

Image Scan Holdings plc

Interim report 2017

Chairman's statement

Introduction

Image Scan Holdings plc is a specialist in innovative X-ray technology, operating globally in the security and industrial inspection sectors. The Group'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 Group also supplies high-quality image acquisition systems for non-destructive testing to commercial organisations worldwide.

Financial results

Revenues for the six months ended 31 March 2017 were £2.1m (2016: £1.4m), 50% higher than the prior period. The improved performance was driven by portable X-ray system sales, the number of units delivered increasing by 70%. Gross margin was reduced at 39% (2016: 44%) due to changes in the sales mix.

New customers, using Image Scan products for the first time, have been achieved in both Asia and Europe. Despite the 50% increase in activity levels, overheads were tightly controlled at £695k (2016: £670k). This allowed the business to make a post-tax profit of £111k (2016: loss of £64k).

New orders were received for both security and industrial units, total new orders being similar to the prior period at £1.3m (2016: £1.3m), leaving the Company with a period end order book up 48% at £940k (2016: 634k).

The company held £469k in cash at the period end (2016: £532k).

Overview

The strong performance of our manufacturing and supply chain management functions continued into FY2017, with several large customer orders delivered ahead of schedule. We achieved manufacturing efficiencies in response to the continued high volume of activity, working closely with key component and subsystem suppliers.

Our portable X-ray systems continue to be displayed and trialled across the world and this has led to valuable new orders and a strong pipeline of further opportunities. During the period, it was decided to accelerate the planned development of a compact detector panel designated the ThreatScan®-LS3. In less than two months the system was designed, prototyped and tested before being integrated into our control software and sent to an Asian security exhibition for customer presentations. The success of this exercise demonstrated the advantages of the flexible, modular architecture used in both the hardware and software of our X-ray systems.

The development phase of the government grant supported project to design a new generation of Precision Linescan Detectors has come to an end and the prototype will be on display for the first time at the Security and Counter Terror exhibition at Olympia in May. The outstanding pre-launch tasks relate to final optimisation of the software and transfer to production. Once this is complete, Image Scan's portable X-ray product range will include two X-ray generators, three sizes of detector panels with varying performance options, a complete suite of control and image analysis software and a wide range of ancillaries, all developed over the last 30 months.

In the industrial inspection business area, where the Company provides machines for scanning catalytic converters and diesel particulate filters in the automotive industry, applications development work focussed on techniques for scanning larger parts and on greater software integration across machines. A relatively recent customer, who has been carrying out an extended evaluation of the MDXi400 industrial inspection system, ordered a new unit for operational deployment in Eastern Europe, an important milestone.

The Company continues to focus on Quality Control and process improvements with new metrics and management systems introduced during the period.

Outlook

The Company's much expanded range of portable X-ray inspection systems leaves it well positioned to benefit from continued high levels of focus on the ongoing global threat of terrorist attack. Further enhancements and innovations are planned that should allow the Company to maintain its recent momentum in this exciting market.

Our industrial customers report a strengthening focus on automotive emission controls, with new and tighter regulations being introduced in several territories. This should drive demand for emission control systems and strengthen the need for quality control in their manufacture, both trends that support deployment of our highly specialised X-ray inspection systems.

Our short-term focus is to accelerate the marketing of the new range of portable X-ray machines to security customers around the world, building on the considerable momentum already achieved, while increasing the deployment of our inspection systems in automotive emissions control. However, the Board believes the Company is capable of further expansion and is looking for additional opportunities for both organic and acquisition growth.

The staff at Image Scan are 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.

Bill Mawer

Chairman and Chief Executive Officer

25/04/2017

Consolidated income statement

For the six months ended 31 March 2017

	Note	Six months ended 31 March 2017 (Unaudited) £'000	Six months ended 31 March 2016 (Unaudited) £'000	Year ended 30 September 2016 (Audited) £'000
Revenue		2,086	1,372	3,315
Cost of sales		(1,280)	(766)	(1,911)
Gross profit		806	606	1,404
Other Operating Income	[3]	-	20	78
Operating expenses		(695)	(670)	(1,378)
Operating profit/(loss)		111	(44)	104
Finance income		-	-	1
Profit/(loss) before taxation		111	(44)	105
Taxation		-	-	-
Profit/(loss) for the period		111	(44)	105

		Pence	Pence	Pence
Earnings per share				
Basic profit/(loss) per share	[4]	0.09	(0.04)	0.08
Diluted profit/(loss) per share		0.09	-	0.08

Consolidated statement of changes in equity

For the six months ended 31 March 2017

	Note	Six months ended 31 March 2017 (Unaudited) £'000	Six months ended 31 March 2016 (Unaudited) £'000	Year ended 30 September 2016 (Audited) £'000
Opening equity shareholders' funds		740	617	617
Share-based payments	[5]	5	8	18
Profit/(loss) attributable to equity shareholders		111	(44)	105
Closing equity shareholders' funds		856	581	740

Consolidated statement of financial position

As at 31 March 2017

	As at 31 March 2017 (Unaudited) £'000	As at 31 March 2016 (Unaudited) £'000	As at 30 September 2016 (Audited) £'000
Non-current assets			
Plant and equipment	31	11	17
	31	11	17
Current assets			
Inventories	700	459	504
Trade and other receivables	652	354	842
Cash and cash equivalents	469	532	1,055
	1,821	1,345	2,401
Total assets	1,852	1,356	2,418
Current liabilities			
Trade and other payables	929	742	1,627
Non-current liabilities			
Provisions for liabilities and charges	67	33	51
Total liabilities	996	775	1,678
Net assets	856	581	740
Equity			
Share capital	1,256	1,256	1,256
Share premium account	7,935	7,935	7,935
Retained earnings	(8,335)	(8,610)	(8,451)
Equity shareholders' funds	856	581	740

Consolidated cash flow statement

For the six months ended 31 March 2017

	Six months ended 31 March 2017 (Unaudited) £'000	Six months ended 31 March 2016 (Unaudited) £'000	Year ended 30 September 2016 (Audited) £'000
Cash flows from operating activities			
Operating profit/(loss)	111	(44)	105
Adjustments for:			
Depreciation	6	2	6
Impairment of inventories	13	10	14
Increase in provision for warranty	16	-	18
(Increase)/decrease in inventories	(209)	102	53
Decrease/(increase) in trade and other receivables	190	30	(459)
(Decrease)/increase in trade and other payables	(698)	(36)	849
Share-based payment charge	5	8	18
Net cash (used)/generated in operating activities	(566)	72	604
Corporation tax recovered	-	-	-
Net cash (outflow)/inflow from operating activities	(566)	72	604
Cash flows from investing activities			
Interest Received	-	-	1
Purchase of property, plant and equipment	(20)	(9)	(19)
Net cash used in investing activities	(20)	(9)	(18)
Net (decrease)/increase in cash and cash equivalents	(586)	63	586
Cash and cash equivalents at beginning of period	1,055	469	469
Cash and cash equivalents at end of period	469	532	1,055

Notes to the unaudited interim financial statements

For the six months ended 31 March 2017

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 2017 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 2016.

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 2016 does not constitute the full statutory accounts for that period. The annual report and financial statements for the year ended 30 September 2016 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 2016 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 Other Operating Income

In the comparative results presented, R&D tax credits have been reclassified from taxation to other operating income as the Board has decided that this reflects nature on the income.

The R&D tax credits in the year have been decreased due to part of the spending being met by an Innovate UK grant and also due to the limits on the amount credits which can be claimed

4 Earnings per share ('EPS')

Basic earnings per ordinary share is based on the profit on ordinary activities before taxation of £111,570 and on 125,604,577 ordinary shares in issue throughout the period.

Diluted profit/(loss) 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.

5 IFRS 2 'Share-based payments'

Operating expenses includes a charge of £4,691 (2016: £8,492) 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.

6 Additional copies

Further copies of the 2017 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.