



**IMAGE SCAN HOLDINGS PLC**  
INTERIM REPORT 2009



# CHAIRMAN'S STATEMENT

## INTRODUCTION

I am pleased to present the Company's interim results for the six months ended 31 March 2009.

## FINANCIAL RESULTS

Revenue for the six months at £743,000 (2008: £1,122,000) reflects a significant fall in the Company's industrial sales which have historically been primarily in the automotive sector. In contrast to the fairly even sales mix in 2008, security accounted for over 70% of revenue in the first half of 2009. This change of sales mix has also impacted on the gross margin of 44% (2008: 46%) in the period.

Overheads of £700,000 (2008: £691,000) include redundancy costs of £50,000 following a reduction in headcount in the first quarter. The benefit of the annualised saving of £160,000 will take effect in the second half of 2009 but will be mitigated by the recruitment of additional sales personnel to drive forward the routes to market.

As a result of the reduced industrial revenue, the net loss was £355,000 (2008: £136,000) and the loss per share was 0.64 pence (2008: 0.24 pence).

The period-end cash balance of £929,000 has fallen by £605,000 since the year end. This reflects the loss in the period and the considerable working capital requirement involved in delivery of the current orders to China and India. The Company also has an agreed £100,000 overdraft facility with the Royal Bank of Scotland.

## OVERVIEW

In the year to date, the Company has secured orders for 16 baggage screening systems of which the majority relate to the follow-on contract for China and the remainder are for delivery to the UK and India.

Through its distributors, the Company has received orders for 17 FlatScan-TPXi portable screening systems from a number of new customers based in Thailand, Egypt, Canada and India.

During the first half, the Company sold an MDXi-NT system to Johnson Matthey for the inspection of catalytic converters at their plant in Japan. Other industrial sales have stemmed from support and sales of spares for the installed industrial base.

## OUTLOOK

To maintain its competitive edge the Company continues to develop new products and technologies to meet its customers' needs. In recent months the Company has introduced an entry level conventional baggage screening system, the Axis-2D, which uniquely provides

a field-upgradable path for the customer to the Company's premium Axis-3D® system. The introduction of the Axis-2D product has already resulted in the first sale of the system scheduled for delivery in August 2009.

The Company is in the process of selecting a trading partner in India, involving several months of market research and due diligence. It is believed that this will offer the opportunity to capitalise on the recent sales into India and respond to the significant demand for security equipment in that territory.

As of 1 June 2009, the Company appointed an additional sales executive who brings extensive experience of security sales, particularly in the Middle East.

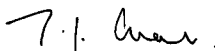
Sales and confirmed orders for delivery in the second half of the year currently total £564,000.

## STAFF

To provide greater support and a new lead for the Company's marketing strategy the Board has appointed Brian Emslie as a Non-executive Director. Mr Emslie brings extensive experience and a proven track record in strategic planning, analysis of customer and markets needs, contract negotiations and communications. Due to other business commitments Jerry Horwood has recently stepped down from the Board and we would like to take this opportunity to thank Mr Horwood for his valuable contribution over the past 18 months.

Nick Fox, the Company's Chief Technical Officer, has secured the opportunity to speak at four security conferences on x-ray screening for mass transit locations, including Transec in Amsterdam and also in India, the Counter Terror Expo in London and MilSec in the US. This type of activity supports the promotion of the Company's products and enforces Image Scan's position as a leading player in the security sector.

Our staff continue to be focused on developing and delivering high quality x-ray inspection systems. Much has been achieved in the period to reduce the unit cost of our equipment through improved supplier selection, design control, greater efficiencies and more effective operational management. I would like to take this opportunity to thank everyone at the Company for their contribution to the progress being made.



**Gilbert J Chalk**  
CHAIRMAN  
17 JUNE 2009

## CONSOLIDATED INCOME STATEMENT

	Six months to 31 March 2009 (Unaudited) £'000	Six months to 31 March 2008 (Unaudited) £'000	Year to 30 September 2008 (Audited) £'000
REVENUE	743	1,122	2,005
Cost of sales	(417)	(604)	(1,097)
GROSS PROFIT	326	518	908
Administrative expenses	(700)	(691)	(1,360)
OPERATING LOSS	(374)	(173)	(452)
Finance revenue	19	37	75
LOSS BEFORE TAXATION	(355)	(136)	(377)
Taxation	—	—	46
LOSS FOR THE PERIOD	(355)	(136)	(331)
	Pence	Pence	Pence
EARNINGS PER SHARE			
Basic and diluted loss per share	0.64	0.24	0.59

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months to 31 March 2009 (Unaudited) £'000	Six months to 31 March 2008 (Unaudited) £'000	Year to 30 September 2008 (Audited) £'000
Opening equity shareholders' funds	1,611	1,877	1,877
Issue of shares – at par	—	7	7
Issue of shares – share premium	—	53	53
Share-based payments	2	2	5
Loss attributable to equity shareholders	(355)	(136)	(331)
	1,258	1,803	1,611

# CONSOLIDATED BALANCE SHEET

	31 March 2009 (Unaudited) £'000	31 March 2008 (Unaudited) £'000	30 September 2008 (Audited) £'000
<b>NON-CURRENT ASSETS</b>			
Plant and equipment	116	85	140
Intangible assets	—	—	—
	<b>116</b>	<b>85</b>	<b>140</b>
<b>CURRENT ASSETS</b>			
Inventories	169	208	154
Trade and other receivables	448	725	154
Cash and cash equivalents	929	1,337	1,534
Current tax asset	46	—	46
	<b>1,592</b>	<b>2,270</b>	<b>1,888</b>
<b>TOTAL ASSETS</b>	<b>1,708</b>	<b>2,355</b>	<b>2,028</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	(406)	(523)	(382)
<b>NON-CURRENT LIABILITIES</b>			
Provisions for liabilities and charges	(44)	(29)	(35)
<b>TOTAL LIABILITIES</b>	<b>(450)</b>	<b>(552)</b>	<b>(417)</b>
<b>NET ASSETS</b>	<b>1,258</b>	<b>1,803</b>	<b>1,611</b>
<b>EQUITY</b>			
Share capital	557	557	557
Share premium account	7,305	7,305	7,305
Retained earnings	(6,604)	(6,059)	(6,251)
<b>EQUITY SHAREHOLDERS' FUNDS</b>	<b>1,258</b>	<b>1,803</b>	<b>1,611</b>

This interim financial information was approved by the Board of Directors on 17 June 2009.



**Louise J George**  
CHIEF EXECUTIVE OFFICER

# CONSOLIDATED CASH FLOW STATEMENT

	Six months to 31 March 2009 (Unaudited) £'000	Six months to 31 March 2008 (Unaudited) £'000	Year to 30 September 2008 (Audited) £'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating loss	(374)	(173)	(452)
Adjustments for:			
Depreciation	39	25	77
Transfer of inventories to fixed assets	—	—	(81)
(Increase)/decrease in inventories	(15)	81	135
(Increase)/decrease in trade and other receivables	(294)	(330)	241
Increase/(decrease) in trade and other payables	33	37	(97)
Share-based payment charge used in operating activities	2	2	5
Net cash used in operating activities	(609)	(358)	(172)
Corporation tax recovered	—	66	66
Net cash outflow from operating activities	(609)	(292)	(106)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received	19	37	75
Purchase of property, plant and equipment	(15)	(3)	(26)
Proceeds on disposal of property, plant and equipment	—	4	—
Net cash from investing activities	4	38	49
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issue of ordinary share capital	—	60	60
Net cash from financing activities	—	60	60
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(605)</b>	<b>(194)</b>	<b>3</b>
Cash and cash equivalents at beginning of period	1,534	1,531	1,531
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>929</b>	<b>1,337</b>	<b>1,534</b>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

## 1 BASIS OF PREPARATION

The interim financial information for the six months to 31 March 2009 has been prepared under International Financial Reporting Standards as adopted by the EU ('IFRS') in accordance with International Accounting Standard 34 'Interim Financial Reporting'. The financial statements have been prepared in accordance with the Company's accounting policies under IFRS and the historical cost convention. The interim financial statements are neither audited nor reviewed, and do not constitute statutory accounts as defined by Section 434 of the Companies Act 2006. The comparatives for the financial year ended 30 September 2008 are not the Company's full statutory accounts for the year. The auditors' report on those accounts was unqualified and did not contain a statement under Section 237 (2)-(3) of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies.

## 2 GOING CONCERN

The interim financial information has been prepared on a going concern basis, which assumes that the Company will have adequate resources to continue in operational existence for the foreseeable future.

## 3 EARNINGS PER SHARE ('EPS')

Basic loss per ordinary share is based on the loss on ordinary activities after taxation of £355,000 and on 55,698,120 ordinary shares in issue throughout the period.

FRS 14 requires presentation of diluted 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.

## 4 IFRS 2 'SHARE-BASED PAYMENTS'

Operating expenses includes a charge of £2,000 (2008: £2,000) after valuation of the Company's employee share options schemes in accordance with IFRS 2 'Share-based Payments'. Under this standard, the fair value of the options at the grant date is spread over the vesting period. These items have been added back in the Consolidated Statement of Changes in Equity.

## 5 ADDITIONAL COPIES

Further copies of the interim report are available on the Company's website [www.ish.co.uk](http://www.ish.co.uk) and from the Company's registered office, Pera Innovation Park, Nottingham Road, Melton Mowbray, Leicestershire LE13 0PB.