



# IMAGE SCAN HOLDINGS plc

**INTERIM RESULTS 2005**

## IMAGE SCAN HOLDINGS plc

### CHAIRMAN'S STATEMENT

#### Introduction

I am pleased to present the interim results of Image Scan Holdings plc for the six months ended 31 March 2005 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 £109,000 (2004: £149,000). However, these sales do not reflect the significantly increased commercial activity that the Company has experienced in the current financial year. As explained more fully below, the Company received two significant orders totalling £683,000 in the period that are scheduled for delivery in the second half of the current financial year.

In the period, sales to Rapiscan Systems Limited ("Rapiscan") under the sales and marketing agreement amounted to 6 units – £90,000 in total. The Board is disappointed with the rate of call-off that Rapiscan has been able to achieve and is working closely with Rapiscan to resolve the situation.

Margins have remained strong at 50% (2004: 52%) compared to 44% for the 2004 full year.

Overheads were £590,000 (2003: £680,000) reflecting tighter control on expenditure and a shift in emphasis towards commercial activity, resulting in a £30,000 additional charge of labour against contracts. Counterbalancing this was a cost of £67,000 in respect of the compromise agreement reached with the previous Chief Finance and Operating Officer, who left the Company following a cost cutting exercise in January. The benefit of these changes will be evident in the second half of 2005. Sales and marketing expenditure was reduced by £100,000 compared to 2004 when a one-off expense of carrying out a cost benefit analysis of the AXIS-3D® was incurred.

The loss for the period was £542,000 (2003: £572,000), a loss per share of 2.80p (2004: 3.04p). No dividend is proposed.

In November 2004 the Company issued £200,000 9% loan stock ahead of the completion of a successful placing and open offer that raised over £1m in April 2005. This loan stock was repaid in May 2005. During the period, bank loans were reduced by £19,000 to £36,000. At 31st March 2005 the bank balance was £68,000.

#### Commercial Overview

##### Security Sector

The TSA are planning a further hand-baggage screening trial at a major US airport following on from the successful trial carried out in 2004, where a significant improvement in the probability of detection was indicated when using 3D when compared to 2D X-ray image presentation formats.

In addition to the focus on the promotion of the AXIS-3D® with Rapiscan, the Company is looking to expand its product range within the security sector:

- A prototype for a large area detector for explosives and ordnance detection, known as PanDEX, has been completed and following pre-launch marketing is due to be launched at the Milipol exhibition in Paris in November 2005.
- Following the completion of a prototype high energy X-ray imaging system for screening small vehicles in 2004, the Company is intending further to develop this technology with the customer into a commercial product.

##### Industrial Sector

The Company has actively marketed its industrial products through attendance at two key exhibitions; INSPEX in October 2004 and IPOT in February 2005. Both gave rise to a strong lead pipeline and the latter provided the platform for the launch of the MDXI range of industrial inspection systems.

To ensure that the momentum of recent commercial successes is maintained, the Company will be using some of the funds raised in April to appoint a full time sales and marketing manager to pursue further opportunities and build a strong and sustainable sales pipeline. In the intervening period the Company has appointed an interim sales and marketing manager to maintain momentum in sales and to assist in the review of the strategic market direction of the Company.

##### Current trading and outlook

The commercial order book is stronger at £683,000 than at any time in the Company's history. The Company believes that its reputation has been significantly enhanced by having established a key reference site in Johnson Matthey. The prototype MDXI inspection system delivered to Johnson Matthey in September 2004 was well received and resulted in the follow-up order of £601,000 for a multi-station industrial inspection system. Subsequent to the formal launch in February 2005 of the MDXI range of X-ray inspection equipment at the UK's leading industrial vision event, IPOT, we secured our first export order of £82,000 for the product from the USA. These successes confirm the efficacy of the Company's products and we believe that there are a number of other significant opportunities for these systems within the industrial sector.

## IMAGE SCAN HOLDINGS plc

### CHAIRMAN'S STATEMENT (continued)

Following the development of a new generation of aviation security computer based training software for Galaxy in 2004, the Company has now successfully negotiated a licence agreement with Galaxy to market the system to customers outside the TSA. This will give rise to income from the licence, further software development and sales of the AXIS-3D® system.

#### Strategic Direction

The Board is committed to applying the balance of the funds raised in the recent placing and open offer to securing the Company's future. This will be achieved by:

- the appointment of a full time sales and marketing manager to enhance market awareness of our product portfolio, to pursue existing sales leads and to open up new opportunities;
- raising market awareness through increased press coverage, which is already underway following the appointment of GTH Communications Ltd in March as PR agents for both financial and trade press;
- introducing our technology and solutions to a wider audience by continued attendance at key trade exhibitions and conferences;
- working closely with Rapiscan to exploit the partnership opportunities under the sales and marketing agreement; and
- expanding the Company's partnering agreements so that in each product area we are working with specialist companies with experience and an established customer base in that relevant sector.

#### Other Matters

I should like to congratulate Mrs Louise George on her appointment as Finance Director. Louise has been with the Company for three years as Financial Controller and Company Secretary and has clearly demonstrated that she has the skills to step into this new role. I should also like to welcome Peter Hughes and Peter Woods to the Board, both of whom were appointed in March and are already contributing to the strategic direction of the Company with experience drawn from their extensive financial and commercial careers. As a final point, I should like to express my appreciation to the staff for their commitment to the Company and their dedication in ensuring that the Company continues to retain its position at the forefront of its technological sectors.

**Ian Johnson,**  
*Chairman*

1st June 2005

### UNAUDITED CONSOLIDATED PROFIT & LOSS ACCOUNT

	6 months to 31 March 2005 (Unaudited) £'000	6 months to 31 March 2004 (Unaudited) £'000	Year to 30 September 2004 (Audited) £'000
Turnover	109	149	425
Cost of sales	(55)	(71)	(239)
<b>Gross profit</b>	<b>54</b>	<b>78</b>	<b>186</b>
Administration expenses	(590)	(680)	(1,448)
<b>Operating loss</b>	<b>(536)</b>	<b>(602)</b>	<b>(1,262)</b>
Interest received	1	9	13
Interest payable	(7)	(3)	(5)
<b>Loss on ordinary activities before taxation</b>	<b>(542)</b>	<b>(596)</b>	<b>(1,254)</b>
Taxation	-	24	44
<b>Loss on ordinary activities after taxation</b>	<b>(542)</b>	<b>(572)</b>	<b>(1,210)</b>
<b>Loss per share: Basic and fully diluted</b>	<b>(2.80)p</b>	<b>(3.04)p</b>	<b>(6.3)p</b>

**IMAGE SCAN HOLDINGS plc****UNAUDITED CONSOLIDATED BALANCE SHEET**

	31 March 2005 (Unaudited) £'000	31 March 2004 (Unaudited) £'000	30 September 2004 (Audited) £'000
<b>Fixed Assets</b>			
Tangible assets	142	256	191
Intangible assets	19	171	20
	<u>161</u>	<u>427</u>	<u>211</u>
<b>Current assets</b>			
Stock and work in progress	271	24	45
Debtors	60	211	146
Cash at bank and in hand	67	466	50
	<u>398</u>	<u>701</u>	<u>241</u>
<b>Creditors – amounts falling due within one year</b>	<u>(1,007)</u>	<u>(394)</u>	<u>(344)</u>
<b>Net current assets/(liabilities)</b>	<u>(609)</u>	<u>307</u>	<u>(103)</u>
<b>Total assets less current liabilities</b>	<u>(448)</u>	734	108
<b>Creditors – amounts falling due after more than one year</b>	<u>(6)</u>	<u>(36)</u>	<u>(17)</u>
Provisions for liabilities and charges	(13)	–	(16)
<b>Net assets</b>	<u>(467)</u>	<u>698</u>	<u>75</u>
<b>Capital and reserves</b>			
Called up share capital	193	193	193
Share premium account	3,883	3,867	3,883
Profit and loss account	(4,543)	(3,362)	(4,001)
<b>Equity shareholders' funds</b>	<u>(467)</u>	<u>698</u>	<u>75</u>

## IMAGE SCAN HOLDINGS plc

### UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

	Notes	6 months to 31 March 2005 (Unaudited) £'000	6 months to 31 March 2004 (Unaudited) £'000	Year to 30 September 2004 (Audited) £'000
<b>Net cash outflow from operating activities</b>	(a)	<u>(157)</u>	<u>(626)</u>	<u>(238)</u>
<b>Returns on investments and servicing of finance</b>				
Interest received		1	9	8
Interest paid		<u>(7)</u>	<u>(3)</u>	<u>(7)</u>
		<u>(6)</u>	<u>6</u>	<u>1</u>
<b>Taxation</b>				
Corporation tax recovered		<u>-</u>	<u>-</u>	<u>97</u>
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets		(1)	(91)	(189)
Purchase of intangible fixed assets		<u>-</u>	<u>-</u>	<u>(4)</u>
		<u>(1)</u>	<u>(91)</u>	<u>(193)</u>
<b>Net cash outflow before management of liquid resources</b>		<u>(164)</u>	<u>(711)</u>	<u>(333)</u>
<b>Management of liquid resources</b>				
Withdrawal of short term deposits		<u>-</u>	<u>-</u>	<u>43</u>
<b>Financing</b>				
Issue of ordinary share capital		-	987	-
Bank loans repaid		(19)	(19)	(36)
Other loans issued		<u>200</u>	<u>-</u>	<u>-</u>
		<u>181</u>	<u>968</u>	<u>(36)</u>
<b>Increase/(decrease) in cash in the period</b>	(b)	<u>17</u>	<u>257</u>	<u>(326)</u>
Note (a) Reconciliation of operating cash flows				
Operating loss		(536)	(602)	(840)
Depreciation		50	57	76
Amortisation		1	8	18
(Increase)/decrease in stock and work in progress		(226)	3	43
Decrease/(increase) in debtors		86	(59)	195
Increase/(decrease) in creditors		<u>468</u>	<u>(33)</u>	<u>270</u>
Net cash outflow from operating activities		<u>(157)</u>	<u>(626)</u>	<u>(238)</u>

**IMAGE SCAN HOLDINGS plc****UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (continued)**

Note (b) Analysis of net debt

	1 October 2004 £'000	Cash flow £'000	31 March 2005 £'000
Cash at bank and in hand	50	17	67
Debt due within one year	(38)	(192)	(230)
Debt due after one year	(17)	11	(6)
	<u>(5)</u>	<u>(164)</u>	<u>(169)</u>

**RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

	6 months to 31 March 2005 (Unaudited) £'000	6 months to 31 March 2004 (Unaudited) £'000	Year to 30 September 2004 (Audited) £'000
Opening shareholders' funds	75	283	283
Issue of shares – at par	–	31	31
Issue of shares – share premium	–	956	972
Loss attributable to members	<u>(542)</u>	<u>(572)</u>	<u>(1,211)</u>
	<u>(467)</u>	<u>698</u>	<u>75</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 2004.
- (b) The interim statement is neither audited nor reviewed. The figures for the year ended 30 September 2004 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 £542,000 and on 19,335,630 ordinary shares in issue throughout the period.

FRS 14 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