

Densitron Technologies plc
Interim Statement for the Period 1 January 2004 to 30 June 2004

Highlights

- Group operating profit was £0.6m (£0.3m loss in 2nd half 2003)
- Gross margin increased to 42.1% (38.9% in 2nd half 2003)
- Revenue now stable with a £0.3m increase over 2nd half 2003
- New order intake increased by almost £2m over 2nd half 2003
- Further 10.6% reduction in administrative expenses against 2nd half 2003
- £0.9m profit before tax (£0.5m loss in 2nd half 2004)

Financial Highlights

	6 months to 30 June 2004 Unaudited	6 months to 31 Dec 2003 Audited	6 months to 30 June 2003 Unaudited
Revenue	13.6	13.3	14.7
Group operating profit	0.6	(0.3)	0.2
Profit/(loss) before taxation	0.9	(0.4)	(6.0)
Earnings/(loss) per share	0.22p	(2.70)p	(21.39)p
Order book	14.1	16.5	17.9

The group has returned to profitability with a £916,000 profit before tax on ordinary activities. This contrasts sharply with the losses of £6.0m and £0.3 reported for 1st half and 2nd half 2003 respectively.

Our strategy to focus on higher margin, solution oriented business has resulted in a margin improvement across all product groups. The efficiency measures and restructuring we announced at the end of last year have been implemented and the resultant benefits are being seen in full. As a result administrative expenses reduced by a further £0.6m in the period. All of these actions resulted in an Operating Profit of £628,000 and an earnings per share of 0.22p; a substantial improvement over the losses per share of 2.70p and 21.39p in the previous two periods. No interim dividend will be paid.

New orders received in the period were £12.4m (2nd half of 2003 £10.5m) and are of a quality that suggests we are starting to see the benefits of focus and execution on our three product group strategy. The Group's order book stood at £14.1m at 30th June 2004 (£16.5m at 31st December 2003). Clearly this is now the area of attention and we have taken steps to strengthen the sales & marketing function.

Display solutions

The Display Solutions business is beginning to benefit from a tighter focus on display modules together with their housings and supporting electronics, rather than just the display. We are making greater efforts to work more closely with established customers to develop a greater understanding of their total requirements in order to develop more complete solutions and cement long-term relationships. We are working on new prospects, for example, in the auto after-market and digital radio field.

Component shortages, as experienced by the industry as a whole, and supply problems have continued to hamper progress. To combat the latter, we are strengthening our processes and have made investments in quality management and structured Densitron Asia so their expertise, location and local knowledge become a more significant advantage in our operational effectiveness.

Public Information Displays

Our Ferrograph business produces high quality products and our manufacturing facilities are excellent but we have been disappointed with the level of orders. We have not recovered from the loss of the sales force in 2003 and this continues to receive attention. Ferrograph is the market leader in the UK bus sector where we are forging closer relationships with system integrators. The first wave of solutions has largely been supplied and future requirements are evolving. To capitalise on this opportunity we have invested in a new design during the period, which was launched in June. We have, nevertheless, enjoyed some improvement in the call centre market where Ferrograph has remained strong having necessary software links to major call centre systems. Our successful installation at Manchester Airport has been completed during the period. Whilst Ferrograph will not reach its potential this year we remain convinced that we have a platform for growth and success in 2005.

Display computers

Display Computers continues to show promise with the new DPX-114 computer board winning orders to a value of £0.4m from a new customer in the period with shipments commencing during the second half. We have enjoyed continuing business from an existing Japanese customer that has proved significant and although the current product is reaching 'end of life', we are working hard to introduce the next generation.

Hitech Electronics Corporation

Hitech continues to perform well and generates a substantial portion of the Group's profitability. It has established a successful Human Machine Interface (HMI) product range that represents 58% of the business. This is essentially a device that sits between a programmable logic controller (plc) on a machine tool or production process and the operator. It allows the operator to programme the machine without the intervention of a skilled plc programmer. Plans are being developed to reinvest in the HMI product range in order to capitalise on Hitech's market position and expand geographically outside China. An increasing number of the Group's display enquiries are being directed at Hitech to maximise the Group's Profitability.

VBest Electronics Ltd

VBest made a successful Initial Public Offering on the Taiwan Emerging Market at the end of May. Under Taiwanese Stock Exchange rules a minimum of 500,000 shares must be offered for sale by existing shareholders. The Group took the opportunity to provide these and our holding is now 29,400,000 shares. The Emerging Market is a first step towards a full listing. This disposal of less than 2% of our holding made a small profit, realising £96,000. VBest is showing very good growth in sales and profitability so far in 2004 but despite this its share price has been adversely affected since the IPO along with the hi-tech industry in general. Even at the current price per share of NT\$ 17.4 and an exchange rate of £1 = NT\$61, the market value of our holding is £8.4m compared with £6.8m on our balance sheet. Its future share price will, of course, depend on trading success and market conditions. It must be borne in mind that Taiwanese Stock Exchange rules restrict major shareholders' of a newly listed company's ability to dispose of shares during a four-year period following the IPO. For a full explanation see www.densitron.com.

Despite improvements, we are still suffering with supply problems and it is clear that the huge expanding Chinese local market is a distraction when compared to the high quality demands of European and USA customers. We are working hard with VBest through Densitron Asia to overcome these difficulties

General

As mentioned earlier, orders are very much the focus of attention and I am pleased to report that Grahame Falconer joined the Group on 1st August 2004 and was appointed Sales and Marketing Director on 31st Aug 2004. In April, CEO David McQuiggan resigned to return home to Los Angeles with his family to develop his career in the USA. The board believes the current structure of Executive Chairman, Finance Director, Technical Director and Sales and Marketing Director is appropriate for the foreseeable future

During the period, Densitron Control Systems was sold for £617,000 of which £50,000 has been received with the balance payable on deferred terms until April 2009. As reported in the 2003 Annual Report, future plans for land the Group owns in Blackheath are still under discussion and we are in negotiation with the London Borough of Greenwich. Any material change in valuation will be reported to shareholders.

We have used the additional shareholder funds from the rights issue at the beginning of the period to invest in new designs (Public Information Displays and Display Computers), reduce gearing and provide working capital for our relatively long lead-time businesses. Costs have been reduced and the business can now return to a more normal mode of operating where the management can focus on success rather than survival. We can therefore, view the future with cautious optimism and expect our results to show further improvement in 2005.

Current trading is stable and positive with maximum effort continuing to be applied to increasing our order book across all product groups and strengthening our supply chain processes.

Phil Lawler
Executive Chairman

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the six months ended 30 June 2004

	6 months to 30 June 2004 Unaudited	6 months to 30 June 2003 Unaudited	Year to 31 Dec 2003 Audited
	£000	£000	£000
TURNOVER	13,588	14,669	27,995
Cost of sales	(7,862)	(9,017)	(17,153)
GROSS PROFIT	5,726	5,652	10,842
Distribution costs	(58)	(47)	(87)
Administrative expenses	(5,092)	(5,478)	(11,176)
Other operating income	52	67	298
GROUP OPERATING PROFIT/(LOSS)	628	194	(123)
Share of associates' operating profit	409	102	272
Profit on disposal of shares in associate	96	-	-
Impairment of goodwill relating to associate-	-	(5,982)	(5,982)
	505	(5,880)	(5,710)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE INTEREST	1,133	(5,686)	(5,833)
Interest receivable and similar income	1	14	22
Interest payable and similar charges	(218)	(304)	(617)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	916	(5,976)	(6,428)
Tax on loss on ordinary activities	(349)	(309)	(575)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION	567	(6,285)	(7,003)
Minority interests - equity	(427)	(619)	(801)
PROFIT/(LOSS) FOR THE FINANCIAL PERIOD	140	(6,904)	(7,804)
Basic and diluted earnings/(loss) per share	0.22p	(21.39)p	(24.09)p

STATEMENT OF RECOGNISED GAINS AND LOSSES
for the 6 months ended 30 June 2004

	6 months to 30 June 2004 Unaudited	6 months to 30 June 2003 Unaudited	Year to 31 Dec 2003 Audited
	£000	£000	£000
Loss for the period	(147)	(6,976)	(7,990)
Profit for the period in associated undertakings	287	72	186
Foreign exchange adjustments	(109)	(207)	(778)
	31	(7,111)	(8,582)

SUMMARISED CONSOLIDATED BALANCE SHEET
as at 30 June 2004

	30 June 2004 Unaudited £000	30 June 2003 Unaudited £000	31 Dec 2003 Audited £000
FIXED ASSETS			
Intangible assets	191	373	385
Tangible assets	1,859	2,325	2,007
Investments	6,784	7,022	6,678
	<u>8,834</u>	<u>9,720</u>	<u>9,070</u>
CURRENT ASSETS			
Stocks	3,618	4,577	3,081
Debtors - due in more than one year	451	580	495
Debtors - due in less than one year	6,977	5,165	5,407
	<u>7,428</u>	<u>5,745</u>	<u>5,902</u>
Cash at bank and in hand	2,846	2,288	2,956
	<u>13,892</u>	<u>12,610</u>	<u>11,939</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	(10,943)	(11,123)	(9,259)
NET CURRENT ASSETS	<u>2,949</u>	<u>1,487</u>	<u>2,680</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	11,783	11,207	11,750
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	(1,156)	(1,932)	(1,422)
PROVISIONS FOR LIABILITIES AND CHARGES	(1,023)	(419)	(763)
NET ASSETS	<u>9,604</u>	<u>8,856</u>	<u>9,565</u>
CAPITAL AND RESERVES (EQUITY SHAREHOLDERS' FUNDS)	6,707	5,418	6,697
EQUITY MINORITY INTERESTS	2,896	3,438	2,868
	<u>9,604</u>	<u>8,856</u>	<u>9,565</u>

SUMMARISED CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 30 June 2004

	Notes	6 months to 30 June 2004 Unaudited	6 months to 30 June 2003 Unaudited	Year to 32 Dec 2003 Audited
Net cash (outflow)/inflow from operating activities	a	(1,372)	(787)	1,005
Dividends received from associated undertakings		-	374	346
Returns on investment and servicing of finance		(670)	(883)	(1,547)
Tax paid		(197)	(99)	(307)
Capital expenditure and financial investment		(18)	30	171
Acquisitions and disposals		208	-	(93)
Financing	b	280	(72)	1,746
(Decrease)/increase in cash	b,c	(1,769)	(1,437)	1,321

NOTES TO THE CONSOLIDATED CASH FLOW
for the 6 months ended 30 June 2004

A. RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	6 months to 30 June 2004 Unaudited £000	6 months to 30 June 2003 Unaudited £000	Year to 31 Dec 2003 Audited £000
Operating profit/(loss)	628	194	(123)
Depreciation and impairment of tangible fixed assets	148	330	486
Amortisation and impairment of intangible assets	13	18	37
Loss on sale of fixed assets	-	26	24
Loss on disposal and impairment of investments	36	27	-
(Increase)/decrease in stock	(842)	(690)	634
Increase in debtors	(1,226)	(985)	(884)
(Decrease)/increase in creditors	(460)	219	690
Increase in provisions for liabilities and charges	260	129	163
Currency adjustments	71	(55)	(22)
Net cash (outflow)/inflow from operating activities	(1,372)	(787)	1,005

B. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	6 months to 30 June 2004 Unaudited	6 months to 30 June 2003 Unaudited	Year to 31 Dec 2003 Audited
Change in cash	(1,769)	(1,437)	1,321
Cash (inflow)/outflow from (increase)/decrease	(280)	98	1,098
in debt and lease financing			
Change in net debt from cash flows	(2,049)	(1,339)	2,419
Inception of finance leases	-	-	(42)
Exchange movements	(47)	(19)	(131)
Change in net debt	(2,096)	(1,358)	2,246
Opening net debt	(1,923)	(3,044)	(4,169)
Closing net debt	(4,019)	(4,402)	(1,923)

C. ANALYSIS OF NET DEBT

	1 January 2004 £000	Cashflow £000	Exchange movements £000	30 June 2004 £000
Cash at bank and in hand	2,956	(65)	(45)	2,846
Bank overdraft			12	(4,000)
	(2,308)	(1,704)		
NET CASH	648	(1,769)	(33)	(1,154)
Loans		213	-	(1,480)
	(1,693)			
Finance leases	(72)	17	-	(55)
Advances from factors	(4)	4	-	-
Letter of credit and Bills of exchange			(14)	(1,330)
	(802)	(514)		
BORROWINGS	(2,571)	(280)	(14)	(2,865)
NET DEBT	(1,923)	(2,049)	(47)	(4,019)

NOTES

1. Basis of preparation

This interim report was approved by the Board on 31st August 2004. It has been prepared using accounting policies that are consistent with those adopted in the statutory accounts for the year ended 31st December 2003.

The results for the year ended 31st December 2003 are taken from the full accounts on which the Group's Auditors made an unqualified report which did not contain statements under s.237 (2) or (3) of the Companies Act 1985, and which have been delivered to the Registrar of Companies.

2. Taxation

The charge to taxation is an estimate based on the anticipated effective rate of tax for the year ended 31st December 2004.

3. Earnings per Share

	6 months to 30 June 2004 Unaudited £000	6 months to 30 June 2003 Unaudited £000	Year to 31 Dec 2003 Audited £000
These have been calculated on profits/(losses) of:	140	(6,904)	(7,804)

The weighted average number of shares used was:

Basic and diluted	64,669,106	32,270,019	32,391,139
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4. Segmental analysis

Turnover by class of business

Display related products	6,533	7,104	14,148
Computer products	1,792	1,358	2,232
Human machine interfaces	2,759	2,932	5,794
Public information displays	1,849	2,559	4,163
Electro-mechanical products	655	716	1,658
	13,588	14,669	27,995

Gross profit by class of business

Display related products	2,917	2,993	5,968
Computer products	936	649	1,068
Human machine interfaces	1,067	1,033	2,176
Public information displays	555	721	1,030
Electro-mechanical products	251	256	600
	5,726	5,652	10,842