

**Image Scan Holdings plc**

**Interim report 2019**

**Chairman’s statement**

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**Introduction**

Image Scan Holdings plc is a specialist in innovative X-ray technology, operating globally in the security and industrial inspection sectors. The Company's principal activity is the design, manufacture and supply of both portable and fixed X-ray security screening systems to governments, security organisations and law enforcement agencies. The Company also supplies high-quality image acquisition systems for non-destructive testing to commercial organisations worldwide.

**Financial results**

New order intake was steady at £2.1m, though that figure includes an increase in orders received for portable X-ray systems of 14% over the equivalent period in the prior year.

Revenues for the six months ended 31 March 2019 were £1.4m, (2018: £2.0) which included an order for 20 portable security units delivered to a South East Asian customer close to the period end. Gross margin was increased to 47% (2018:42%) reflecting good margins on security orders.

Overhead costs increased to £854k (2018: £793k) and included an increase in R&D spend across a number of key projects. The business made a pre-tax loss of £178k (2018: profit of £39k).

The Company finished the period with an order book of £1.0m (2018: £1.1m) and a cash balance of £750k (2018: £752k)

**Overview**

While it is good to see portable X-ray orders increase over the prior period, we recognise that we still have some way to go to reach the record levels recorded in FY17. Key security customers in the period were in South East Asia while shows were attended and demonstrations carried out in South America, Asia and Europe. The business is fully focussed on getting its product to market and has an extensive programme of customer demonstrations and trials organised over the coming months.

Revenues were behind management expectations at the end of the period, reflecting the unpredictable nature of Government procurement processes. However, with customer decisions due on several key projects, activity is expected to increase in the second half.

A number of initiatives are underway to further increase security sales. These including an upgrade programme for existing ThreatScan®LS1 users, including panel and communications upgrades and the ability to use X-ray film with the system.

The Company has launched a new development project, based on our existing technologies, that will produce a new X-ray security system that will be taken to market through our existing network of international partners. A prototype should be available by the end of 2019.

In the industrial area, the period has seen deployments of multiple systems to both India and China, as our major customers respond to demand driven by tighter emissions control regulations in those countries. We finish the period with three further units in the order book and being manufactured for delivery in H2. We have over 90% of all industrial systems in the field under valuable service and support contracts.

**Outlook**

The Company continues to see strong demand in both its significant product ranges. In security, there is a good pipeline of opportunities and the team is working hard to convert these into orders. We continue to expand the market footprint and frequently add new partners to our network. In industrial, our major customers are selectively building capacity in regions where tighter emissions control legislation, particularly for diesel engines, is driving demand, and this should continue to yield orders for our inspections systems. The addition of new industrial systems to our service scheme will provide additional recurring income.

In order to drive short to medium growth for the business we are now developing new X-ray inspection systems and have a pipeline of such projects. We expect to start seeing revenue from the first of these projects in the next financial year.

The staff at Image Scan continue to be enthusiastic, dedicated and creative and on behalf of my fellow Board members, I would like to formally thank our staff for their contribution during this period.

The Board and staff of Image Scan look forward to the future with confidence.

**Bill Mawer**

***Chairman and Chief Executive Officer***

25/04/2019

**Consolidated income statement**

**For the six months ended 31 March 2019**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Note | **Six months**  **ended**  **31 March 2019**  **(Unaudited)**  **£'000** | **Six months**  **ended**  **31 March 2018**  **(Unaudited)**  **£'000** | Year ended  30 September   2018  (Audited)  £'000 |
| **Revenue** |  | **1,423** | **1,990** | **3,465** |
| Cost of sales |  | (747) | (1,158) | (1,820) |
| **Gross profit** |  | **676** | **832** | **1,645** |
| Other operating income |  | **-** | **-** | 48 |
| Operating expenses |  | **(854)** | (793) | (1,597) |
| Exceptional Items |  | **-** | **-** | (251) |
| **Operating profit** |  | **(178)** | **39** | **(155)** |
| Finance income |  | **-** | **-** | - |
| **Profit before taxation** |  | **(178)** | **39** | **(155)** |
| Taxation |  | **-** | **-** | (65) |
| **(Loss0/profit for the period** |  | **(178)** | **39** | **(200)** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Pence** | Pence | Pence |
| **Earnings per share** |  |  |  |  |
| Basic profit per share | [3] | **(0.13)** | 0.03 | (0.16) |
| Diluted profit per share |  | **(0.13)** | 0.03 | (0.16) |

**Consolidated statement of changes in equity**

**For the six months ended 31 March 2019**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Note | **Six months**  **ended**  **31 March 2019**  **(Unaudited)**  **£'000** | **Six months**  **ended**  **31 March 2018**  **(Unaudited)**  **£'000** | Year ended  30 September   2018  (Audited)  £'000 |
| Opening equity shareholders' funds |  | **1,630** | 1,821 | 1,821 |
| Shares issued in the year |  | **-** | 6 | 17 |
| Share-based payments | [4] | **3** | 6 | 12 |
| (Loss)/Profit attributable to equity shareholders |  | **(178)** | 39 | (220) |
| Closing equity shareholders' funds |  | **1,455** | **1,872** | **1,630** |

**Consolidated statement of financial position**

**As at 31 March 2019**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **As at**  **31 March 2019**  **(Unaudited)**  **£'000** | **As at**  **31 March 2018**  **(Unaudited)**  **£'000** | As at  30 September   2018  (Audited)  £'000 |
| **Non-current assets** |  |  |  |
| Plant and equipment | **86** | 20 | 71 |
|  | **86** | **20** | **71** |
| **Current assets** |  |  |  |
| Inventories | **804** | 676 | 939 |
| Trade and other receivables | **499** | 1,327 | 783 |
| Cash and cash equivalents | **750** | 752 | 782 |
|  | **2,053** | **2,755** | **2,504** |
| **Total assets** | **2,139** | **2,775** | **2,575** |
| **Current liabilities** |  |  |  |
| Trade and other payables | **646** | 855 | 910 |
| **Non-current liabilities** |  |  |  |
| Provisions for liabilities and charges | **38** | 48 | 35 |
| **Total liabilities** | **684** | **903** | **945** |
| **Net assets** | **1,455** | **1,872** | **1,630** |
| **Equity** |  |  |  |
| Share capital | **1,363** | 1,360 | 1,363 |
| Share premium account | **8.328** | 8,320 | 8,328 |
| Retained earnings | **(8,236)** | (7,808) | (8,061) |
| **Equity shareholders' funds** | **1,455** | **1,872** | **1,630** |

**Consolidated cash flow statement**

**For the six months ended 31 March 2019**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Six months**  **ended**  **31 March 2019**  **(Unaudited)**  **£'000** | **Six months**  **ended**  **31 March 2018**  **(Unaudited)**  **£'000** | Year ended  30 September   2018  (Audited)  £'000 |
| **Cash flows from operating activities** |  |  |  |
| Operating (loss)/profit | **(178)** | 39 | (155) |
| **Adjustments for:** |  |  |  |
| Depreciation | **12** | 7 | 16 |
| Impairment of inventories | **19** | 24 | 43 |
| Increase/(decrease) in provision for warranty | **3** | - | (12) |
| Decrease in inventories | **115** | 394 | 113 |
| Decrease in trade and other receivables | **237** | 267 | 774 |
| (Decrease) in trade and other payables | **(264)** | (1,274) | (1,256) |
| Share-based payment charge | **3** | 6 | 12 |
| **Net cash used in operating activities** | **(53)** | **(537** | **(465)** |
| Corporation tax recovered | **47** | (30) | - |
| **Net cash outflow from operating activities** | **(6)** | **(507)** | **(465)** |
|  |  |  |  |
| **Cash flows from investing activities** |  |  |  |
| Purchase of property, plant and equipment | **(26)** | **-** | (23) |
| **Net cash used in investing activities** | **(26)** | **-** | **(23)** |
|  |  |  |  |
| **Cash flows from financing activities** |  |  |  |
| **Proceeds from issue of share capital** | - | 6 | 17 |
| **Net cash from financing activities** | **-** | **6** | **17** |
|  |  |  |  |
| **Net (decrease)/increase in cash and cash equivalents** | **(32)** | **(501)** | **(471)** |
| Cash and cash equivalents at beginning of period | **782** | **1,253** | 1,253 |
| **Cash and cash equivalents at end of period** | **750** | **752** | **782** |

**Notes to the unaudited interim financial statements**

**For the six months ended 31 March 2019**

**1 Basis of preparation**

The interim financial statements, which are unaudited, have been prepared on the basis of the accounting policies expected to apply for the financial year to 30 September 2019 and in accordance with recognition and measurement principles of International Financial Reporting Standards ('IFRSs') as endorsed by the European Union. The accounting policies applied in the preparation of these interim financial statements are consistent with those used in the financial statements for the year ended 30 September 2018.

The interim financial statements do not include all of the information required for full annual financial statements and do not comply with all the disclosures in IAS 34 'Interim financial reporting'. Accordingly, whilst the interim statements have been prepared in accordance with IFRSs, they cannot be construed as being in full compliance with IFRSs.

The financial information for the year ended 30 September 2018 does not constitute the full statutory accounts for that period. The annual report and financial statements for the year ended 30 September 2018 have been filed with the Registrar of Companies. The Independent auditor's report on the report and financial statements for the year ended 30 September 2018 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006.

**2 Going concern**

The interim financial information has been prepared on a going concern basis, which assumes that the Company will have adequate resources to continue in operational existence for the foreseeable future.

**3 Earnings per share ('EPS')**

Basic earnings per ordinary share is based on the loss on ordinary activities before taxation of £177,841 and on 136,354,577 ordinary shares in issue throughout the period.

Diluted profit per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of dilutive potential ordinary shares, based on the share price at the end of the period.  The Company's dilutive potential ordinary shares are shares issued under the Company's Enterprise Management Incentive ('EMI') scheme and options issued under the Company's Unapproved scheme.

**4 IFRS 2 'Share-based payments'**

Operating expenses includes a charge of £2,777 (2018: £5,887) after valuation of the Company's employee share option schemes in accordance with IFRS 2. Under this standard, the fair value of the options at the grant date is spread over the vesting period. These charges have been credited to equity in accordance with IFRS2 as presented in the consolidated statement of changes in equity.

**5 Additional copies**

Further copies of the 2019 interim report are available on the Company's website, www.ish.co.uk, and from the Company's registered office, 16-18 Hayhill Industrial Estate, Sileby Road, Barrow-upon-Soar, Leicestershire LE12 8LD.