u>393</u>

## RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	6 months to 31 March 2004 (Unaudited) £'000	6 months to 31 March 2003 (Unaudited) £'000	Year to 30 September 2003 (Audited) £'000
Opening shareholders' funds	283	1,071	1,071
Issue of shares – at par	31	–	–
Issue of shares – share premium	956	–	–
Loss attributable to members	(572)	(380)	(788)
	<u>698</u>	<u>691</u>	<u>283</u>

## 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 2003.
- (b) The interim statement is neither audited nor reviewed. The figures for the year ended 30 September 2003 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 £572,000 and on 18,812,962 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.

### 2 Additional Copies

Further copies of the Interim Report are available from the Company's registered office, Pera Innovation Park, Nottingham Road, Melton Mowbray, Leicestershire, LE13 0PB.