



IMAGE SCAN HOLDINGS plc

INTERIM RESULTS 2007

IMAGE SCAN HOLDINGS plc

CHAIRMAN'S STATEMENT

Introduction

I am pleased to present the interim results of Image Scan for the six months ended 31 March 2007, and the Board's view of the Company's prospects for the remainder of this financial year.

Image Scan continues to be focused on the development and commercialisation of market leading real-time 3D and 2D x-ray solutions for use in the global industrial and security inspection markets. The Company's industrial inspection solutions include the MDXi unit and the X-Line systems. The security portfolio includes a unique 3D baggage inspection system for corporate and airport security and TPXi, a portable suspect package inspection system for use by bomb disposal experts.

Financial Results

Sales for the six months have increased by 50% to £1,133,000 (2006: £755,000), reflecting our ongoing relationship with blue chip companies, such as Johnson Matthey and British Nuclear Group. Over the same period the Company has maintained its tight control over costs, with overheads being contained at £614,000 (2006: £619,000). In addition, the increased efficiencies associated with higher activity have allowed us to improve our gross margin to 50% (2006: 45%).

The Board continues to invest in R&D. Total R&D expenditure stood at £188,000 (2006: £91,000) but due to the changes required by the international accounting standards, £156,000 of this has been capitalised and will be written off against commercial sales of MDXi-NT and TPXi.

The Company moved closer to break-even with the loss for the period down to £60,000 (2006: £278,000), a loss per share of 0.17p (2006: 0.80p).

During the period the Company issued £400,000 9% loan stock and negotiated a payment deferment on the existing £200,000 loan stock. All loan stock is now repayable on 30 September 2008 and has warrants to subscribe for 3,000,000 shares at 20p. A £100,000 overdraft facility was agreed with the Royal Bank of Scotland plc in December 2006. At 31 March 2007 the bank balance was £58,000.

Commercial Overview

Industrial

Industrial sales were dominated by two significant contracts. The Company is installing the new MDXi-NT system into the Johnson Matthey UK and South African sites, and is developing an in-line inspection system for one of the British Nuclear Group's manufacturing plants. Both contracts are still in progress with further revenue falling into the second half of the year.

Funded feasibility work has also been carried out for several other blue-chip companies and negotiations with these organisations are well underway for full development contracts. In line with the Company's business model, it is anticipated that each of these potential new contracts will lead to repeat orders.

Earlier this year, a dedicated support group was created within the Company to service the needs of our growing installed base of industrial systems. This new profit centre has already secured orders approaching £200,000, representing a mix of critical spares and annual maintenance contracts.

Security

Market interest in the TPXi-675 portable x-ray imaging system remains strong. During the period several orders were received for evaluation units from which it is anticipated multiple repeat orders will arise within the next two years. To cope with the expected increase in demand, the Company has negotiated an outsourcing contract for the manufacture of TPXi-675 systems to both improve delivery times and reduce manufacturing costs.

Following the development of a 2D baggage scanning system with Eurologix Ltd (formerly Scanlogik Technology Ltd.), the system was exhibited in the USA in April. Considerable interest was generated and the sales subscribed to under our licence agreement are now expected to develop.

Marketing

The Company has been working closely with the distributors appointed last year to maximise the potential sales arising under these existing agreements. Two further distributorships have been negotiated. Within the industrial sector, VOGT Werkstoffpruefsysteme GmbH has already attended a number of key exhibitions in Germany, and X-metrix LLC will commence their marketing campaign in the USA early June.

As a result of the higher level of interest in our products arising from increased exhibition attendance and on-going trade press activity, we have recently strengthened the applications team to enable us to more efficiently respond to these opportunities and to support our future sales.

IMAGE SCAN HOLDINGS plc

CHAIRMAN'S STATEMENT (continued)

Staff

The Board is delighted at how well staff has reacted to the increased pressures of meeting our customers needs and their continued dedication to both the technology and our Company. The Board would like to extend its sincere appreciation of this commitment.

Outlook

At the end of March the order book was £945,000 (2006: £253,000). Looking forward, the prospects for the Company remain strong with increasing interest in Image Scan's products and opportunities for significant long term sales improving as we complete a series of funded feasibility studies for a number of new clients.

To ensure we keep our technology ahead of our competitors we shall also maintain our investment in R&D targeted towards enhancing our existing and developing new products to meet market needs. Where appropriate the Company will seek to formally protect its IP as in the recent patent application relating to our TPXi product. A significant programme of work to be initiated during the second half of our financial year will be a value engineering exercise to reduce prime costs within the TPXi and MDXi product ranges.

To provide the necessary resources and working capital to achieve the strategic objectives of the Company and to accelerate future growth, the Company is seeking to raise £3 million before expenses.

Peter Woods,

Chairman

21 May 2007

UNAUDITED CONSOLIDATED PROFIT & LOSS ACCOUNT

	6 months to 31 March 2007 (Unaudited) £'000	6 months to 31 March 2006 (Unaudited) £'000	Year to 30 September 2006 (Audited) £'000
Turnover	1,133	755	1,422
Cost of sales	(563)	(416)	(705)
Gross profit	570	339	717
Administration expenses	(614)	(619)	(1,220)
Operating loss	(44)	(280)	(503)
Interest received	1	2	4
Interest payable	(17)	-	(9)
Loss on ordinary activities before taxation	(60)	(278)	(508)
Taxation	-	-	37
Loss on ordinary activities after taxation	(60)	(278)	(471)
Loss per share: Basic and fully diluted	(0.17)p	(0.80)p	(1.3)p

IMAGE SCAN HOLDINGS plc

UNAUDITED CONSOLIDATED BALANCE SHEET

	31 March 2007 (Unaudited) £'000	31 March 2006 (Unaudited) £'000	30 September 2006 (Audited) £'000
Fixed Assets			
Tangible assets	199	119	174
Intangible assets	171	17	16
	<u>370</u>	<u>136</u>	<u>190</u>
Current assets			
Stock and work in progress	94	77	83
Debtors	341	351	384
Cash at bank and in hand	58	40	164
	<u>493</u>	<u>468</u>	<u>631</u>
Creditors – amounts falling due within one year	<u>(437)</u>	<u>(538)</u>	<u>(742)</u>
Net current assets/(liabilities)	<u>56</u>	<u>(70)</u>	<u>(111)</u>
Total assets less current liabilities	<u>426</u>	<u>66</u>	<u>79</u>
Creditors – amounts falling due after more than one year	<u>(600)</u>	–	<u>(200)</u>
Provisions for liabilities and charges	<u>(29)</u>	<u>(29)</u>	<u>(22)</u>
Net assets	<u>(203)</u>	<u>37</u>	<u>(143)</u>
Capital and reserves			
Called up share capital	349	349	349
Share premium account	4,671	4,660	4,671
Profit and loss account	<u>(5,223)</u>	<u>(4,972)</u>	<u>(5,163)</u>
Equity shareholders' funds	<u>(203)</u>	<u>37</u>	<u>(143)</u>

IMAGE SCAN HOLDINGS plc

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

		6 months to 31 March 2007 (Unaudited) £'000	6 months to 31 March 2006 (Unaudited) £'000	Year to 30 September 2006 (Audited) £'000
Net cash outflow from operating activities	(a)	<u>(279)</u>	<u>(183)</u>	<u>(146)</u>
Returns on investments and servicing of finance				
Interest received		1	2	4
Interest paid		<u>(17)</u>	<u>–</u>	<u>(9)</u>
		<u>(16)</u>	<u>2</u>	<u>(5)</u>
Taxation				
Corporation tax recovered		<u>–</u>	<u>30</u>	<u>30</u>
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(55)	(12)	(136)
Purchase of intangible fixed assets		(156)	–	–
Receipts from sales of tangible fixed assets		<u>–</u>	<u>–</u>	<u>72</u>
		<u>(211)</u>	<u>(12)</u>	<u>(64)</u>
Net cash outflow		<u>(506)</u>	<u>(163)</u>	<u>(185)</u>
Financing				
Issue of ordinary share capital		–	–	12
Bank loans repaid		–	(11)	(17)
Other loans issued		<u>400</u>	<u>60</u>	<u>200</u>
		<u>400</u>	<u>49</u>	<u>195</u>
Increase in cash in the period	(b)	<u>(106)</u>	<u>(114)</u>	<u>10</u>
 Note (a) Reconciliation of operating cash flows				
Operating loss		(44)	(280)	(503)
Depreciation		30	49	97
Amortisation		1	1	2
Profit on sales of tangible fixed asset		–	–	(52)
Decrease/(increase) in stock and work in progress		(11)	18	12
(Increase)/decrease in debtors		43	(40)	(36)
Increase in creditors		<u>(298)</u>	<u>69</u>	<u>334</u>
Net cash outflow from operating activities		<u>(279)</u>	<u>(183)</u>	<u>(146)</u>

IMAGE SCAN HOLDINGS plc

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (continued)

Note (b) Analysis of net debt

	1 October 2006 £'000	Cash flow £'000	31 March 2007 £'000
Cash at bank and in hand	164	(106)	58
Debt due within one year	(200)	(400)	(600)
	<u>(36)</u>	<u>(506)</u>	<u>(542)</u>

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	6 months to 31 March 2007 (Unaudited) £'000	6 months to 31 March 2006 (Unaudited) £'000	Year to 30 September 2006 (Audited) £'000
Opening shareholders' funds	(143)	315	315
Issue of shares – at par	–	–	1
Issue of shares – share premium	–	–	11
Loss attributable to members	(60)	(278)	(470)
	<u>(203)</u>	<u>37</u>	<u>(143)</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 2006, with the exception of the research and development accounting policy.

From 1 October 2006, the Company has dealt with research and development expenditure in accordance with IAS 38; such expenditure was previously accounted for under UK GAAP. Development expenditure that meets the criteria for recognition as an asset has been included in intangible assets. The total capitalised in this interim statement amounted to £156,000.

- (b) The interim statement is neither audited nor reviewed. The figures for the year ended 30 September 2006 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 £60,000 and on 34,948,120 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