DICOM

Interim Report 2003

DOCUMENTS IN
INFORMATION OUT

DICOM Group plc

CHAIRMAN'S STATEMENT

RESULTS

I am very pleased to report a record set of results in contrast to the continuing adverse trading conditions in the IT sector. Group turnover for the six months to 31 December 2002 was up 6% to £80.3m (2002: £75.6m). Acquisitions contributed 4% of turnover growth. Operating profit of £4.8m (2002: £4.4m) increased by 8%. Operating profit before goodwill amortisation (EBITA) increased by 12% to £6.1m (2002: £5.5m). Growth of EBITA in local currency terms was 17%. Profit before tax was £4.6m (2002: £4.2m), an increase of 10% compared to the equivalent period in the previous year. After tax and minority interests basic earnings per share is calculated at 13.8p (2002: 12.3p), up 12%. Adjusted earnings per share, earnings being adjusted for goodwill amortisation, rose 17% to 20.3p (2002: 17.4p). Adjusted EPS in local currency terms was up by 22%.

The first six months proved to be successful for DICOM Group's core Electronic Document Capture (EDC) Division as it further expanded and improved its role as industry leader by developing and providing its own products and services. However, the recent weakness of the US dollar has adversely affected the reported sterling results of our US operations where over half the Group's operating profits are generated.

The Samsung General Agency (SGA) Division, which following the disposal of its Austrian part continues to operate in Switzerland, was able to achieve good results both on turnover and operating profit level.

FINANCIAL POSITION

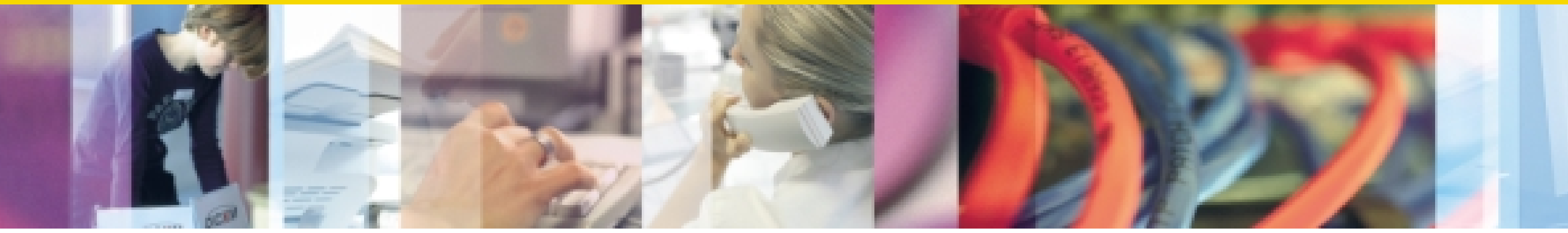
DICOM Group generated cash flow from operations of £6.6m and ended the period with net cash of £0.7m (net cash of £3.8m at 30 June 2002).

OPERATING REVIEW

Electronic Document Capture (EDC), DICOM Group's largest division, accounted for 71% (2002: 69%) of total turnover and 84% (2002: 80%) of total operating profits before goodwill amortisation in the first six months to 31 December 2002.
It develops software and electronic components, provides consulting and integration services and sells key related products to over 1,000 system integrators and software houses world-wide.
The implementation of EDC technology allows document intensive organisations to reduce business transaction costs substantially, improve customer service and hence achieve high returns on investment. The continuing success of the Division is due to attractive cost savings potential related to the implementation of EDC technology and because DICOM Group's products are in a price range unaffected by the massive cut backs in IT spending.

EDC achieved organic sales growth in local currency terms of 4%; acquisitions contributed an additional 6% in turnover. Ascent Capture and VRS continued to enjoy growing demand.
DICOM Group's own product sales grew by 8% in local currency terms and now account for 33% of EDC sales. Service income was up by 22% in local currency terms, contributing 18% to EDC sales. Operating profit before goodwill amortisation contributed by the EDC Division increased to £5.1m, up 18% and in local currency terms 26%.

The **Ascent** product family continues to grow through its broad adoption by the world's leading system integrators and software houses. Major international enterprises now use Ascent Capture as their "Operating System of Capture". At the beginning of the period DICOM Group was able to announce a number of new contracts with blue chip clients, notably a contract worth US$ 700,000 from Raymond James, the US investment bank. Other sizable contracts gained during the period under



review include European projects at Hertz UK, Halifax Bank, the Ministry of Justice in the Netherlands and the Italian Post. As a result, the number of Ascent Capture software licenses sold to date has increased significantly to over 38,000 (31 December 2002: 27,000).

The launch of Ascent Ricochet on 25 June 2002 now brings the benefits of Ascent Capture to anyone with access to a Web browser and a digital scanner or multi-functional peripheral. Furthermore DICOM Group signed a licensing agreement with US based Cardiff Software Inc. (in which DICOM Group has a 19% shareholding) to integrate a version of Cardiff LiquidOffice™ into Ascent Capture in October 2002. The new product, LiquidOffice Data Collection Edition, is an Electronic Forms ("eForms") application, which extends DICOM Group's e-capture capabilities by enabling customers to capture and process information from online forms.

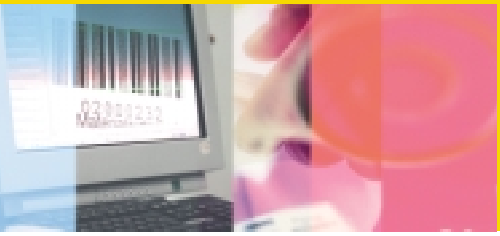
Our award winning **VirtualReScan** (VRS) product line, which optimises both image quality and the scan process, continues to do well. In December 2002 we announced the integration of VRS with Kodak's recently launched i200 Series scanners. This collaboration was driven by customer demands to bring both products together in a single solution and is the first integration of VRS with a Kodak Perfect Page scanner as well as being the first time that VRS products will be sold and marketed through a joint promotion exercise with Kodak.

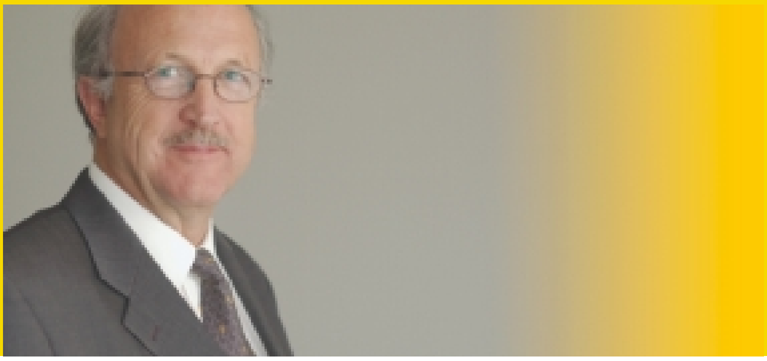
DICOM Group's European sales and services organisation showed growth during the reporting period. All major DICOM Europe subsidiaries were able to report improved market share and an increased level of recurring service business. In order to complete our European coverage we decided to expand with an operation into Portugal in late 2002 and to extend our existing subsidiary in Poland through a minor bolt on acquisition.

DICOM Group continued to significantly increase its investment into development of application software and algorithms. R&D spending amounted to £3.6m, representing 19% of DICOM Group developed product turnover.

The **Samsung General Agency** (SGA) contributed 29% (2002: 31%) to DICOM Group turnover and 16% (2002: 20%) to operating profits before goodwill amortisation. The division continued to be a distributor of Samsung flat-panel displays. These results include 3 months of business of Elsat, which was disposed of in October 2002. Growth in local currency terms of the Swiss SGA Division was 11%.

Divisional results	**EDC 6 months to 31 December 2002**	EDC 6 months to 31 December 2001	**SGA 6 months to 31 December 2002**	SGA 6 months to 31 December 2001
Turnover (£'000)	**57.1**	52.3	**23.2**	23.3
Turnover contribution (% of total turnover)	**71%**	69%	**29%**	31%
Gross profit margin (%)	**44.5%**	44.2%	**15.7%**	15.7%
EBITA (£'000)	**5,146**	4,357	**967**	1,121
EBITA contribution (% of total EBITA)	**84%**	80%	**16%**	20%
EBITA margin (%)	**9.0%**	8.3%	**4.2%**	4.8%





ACQUISITIONS AND DIVESTMENTS

On 15 October 2002 DICOM Group announced that it had sold its wholly-owned Austrian-based SGA subsidiary, Elsat International Computervertriebs-ges.m.b.H. ("Elsat") to a strategic investor. The disposal, representing approximately 28% of DICOM Group's existing SGA business, is in line with DICOM Group's strategy to focus on its core EDC Division.

The total consideration for Elsat was €3.45m (£2.2m) in cash, of which €2.0m (£1.3m) has been paid with the balance being due in three further instalments before 31 December 2004. In the financial year to 30 June 2002 Elsat made sales of €20.9m (£13.2m) and profit before tax of €383,000 (£242,000). Net assets at the date of disposal were €1.3m (£0.8m) in accordance with UK GAAP. The net gain of the disposal was recorded as a reduction in operating expenses, amounting to £170,000. The proceeds from the disposal of Elsat will be used to develop DICOM Group's core EDC business.

On 1 November 2002 the Group announced that it had acquired ScanOptic GmbH ("ScanOptic"), a leading specialist provider of EDC products and services in the German, Swiss and Benelux markets. Under the terms of the acquisition, DICOM Group purchased 100% of the equity of ScanOptic including its majority stakes in ScanOptic's subsidiaries in Switzerland and the Netherlands, where it now holds 100% and 51% respectively. The fixed consideration was agreed at €3m (£1.9m) paid in cash. ScanOptic had sales of €11.2m (£7.0m) in the financial year to 31 December 2001 and profit before tax of €562,000 (£350,000).

The integration of ScanOptic is progressing well. After a few months this acquisition has substantially strengthened our leading market position in the German EDC market.

STAFF

Group staff numbers grew slightly to 806 (30 June 2002: 773), primarily as a result of the ScanOptic acquisition. Our future prosperity is largely dependent on the ability, energy and loyalty of our staff, whose specialist knowledge, training and experience is key to the successful provision of the Group's value-added services and products. Staff turnover remained at low levels and we continue to attract high calibre people around the world.

DIVIDEND

The board declared an interim dividend of 1.61p per Ordinary Share (2002: 1.40p). This will be paid on 2 May 2003 to shareholders on the register on 4 April 2003.

PROSPECTS

The Group is well positioned in its core EDC market, which continues to show good growth prospects in contrast to the difficult general trading conditions for the overall software and hardware market at a time of growing political and economic uncertainty. We continue to see rising demand for our EDC products and services on a global scale. Despite the current weakness of the US dollar, which reduces the reported sterling value of our US operating profits, the EDC Division's current trading performance enables the Directors to view the Group's outlook with optimism.

Otto Schmid
Chairman
18 February 2003

Consolidated profit and loss account
(UK GAAP)

	Note	6 months to 31 December 2002 unaudited '000	6 months to 31 December 2001 unaudited £'000	Year to 30 June 2002 audited £'000
Turnover		80,338	75,622	149,527
Cost of sales		(51,285)	(48,831)	(95,158)
Gross profit		29,053	26,791	54,369
Operating expenses				
Goodwill amortisation		(1,325)	(1,031)	(2,058)
Exceptional item		-	-	(5,237)
Other		(22,940)	(21,313)	(43,107)
Total operating expenses		(24,265)	(22,344)	(50,402)
Operating profit before goodwill amortisation and exceptional item	5	6,113	5,478	11,262
Goodwill amortisation		(1,325)	(1,031)	(2,058)
Exceptional item		-	-	(5,237)
Operating profit		4,788	4,447	3,967
Share of results of associated undertakings		(95)	(89)	(288)
Net interest payable and similar charges		(65)	(142)	(158)
Profit on ordinary activities before taxation		4,628	4,216	3,521
Taxation		(1,785)	(1,574)	(2,780)
Profit on ordinary activities after taxation		2,843	2,642	741
Minority interests		33	(79)	(8)
Profit attributable to ordinary shareholders		2,876	2,563	733
Dividends - equity		(332)	(289)	(870)
Retained profit/(loss)		2,544	2,274	(137)
Earnings per ordinary share	2			
basic		13.8p	12.3p	3.5p
adjusted		20.3p	17.4p	36.9p
diluted		13.7p	12.3p	3.5p
Dividend per ordinary share	4	1.61p	1.40p	4.2p

Statement of total recognised gains and losses			
Profit for financial year	2,876	2,563	733
(Loss)/gain on currency translation	(454)	517	596
Total recognised gains and losses relating to the year	2,422	3,080	1,329
Prior year adjustment	-	-	1,030
Total gains and losses recognised since last annual report	2,422	3,080	2,359

Consolidated balance sheet
(UK GAAP)

	Note	At 31 December 2002 unaudited £'000	At 31 December 2001 unaudited £'000	At 30 June 2002 audited £'000
Fixed assets				
Intangible assets		40,435	34,703	35,186
Tangible assets		4,919	4,584	4,716
Investments		9,934	11,530	10,428
		55,288	50,817	50,330
Current assets				
Stocks		12,234	10,520	11,438
Debtors		38,703	40,511	33,965
Investments		84	194	254
Cash at bank and in hand		10,033	4,797	7,265
		61,054	56,022	52,922
Creditors:				
Amounts falling due within one year		(44,361)	(37,220)	(34,985)
Net current assets		16,693	18,802	17,937
Total assets less current liabilities		71,981	69,619	68,267
Creditors:				
Amounts falling due after more than one year		(2,426)	(2,099)	(1,882)
Provisions for liabilities and charges		(735)	(496)	(724)
Net assets		68,820	67,024	65,661
Capital and reserves				
Called up share capital		2,085	2,082	2,083
Share premium account		51,785	51,737	51,762
Merger reserve		1,717	527	527
Profit and loss account		13,176	12,388	11,086
Shareholders' funds - Equity	3	68,763	66,734	65,458
Minority interests - Equity		57	290	203
		68,820	67,024	65,661

Consolidated cash flow statement
(UK GAAP)

	Note	6 months to 31 December 2002 unaudited £'000	6 months to 31 December 2001 unaudited £'000	Year to 30 June 2002 audited £'000
Cash inflow from operating activities	6	6,568	4,551	14,022
Returns on investments and servicing of finance		(139)	(92)	(311)
Taxation paid		(2,337)	(1,984)	(3,770)
Capital expenditure and financial investment		(1,392)	(1,909)	(3,080)
Acquisitions and disposals		(5,117)	(317)	(1,284)
Equity dividends paid		(577)	(503)	(791)
Cash (outflow)/inflow before use of liquid resources and financing		(2,994)	(254)	4,786
Management of liquid resources		(97)	531	564
Financing				
Issue of Ordinary Shares		31	9	28
Increase/(decrease) in debt		5,539	(629)	(3,395)
		5,570	(620)	(3,367)
Increase/(decrease) in cash in the period		2,479	(343)	1,983
Reconciliation of net cash flow to movement in net funds				
Increase/(decrease) in cash in the year		2,479	(343)	1,983
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing		(5,539)	629	3,395
Cash outflow/(inflow) from increase/(decrease) in liquid resources		97	(531)	(564)
Change in net funds resulting from cash flows		(2,963)	(245)	4,814
Loans and finance leases acquired with subsidiaries		(54)	-	(8)
New finance leases		(124)	60	(176)
Exchange difference		49	(67)	(217)
Movements in net funds in the period		(3,092)	(252)	4,413
Net funds/(debt) at start of the period		3,750	(663)	(663)
Net funds/(debt) at end of the period		658	(915)	3,750

Notes
(UK GAAP)

1 • Basis of preparation

The interim financial statement in accordance with UK GAAP has been prepared in accordance with the accounting policies set out in, and is consistent with, the Group's 2002 financial statement except that the taxation charge for the period is based on the estimated charge for the year to 30 June 2003.

The interim financial information is unaudited and does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The abridged information for the year to 30 June 2002 has been extracted from the Group's statutory accounts for that period which have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

2 • Earnings per share

The Earnings per share calculation is based upon Financial Reporting Standard 14. Basic Earnings per share 13.8p (12.3p) for the six months to 31 December 2002 has been calculated based on the profit attributable to shareholders of £2,876,000 (£2,563,000) using the weighted average number of Ordinary Shares in issue 20,845,756 (20,815,183) during the period.

Adjusted Earnings per share 20.3p (17.4p) for the six months to 31 December 2002 is based on profit of £4,231,000 (£3,621,000), being adjusted by the amortisation of goodwill in subsidiaries of £1,325,000 (£1,031,000) and amortisation of goodwill in associates of £30,000 (£27,000) using the weighted average number of Ordinary Shares in issue 20,845,756 (20,815,183) during the period.

Diluted Earnings per share 13.7p (12.3p) for the six months to 31 December 2002 is based on 21,015,430 (20,918,914) Ordinary Shares, the difference to the basic calculation representing the additional shares that would be issued on the conversion of all the dilutive potential Ordinary Shares. There is no material difference to earnings if all the dilutive potential Ordinary Shares were converted.

3 • Reconciliation of movements in shareholders' funds (UK GAAP)

	6 months to 31 December 2002 £'000	6 months to 31 December 2001 £'000	Year to 30 June 2002 £'000
Opening shareholders' funds	65,458	63,934	63,934
Prior year adjustment	-	-	1,030
Opening shareholders' funds as restated	65,458	63,934	64,964
Retained profit/(loss) for the period	2,544	2,274	(137)
(Loss)/profit on currency translation	(454)	517	596
New share capital issued	25	9	35
Reinstitution of merger reserve	1,190	-	-
Closing shareholders' funds	68,763	66,734	65,458

4 • Dividends

The interim dividend of 1.61p per Ordinary Share (1.4p) is payable on 2 May 2003 to shareholders on the register at the close of business on 4 April 2003.

5 • Segmental Reporting

	6 months to 31 December 2002 £'000	6 months to 31 December 2001 £'000	Year to 30 June 2002 £'000
Sales by divisions			
EDC			
Own products	18,876	19,749	39,385
Services	10,390	8,445	17,482
3rd party products	27,796	24,141	45,118
Total EDC	57,062	52,335	101,985
SGA	23,276	23,287	47,542
Group	80,338	75,622	149,527
Gross profit by divisions			
EDC	25,400	23,127	46,869
SGA	3,653	3,664	7,500
Group	29,053	26,791	54,369
Operating profit before goodwill amortisation and exceptional item by divisions			
EDC	5,146	4,357	9,286
SGA	967	1,121	1,976
Group	6,113	5,478	11,262

6 • Reconciliation of operating profit to operating cash flows

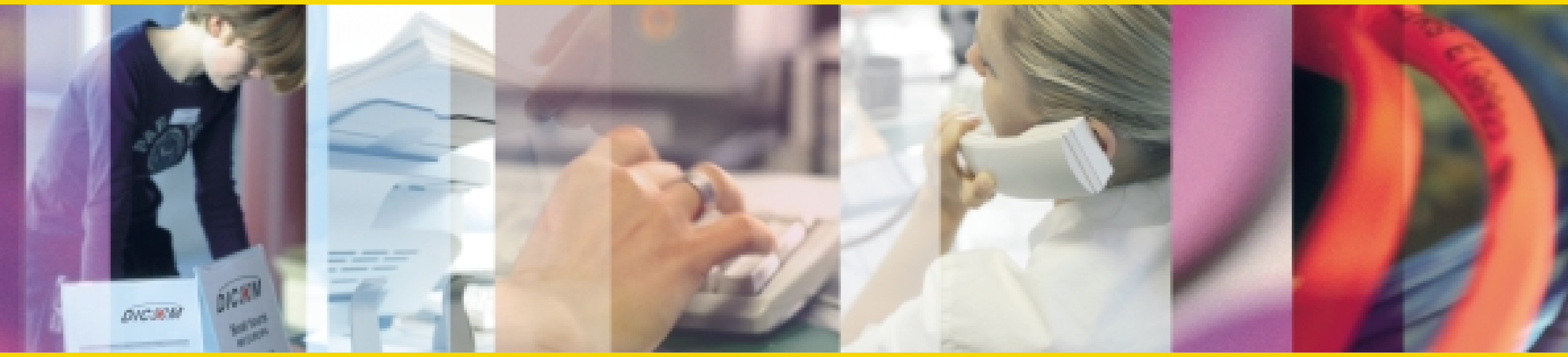
	6 months to 31 December 2002 £'000	6 months to 31 December 2001 £'000	Year to 30 June 2002 £'000
Operating profit	4,788	4,447	3,967
Depreciation and amortisation	2,460	2,052	4,636
Profit on sale of fixed asset investment	(170)	-	(16)
Loss on sale of tangible fixed assets	-	-	9
Increase in stocks	(1,349)	(1,403)	(1,562)
(Increase)/decrease in debtors	(4,952)	(7,614)	3,570
Increase in creditors	4,826	6,731	4,066
Foreign exchange differences	965	338	(648)
Net cash inflow from operating activities	6,568	4,551	14,022

7 • Exchange rate fluctuations

DICOM Group transacts its businesses in many currencies other than sterling. On average during the six months to December 2002 sterling was significantly stronger against the US dollar as compared to the previous period. This adversely affected the reported sterling results of our US operation where over half the Group's operating profits are generated.

The table below outlines the sales and operating profit growth for the Group as reported in sterling and sets out the growth rates in local currency terms.

Growth and currency contribution	Local currencies 6 months to 31 December 2002	£ 6 months to 31 December 2002	Local currencies 6 months to 31 December 2001	£ 6 months to 31 December 2001
Sales	6%	6%	10%	12%
Operating profit before goodwill and exceptional item	17%	12%	17%	19%



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