



# IMAGE SCAN HOLDINGS plc

**INTERIM RESULTS 2006**

# 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 2006 and the Board's view of the Company's prospects for the remainder of this financial year.

### Financial Results

Sales for the six months of £755,000 (2005: £109,000) reflect the success of the company in attracting orders for a range of products from a growing number of blue chip companies, and in delivering innovative solutions. Sales are now evenly balanced between the security and industrial sectors following a year in which industrial sales were dominant.

The gross margin of 45% (2005: 50%) reflects the investment in developing the distribution network and future sales opportunities as demonstration equipment has been supplied to our three new trading partners and proof of concept work has been carried out for a potential contract at cost. The Board anticipates a substantial improvement in gross margin as sales increase.

Overheads were £619,000 (2005: £590,000). The cost cutting exercise in the first half of 2005 enabled the company to invest in a much strengthened sales and marketing team and increased attendance at exhibitions with little increment in the underlying overheads. We continue to invest in research and development to protect and develop our technology with expenditure at £91,000 (2005: £66,000).

The loss for the period was £278,000 (2005: £542,000), a loss per share of 0.8p (2005: 2.80p).

In March 2006 the Company issued £200,000 9% loan stock repayable within 12 months with warrants to subscribe for up to 909,090 ordinary shares at 22p within twelve months. Of this £200,000 facility, £60,000 had been drawn down at 31 March 2006. During the period, bank loans were reduced by £11,000 to £6,000. At 31 March 2006 the bank balance was £40,000.

### Commercial Overview

#### Security

The launch of the TPXi, a portable suspect package and bomb detection system, was enthusiastically received. Orders to date exceed £250,000, including four units supplied to the British Transport Police. The Company has appointed two distributors: UK-based Ketch Defence Ltd ('Ketch') and Belgium-based Industrial Control Machines S.A. ('ICM') who between them cover the UK, Japan, Europe and the Middle East. The two agreements jointly provide for minimum sales of £2.7M over three years, with the first year of their respective agreements having a total value of at least £460,000.

In October, the Company signed a new agreement with Rapiscan Systems Ltd ('Rapiscan') which gave rise to sales of £150,000 of 3DX camera systems for their 3DSP baggage screening system in the half year and £195,000 towards on-going research into advanced imaging technologies through to the end of 2007. Other sales of the AXIS-3D<sup>®</sup> baggage screening systems included our first export to The Peoples Republic of China.

In recent weeks the Company has signed a licence agreement with Scanlogik Ltd for the development of imaging software for their new baggage screening system, Vertigo. The agreement is for a minimum contract period of five years and includes a commitment of £480,000 within the first eighteen months.

#### Industrial

The Company has continued to work successfully with Johnson Matthey with two further X-Line inspection systems having been installed on their production lines in the US and the UK. We are currently negotiating additional contracts for our standard X-Line and MDXi systems for deployment in the UK and overseas.

We have also undertaken feasibility work for other industrial companies with whom negotiations are underway with good prospects for new contracts over the medium to long term. This continuous broadening of market prospects is extremely supportive to our sales growth in both the industrial and the security sectors.

#### Marketing

The Company has invested steadily in sales and marketing. The interim sales and marketing manager, Robin Higgins has continued to work closely with the Company throughout the period and is shortly to join the Board as Sales and Marketing Director on a permanent basis. A sales manager was recruited in November 2005 to provide process and further impetus to our sales efforts. This coupled with the attendance at five key exhibitions within the UK and Europe compared to just two in 2005 and the appointment of three new trading partners has greatly strengthened the sales team.

# IMAGE SCAN HOLDINGS plc

## CHAIRMAN'S STATEMENT (continued)

### Outlook

The Company has made considerable progress in the last six months by extending the customer base and continuing to generate interest in our technology. There is now international representation for the baggage screening technology through Rapiscan and Scanlogik and for the TPXi system through Ketech and ICM. Our ability to market the industrial inspections systems ourselves has been successful, and we intend to take this a stage further with the appointment of a German based distributor in the coming months, followed later by other European coverage.

The order book currently stands at £267,000 with further contracts currently being negotiated. In addition, our distribution and licence agreements provide order commitment for over £1.2 million within the next eighteen months. This is creating a sound platform for making excellent progress in 2007 and begins to reflect the benefit of the sales and marketing investments incurred in 2006.

### Other Matters

Following his resignation from the Board in May, I should like to thank Peter Hughes for his valuable contribution over the last year. I would also like to express my appreciation for the continuing commitment of the staff to providing and supporting our world-class imaging systems which will enable the Company to realise its full commercial potential.

**Peter Woods,**  
*Chairman*

12 June 2006

## UNAUDITED CONSOLIDATED PROFIT & LOSS ACCOUNT

	6 months to 31 March 2006 (Unaudited) £'000	6 months to 31 March 2005 (Unaudited) £'000	Year to 30 September 2005 (Audited) £'000
<b>Turnover</b>	<b>755</b>	109	843
Cost of sales	(416)	(55)	(444)
<b>Gross profit</b>	<b>339</b>	54	399
Administration expenses	(619)	(590)	(1,116)
<b>Operating loss</b>	<b>(280)</b>	(536)	(717)
Interest received	2	1	5
Interest payable	-	(7)	(10)
<b>Loss on ordinary activities before taxation</b>	<b>(278)</b>	(542)	(722)
Taxation	-	-	30
<b>Loss on ordinary activities after taxation</b>	<b>(278)</b>	(542)	(692)
<b>Loss per share: Basic and fully diluted</b>	<b>(0.80)p</b>	(2.80)p	(2.7)p

# IMAGE SCAN HOLDINGS plc

## UNAUDITED CONSOLIDATED BALANCE SHEET

	31 March 2006 (Unaudited) £'000	31 March 2005 (Unaudited) £'000	30 September 2005 (Audited) £'000
<b>Fixed Assets</b>			
Tangible assets	119	142	156
Intangible assets	<u>17</u>	<u>19</u>	<u>18</u>
	<u>136</u>	<u>161</u>	<u>174</u>
<b>Current assets</b>			
Stock and work in progress	77	271	95
Debtors	351	60	341
Cash at bank and in hand	<u>40</u>	<u>67</u>	<u>154</u>
	468	398	590
<b>Creditors – amounts falling due within one year</b>	<u>(538)</u>	<u>(1,007)</u>	<u>(428)</u>
<b>Net current assets/(liabilities)</b>	<u>(70)</u>	<u>(609)</u>	<u>162</u>
<b>Total assets less current liabilities</b>	66	(448)	336
<b>Creditors – amounts falling due after more than one year</b>	–	(6)	–
Provisions for liabilities and charges	<u>(29)</u>	<u>(13)</u>	<u>(21)</u>
<b>Net assets</b>	<u>37</u>	<u>(467)</u>	<u>315</u>
<b>Capital and reserves</b>			
Called up share capital	349	193	349
Share premium account	4,660	3,883	4,660
Profit and loss account	<u>(4,972)</u>	<u>(4,543)</u>	<u>(4,694)</u>
<b>Equity shareholders' funds</b>	<u>37</u>	<u>(467)</u>	<u>315</u>

# IMAGE SCAN HOLDINGS plc

## UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

	6 months to 31 March 2006 (Unaudited) £'000	6 months to 31 March 2005 (Unaudited) £'000	Year to 30 September 2005 (Audited) £'000
<b>Net cash outflow from operating activities</b>	(a) <u><u>(183)</u></u>	<u><u>(157)</u></u>	<u><u>(738)</u></u>
<b>Returns on investments and servicing of finance</b>			
Interest received	<u>2</u>	<u>1</u>	<u>5</u>
Interest paid	<u>-</u>	<u>(7)</u>	<u>(10)</u>
	<u><u>2</u></u>	<u><u>(6)</u></u>	<u><u>(5)</u></u>
<b>Taxation</b>			
Corporation tax recovered	<u><u>30</u></u>	<u><u>-</u></u>	<u><u>21</u></u>
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets	<u>(12)</u>	<u>(1)</u>	<u>(71)</u>
Receipts from sales of tangible fixed assets	<u>-</u>	<u>-</u>	<u>2</u>
	<u><u>(12)</u></u>	<u><u>(1)</u></u>	<u><u>(69)</u></u>
<b>Net cash outflow</b>	<u><u>(163)</u></u>	<u><u>(164)</u></u>	<u><u>(791)</u></u>
<b>Financing</b>			
Issue of ordinary share capital	<u>-</u>	<u>-</u>	<u>932</u>
Bank loans repaid	<u>(11)</u>	<u>(19)</u>	<u>(37)</u>
Other loans issued	<u>60</u>	<u>200</u>	<u>-</u>
	<u><u>49</u></u>	<u><u>181</u></u>	<u><u>895</u></u>
<b>(Decrease)/increase in cash in the period</b>	(b) <u><u>(114)</u></u>	<u><u>17</u></u>	<u><u>104</u></u>
Note (a) Reconciliation of operating cash flows			
Operating loss	<u>(280)</u>	<u>(536)</u>	<u>(718)</u>
Depreciation	<u>49</u>	<u>50</u>	<u>105</u>
Amortisation	<u>1</u>	<u>1</u>	<u>2</u>
Decrease/(increase) in stock and work in progress	<u>18</u>	<u>(226)</u>	<u>(50)</u>
(Increase)/decrease in debtors	<u>(40)</u>	<u>86</u>	<u>(185)</u>
Increase in creditors	<u>69</u>	<u>468</u>	<u>108</u>
Net cash outflow from operating activities	<u><u>(183)</u></u>	<u><u>(157)</u></u>	<u><u>(738)</u></u>

# IMAGE SCAN HOLDINGS plc

## UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (continued)

Note (b) Analysis of net debt

	1 October 2005 £'000	Cash flow £'000	31 March 2006 £'000
Cash at bank and in hand	154	(114)	40
Debt due within one year	(17)	(49)	(66)
	<u>137</u>	<u>(163)</u>	<u>(26)</u>

## RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	6 months to 31 March 2006 (Unaudited) £'000	6 months to 31 March 2005 (Unaudited) £'000	Year to 30 September 2005 (Audited) £'000
Opening shareholders' funds	315	75	75
Issue of shares – at par	–	–	155
Issue of shares – share premium	–	–	777
Loss attributable to members	(278)	(542)	(692)
	<u>37</u>	<u>(467)</u>	<u>315</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 2005.
- (b) The interim statement is neither audited nor reviewed. The figures for the year ended 30 September 2005 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 £278,000 and on 34,868,120 ordinary shares in issue throughout 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.