

# Vislink plc

## Interim report 2003





# Chairman's statement

## Results for the six months to June 30, 2003

The Group traded profitably and generated cash during the first six months of this year. Our US business has continued to trade ahead of last year whilst the UK and international markets have remained slow for both the UK business and HERNIS.

The six months order inflow for the Group of £37.59 million was similar to the first half of last year. However as a number of contracts are scheduled to be delivered in the second half of this year, the sales of the Group's continuing businesses were lower at £34.04 million for the first half compared with £37.54 million for the first half of 2002.

As a result of the lower sales, the Group's operating profit before goodwill and the exceptional redundancy costs incurred as part of the rationalisation of the UK operations of £0.19 million (2002 – £0.30 million), declined to £1.29 million (2002 – £2.55 million). After exceptional costs and goodwill amortisation of £0.58 million (2002 – £0.60 million) the operating profit from the continuing businesses was £0.52 million (2002 – £1.65 million).

The profit on ordinary activities before interest and taxation was £0.48 million (2002 – £1.30 million). The net interest charge of £0.22 million (2002 – £0.41 million) was lower than the corresponding half year due to reduced debt. The Group's profit on ordinary activities before tax for the period was £0.26 million (2002 – £0.89 million).

The Group received some significant deposits from customers at the end of the second quarter for contracts to be delivered in the second half of the year. These have contributed to the strong cash flow generated in the period of £1.53 million which has reduced net debt to £3.46 million (December 31, 2002 – £4.99 million) and gearing to 10.8 per cent (December 31, 2002 – 15.2 per cent).

## Earnings per share

Earnings per share from continuing operations excluding goodwill amortisation were 0.56 pence (2002 – 1.27 pence). Basic earnings per share were 0.01 pence (2002 – 0.49 pence).

## Dividends

As in previous years the Board is not recommending an interim dividend in line with the Group's stated strategy to only recommend an annual dividend.

## Business Review of the half year

The Group continues to operate in the global broadcast markets through MRC, our US based business and from the UK through its brands of Continental Microwave, Advent and Multipoint. Our broadcast quality microwave links and satellite communications products have found increasing applications in the growing markets of public safety, homeland security and supporting military communications. HERNIS, our Norwegian based business continues to supply specialised CCTV security systems to the marine and petroleum industry markets.

## Trading by market

In the first six months of this year sales increased in the USA, UK and European markets by £1.42 million to £23.72 million (2002 – £22.30 million). In the domestic USA market MRC has seen increased sales of 12.8 per cent. Sales of digital broadcast microwave links have continued at a satisfactory rate as the digital TV conversion programme moves into the public broadcast and smaller TV studio segment of the market. The levels of spend by the larger broadcasters on electronic news gathering systems have been encouraging.

The UK business has installed the new satellite uplink for the BBC's direct digital satellite broadcast channels and it supplied a number of specialist satellite vehicles and antennas to a major UK defence contractor. In addition it has supplied a satellite broadcast vehicle and ancillary systems to Croatia to cover the recent Papal visit. Orders have been taken for delivery in the second half for a substantial broadcast system for the Pan African games (through a UK based major supplier) and also for satellite communication systems in Iraq and a number of other Middle East countries. The prospects for the Middle East region are encouraging after the recent uncertainties.

The Group has won over \$1 million of homelands security business this year and has recently won a satellite communications order in excess of \$2 million for delivery into a US government agency. It is expected that US government funded programmes will remain strong for both satellite and Microwave products, benefiting both the UK and US businesses.

However, in Asia sales in the first half of this year were £2.77 million lower at £3.45 million (2002 – £6.22 million). This was primarily due to delays in the second half of last year to the build programme of new ships and the regional impact of SARS in the first half of this year, which have substantially reduced the orders received by Hervis in this region compared with last year's record inflow. The prospects for this region look set to improve in the fourth quarter of the year.

In South America, sales were £2.53 million lower at £1.31 million (2002 – £3.84 million) as deliveries were made in the first half of last year under two large UN contracts for air traffic control systems. The regional prospects are encouraging but are prone to political uncertainty.

### Discontinued businesses

Following our strategic review of Datacell's business, agreement was reached to sell the image analysis business to its main supplier Media Cybernetics, a division of Roper Industries, Inc. In addition the frame grabber product line and associated inventory was also sold to its supplier. The total consideration for the two transactions was £0.16 million. Datacell had a trading loss in the period of £0.01 million.

The Group's retained interest in American Auto-Matrix, the USA building controls business, was sold to a US investor for \$0.45 million in June.

The disposal programme of the Group's smaller companies within the former Video division is now complete.

### Operational strategies and prospects

The Group has clear operational strategic and financial objectives.

- The Group has set an operational goal to deliver a 10 per cent operating profit return on sales before goodwill and central costs, whilst at the same time growing sales organically.
- The Group's key strategy for new business growth is to develop our sales into the government, military and security markets where there is increasing demand for our satellite and microwave products and to develop the sales of marine CCTV security systems. These markets have now reached around 26 per cent of the Group's sales.
- The Group's product development strategy is aligned to marketing to ensure that our products remain at the forefront of technology and competitive in order to meet the requirements of demanding global customers in both our core businesses and new markets.

Hernis, which is well established in its chosen international markets, has returned 9.7 per cent on sales in the first half of 2003, despite being under margin pressure from the strength of their domestic currency, the Norwegian krone.

MRC, the US Broadcast business, has achieved in excess of a 10 per cent return on its sales whilst growing both its sales and operating profits, primarily from its strong position in the traditional broadcast microwave radio market which has benefited from the US DTV conversion program.

In addition MRC are developing opportunities for digital microwave products in the growing police and security markets and building on the government and military applications where the Group has already achieved a market presence. MRC are also breaking into the US mobile satellite communications markets, selling products developed by the UK business, which represents a long term opportunity for growth. Prospects in the US for the second half remain encouraging.

The UK business, which sells microwave, terrestrial TV transmitters and satellite products into international markets outside of the USA and in the UK, made a small operating loss in the first half. Over the past two years the business has seen minimal European business for terrestrial TV transmitters due to the uncertainties over the timing of the conversion to digital terrestrial TV transmission. The UK business is scaling down its transmitter cost base whilst continuing to offer products for larger integrated projects. The strategic focus will be on the satellite and microwave products and in particular developing the public safety and military markets internationally.

In summary, although the short term order intake from the core markets of the UK business has fallen below expected levels, the current prospective orders are encouraging for the Group as a whole. Accordingly the full year results for the Group remain dependent on the timely conversion of the UK business' potential orders and the Board remains cautiously optimistic for the future.

**A L R Morton**  
Chairman

September 3, 2003

# Group profit and loss account

for the six months ended June 30, 2003

Notes	Six months to June 30, 2003 £000	Six months to June 30, 2002 £000	Year ended Dec 31, 2002 £000
<b>Turnover</b>			
Continuing operations	<b>34,042</b>	37,543	72,955
Discontinued operations	<b>1,347</b>	3,783	6,589
2	<b>35,389</b>	41,326	79,544
<b>Operating profit</b>			
Continuing operations before goodwill amortisation	<b>1,100</b>	2,250	3,859
Goodwill on continuing operations	<b>(584)</b>	(603)	(1,170)
Continuing operations	<b>516</b>	1,647	2,689
Discontinued operations	<b>(11)</b>	(346)	(626)
2	<b>505</b>	1,301	2,063
(Loss) on disposal of businesses	<b>(27)</b>	–	(195)
<b>Profit on ordinary activities before interest</b>			
Interest receivable	<b>12</b>	22	106
Interest payable	<b>(230)</b>	(433)	(831)
<b>Profit on ordinary activities before taxation</b>			
Tax on profit on ordinary activities	<b>260</b>	890	1,143
3	<b>(254)</b>	(394)	(730)
<b>Profit for the financial period</b>			
Dividends	<b>6</b>	496	413
4	<b>–</b>	–	(205)
<b>Transfer to reserves</b>			
4	<b>6</b>	496	208
<b>Basic and fully diluted earnings per share</b>			
5	<b>0.01p</b>	0.49p	0.41p
<b>Earnings per share from continuing operations excluding goodwill</b>			
5	<b>0.56p</b>	1.27p	2.01p
<b>Dividend per share</b>			
5	<b>–</b>	–	0.20p

# Statement of total recognised gains and losses

for the six months ended June 30, 2003

	Six months to June 30, 2003 £000	Six months to June 30, 2002 £000	Year ended Dec 31, 2002 £000
Profit for the financial period	<b>6</b>	496	413
Translation difference on foreign currency net investments	<b>(560)</b>	(513)	(1,208)
Total recognised gains and losses for the financial period	<b>(554)</b>	(17)	(795)

# Reconciliation of movements in shareholders' funds

for the six months ended June 30, 2003

	Notes	Six months to June 30, 2003 £000	Six months to June 30, 2002 £000	Year ended Dec 31, 2002 £000
Opening equity shareholders' funds previously reported		<b>32,700</b>	32,879	32,879
Prior year adjustment in respect of deferred tax		-	1,009	814
Opening equity shareholders' funds restated		<b>32,700</b>	33,888	33,693
Profit for the financial period		<b>6</b>	496	413
Dividends	4	-	-	(205)
		<b>32,706</b>	34,384	33,901
Value of shares issued in the financial period		-	223	223
Change in value of shares to be issued		-	(216)	(216)
Translation difference on foreign currency net investments		<b>(560)</b>	(513)	(1,208)
Closing equity shareholders' funds		<b>32,146</b>	33,878	32,700

# Group balance sheet

as at June 30, 2003

Notes	June 30, 2003 £000	June 30, 2002 £000	Dec 31, 2002 £000
<b>Fixed assets</b>			
Intangible assets	<b>19,116</b>	20,100	19,851
Tangible assets	<b>5,614</b>	5,809	5,643
Financial assets	<b>162</b>	15	86
	<b>24,892</b>	25,924	25,580
<b>Current assets</b>			
Stocks	<b>11,213</b>	14,413	12,086
Debtors	<b>12,958</b>	19,371	17,114
Cash at bank and in hand	<b>4,600</b>	2,071	4,189
	<b>28,771</b>	35,855	33,389
<b>Creditors – amounts falling due within one year</b>			
Borrowings	<b>2,227</b>	2,252	2,227
Creditors	<b>12,873</b>	15,307	16,403
	<b>15,100</b>	17,559	18,630
<b>Net current assets</b>			
	<b>13,671</b>	18,296	14,759
<b>Total assets less current liabilities</b>			
	<b>38,563</b>	44,220	40,339
<b>Creditors – amounts falling due after more than one year</b>			
Borrowings	<b>5,832</b>	9,896	6,947
<b>Provisions for liabilities and charges</b>			
	<b>585</b>	446	692
	<b>32,146</b>	33,878	32,700
<b>Capital and reserves</b>			
Called up share capital	<b>2,552</b>	2,552	2,552
Share premium account	<b>205</b>	205	205
Merger reserve	<b>27,895</b>	27,895	27,895
Profit and loss account	<b>1,494</b>	3,226	2,048
<b>Equity shareholders' funds</b>			
	<b>32,146</b>	33,878	32,700

# Summarised statement of cash flows

for the six months ended June 30, 2003

	Notes	Six months to June 30, 2003 £000	Six months to June 30, 2002 £000	Year ended Dec 31, 2002 £000
<b>Net cash inflow from operating activities</b>	6	<b>2,589</b>	217	5,923
Returns on investments and servicing of finance		<b>(106)</b>	(152)	(765)
Taxation		<b>(502)</b>	(160)	(155)
Capital expenditure		<b>(579)</b>	(193)	(843)
Acquisitions and disposals		<b>160</b>	–	783
Equity dividends paid		–	–	(101)
<b>Net cash inflow/(outflow) before financing</b>		<b>1,562</b>	(288)	4,842
Financing		<b>(1,115)</b>	(871)	(3,826)
<b>Increase/(decrease) in cash</b>		<b>447</b>	(1,159)	1,016

## Reconciliation of net cash flow to movement in net debt

for the six months ended June 30, 2003

	Six months to June 30, 2003 £000	Six months to June 30, 2002 £000	Year ended Dec 31, 2002 £000
<b>Increase/(decrease) in cash</b>	<b>447</b>	(1,159)	1,016
Repayment of bank loans	<b>1,115</b>	863	3,818
Finance lease repayments	–	8	8
<b>Change in net debt resulting from cash flows</b>	<b>1,562</b>	(288)	4,842
Effect of foreign exchange changes	<b>(36)</b>	(285)	(323)
<b>Movement in net debt</b>	<b>1,526</b>	(573)	4,519
<b>Opening net debt</b>	<b>(4,985)</b>	(9,504)	(9,504)
<b>Closing net debt</b>	<b>(3,459)</b>	(10,077)	(4,985)

# Notes to the interim accounts

for the six months ended June 30, 2003

## 1. Accounting policies

This interim report is unaudited and does not constitute audited accounts within the meaning of the Companies Act 1985. The interim results have been prepared using accounting policies and practices consistent with those used in the preparation of the Annual Report and Accounts for the year ended December 31, 2002, which should be read in conjunction with this report. Those accounts (on which the auditors gave an unqualified audit opinion) have been filed with the Registrar of Companies.

## 2. Segmental report

	Turnover			Operating profit		
	Six months to June 30, 2003 £000	Six months to June 30, 2002 £000	Year ended Dec 31, 2002 £000	Six months to June 30, 2003 £000	Six months to June 30, 2002 £000	Year ended Dec 31, 2002 £000
<i>By business:</i>						
Broadcast	<b>29,833</b>	32,108	63,183	<b>1,431</b>	2,389	4,130
Herris	<b>4,209</b>	5,435	9,772	<b>407</b>	686	1,096
Central costs	<b>-</b>	-	-	<b>(548)</b>	(521)	(1,049)
	<b>34,042</b>	37,543	72,955	<b>1,290</b>	2,554	4,177
Exceptional operating costs	<b>-</b>	-	-	<b>(190)</b>	(304)	(318)
Goodwill amortisation	<b>-</b>	-	-	<b>(584)</b>	(603)	(1,170)
<i>Continuing operations</i>	<b>34,042</b>	37,543	72,955	<b>516</b>	1,647	2,689
<i>Discontinued operations</i>	<b>1,347</b>	3,783	6,589	<b>(11)</b>	(346)	(626)
<b>Group total</b>	<b>35,389</b>	41,326	79,544	<b>505</b>	1,301	2,063

The exceptional charges in the period are redundancy costs associated with the rationalisation of the Broadcast business companies.

Goodwill amortisation in the continuing operations is in respect of the businesses of Advent Communications, Microwave Radio Communications and Multipoint Communications, all of which are within the Broadcast business.

## 2. Segmental report continued

### Turnover analysis

	Turnover		
	Six months to June 30, 2003 £000	Six months to June 30, 2002 £000	Year ended Dec 31, 2002 £000
<i>By market:</i>			
<i>Continuing operations</i>			
UK and Ireland	<b>5,669</b>	4,741	9,828
Rest of Europe	<b>4,457</b>	4,360	8,390
North America	<b>13,597</b>	13,203	25,918
South America	<b>1,305</b>	3,843	7,036
Middle East	<b>3,636</b>	3,049	4,981
Asia	<b>3,447</b>	6,215	11,904
Africa	<b>1,473</b>	1,893	3,816
Other	<b>458</b>	239	1,082
	<b>34,042</b>	37,543	72,955
<i>Discontinued operations</i>			
UK and Ireland	<b>1,328</b>	1,414	2,273
Rest of Europe	<b>17</b>	38	98
North America	<b>1</b>	2,161	4,007
Asia	–	26	59
Africa	–	87	–
Other	<b>1</b>	57	152
<b>Group total</b>	<b>35,389</b>	41,326	79,544

### 3. Tax on profit on ordinary activities

The tax charge for the six months ended June 30, 2003 is based on the effective tax rate which it is estimated will apply on earnings for the full year.

### 4. Dividends

No interim dividend is proposed for the period. In 2002 there was no interim dividend and the final dividend was 0.2 pence.

### 5. Earnings per ordinary share

Earnings per share is calculated by reference to a weighted average of 101,362,000 ordinary shares in issue during the period, excluding shares held by the Employees' Share Ownership Plan (June 30, 2002 – 101,658,000 and December 31, 2002 – 101,757,000).

The diluted earnings per share is after taking account of a further nil shares (June 30, 2002 – 118,000; December 31, 2002 – nil) being the dilutive effect of share options.

Earnings per share from continuing operations excludes after tax losses relating to discontinued operations of £8,000 (June 30, 2002 – £242,000; December 31, 2002 – £438,000) and after tax non-operating exceptional losses of £19,000 (June 30, 2002 – £nil; December 31, 2002 – £137,000).

## 5. Earnings per ordinary share continued

	Six months to June 30, 2003	Six months to June 30, 2002	Year ended Dec 31, 2002
<i>Basic earnings per share</i>	<b>0.01p</b>	0.49p	0.41p
Adjustments:			
Goodwill	<b>0.52p</b>	0.54p	1.04p
Result after taxation from discontinued operations	<b>0.01p</b>	0.24p	0.43p
Non-operating exceptional items	<b>0.02p</b>	–	0.13p
<i>Earnings per share from ongoing operations excluding goodwill</i>	<b>0.56p</b>	1.27p	2.01p
<i>Fully diluted earnings per share</i>	<b>0.01p</b>	0.49p	0.41p

## 6. Reconciliation of operating profit to net cash flow from operating activities

	Six months to June 30, 2003 £000	Six months to June 30, 2002 £000	Year ended Dec 31, 2002 £000
Operating profit	<b>506</b>	1,301	2,063
Depreciation	<b>376</b>	470	929
Amortisation of goodwill	<b>584</b>	603	1,170
Provision against investments	–	–	13
Loss/(profit) on sale of fixed assets	<b>34</b>	(4)	12
Decrease/(increase) in stocks	<b>567</b>	(1,163)	348
Decrease in debtors	<b>3,909</b>	523	1,186
(Decrease)/increase in creditors	<b>(3,293)</b>	(1,501)	969
(Decrease) in provisions	<b>(94)</b>	(12)	(767)
<i>Net cash inflow from operating activities</i>	<b>2,589</b>	217	5,923

## 7. Debtors

Debtors include deferred tax assets of £933,000 (June 30, 2002 – £701,000 and December 31, 2002 – £937,000).

## 8. Approval

This report was approved by a committee of the Board of Directors on September 3, 2003.

# Independent review report to Vislink plc

## Introduction

We have been instructed by the Company to review the financial information which comprises the Group profit and loss account, statement of total recognised gains and losses, reconciliation of movements in shareholders' funds, Group balance sheet, summarised statement of cash flows and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

## Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

## Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended June 30, 2003.

## PricewaterhouseCoopers LLP

Chartered Accountants  
Bristol

September 3, 2003





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