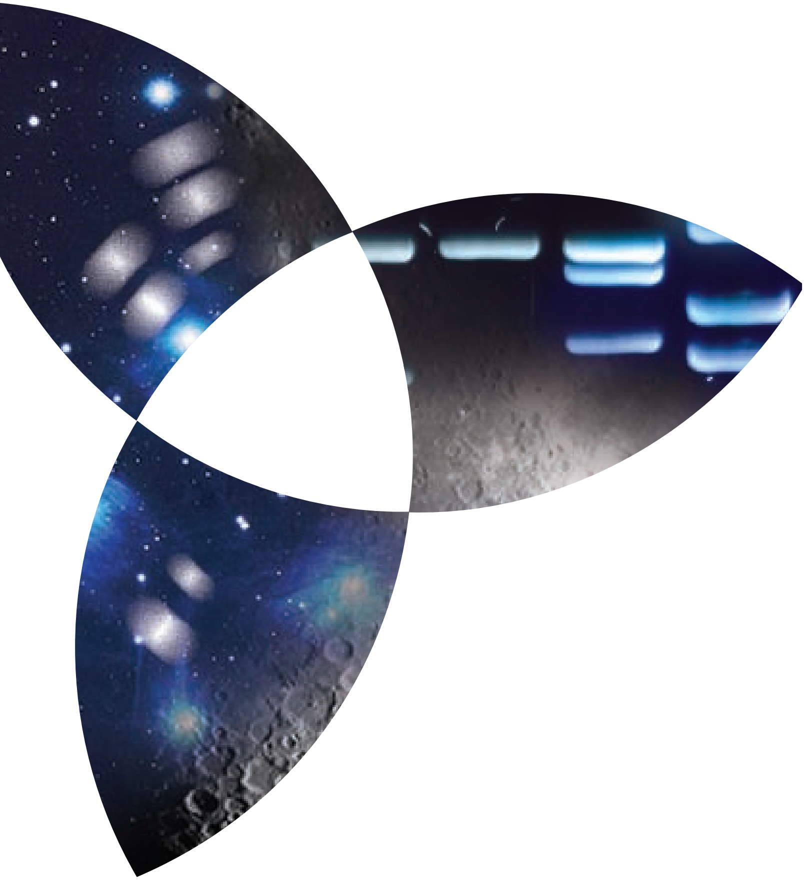
Interim Report and Accounts 2010

Scientific Digital Imaging plc



It has been a period of good product news but mixed financial performance. Our expectations of a stable market were proven relatively valid, however the economic circumstances have resulted in an unexpected shift in product mix, resulting in an increase in the proportion of lower margin instruments and consequently a reduction in gross percentage margin.

Revenue increased 2.5% in the six months to 31 October 2010 (£3,502k, relative to revenue £3,418k for the six months to 31 October 2009). However as a consequence of the change in product mix, the gross profit was effectively unchanged (£1,978k, with comparative for 6 months to 31 October 2009: £1,977k).

Administrative expenses rose to £2,117k (2009: £1,870k), mainly due to earlier increases in Atik staff being present throughout the period and to increased central overhead, including the appointment of a Group CFO – something we see as a vital investment for the future – and preliminary acquisition costs.

The overall effect of this reduced gross margin and increased overhead has been an operating loss for the period of £149k (2009: £75k profit).

Basic and fully diluted loss per share were both 1.11p (2009: earnings 0.69p and 0.60p respectively).

The Group's cash position decreased by £538k to £224k over the period, mainly due to the operating loss, stock fluctuations and commission payments all of which are expected to be reduced over the second half of the financial year. The Group has an invoice discounting facility of up to £500k available to finance its operations which it is not currently utilising.

Major changes to the Syngene product line were introduced during the period. The G:Box range of instruments was re-engineered with a new range of cameras (principally in the Atik range) and new software known as GeneSys. GeneSys was launched to a well-attended international dealer meeting at the end of September and represents a step change in the design of image capture software for DNA gel documentation systems. Using such systems has become complex, requiring an understanding of multiple fluorescent dyes, multiple lighting options, computer-controlled lenses and filters, and of course a highly sophisticated camera. GeneSys, however, is completely application-centric and is capable of controlling the entire system to achieve optimal results; the user simply has to specify what is being imaged. With an intuitive, touch-screen interface, this software represents a major breakthrough and was very well received by the dealers.

A new camera introduced by Atik was also very well received by the market and the order book grew rapidly. Unfortunately initial problems with the design meant that production of the camera was time-consuming in the early months and a number of the first shipped units proved unreliable in the field. It was necessary to halt production and decline further orders until the problems were resolved; fortunately very few orders were lost as a consequence. The problems have now been fully resolved and production has recommenced on an improved basis.

Increased demand for Atik cameras in both the astronomy and bio-imaging markets resulted in the need to enhance the production facilities in Lisbon through the installation of specialised equipment and the recruitment of additional personnel, and to the opening of an additional UK production facility.

Atik’s presence in the US market has led to increased recognition of the brand and this has enabled a change in approach: the cameras are now sold through US distributors, leading to a significant increase in potential future sales.

Throughout the period we have continued to examine a number of potential acquisition targets, following our stated strategy of acquiring digital imaging companies in the life sciences sector and in other scientific markets, as well as seeking to generate organic growth. Sadly, a number of the acquisition targets we have pursued have not come to fruition for a variety of reasons.

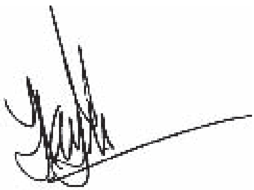
Outlook

The markets addressed by the Group remain mainly stable, although we have suffered from some unexpected short-term fluctuations in demand and a change in product mix.

The Board anticipates that new products released during the first half will contribute to a substantially stronger second half and that the Group's strategy will result in good medium-term growth and in an improvement in our margins over the balance of the financial year, particularly given the strengthening of the supply for some of the growth products.

However the unexpected shift in product mix during the first half, together with the associated reduction in gross margin, and preliminary acquisition costs during the first half, mean that the Board continues to believe that the post tax profit for the full year will be below original expectations (as stated in our trading update of 10 December 2010).

Our strategy of growth through acquisition of complementary businesses remains unchanged. We continue to work hard at finding suitable acquisition opportunities and are anticipating completing at least one acquisition in 2011.



Harry Tee CBE, Chairman **14 January 2011**

Consolidated income statement

Unaudited for the six months ended 31 October 2010

	Note	**6 months to 31 October 2010 Unaudited £'000**	6 months to 31 October 2009 Unaudited £'000	12 months to 30 April 2010 Audited £'000
Continuing operations				
Revenue		**3,502**	3,418	7,186
Costs of sales		**(1,524)**	(1,441)	(2,894)
Gross profit		**1,978**	1,977	4,292
Currency exchange losses		**(10)**	(32)	(23)
Administrative expenses		**(2,117)**	(1,870)	(3,950)
Operating (loss)/profit		**(149)**	75	319
Financial income		**-**	-	3
Financial expenses		**(37)**	(32)	(64)
(Loss)/Profit before taxation		**(186)**	43	258
Income tax (expense)/credit	2	**(5)**	68	18
(Loss)/Profit for the period		**(191)**	111	276
(Loss)/Earnings per share				
Basic	3	**(1.11)p**	0.69p	1.67p
Diluted		**(1.11)p**	0.60p	1.46p

Consolidated statement of comprehensive income

Unaudited for the six months ended 31 October 2010

	6 months to 31 October 2010 Unaudited £'000	6 months to 31 October 2009 Unaudited £'000	12 months to 30 April 2010 Audited £'000
(Loss)/Profit for the period	**(191)**	111	276
Other comprehensive income			
Exchange differences on translating foreign operations	**(41)**	(47)	(12)
Total comprehensive (loss)/income for the period	**(232)**	64	264

Consolidated balance sheet

Unaudited at 31 October 2010

Assets	Note	**31 October 2010 Unaudited £'000**	31 October 2009 Unaudited £'000	30 April 2010 Audited £'000
Non-current assets				
Property, plant and equipment		**355**	349	325
Intangible assets		**752**	740	742
Deferred tax asset		**149**	117	154
		1,256	1,206	1,221
Current assets				
Inventories		**824**	535	680
Trade and other receivables		**1,117**	1,254	1,377
Cash and cash equivalents		**224**	602	762
		2,165	2,391	2,819
Total assets		**3,421**	3,597	4,040
Liabilities				
Current liabilities				
Trade and other payables		**953**	1,081	1,306
Provisions for warranty		**15**	13	13
Borrowings	4	**20**	26	20
Tax liabilities		**-**	19	39
		988	1,139	1,378
Non-current liabilities				
Borrowings	4	**395**	413	402
Deferred tax liability		**122**	122	122
		517	535	524
Total liabilities		**1,505**	1,674	1,902
Net assets		**1,916**	1,923	2,138
Equity				
Share capital		**180**	180	180
Merger reserve		**2,606**	2,606	2,606
Share premium account		**187**	187	187
Foreign exchange reserve		**(38)**	(32)	3
Own shares held by Employee Benefit Trust		**(85)**	(85)	(85)
Other reserves		**274**	249	264
Retained loss		**(1,208)**	(1,182)	(1,017)
Total equity		**1,916**	1,923	2,138

Consolidated statement of cash flows

Unaudited for the six months ended 31 October 2010

	6 months to 31 October 2010 Unaudited £'000	6 months to 31 October 2009 Unaudited £'000	12 months to 30 April 2010 Audited £'000
Operating activities			
(Loss)/Profit for the period	**(191)**	111	276
Depreciation and amortisation	**173**	126	294
Profit on sale of property, plant and equipment	**-**	(3)	(5)
Finance expense	**37**	32	61
Taxation expense/(credit) recognised in the income statement	**5**	(68)	(18)
Increase in warranty provision	**2**	-	-
Foreign exchange loss	**(41)**	(19)	(5)
Employee share based payments	**10**	10	15
Operating cash (outflow)/inflow before movement in working capital	**(5)**	189	618
(Increase)/Decrease in inventories	**(144)**	(35)	(177)
Decrease/(Increase) in trade and other receivables	**260**	(34)	(142)
(Decrease)/Increase in trade and other payables	**(353)**	(27)	140
Cash (outflow)/inflow generated from operations	**(242)**	93	439
Interest paid	**(37)**	(28)	(53)
Income taxes received/(paid)	**(39)**	(27)	(54)
Cash (outflow)/generated from operating activities	**(318)**	38	332
Cash flows from investing activities			
Purchase of property plant and equipment	**(107)**	(99)	(168)
Investment in development	**(106)**	(88)	(176)
Proceeds from sale of property, plant and equipment	**-**	33	54
Purchase of acquisitions, net of cash acquired	**-**	(23)	-
Interest received	**-**	-	3
Net cash used in investing activities	**(213)**	(177)	(287)
Cash flows from financing activities			
Capital element of finance leases	**(7)**	(17)	(41)
Issues of shares and warrants	**-**	2	2
Net cash used in financing activities	**(7)**	(15)	(39)
Net (decrease)/increase in cash and cash equivalents	**(538)**	(154)	6
Cash and cash equivalents, beginning of period	**762**	756	756
Cash and cash equivalents, end of period	**224**	602	762

Consolidated statement of changes in equity

Unaudited as at 31 October 2010

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**
Profit/(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**

6 months to 31 October 2009 – 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 2009	167	2,606	38	(85)	399	15	(1,293)	1,847
Shares issued as deferred payment	13	-	147	-	(160)	-	-	-
Share options exercised	-	-	2	-	-	-	-	2
Share based payments	-	-	-	-	10	-	-	10
Transactions with owners	13	-	149	-	(150)	-	-	12
Profit for the period	-	-	-	-	-	-	111	111
Foreign exchange on consolidation of subsidiary	-	-	-	-	-	(47)	-	(47)
Total comprehensive income for the period	-	-	-	-	-	(47)	111	64
Balance at 31 October 2009	180	2,606	187	(85)	249	(32)	(1,182)	1,923

12 months to 30 April 2010 – 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 2009	167	2,606	38	(85)	399	15	(1,293)	1,847
Shares issued as deferred payment	13	-	147	-	(160)	-	-	-
Deferred tax on options	-	-	-		10	-		10
Share options exercised	-	-	2	-	-	-	-	2
Share based payments	-	-	-	-	15	-	-	15
Transactions with owners	13	-	149	-	(135)	-	-	27
Profit for the year	-	-	-	-	-	-	276	276
Foreign exchange on consolidation of subsidiary	-	-	-	-	-	(12)	-	(12)
Total comprehensive income	-	-	-	-	-	(12)	276	264
Balance at 30 April 2010	180	2,606	187	(85)	264	3	(1,017)	2,138

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 2010 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 2010. These interim financial statements have been prepared in accordance with the accounting policies expected to be followed for the year ending 30 April 2011, which are based on the recognition and measurement principles of IFRS as adopted by the European Union.

The financial statements have 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 statements were approved by the Board of Directors on 13 January 2011.

The financial information set out in these interim financial statements does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The figures for the year ended 30 April 2010 have been extracted without adjustment from the IFRS 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 is unqualified. The financial information for the six months ended 31 October 2009, which is unaudited, has been extracted without adjustment from the interim financial statements for that period which were published by the Company on 25 January 2010. The financial information for the six months ended 31 October 2010 is unaudited.

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 April 2010.

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

2. TAXATION

Assets	**6 months to 31 October 2010 Unaudited £'000**	6 months to 31 October 2009 Unaudited £'000	12 months to 30 April 2010 Audited £'000
Current tax expense	-	(15)	(85)
Deferred tax (expense)/credit	(5)	83	103
Income tax (expense)	(5)	68	18

3. (LOSS)/EARNINGS PER SHARE

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

	(Loss)/Profit attributable to shareholders £'000	Weighted average number of shares	Basic earnings/(loss) per share amount in pence
Period of 6 months to 31 October 2010	**(191)**	**17,304,314**	**(1.11)**
Period of 6 months to 31 October 2009	111	16,073,650	0.69
Period of 12 months to 30 April 2010	276	16,523,554	1.67

The calculation of diluted (loss)/earnings per share is based on the (loss)/profit attributable to the shareholders of Scientific Digital Imaging Plc divided by the weighted average number of shares in issue during the period, as adjusted for any dilutive share options and warrants, dilutive deferred consideration and shares held by the Synoptics Employee Benefit Trust.

As at 31 October 2010 and 2009 and 30 April 2010, the Company had outstanding exercisable share options and warrants. Under IAS 33 the diluted 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 2010, the diluted loss per share for that period is the same as the undiluted loss per share.

	Diluted (loss)/ earnings per share amount in pence
Period of 6 months to 31 October 2010	**(1.11)**
Period of 6 months to 31 October 2009	0.60
Period of 12 months to 30 April 2010	1.46

The reconciliation of average number of ordinary shares used for basic and diluted (loss)/earnings per share is as below:

	6 months to 31 October 2010	6 months to 31 October 2009	12 months to 30 April 2010
Weighted average number of ordinary shares used for basic earnings per share	**17,304,314**	16,073,650	16,523,554
Weighted average number of shares held by Synoptics Employee Benefit Trust	**711,528**	711,528	711,528
Weighted average number of ordinary shares used as deferred consideration	**1,333,000**	1,333,000	1,333,000
Weighted average number of ordinary shares under option	**337,152**	451,567	374,365
Weighted average number of ordinary shares used for diluted earnings per share	**19,685,994**	18,569,745	18,942,447

4. BORROWINGS

	31 October 2010	31 October 2009	30 April 2010
Within one year			
Finance leases	**20**	26	20
After one year and within five years			
Loan stock	**356**	348	352
Finance leases	**39**	65	50
	395	413	402
Total borrowings	**415**	439	422

The Group utilises short-term facilities to finance its operations. The Group has one principal banker with an invoice discounting facility of up to £500k. At the end of the period the Group had cash on the balance sheet therefore the facility was not utilised.

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