

Image Scan Holdings plc

Interim report 2018

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 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 grew by 50% to £2.0m (2017: £1.3m) with the business performing particularly well in Asia and the Indian Subcontinent.

Revenues for the six months ended 31 March 2018 were £2.0m (2017: £2.1m). This revenue performance was achieved despite the loss of a £1m contract, 50% of which had been scheduled for delivery in the period. The continued demand for the Company's products was reflected in the fact that, despite the contract cancellation, the number of portable X-ray systems sold increased by 10% over the prior year. Gross margin increased to 40% (2017: 39%) reflecting favourable product mix and strong support revenue.

Overhead costs increased to £759k (2017: £695k), the largest element of the increase being an additional £40k spend on research and development as the new precision detectors were transferred to production. The business made a post-tax profit of £39k (2017: £111k).

The Company finished the period with an order book of £1.1m (2017: £940k) and a cash balance of £752k (2017: £469k)

Overview

Having decided in February to accept the cancellation of a £1m contract, the Company has moved rapidly to negotiate a cancellation agreement, against which a payment has been received. The units built for the cancelled order have been repackaged and sold to other customers, leaving a stock of accessories against which a conservative provision has been made. Some of these accessories are common across many customers and may be sold in the future. The Company considers that this temporary setback is now behind it and is able to move forward strongly.

The continued focus on the Indian Subcontinent led to a four-times increase in X-ray unit sales to this region. These were primarily the lower cost, compact units, which are targeted specifically at this market. Asia continued to be a valuable market for the larger, more expensive systems, demonstrating the value of a product strategy that gives the Company a portfolio of products that can be optimised for particular requirements and budgets. Over the last 12 months, several sales visits have been made to South America and new partners have been appointed in key territories. This effort produced its first orders in the period and the order pipeline in the region is growing.

A change in technology strategy saw technology from our Precision Linescan Detector programme reach the market with the launch of the Threatscan@2. This offers a four-times improvement in display resolution and allows our linescan technology to compete more directly with the much more expensive medical X-ray type detectors used by some competitors,

In the industrial inspection business area, where the Company provides machines for scanning catalytic converters and diesel particulate filters in the automotive industry, sales were light in the first half. However, the Company goes into H2 with an orderbook of five units, allowing valuable cost saving to be achieved in the supply chain and in assembly/test time. We expect to deliver all these units in H2.

The Company developed a new Quality Management System and, in December 2017, its processes and systems were judged to meet the new ISO9001:2015 quality standard. These new processes are being implemented through a newly-launched Continuous Improvement Programme, backed up by detailed performance measurements, under the Operations Manager.

Outlook

In response to the continuing terrorist threats we see ongoing high demand for threat detection systems world-wide and demand for portable X-ray systems is part of this trend. The Company's expansion into new geographies such as the Indian Subcontinent and South America, alongside its continuing strength in Asia and the Middle East should allow it to capitalise on this continuing demand.

The Threatscan®2, with its high-resolution detector panel, together with a range of new system configuration options and accessories, will further broaden the range of customer requirements that Image Scan can address.

We have seen our catalytic converter customers expanding their industrial footprint to meet demands caused by tighter emissions controls legislation, and expect this trend to continue, further driving demand for our inspection systems.

The impact of the cancelled order, while short term, was significant and points to the need to expand the activities of the Company so that it is less dependent on individual product lines or customers. The Board is pursuing initiatives to achieve this through acquisition and partnership, as well as through internal product development initiatives.

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

30/04/2018

Consolidated income statement

For the six months ended 31 March 2018

| | Note | Six months ended 31 March 2018 (Unaudited) £'000 | Six months ended 31 March 2017 (Unaudited) £'000 | Year ended 30 September 2017 (Audited) £'000 |
|-------------------------------|------|-----------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------------|
| Revenue | | 1,990 | 2,086 | 5,033 |
| Cost of sales | | (1,192) | (1,280) | (3,104) |
| Gross profit | | 798 | 806 | 1,929 |
| Other operating Income | [3] | - | - | 57 |
| Operating expenses | | (759) | (695) | (1,509) |
| Operating profit | | 39 | 111 | 477 |
| Finance income | | - | - | - |
| Profit before taxation | | 39 | 111 | 477 |
| Taxation | | - | - | 103 |
| Profit for the period | | 39 | 111 | 580 |

| | | Pence | Pence | Pence |
|---------------------------|-----|-------------|-------|-------|
| Earnings per share | | | | |
| Basic profit per share | [4] | 0.03 | 0.09 | 0.45 |
| Diluted profit per share | | 0.03 | 0.09 | 0.43 |

Consolidated statement of changes in equity

For the six months ended 31 March 2018

| | | Six months ended 31 March 2018 (Unaudited) £'000 | Six months ended 31 March 2017 (Unaudited) £'000 | Year ended 30 September 2017 (Audited) £'000 |
|--------------------------------------------|-----|--------------------------------------------------------------|--------------------------------------------------------------|-------------------------------------------------------------|
| Opening equity shareholders' funds | | 1,821 | 740 | 740 |
| Shares issued in the year | | 6 | - | 527 |
| Share issue costs | | - | - | (43) |
| Share-based payments | [5] | 6 | 5 | 17 |
| Profit attributable to equity shareholders | | 39 | 111 | 580 |
| Closing equity shareholders' funds | | 1,872 | 856 | 1,821 |

Consolidated statement of financial position

As at 31 March 2018

| | As at 31 March 2018 (Unaudited) £'000 | As at 31 March 2017 (Unaudited) £'000 | As at 30 September 2017 (Audited) £'000 |
|----------------------------------------|---------------------------------------------------|---------------------------------------------------|-----------------------------------------------------|
| Non-current assets | | | |
| Plant and equipment | 20 | 31 | 27 |
| | 20 | 31 | 27 |
| Current assets | | | |
| Inventories | 676 | 700 | 1,095 |
| Trade and other receivables | 1,327 | 652 | 1,660 |
| Cash and cash equivalents | 752 | 469 | 1,253 |
| | 2,755 | 1,821 | 4,008 |
| Total assets | 2,775 | 1,852 | 4,035 |
| Current liabilities | | | |
| Trade and other payables | 855 | 929 | 2,166 |
| Non-current liabilities | | | |
| Provisions for liabilities and charges | 48 | 67 | 48 |
| Total liabilities | 903 | 996 | 2,214 |
| Net assets | 1,872 | 856 | 1,821 |
| Equity | | | |
| Share capital | 1,360 | 1,256 | 1,357 |
| Share premium account | 8,320 | 7,935 | 8,317 |
| Retained earnings | (7,808) | (8,335) | (7,853) |
| Equity shareholders' funds | 1,872 | 856 | 1,821 |

Consolidated cash flow statement

For the six months ended 31 March 2018

| | Six months ended 31 March 2018 (Unaudited) £'000 | Six months ended 31 March 2017 (Unaudited) £'000 | Year ended 30 September 2017 (Audited) £'000 |
|---------------------------------------------------|-----------------------------------------------------------|--------------------------------------------------------------|-------------------------------------------------------------|
| Cash flows from operating activities | | | |
| Operating profit/(loss) | 39 | 111 | 477 |
| Adjustments for: | | | |
| Depreciation | 7 | 6 | 13 |
| Impairment of inventories | 24 | 13 | 30 |
| Increase in provision for warranty | - | 16 | (3) |
| Decrease/(increase) in inventories | 394 | (209) | (620) |
| Decrease in trade and other receivables | 267 | 190 | (715) |
| (Decrease) in trade and other payables | (1,274) | (698) | 539 |
| Share-based payment charge | 6 | 5 | 17 |
| Net cash used in operating activities | (537) | (566) | (262) |
| Corporation tax recovered | 30 | - | - |
| Net cash outflow from operating activities | (507) | (566) | (262) |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | - | (20) | (23) |
| Net cash used in investing activities | - | (20) | (23) |
| Cash flows from financing activities | | | |
| Proceeds from issue of share capital | 6 | - | 527 |
| Financial costs of fundraising | - | - | (43) |
| Net cash from financing activities | 6 | - | 483 |
| Net decrease in cash and cash equivalents | (501) | (586) | 198 |
| Cash and cash equivalents at beginning of period | 1,253 | 1,055 | 1,055 |
| Cash and cash equivalents at end of period | 752 | 469 | 1,253 |

Notes to the unaudited interim financial statements

For the six months ended 31 March 2018

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 2018 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 2017.

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 2017 does not constitute the full statutory accounts for that period. The annual report and financial statements for the year ended 30 September 2017 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 2017 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

The R&D tax credits in the year have been decreased 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 £38,619 and on 136,004,577 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 £5,887 (2017: £4,691) 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 2018 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.