Interim Report and Accounts 2008

Scientific Digital Imaging plc

Chairman's statement

I am pleased to provide this inaugural report on our unaudited Interim Results for the six months ended 31 October 2008. Strong results were achieved despite the gloomy economic environment. Sales increased 23.8% to £3.19m (2007: £2.58m), with operating profit of £270k (2007: £58k) and basic and fully diluted earnings per share of 1.37p (2007: 0.20p). The company's net cash position grew to £448k (2007: £45k).

Admission to trading on AIM

The company sought admission to AIM in order to provide SDI with greater flexibility in funding further growth, to enable the company to access a wider range of investors, to assist in recruiting, retaining and incentivising key employees and to raise SDI's general profile within its sector and status with its customers and suppliers. The admission of the company to AIM was achieved on 8 December 2008 and I should like to thank the staff and advisors for their efforts that resulted in this success.

Trading

Two acquisitions were completed very near the end of the period, and therefore made little contribution to the Group results which largely reflect the financial performance of the Group's primary subsidiary, Synoptics Limited.

First half profits before taxation grew from £36k to £255k – an excellent result – even after incurring £42k of listing costs. The full year cost of listing the group was £345k, with £303k being incurred in the second half; it would therefore be inappropriate to extrapolate the performance over the full year.

The group had strong cash flows during the period with cash generated from operating activities growing 42.3% to £261k (2007: £184k), with cash and cash equivalents of £873k at the period end (2007: £295k). During the period a total of £379k was raised in the form of convertible loan stock to fund the company's admission to AIM, increasing the company's borrowings to £425k (2007: £250k). The company's net cash position grew to £448k (2007: £45k).

Product and geographic mix fluctuations were the main cause of a slight decrease in margin percentages from the corresponding period in 2007. However, the underlying margins on individual product lines remain largely unchanged, with little pressure on prices. Currency exchange fluctuations have also had a complex, but overall positive, impact on the group's performance.

Sales in the US were particularly strong. The expanded network of manufacturers' representatives selling Syngene products is now performing well, with a high conversion rate for sales enquiries. Sales of Synbiosis products also grew, particularly in the Europe and Far East regions.

A large proportion of the company's development resources is committed to new high-value, high margin products aimed at providing new opportunities for the company.

Acquisitions

In October 2008 the company completed the acquisition of the entire share capital of two important suppliers: Artemis CCD Ltd, (Norfolk, UK) and Perseu - Comércio de Equipamento Para Informática e Astronomia, SA (Lisbon, Portugal). These companies design and manufacture high-sensitivity cameras for both astronomical and life sciences applications, and their products are used in instruments manufactured by Synoptics. Due to the timing of the acquisitions, the contribution of these companies to revenues during the period was not material.

Through these acquisitions the company has also gained access to an additional scientific marketplace, namely astronomy. We intend to promote the growth of sales in this market through the provision of marketing and logistical expertise and resources.

Strategy

The company is focused on the application of digital imaging technology to the needs of the scientific community. Its principal subsidiary is Synoptics, which designs and manufactures special-purpose instruments for use mainly in the life sciences, supplying customers in the academic and research sectors.

The Board intends to pursue a focused strategy of acquiring digital imaging companies in the life sciences sector and in other scientific markets, as well as seeking to generate organic growth. The Board believes there are many businesses operating within the market, a number of which have not achieved critical mass, and that this presents an ideal opportunity for consolidation. This strategy will be primarily focused within Europe but, where opportunities exist, acquisitions in the United States and elsewhere will also be considered. The acquisitions completed during the period represent the first steps in the implementation of this strategy.

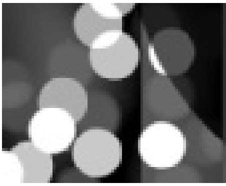
Outlook

The consolidation of key suppliers into the group is expected to start to become beneficial through an improvement in margins. We anticipate that development investments will begin to improve sales of higher margin products. The continuing growth in sales to the US is the result of the company's long-term commitment to establishing a presence in the US market and it is anticipated that this will continue to generate increasing benefits.

SDI's ultimate customers are generally large organisations performing research or quality control. The funding is generally allocated on a long-term basis, and a significant element comes ultimately from governments. These factors, coupled with the geographical diversity of the company's operations and recent favourable exchange rate fluctuations, should provide some insulation from the short-term effects of the global economic down-turn. During the period of economic deterioration we must be ready to take advantage of attractive acquisition opportunities that present themselves, in addition to implementing our long-term strategy.

Overall, the company is well placed to continue to grow and improve its margins, although caution is appropriate because market conditions are likely to be more challenging in the second half of the financial year.

Harry Tee CBE, Chairman **27th January 2009**



Consolidated income statement

Unaudited		**6 months to 31 October 2008 £**	6 months to 31 October 2007 £	12 months to 30 April 2008 £
Continuing operations				
Revenue		**3,192,820**	2,579,408	5,728,057
Costs of sales		**(1,458,007)**	(1,119,579)	(2,446,824)
Gross Profit		**1,734,813**	*1,459,829*	*3,281,233*
AIM listing expenses		**(41,958)**	-	-
Currency exchange gains and (losses)		**110,533**	(3,525)	(1,417)
Administrative expenses		**(1,533,562)**	(1,398,222)	(3,059,126)
Operating profit		**269,826**	*58,082*	*220,690*
Financial income		**5,458**	6,063	10,521
Financial expenses		**(20,064)**	(27,835)	(48,923)
Profit before taxation		**255,220**	*36,310*	*182,288*
Income tax expense	2	**(30,655)**	(3,735)	(33,219)
Profit for the period		**224,565**	*32,575*	*149,069*
Earnings per share				
Basic and diluted	3	**1.37p**	0.20p	0.92p

Consolidated balance sheet

Unaudited	Note	**31 October 2008 £**	31 October 2007 £	30 April 2008 £
Assets				
Non-current assets				
Property, plant and equipment		**285,789**	257,347	230,892
Intangible assets		**666,982**	180,131	225,919
Deferred tax asset		**22,959**	63,525	49,983
		975,730	*501,003*	*506,794*
Current assets				
Inventories		**528,317**	363,509	372,797
Trade and other receivables		**1,376,880**	917,193	1,224,557
Cash and cash equivalents		**872,569**	294,756	372,709
		2,777,766	*1,575,458*	*1,970,063*
Total assets		**3,753,496**	2,076,461	2,476,857
Liabilities				
Current liabilities				
Trade and other payables		**1,184,493**	617,796	953,201
Provisions for warranty		**12,500**	12,500	10,000
Borrowings	5	**30,945**	202,791	29,393
Tax liabilities		**1,546**	288	866
		1,229,484	833,375	993,460
Non-current liabilities				
Borrowings	5	**393,571**	47,406	32,719
Deferred tax liability		**98,225**	31,589	47,872
		491,796	78,995	80,591
Total liabilities		**1,721,280**	912,370	1,074,051
Net assets		**2,032,216**	1,164,091	1,402,806
Equity				
Share capital		**166,638**	159,978	163,306
Merger reserve		**2,606,016**	2,500,494	2,606,016
Share premium account		**38,327**	-	-
Foreign exchange reserve		**(5,941)**	(874)	(2,948)
Own shares held by Employee Benefit Trust		**(85,383)**	(267,725)	(250,147)
Other reserves		**389,051**	34,693	22,872
Retained earnings		**(1,076,492)**	(1,262,475)	(1,136,293)
Total Equity		**2,032,216**	1,164,091	1,402,806

Consolidated cash flow statement

	6 months to	6 months to	12 months to
	31 October	*31 October*	*30 April*
Unaudited	**2008**	2007	2008
	£	£	£
Operating activities			
Profit for the period	**224,565**	32,575	149,069
Depreciation and amortisation	**90,692**	113,770	230,228
Profit on sale of property, plant and equipment	**-**	–	(4,997)
Finance costs	**14,606**	21,772	38,402
Taxation expense in the income statement	**30,655**	3,735	33,219
Increase in warranty provision	**2,500**	2,500	-
Exchange difference	**(24,734)**	(874)	(2,948)
Employee share based payments	**9,475**	2,232	12,634
Operating cash flow before movement in working capital	**347,759**	175,710	455,607
Increase in inventories	**(40,480)**	(24,356)	(33,644)
Changes in trade and other receivables	**(3,264)**	91,226	(276,027)
Changes in trade and other payables	**(42,589)**	(58,919)	276,486
Operating cashflow	**261,426**	183,661	422,422
Income taxes refunded	**-**	–	59,601
Cash generated from operating activities	**261,426**	183,661	482,023
Investing activities			
Purchase of property plant and equipment	**(83,296)**	(76,392)	(165,904)
Investment in development	**(81,746)**	(48,012)	(129,963)
Disposals of property, plant and equipment	**45,676**	12,208	67,877
Purchase of acquisitions, net of cash acquired	**(50,692)**	-	-
Interest received	**5,458**	6,063	10,521
Net cash used in investing activities	**(164,600)**	(106,133)	(217,469)
Financing activities			
Interest paid	**(18,698)**	(20,886)	(35,027)
Repayment of borrowings	**(15,066)**	(28,001)	(143,233)
Issues of shares and warrants	**41,659**	15,920	36,220
Issue of loan stock	**379,000**	-	-
Net cash from financing	**386,895**	(32,967)	(142,040)
Net changes in cash and cash equivalents	**483,721**	44,561	122,514
Net foreign exchange difference	**16,139**	-	-
Cash and cash equivalents, beginning of period	**372,709**	250,195	250,195
Cash and cash equivalents, end of period	**872,569**	294,756	372,709

Consolidated statement of changes in equity

	Share Capital £	Merger Reserve £	Share premium account £	Own shares held by EBT £	Other Reserves £	Foreign exchange reserve £	Retained Earnings £	Total £
Balance at 1 May 2007	**159,978**	**2,500,494**	**-**	**(312,500)**	**35,763**	**-**	**(1,266,195)**	**1,117,540**
Deferred tax on options	-	-	-	-	(3,302)	-	-	(3,302)
Employee Benefit Trust adjustment	-	-	-	28,855	-	-	(28,855)	-
Foreign exchange on consolidation of subsidiary	-	-	-	-	-	(874)	-	(874)
Net income recognised directly in equity	-	-	-	28,855	(3,302)	(874)	(28,855)	(4,176)
Profit for the period	-	-	-	-	-	-	32,575	32,575
Total recognised income/(expense) for the period	-	-	-	28,855	(3,302)	(874)	3,720	28,399
Share options exercised	-	-	-	15,920	-	-	-	15,920
Share based payments	-	-	-	-	2,232	-	-	2,232
Balance at 31 October 2007	**159,978**	**2,500,494**	**-**	**(267,725)**	**34,693**	**(874)**	**(1,262,475)**	**1,164,091**

	Share Capital £	Merger Reserve £	Share premium account £	Own shares held by EBT £	Other Reserves £	Foreign exchange reserve £	Retained Earnings £	Total £
Balance at 1 May 2007	**159,978**	**2,500,494**	**-**	**(312,500)**	**35,763**	**-**	**(1,266,195)**	**1,117,540**
Deferred tax on options	-	-	-	-	(4,509)	-	-	(4,509)
Employee Benefit Trust adjustment	-	-	-	40,183	-	-	(40,183)	-
Foreign exchange on consolidation of subsidiary	-	-	-	-	-	(2,948)	-	(2,948)
Net income recognised directly in equity	-	-	-	40,183	(4,509)	(2,948)	(40,183)	(7,457)
Profit for the period	-	-	-	-	-	-	149,069	149,069
Total recognised income/(expense) for the period	-	-	-	40,183	(4,509)	(2,948)	108,886	141,612
Conversion of loan stock	2,528	92,272	-	-	(21,016)	-	21,016	94,800
Conversion of warrants	800	13,250	-	-	-	-	-	14,050
Share options exercised	-	-	-	22,170	-	-	-	22,170
Share based payments	-	-	-	-	12,634	-	-	12,634
Balance at 30 April 2008	**163,306**	**2,606,016**	**-**	**(250,147)**	**22,872**	**(2,948)**	**(1,136,293)**	**1,402,806**

Consolidated statement of changes in equity - continued

	Share Capital	Merger Reserve	Share premium account	Own shares held by EBT	Other Reserves	Foreign exchange reserve	Retained Earnings	Total
	£	£	£	£	£	£	£	£
Balance at 1 May 2008	163,306	2,606,016	-	(250,147)	22,872	(2,948)	(1,136,293)	1,402,806
Deferred tax on options	-	-	-	-	(4,202)	-	-	(4,202)
Employee Benefit Trust adjustment	-	-	-	164,764	-	-	(164,764)	-
Foreign exchange on consolidation of subsidiary	-	-	-	-	-	(2,993)	-	(2,993)
Net income recognised directly in equity	-	-	-	164,764	(4,202)	(2,993)	(164,764)	(7,195)
Profit for the period	-	-	-	-	-	-	224,565	224,565
Total recognised income/ (expense) for the period	-	-	-	164,764	(4,202)	(2,993)	59,801	217,370
Deferred consideration on acquisitions	-	-	-	-	319,920	-	-	319,920
Equity element of loan stock	-	-	-	-	40,986	-	-	40,986
Share options exercised	3,332	-	38,327	-	-	-	-	41,659
Share based payments	-	-	-	-	9,475	-	-	9,475
Balance at 31 October 2008	166,638	2,606,016	38,327	(85,383)	389,501	(5,941)	(1,076,492)	2,032,216

Notes to the interim financial statements

The accompanying accounting policies and notes form an integral part of these interim financial statements.

REPORTING ENTITY

Scientific Digital Imaging plc, a public limited company, is the Group's ultimate parent. It is registered in England and Wales. The consolidated interim financial statements of the Company for the period ended 31 October 2008 comprise the Company and its subsidiaries (together referred to as the "Group").

BASIS OF PREPARATION

The unaudited consolidated interim financial statements are for the six months ended 31 October 2008. These interim financial statements have been prepared in accordance with the accounting policies expected to be followed for the year ending 30 April 2009, which are based on the recognition and measurement principles of IFRS as adopted by the European Union. The financial information for the year ended 30 April 2008 is based upon the audited statutory accounts for that year, adjusted for any IFRS restatements.

The financial statements have been prepared on the historical cost basis. The principal accounting policies of the group are set out below. The policies have changed from the previous year when the financial statements were prepared under applicable United Kingdom Generally Accepted Accounting Principles (UK GAAP).

The comparative information has been restated in accordance with IFRS. The changes to accounting policies are explained in note 1, together with the reconciliation of opening balances. The date of transition to IFRS was 1 May 2007 (transition date).

The group has taken advantage of certain exemptions available under IFRS 1 First-time adoption of International Financial Reporting Standards. The exemptions used are explained under the respective accounting policy.

The consolidated interim financial statements are presented in British pounds (£), which is also the functional currency of the ultimate parent company.

The consolidated interim financial information was approved by The Board of Directors on 26 January 2009.

The financial information set out in this interim report does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The figures for the year ended 30 April 2008 have been extracted from the UK GAAP Statutory Financial Statements of Scientific Digital Imaging Plc which have been filed with the Registrar of Companies, and then restated in accordance with IFRS. The auditor's report on those UK GAAP financial statements is unqualified. The financial information for the six months to 31 October 2008 and for the six months to 31 October 2007 is unaudited.

BASIS OF CONSOLIDATION

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in consolidated financial statements from the date that control commences until the date that control ceases.

Intra group balances and any unrealised income and expenses arising from intra group transactions are eliminated in preparing the consolidated statements.

On 5 December 2007 Scientific Digital Imaging Plc was incorporated as the new parent entity and subsequently acquired the entire issued share capital of Synoptics Limited group via a share for share exchange. For the purpose of preparing the consolidated accounts this transaction is not considered to be a business combination.

The financial statements figures as at the 30 April 2008 and 31 October 2007 have been prepared on the assumption that the Scientific Digital Imaging Group in its form following the group reorganisation has always been in existence and that there has been no change in the Group structure. The Consolidated Income Statement therefore includes the results of these companies for the whole of the period being those for these companies as if the Group existed that year. The comparative balance sheet at 31 October 2007 is as the position of Synoptics Limited group, except that the share capital and share premium account have been restated to reflect the position assuming the share for share exchange had occurred at this date.

REVENUE RECOGNITION

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyers. Revenue from the sale of goods provided is measured at the fair value of the consideration received or receivable, net of returns, VAT and trade discounts.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost, less accumulated depreciation. Residual values and useful economic lives are annually assessed.

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of each part of property, plant and equipment to write down the cost of the asset to its residual value.

The estimated useful lives are as follows:

Motor vehicles	3 years
Computer equipment	3 years
Tools and other equipment	3 years
Furniture, fixtures and fittings	5 years
Leasehold improvements	5 years

LEASED ASSETS

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful economic lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are recognised in the income statement on a straight-line basis over the term of the lease.

INVENTORIES

Inventories are measured at the lower of cost and net realisable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their location and condition at the balance sheet date. Items are valued using the first in, first out method. When inventories are used, the carrying amount of these inventories is recognised as an expense in the period in which the related revenue is recognised. Provision for write-down to net realisable value and losses of inventories are recognised as an expense in the period in which the write-down or loss occurs.

TAXATION

Income tax expense comprises current and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expenditure that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which temporary difference can be utilised.

The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow part or all of the assets to be recovered.

Deferred tax is calculated using tax rates that are enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited to the income statement, except for the element relating to items recognised directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statement, cash and cash equivalents comprise cash balances and deposits, less overdrafts payable on demand and cash balances drawn down under the group's invoice discounting facility.

FOREIGN CURRENCY

Transactions in foreign currencies are recorded at the rate of exchange at the time of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the income statement.

For the purpose of presenting the consolidated financial statements the assets and liabilities of the Group’s overseas operations are translated using exchange rates prevailing on the balance sheet date.

Income and expense items of overseas operations are translated at exchange rates approximating to those ruling when the transactions took place. Exchange differences arising from this policy are recognised directly in the foreign exchange reserve.

The group has taken advantage of the exemption in IFRS 1 and has deemed cumulative translation differences for all foreign operations to be nil at the date of transition to IFRS. The gain or loss on disposal of these operations excludes translation differences that arose before the date of transition to IFRS but includes later translation differences.

CONTRIBUTIONS TO PENSION SCHEMES

Defined Contribution Scheme

Obligations for contributions to defined contribution plans are recognised as an expense in the income statement when they are due.

INTANGIBLE ASSETS

Goodwill

Goodwill arising on acquisition is capitalised and represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is also reviewed for impairment immediately following an acquisition. If impaired, they are written down to the higher of fair value and value-in-use.

Research and development

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible, and the Group has sufficient resources to complete the development. The expenditure capitalised includes direct costs of material, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development is stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives of current development cost projects are between three and five years.

Other intangible assets

Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill providing the assets are separable or they arise from contractual or other legal rights and their fair value can be measured reliably. The fair value of intangible assets include any tax amortisation benefit.

Intangible assets with a finite life are amortised over their useful economic lives. Where an intangible asset has an indefinite life then the carrying value is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If impaired, they are written down to the higher of fair value less costs to sell and value-in-use.

The Group's intangible assets have the following useful economic lives:

Technology based	7 years
Customer relationships	5 - 10 years

IMPAIRMENT

The carrying amounts of the Group’s non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised through the Income Statement.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses, recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss on assets other than goodwill is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment has been recognised.

A financial asset, in particular the carrying value of trade receivables, is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Any impairment losses are recognised through the income statement.

PROVISIONS

A provision for warranties is recognised when the underlying products are sold. The provision is based on historical warranty data and a weighing of possible outcomes against their associated probabilities.

FINANCIAL INSTRUMENTS

Financial Assets

The Group's financial assets comprise trade receivables, other receivables, cash and cash equivalents. Trade and other receivables are initially recorded at their fair value less any impairment losses. The carrying amounts of the Group's assets are reviewed and measured at each balance sheet to determine whether there is any indication of impairment.

Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the group becomes a party to the contractual provisions of the instrument. The Group's financial liabilities comprise trade payables, other payables, and an interest bearing confidential invoice discounting facility. All financial liabilities are measured at amortised cost. Financial liabilities are presented under liabilities on the balance sheet.

Compound instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that results in a residual interest in the assets of the company after deducting all of its financial liabilities. Equity instruments do not include a contractual obligation to deliver cash or other financial asset to another entity.

Compound instruments comprise both a liability and equity component. In accordance with International Accounting Standard (IAS) 32 Financial Instruments: Disclosure and Presentation such instruments are to be split into their debt and equity elements, with each element being accounted for separately.

At date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar debt instrument. The residual is the difference between the net proceeds of issue and the liability component (at time of issue) and is accounted for as an equity instrument.

The interest expense on the liability component is calculated applying the effective interest rate for the liability component of the instrument. The difference between this amount and any repayments is added to the carrying amount of the financial liability.

On conversion of debt to equity, the carrying value of the debt instrument is transferred to equity.

EQUITY

Equity comprises the following:

- “Share capital” represents the nominal value of equity shares
- “Merger reserve” represents the difference between the parent company's cost of investment and subsidiary's share capital and share premium where a group reorganisation qualifies as a common control transaction.
- "Share premium account” represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Foreign exchange reserve" represents the differences arising from translation of investments in overseas subsidiaries.
- "Own shares held by Employee Benefit Trust" represents shares held in trust for the benefit of employees.
- “Other reserves” represents equity-settled share-based employee remuneration until such share options are exercised, and the deferred shares to be issued as consideration for the acquisitions between 12 and 48 months from the date of acquisition.
- “Retained earnings” represents retained profits.

EMPLOYEE BENEFIT TRUST

The employee benefit trust is a separately administered discretionary trust for the benefit of employees, the assets of which comprise shares in the company. The material assets, liabilities, income and costs of the EBT are consolidated within these financial statements. Until such time as the company's own shares held by the trust vest unconditionally in employees, the consideration paid for the shares is deducted in arriving at shareholders' funds, less provision for impairment.

SHARE BASED PAYMENTS

Scientific Digital Imaging Plc regularly issues share options to employees. For share based payment awards granted after 7 November 2002 that were unvested at 1 May 2007, the fair value of the award granted is recognised as an employee expense within the Income Statement with a corresponding increase in equity. The fair value is measured at the grant date and spread over the performance period during which the employees become unconditionally entitled to the award.

The fair value of the grants is measured using the Black-Scholes model taking into account the terms and conditions upon which the grants were made. The amounts recognised as an expense is only adjusted to reflect changes in non-market conditions such as the actual number of forfeitures.

1. TRANSITION TO IFRS

IFRS 1 First-time adoption of *International Financial Reporting Standards* sets out the procedures that the Group must follow when it adopts IFRS for the first time as the basis for preparing its financial statements. The Group established its IFRS accounting policies on its transition date, 1 May 2007, and applied these to the IFRS opening balance sheet at its date of transition. The principal changes to UK GAAP accounting policies are:

IAS 19 *Employee Benefits* requires the recording of holiday pay accruals.

IAS 38 *Intangible assets* requires the Group to capitalise development costs if;

- Completion of the intangible asset is technically feasible so that it will be available for use or sale;

- The group intends to complete the intangible asset and use or sell it;
- The group has the ability to use or sell the intangible asset;
- The intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;
- There are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The expenditure attributable to the intangible asset during its development can be measured reliably.

IAS 12 *Income taxes* takes a balance sheet approach to deferred tax whereby deferred tax is recognised by applying the appropriate tax rate to the temporary differences arising between the carrying value of the assets and liabilities and their tax base. This contrasts to UK GAAP which considers timing differences arising in the profit and loss account.

Employee Benefit Trust reclassification - under IFRS no gain or loss is recognised in the income statement on the company's own shares. The loss recognised in 2008 has therefore been reclassified to equity.

The net effect in the Consolidated Income Statement for the comparative interim period and end of last financial year may be summarised as follows:

Unaudited	6 months to 31 October 2007 £	12 months to 30 April 2008 £
Net profit/(loss) for the year:		
Under UK GAAP	(32,077)	69,302
IAS 38 *Intangible assets*	4,260	50,048
IAS 19 *Employee Benefits*	24,672	(3,113)
IAS 12 *Deferred tax*	6,865	(7,351)
Employee Benefit Trust reclassification	28,855	40,183
Restated under IFRS	32,575	149,069

The effect of the above transactions on the Group cash flow is not material.

The net effect on the Consolidated Balance Sheet as at 1 May 2007 may be summarised as follows:

	Under UK			Deferred	Restated
	GAAP	IAS 19	IAS 38	Tax	under IFRS
	£	£	£	£	£
Non-current assets					
Intangibles	-		175,871	-	175,871
Deferred taxation	62,680	-	-	14,747	77,427
Total Assets	**1,897,971**	**-**	**175,871**	**14,747**	**2,088,589**
Equity					
Retained earnings	(1,377,090)	(26,522)	175,871	(38,454)	(1,266,195)
Other reserves	21,016	-	-	14,747	35,763
Current liabilities					
Trade and other payables	650,193	26,522	-	-	676,715
Non-current liabilities					
Deferred taxation	-	-	-	38,454	38,454
Total Equity and liabilities	**1,897,971**	**-**	**175,871**	**14,747**	**2,088,589**

The net effect on the Consolidated Balance Sheet as at 31 October 2007 may be summarised as follows:

	Under UK			Deferred	Restated
	GAAP	IAS 19	IAS 38	Tax	under IFRS
	£	£	£	£	£
Non-current assets					
Intangibles	-		180,131	-	180,131
Deferred taxation	52,080	-	-	11,445	63,525
Total Assets	**1,884,885**	**-**	**180,131**	**11,445**	**2,076,461**
Equity					
Retained earnings	(1,409,167)	(1,850)	180,131	(31,589)	(1,262,475)
Other reserves	23,248	-	-	11,445	34,693
Liabilities					
Trade and other payables	615,946	1,850	-	-	617,796
Non-current liabilities					
Deferred taxation	-	-	-	31,589	31,589
Total Equity and liabilities	**1,884,885**	**-**	**180,131**	**11,445**	**2,076,461**

The effect on the Consolidated Balance Sheet as at 30 April 2008 may be summarised as follows:

	Under UK GAAP £	IAS 19 £	IAS 38 £	Deferred Tax £	Restated under IFRS £
Non-current assets					
Intangibles	-	-	225,919	-	225,919
Deferred taxation	37,678	-	-	12,305	49,983
Total Assets	**2,238,633**	**-**	**225,919**	**12,305**	**2,476,857**
Equity					
Retained earnings	(1,286,772)	(29,635)	225,919	(45,805)	(1,136,293)
Other reserves	12,634	-	-	10,238	22,872
Current liabilities					
Trade and other payables	923,566	29,635	-	-	953,201
Non current liabilities					
Deferred taxation	-	-	-	47,872	47,872
Total Equity and liabilities	**2,238,633**	**-**	**225,919**	**12,305**	**2,476,857**

2. TAXATION

	6 mths to October 2008 £	6 mths to October 2007 £	year to 30 April 2008 £
Current tax	**680**	-	866
Movement in deferred tax	**29,975**	3,735	32,353
Taxation charge	**30,655**	3,735	33,219

The income tax expense recognised in the period is less than the effective rate of tax for the group of 20% due to the availability of an additional tax deduction in the period for research and development expenditure and tax losses brought forward across the group not recognised.

3. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profits attributable to the shareholders of Scientific Digital Imaging Plc divided by the weighted average number of shares in issue during the year. All earnings per share calculations relate to continuing operations of the Group.

	Profits attributable to shareholders	Weighted average number of shares	Basic earnings per share amount in pence
Year ended 30 April 2008	149,069	16,136.427	0.92
Period ended 31 October 2007	32,575	15,997,760	0.20
Period ended 31 October 2008	**224,565**	**16,441,655**	**1.37**

As at the 31 October 2008 the company had outstanding exercisable share options and warrants. Under IAS 33 the dilutive earnings per share is calculated assuming that all such instruments are exercised in full. If the exercise price for the options and warrants are the same or above the average market share price for the company the share options and warrants are considered to be non dilutive. In future years, any increase in the share price may mean that existing options and warrants have a dilutive effect on the future earnings per share of the company.

The conversion of all loan stock issued during the period would result in an increase in average weighted shares of 270,714. There would be a corresponding increase in adjusted earnings due to the interest accruing thereon. The net effect is an enhancement of earnings per share.

4. BUSINESS COMBINATIONS

(a) On 16 October 2008, the Company acquired the entire issued share capital of Artemis CCD Limited, a company incorporated in England and Wales, for a consideration of £229,960 (excluding costs of acquisition). Costs incurred on the acquisition were £20,557.

The assets and liabilities acquired were as follows;

	Book Value	**Fair Value adjustment**	**Fair Value**
	£	**£**	**£**
Assets			
Non-current assets			
Goodwill	17,538	(17,538)	-
Property, plant and equipment	6,304	-	6,304
Technology based intangible assets	-	195,000	195,000
Current assets			
Trade and other receivables	28,238	-	28,238
Cash and cash equivalents	2,837	-	2,837
Creditors			
Trade and other payables	(37,909)	-	(37,909)
Deferred tax on intangibles	-	(39,000)	(39,000)
Net assets acquired	17,008	138,462	155,470
Goodwill		95,047	
Consideration and cost of investment			250,517
Satisfied by:			
Share based consideration			159,960
Cash			70,000
Cost of investment - acquisition costs			20,557
			250,517

The consideration for the acquisition is the issue of 1,333,000 ordinary shares in the company and a cash payment of £70,000. The consideration shares are to be allotted and issued to the Artemis sellers in two tranches: the first tranche of 666,500 ordinary shares are to be allotted twelve months from the Completion date and the second tranche of 666,500 ordinary shares are to be allotted twenty-four months from Completion date. The cash payment is to be made in three tranches, the first was made on the Completion date, the second tranche of £23,333 is to be made on the 16 March 2009 and the third tranche totalling £23,333 will be paid on 16 August 2009.

The consideration shares were valued at 12p being the estimated mid-market price value of the Company's shares at the date of acquisition.

The goodwill that arose on the combination is attributed to the value of synergies expected to be derived from the combination and the value of the workforce of Artemis CCD Limited which cannot be recognised as an intangible asset under IAS 38.

Fair value adjustments made to the net assets were to recognise the technology based intangibles acquired and associated deferred tax.

From the date of acquisition to 31 October 2008, Artemis CCD Limited made a loss before tax of £1,741. In its last financial year to 30 September 2007, Artemis CCD Limited made a profit before tax of £15,546. From 1 October 2007 to the date of acquisition Artemis CCD Limited made a profit before tax of £15,496. From 1 October 2007 to the date of acquisition Artemis CCD Limited had revenue of £303,000 of which £203,000 were to other group companies.

(b) On 16 October 2008, the Company acquired the entire issued share capital of Perseu Comercio De Equipamento Para Informatica E Astronomia SA (Perseu), a company incorporated in Portugal, for a consideration of £159,960 (excluding costs of acquisition). Costs of acquisition totalled £20,556.

The assets and liabilities acquired were as follows;

	Book Value	Fair Value adjustment	Fair Value
	£	£	£
Assets			
Non-current assets			
Property, plant and equipment	55,483	(3,066)	52,417
Customer related intangibles	-	21,000	21,000
Current assets			
Inventories	142,967	(45,639)	97,328
Trade and other receivables	59,623	-	59,623
Cash and cash equivalents	10,938	-	10,938
Creditors			
Trade and other payables	(92,970)	-	(92,970)
Borrowings	(38,090)	-	(38,090)
Deferred tax on intangibles	-	(4,200)	(4,200)
Net assets acquired	137,951	(31,905)	106,046
Goodwill			74,470
Consideration and cost of investment			180,516
Satisfied by:			
Share based consideration			159,960
Cost of investment- acquisition costs			20,556
			180,516

The consideration for the acquisition is the issue of 1,333,000 ordinary shares in the company. The consideration shares are to be allotted and issued to the Perseu sellers in two tranches: the first tranche of 666,500 ordinary shares are to be allotted twelve months from the Completion date and the second tranche of 666,500 ordinary shares are to be allotted forty-eight months from the Completion date.

The consideration shares were valued at 12p being the estimated mid-market price value of the Company's shares at the date of the acquisition.

The goodwill that arose on the combination is attributed to the value of synergies expected to be derived from the combination and the value of the workforce of Perseu Comercio De Equipamento Para Informatica E Astronomia SA (Perseu), which cannot be recognised as an intangible asset under IAS 38.

Fair value adjustments made to the property, plant and equipment are to write down the costs of an observatory to its estimated value. The fair value adjustment made to stock is to write down the value of astronomy stock to its net realisable value. In addition, a fair value adjustment has been made to recognise the customer related intangibles acquired and associated deferred tax.

From the date of acquisition to 31 October 2008 Perseu made a profit before tax of €8,000. In its last financial year to 31 December 2007, the company made a profit before tax of €13,297. From 1 January 2008 to the date of acquisition, the company made a profit before tax of €56,434. From 1 January 2008 to the date of acquisition, the company had revenue of 474,000 of which €207,000 were to other group companies.

5. BORROWINGS

Unaudited	**31 October 2008 £**	31 October 2007 £	30 April 2008 £
Loan stock	**-**	177,853	-
Finance leases	**30,945**	18,136	29,393
Bank loans	**-**	6,802	-
Current borrowings	**30,945**	202,791	29,393
Loan stock	**339,380**	-	-
Other borrowings	**54,191**	47,406	32,719
Non current borrowings	**393,571**	47,406	32,719
Total borrowings	**424,516**	250,197	62,112

The proceeds of £379,000 from the issue of loan stock is after adjustment in accordance with the accounting treatment required under IAS 32. Certain rights that are attached to the company's loan stock result in it having characteristics of both equity and liabilities. Therefore the loan stock is considered to be a compound instrument.

The value of the liability component has been calculated based on the present value of the future cash flows in respect of payments that the company is obliged to make to holders of its loan stock. The value of £40,986 included within equity under the heading 'Other reserve' is the residual amount.

The loan stock is unsecured, bears interest at 9% per annum and can be converted at any time prior to 30 April 2013 at a rate of 1 ordinary share for every £0.70 nominal amount of loan stock. Any unconverted loan stock is due for repayment on 13 July 2013.

Subscribers to the loan stock also received warrants to subscribe for one ordinary share at a price of £0.70 for each £4.00 of loan stock subscribed for. The warrants will be valid until 31 July 2013, except that this period may be extended by the company at its sole option. The total number of warrants issued by the company was 94,750.

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