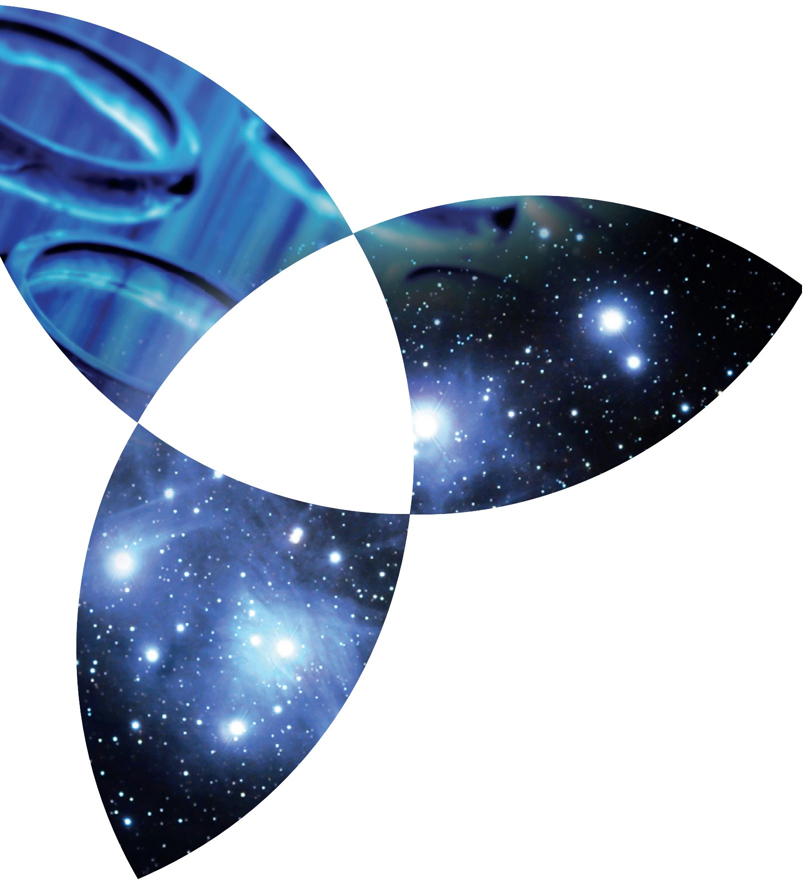
Interim Report and Accounts 2011

Scientific Digital Imaging plc



Overview

With many industrialised nations facing the reality of high levels of public debt and the need to reduce public spending, the Group has found its customers' budgets coming under pressure and its primary markets very difficult indeed. The USA and Europe have seen very troubled trading conditions for the past two years while other territories such as India and China continue to make good progress. Unfortunately the margins we have historically achieved in these markets have been lower than in other regions.

The board has confronted these challenges and has made a number of changes to the way in which the company operates. Our primary objective is to manage the company effectively and to execute a strategy to return the company to profitability. This has sadly resulted in some redundancies at the Cambridge facility. In addition, Dr. Phil Atkin, who was founder of the company, stepped down as CEO and has left the company, although he is providing software services on a consulting basis for the time being. Mike Creedon has taken the reins as Acting Managing Director with the clear mandate to manage the company through these difficult times and drive profitable growth.

Gross margins have been evaluated and cost reduction programmes introduced to improve margins, particularly in some overseas territories. Product development has been overhauled and this will result in a significant reduction in "time-to-market" for new products. A new business information system will reduce costs in the future and a more focussed strategy in international markets should lead to further improvements.

Significant product introductions were achieved in the past 6 months.

GeneGnome 5, a dedicated chemiluminescent imaging system designed to make precise imaging of chemiluminescent Western blots a simple, one click task.

Geni^2, the next generation of affordable motorised GENi gel documentation system. This point-and-press system is ideal for scientists wanting to produce accurate images of florescent DNA gels, as well as fluorescent protein gels in seconds.

A new range of cameras were announced by Atik in October 2011 for shipment in November 2011. Initial response has been good with healthy orders from our dealers.

Strategic Collaborations

In the annual report 2011, we referred to a new instrument exploiting our core competences of fluorescence imaging and image analysis in a market outside our traditional markets. Progress is being made with this potentially new income stream to enable Synoptics to drive its fluorescence detection technology into untapped market sectors. We anticipate being in a position to announce details of this initiative in 2012.

Financing and Operations

Revenue decreased by 5.5% in the six months to 31 October 2011 (£3,309k, relative to revenue £3,502k for the six months to 31 October 2010).

Gross margin percentage reduced as a consequence of a change in product mix.

Administrative expenses reduced to £1,943k (2010: £2,117k) before reorganisation costs of £38k, due to restructuring SDI and Synoptics through staff reductions.

The overall effect of the reduced gross margin and savings within administrative expenses has been an operating loss before reorganisation costs of £121k (2010: £149k).

Basic and fully diluted loss per share were both 1.00p (2010: basic and fully diluted loss 1.11p)

The Group's cash position improved by £98k to £256k over the 6 month period, mainly due to the control of stock and debtors.

Outlook

While key markets remain weak, the Group's order book has strengthened in recent weeks as new product introductions begin to influence buying decisions.

The board anticipates that the benefits of the cost reduction programmes and new products released during the second half and will result in improved margins and some growth in the second half.

The board continues to have confidence in the Group's strategy and long term prospects.

Harry Tee CBE, Chairman **15 December 2011**

Consolidated income statement

Unaudited for the six months ended 31 October 2011

	Note	**6 months to 31 October 2011 Unaudited £'000**	6 months to 31 October 2010 Unaudited £'000	12 months to 30 April 2011 Audited £'000
Revenue		**3,309**	3,502	7,287
Costs of sales		**(1,483)**	(1,524)	(3,197)
Gross Profit		**1,826**	1,978	4,090
Currency exchange (losses)		**(4)**	(10)	(28)
Administrative expenses		**(1,943)**	(2,117)	(4,156)
Redundancy costs		**(38)**	-	-
Total administrative expenses		**1,985**	2,127	4,184
Operating loss		**(159)**	(149)	(94)
Financial income		**-**	-	-
Financial expenses		**(31)**	(37)	(68)
Loss before taxation		**(190)**	(186)	(162)
Income tax (credit)/expense		**(11)**	5	40
Loss for the period		**(179)**	(191)	(202)
Loss per share				
Basic	2	**(1.00)p**	(1.11)p	(1.14)p
Diluted		**(1.00)p**	(1.11)p	(1.14)p

Consolidated statement of comprehensive income

Unaudited for the six months ended 31 October 2011

	6 months to 31 October 2011 Unaudited £'000	6 months to 31 October 2010 Unaudited £'000	12 months to 30 April 2011 Audited £'000
Loss for the period	**(179)**	(191)	(202)
Other comprehensive income			
Exchange differences on translating foreign operations	**44**	(41)	(55)
Total comprehensive loss for the period	**(135)**	(232)	(257)

Consolidated balance sheet

Unaudited at 31 October 2011

Assets	Note	**31 October 2011 Unaudited £'000**	31 October 2010 Unaudited £'000	30 April 2011 Audited £'000
Non-current assets				
Property, plant and equipment		**449**	355	416
Intangible assets		**731**	752	764
Deferred tax asset		**129**	149	113
		1,309	1,256	1,293
Current assets				
Inventories		**756**	824	781
Trade and other receivables		**1,285**	1,117	1,404
Cash and cash equivalents		**256**	224	158
		2,297	2,165	2,343
Total assets		**3,606**	3,421	3,636
Liabilities				
Current liabilities				
Trade and other payables		**1,171**	953	1,054
Provisions for warranty		**17**	15	17
Borrowings	3	**90**	20	132
		1,278	988	1,203
Non-current liabilities				
Borrowings	3	**424**	395	397
Deferred tax liability		**148**	122	148
		572	517	545
Total liabilities		**1,850**	1,505	1,748
Net assets		**1,756**	1,916	1,888
Equity				
Share capital		**187**	180	187
Merger reserve		**2,606**	2,606	2,606
Share premium account		**263**	187	260
Foreign exchange reserve		**(8)**	(38)	(52)
Own shares held by Employee Benefit Trust		**(85)**	(85)	(85)
Other reserves		**176**	274	176
Retained earnings		**(1,383)**	(1,208)	(1,204)
Total Equity		**1,756**	1,916	1,888

Consolidated statement of cash flows

Unaudited for the six months ended 31 October 2011

	6 months to 31 October 2011 Unaudited £'000	6 months to 31 October 2010 Unaudited £'000	12 months to 30 April 2011 Audited £'000
Operating activities			
Loss for the period	**(179)**	(191)	(202)
Depreciation and amortisation	**231**	173	379
Finance expense	**31**	37	68
Taxation (credit)/expense recognised in the income statement	**(11)**	5	40
(Increase)/Decrease in inventories	**25**	(144)	(101)
Increase in warranty provision	**-**	2	4
Foreign exchange loss	**43**	(41)	(24)
Employee share based payments	**-**	10	7
Operating cash flow before movement in working capital	**140**	(149)	171
Changes in trade and other receivables	**119**	260	(14)
Changes in trade and other payables	**101**	(353)	(252)
Cash generated from operations	**360**	(242)	(95)
Interest paid	**(15)**	(37)	(60)
Income taxes paid	**-**	(39)	(32)
Cash generated from operating activities	**345**	(318)	(187)
Cash flows from investing activities			
Purchase of property plant and equipment	**(76)**	(107)	(342)
Investment in development	**(108)**	(106)	(252)
Proceeds from sale of property, plant and equipment	**-**	-	102
Net cash used in investing activities	**(184)**	(213)	(492)
Cash flows from financing activities			
Capital element of finance leases	**(12)**	(7)	(17)
Issues of shares and warrants	**3**	-	-
Bank borrowings	**(54)**	-	116
Net cash used in financing activities	**(63)**	(7)	99
Net changes in cash and cash equivalents	**98**	(538)	(580)
Cash and cash equivalents, beginning of period	**158**	762	762
Foreign currency movements on cash balances	-	-	(24)
Cash and cash equivalents, end of period	**256**	224	158

Consolidated statement of changes in equity

Unaudited as at 31 October 2011

6 months to 31 October 2011 – unaudited

	Share Capital £'000	Merger Reserve £'000	Share premium £'000	Own shares held by EBT £'000	Other Reserves £'000	Foreign exchange £'000	Retained Earnings £'000	Total £'000
Balance at 1 May 2011	187	2,606	260	(85)	176	(52)	(1,204)	1,888
Share options exercised	-	-	3	-	-	-	-	3
Transactions with owners	**-**	**-**	**3**	**-**	**-**	**-**	**-**	**3**
Loss for the period	-	-	-	-	-		(179)	(179)
Foreign exchange on consolidation of subsidiary	-	-	-	-	-	44	-	44
Total comprehensive income for the period	-	-	-	-	-	44	(179)	(135)
Balance at 31 October 2011	**187**	**2,606**	**263**	**(85)**	**176**	**(8)**	**(1,383)**	**1,756**

6 months to 31 October 2010 – unaudited

	Share Capital £'000	Merger Reserve £'000	Share premium £'000	Own shares held by EBT £'000	Other Reserves £'000	Foreign exchange £'000	Retained Earnings £'000	Total £'000
Balance at 1 May 2010	180	2,606	187	(85)	264	3	(1,017)	2,138
Share based payments	-	-	-	-	10	-	-	10
Transactions with owners	-	-	-	-	10	-	-	10
Loss for the period	-	-	-	-	-	-	(191)	(191)
Foreign exchange on consolidation of subsidiary	-	-	-	-	-	(41)	-	(41)
Total comprehensive income for the period	-	-	-	-	-	(41)	(191)	(232)
Balance at 31 October 2010	180	2,606	187	(85)	274	(38)	(1,208)	1,916

12 months to 30 April 2011 – audited

	Share Capital £'000	Merger Reserve £'000	Share premium £'000	Own shares held by EBT £'000	Other Reserves £'000	Foreign exchange £'000	Retained Earnings £'000	Total £'000
Balance at 1 May 2010	180	2,606	187	(85)	264	3	(1,017)	2,138
Shares issued as deferred payment	7	-	73	-	(80)	-	-	-
Deferred tax on options	-	-	-	-	(15)	-	15	-
Share based payments	-	-	-	-	7	-	-	7
Transactions with owners	7	-	73	-	(88)	-	15	7
Loss for the year	-	-	-	-	-	-	(202)	(202)
Foreign exchange on consolidation of subsidiary	-	-	-	-	-	(55)	-	(55)
Total comprehensive income	-	-	-	-	-	(55)	(202)	(257)
Balance at 30 April 2011	187	2,606	260	(85)	176	(52)	(1,204)	1,888

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

REPORTING ENTITY

Scientific Digital Imaging plc (the "Company"), 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 2011 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 2011. These interim financial statements have been prepared using the recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in the European Union (collectively EU IFRS). The financial information for the year ended 30 April 2011 is based upon the audited statutory accounts for that year.

The consolidated interim financial information has been prepared on the historical cost basis.

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 15 December 2011.

The financial information set out in this interim report does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. The figures for the year ended 30 April 2011 have been extracted from the Statutory Financial Statements of Scientific Digital Imaging plc which have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under section 498(2) or 498(3) of the Companies Act 2006. The financial information for the six months to 31 October 2011 and for the six months to 31 October 2010 is unaudited.

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the condensed consolidated interim information are consistent with those followed in the preparation of the Group's financial statements for the year ended 30 April 2011.

The accounting policies have been applied consistently throughout the Group the purposes of preparation of these interim financial statements.

2. LOSS PER SHARE

The calculation of the basic loss per share is based on the losses attributable to the shareholders of Scientific Digital Imaging plc divided by the weighted average number of shares in issue during the year, excluding shares held by the Synoptics Employee Benefit Trust. All loss per share calculations relate to continuing operations of the Group.

	Loss attributable to shareholders £'000	Weighted average number of shares	Basic loss per share amount in pence
Period ended 31 October 2011	**(179)**	**17,982,260**	**(1.00)**
Period ended 31 October 2010	(191)	17,304,314	(1.11)
Year ended 30 April 2011	(202)	17,662,215	(1.14)

The calculation of diluted earnings per share is based on the losses attributable to the shareholders of Scientific Digital Imaging plc divided by the weighted average number of shares in issue during the year, as adjusted for dilutive share options, dilutive deferred consideration and shares held by the Synoptics Employee Benefit Trust.

As at the 31 October 2011 and 2010 and 30 April 2011 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. However as the existing options and warrants are either "out of the money" or their exercise would reduce the loss per share for the period of 6 months to 31 October 2011, the diluted loss per share for that period is the same as the undiluted loss per share.

	Diluted loss per share amount in pence
Period ended 31 October 2011	**(1.00)**
Period ended 31 October 2010	(1.11)
Year ended 30 April 2011	(1.14)

3. BORROWINGS

	31 October 2011 £'000	31 October 2010 £'000	30 April 2011 £'000
Within one year:			
Bank finance	**62**	-	116
Finance leases	**28**	20	16
	90	20	132
After one year and within five years:			
Loan stock	**364**	356	360
Finance leases	**52**	23	27
	416	379	387
Over five years:			
Finance leases	**8**	16	10
Total borrowings	**514**	415	529

The Group utilises short-term facilities to finance its operation. The Group has one principal banker with an invoice discounting facility of up to £500k. At the end of the period the Group had utilised £62k of this facility.

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