IMAGE SCAN HOLDINGS PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS
30 September 2019

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HIGHLIGHTS

> FY 2019 results were impacted by delays in government security contracts. However, improved order intake in the final quarter allowed the Group to start FY 2020 with a strong orderbook.

OPERATIONAL HIGHLIGHTS

- Significant portable X-ray order from a European customer
- New security screening system in development
- New international sales partners appointed
- High stock levels at year end

FINANCIAL HIGHLIGHTS

- Order bookings of £3.9m (2018: £2.8m)
- Gross margin increased to 54% (2018: 47%)
- Operating loss before tax £403k (2018: operating profit of £48k)
- Period-end orderbook more than tripled to £1.7m (2018: £465k)

BUSINESS ACTIVITY

The core activity of the Group is the manufacture of portable X-ray systems for security and counter terrorism applications. Our primary end users are bomb technicians, usually in police and military response teams. These systems are often the first devices on the scene of a potential terrorist incident and are consequently designed to be rugged and reliable. Image Scan has been a strong player in the market for many years. The first of the current range of products was launched in 2015 and the range has been continuously extended and enhanced since then. The Group also is able to supply the Axis range of 2D and 3D checkpoint X-ray machines and the SVXi vehicle scanner. All these products are taken to market across the world through a strong network of international partners.

In addition, over the last fourteen years, Image Scan has developed and manufactured industrial X-ray inspection systems, the MDXi range. The primary market for these systems is in automotive emissions control where they are used for quality control inspection of catalytic converters and diesel particulate filters. The Group has an installed base of many such machines, most of which are under long term service contracts which provide valuable recurring revenue.

BUSINESS MODEL

As indicated above, the Group business model is focussed on the development, manufacture, sale and support of X-ray inspections systems for security and industrial applications. Most of the Group's business in both applications is transacted on cash neutral trading terms. Sources of growth include the addition of revenue streams through acquisition and internal development, the extension of the Group's reach into new applications and new geographies and the growth of aftermarket revenues.

OFFICERS AND PROFESSIONAL ADVISERS

Directors

William Mawer
Chairman and Chief Executive Officer

Vincent Deery
Sales and Marketing Director

Sarah Atwell King
Financial Director

Richard Leaver
Non-Executive Director

Timothy Jackson
Non-Executive Director

Company Secretary

Sarah Atwell King

Registered Office

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Sileby Road, Barrow-upon-Soar
Leicestershire LE12 8LD

Company Number

03062983

Nominated Adviser & Broker

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12th Floor
5 Churchill Place, Canary Wharf
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Principal Bankers

Royal Bank of Scotland plc
8 South Parade
Nottingham NG1 2JS

Solicitors

Browne Jacobson
44 Castle Gate
Nottingham NG1 7BJ

Registrars

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Neville House
Steelpark Road
Halesowen B62 8HD

Auditors

BDO LLP
Statutory Auditor
Chartered Accountants
Regent House
Clinton Avenue
Nottingham NG5 1AZ

CHAIRMAN'S STATEMENT

William Mawer, Chairman

> The Group continues to develop and enhance its product range and expand its available markets. After a period of slow order intake, contract wins in late FY 2019 put the Group in a stronger position at the start of FY 2020.

Overview

The results for the Image Scan Group for the year ending 30 September 2019 reflect the low order book with which the Group started the year and a long period where order intake continued at a relatively subdued level. Orders were impacted by delays or cancellations to procurement programmes by key international customers. Additionally, sales of industrial systems returned to a more normal level after the record high of the previous year. However, the final quarter saw a turnaround in order intake, with some significant portable X-ray contracts being received, and the Group finished the period with a strong order book.

Our Strategy

The core strategy continues to be to build the Group through a combination of organic and acquisition growth. However, the Board recognizes that the opportunities for acquisition will be limited by the current low share price and market capitalisation. For these reasons the short-term strategy is focussed on organic growth, with the immediate target of returning sales and profits to the 2017 level, while laying the foundations for further growth beyond this.

The key elements of this organic growth strategy are the further enhancement of the portable X-ray range in order to strengthen the position in this highly competitive market; the development of new products based on the Group's core technologies and the further expansion of the product range through partnering with other security technology companies. We will continue to look for new and stronger sales partners in the more attractive regional markets and will seek out additional users for our portable X-ray systems beyond the conventional "bomb squad" market.

The Group will look to further strengthen the industrial product range and increase its deployment into the international manufacturing operations of current customers, while looking to add new customers in this important sector. We will continue to develop the product line and recently added important new analysis techniques which we hope to deploy during FY 2020.

The Board's longer-term ambition to increase the critical mass of the business through carefully selected acquisitions remains.

Outlook

The substantial portable X-ray orders won towards the end of the period demonstrate that our product technology and our sales team and our strong network of international partners, can continue to create and win opportunities in the security marketplace. However, some countries, including the UK, have decreased their assessment of the security threat level, which might be expected to lead to softness of budgets for security equipment. Additionally, portable X-ray is a small, niche market, within which many governments have sufficient equipment to meet their short-term needs and face an increasing choice of suppliers when they do run procurement programmes in this category. In response to this, the Group is planning upgrades to its portable X-ray systems and is focussing attention on less highly penetrated markets such as those in South America and Eastern Europe. The strength of our partner network should allow us rapidly to get new products into the market as they become available.

CHAIRMAN'S STATEMENT (CONTINUED)

William Mawer, CEO

While sales of industrial systems returned to a more normal level in FY 2019, we continue to see opportunity in the market for inspecting automotive catalytic converters and diesel particulate filters. Our key customers are building capacity in a number of territories, not least China and India and we are seeing new orders for systems to be deployed in these markets.

In the longer term, the Board continues to believe that a blend of organic and acquisition growth is the best way to deliver shareholder value, the greater scale will provide both protection from market shocks and stronger amortisation of the relatively high fixed costs associated with a stock market listing.

Staff

The Board values greatly the considerable efforts made by our staff and, on behalf of the Directors, I would like to take this opportunity to personally thank staff and shareholders for their continued commitment to Image Scan.

William Mawer
Chairman
2 December 2019

Making a difference

From time to time stories from real deployments of our technology in real threat scenarios come back to us from users. We recently had an invaluable briefing to all staff from an experienced military bomb technician. This way the whole team can gain a better understanding of the importance of our systems to the people who use them.

Learning from the user

As we look to develop a new range of systems, we will seek help from bomb technicians to define the user requirements and we will test our emerging ideas with them.

STRATEGIC REPORT

William Mawer, CEO

> Order bookings significantly increased over the prior year and the business continued investment in new technology.

Business Review

The business started the year with only a small order book and much of this was delivered in the first quarter. Some significant orders that had been expected during the year were delayed, in some cases until late in the final quarter, leaving the business with an overall reduction in sales but a strong order book.

Throughout the year the business worked very closely with a key partner in a European country on a large portable X-ray project. The customer's procurement process involved extensive trials and evaluations over a long period and, as might be expected for such a significant project, attracted a large field of portable X-ray competitors. The contract, worth over £800k was finally received only in the final month of the year, too late for sales to be delivered in the reporting period. An additional significant contract won close to the year end, this time from an Asian customer, further added to the order book. The Group aims to deliver both of these orders in the first half of FY 2020.

An intensive marketing effort saw the Group undertake demonstrations and trials across the globe and especially in in Europe, South America, Asia and the Middle East. New partners were taken on in a number of important territories and opportunities were identified in new markets.

The research and development team continued to develop upgrades to the range of portable X-ray systems, including new digital communications technology and an "Image Stitching" feature which allows a series of images taken of a large object to be combined into a single high-resolution picture of the threat. Additionally, the team produced an engineering development model for a completely new X-ray system using the core "Linescan" detector technology for a new application, quite separate from portable X-ray. Following extensive engineering evaluation, a full prototype is now in development and the product should be released in FY 2020.

A new measurement technique has been developed for the MDXi range of industrial X-ray systems and is currently being marketed to our key customers with a view to deploying the algorithms into our large installed base of systems during FY 2020. Deliveries of industrial systems were down from the record seen in FY 2018 but the order book is again building in this area. The number of support contracts increased as the systems deployed in FY 2018 came into service and this work provides valuable, and growing, sustainable income, with the support team regularly visiting our key customers' international manufacturing sites and carrying out preventative maintenance.

Financial Results

Following an intensive effort by the sales team, total order booking in the year was up 39% at £3.9m (2018: £2.8m).

Sales reduced to £2.4m (2018: £3.5m) impacted by delays in Government orders and a fall in sales to the Indian Subcontinent where, for the second year, budgets have been tight. This region did, however, see a number of deployments of industrial units. Margins strengthened to 54% (2018: 47%) partly driven by new service contracts on the exceptionally high number of industrial units deployed in FY 2018.

Overheads rose slightly to £1.68m (2018: £1.60m) largely due to small, planned increases in research & development and marketing spend. The pre-tax trading loss for the year was £403k (2018: operating profit of £48k).

The financial position of the Group remained strong with net assets of £1.27m (2018: £1.63m) at the year end which includes a cash balance of £640k (2018: £782k). The Group has been able to meet its working capital requirements for the year under review. The period ended with a strong year end orderbook of £1.7m (2018: £465k), most of which should be delivered in the first half of FY 2020.

The Group currently holds high levels of stock, particularly part-complete portable X-ray systems. With most of this stock allocated to the recently received orders, the stock level is expected to decline over the next few months. A stock control policy, constantly reviewed by management, strikes a balance between control of working capital and the need to offer short delivery times to customers.

STRATEGIC REPORT (CONTINUED)

Introduction of new accounting standards

In the financial year. the Group implemented IFRS 9 Financial Instruments and IFRS 15 Revenue Recognition and details of their impact are provided in note 2. These had no material impact on the results reported.

Operational Improvements

The Group continued to upgrade and improve its internal processes during the period, in line with its ISO 9001:2015 compliant quality system. The Continuous Improvement process drove on-time delivery and quality performance. An extensive review of the supply chain was carried out with potential improvements in cost and quality identified and implemented. A UK based supplier for a large machined component, hitherto sourced from Belgium, was identified and vetted, reducing the scope for post Brexit disruption of supply for this important item. Other initiatives focussed on cross functional teamwork within the business and improvements to the working environment within the Group's factory units near Loughborough.

Share price performance

The highest and lowest share prices during the year were 2.95 pence and 0.79 pence per share respectively. The closing mid-market price was 1.10 pence per share.

Corporate Governance

The Group has adopted the 2018 Quoted Companies Alliance Corporate Governance Code (the "QCA Code") as the basis of the Group's governance framework. The Corporate Governance statement can be found on page 16 of this report.

Key Performance Indicators

During the year under review, the Board reviewed the Financial Key Performance Indicators which it considered appropriate for a business of the size and stage of development.

The Board reviews the performance of the business against its key targets monthly and adjusts operational focus accordingly. More detailed performance indicators, covering diverse areas such as customer issues, quality and research and development are used in the day to day management of the business. The use of Key Performance Indicators and targets has been further developed in the new financial year and forms part of the day to day management of the business.

	2019	2018	2017	2016
Order intake	£3.9m	£2.8m	£5.4m	£4.3m
Turnover	£2.4m	£3.5m	£5.0m	£3.3m
Gross margin	54%	47%	38%	42%

Principal Risks And Uncertainties

Operational risks

The Group runs a risk management process under which potential risks to the business are identified and mitigating measures are put in place. The Directors regularly review the Risk Register, ensuring that resources are allocated to implement mitigation plans. Risk analysis is also embedded into the Group's ISO 9001:2015 compliant Quality Management System.

The Directors consider that the main business risks and uncertainties of the Group are:

Risk	Mitigation
Shareholder concentration	
A single shareholder (Rise Step) holds 22% of the stock, meaning that this shareholders support is required in order to pass a special resolution.	Regular communication with all significant shareholders. Chairman's relationship is supplemented by a Non-Executive Director (Dr Leaver) developing a communication route with Rise Step.
Revenue pattern	
The order intake pattern is irregular in that either market and payment terms can vary. This creates potential challenges for supply chain management, resource scheduling and cash flow	Working capital is carefully monitored through detailed cash flow forecasts, reviewed bi-weekly by the executive board and monthly by the full Board. Sales forecasts are reviewed bi-weekly and a supply chain audit has been completed. Key suppliers now hold stock for the Group to call off as required, reducing the working capital requirement while retaining flexibility. New sources of revenue are being sought.
Competitive market	
The portable X-ray market is competitive with multiple players and competing technologies.	Programme of continuous innovation to ensure product differentiation. Early engagement with partners and customers to ensure benefits the Group's technologies are recognised in procurements. A major product upgrade is currently in the planning stage.

STRATEGIC REPORT (CONTINUED)

Financial risks

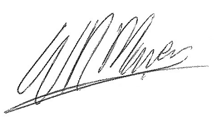
The Group's financial instruments during the year comprised trade and other debtors, cash balances and various other items, such as trade and other creditors. The main purpose of these financial instruments is the financing of the Group's operations and development work. Following a review, the Board decided not to enter into any derivative transactions in the year to manage currency or liquidity risk. The main risks arising from the Group's financial instruments are therefore considered to be currency risk, credit risk and liquidity risk.

RISK
Currency risk
The Group does not have a policy of using hedging contracts. The Group is exposed to exchange rate fluctuations on purchases and sales in foreign currency. Fluctuations in purchase price are managed by setting sales prices. The Board will keep this policy under review.
Credit risk
The Group's principal financial assets are cash and trade debtors. The credit risk associated with cash is limited as the Group's policy is to use banks with a high credit rating assigned by an international credit rating agency. With respect to trade debtors, payment terms typically require a substantial deposit on placement of the order and a majority of the contract paid prior to shipment.
Liquidity risk
The Group's policy is to manage liquidity risk by ensuring sufficient cash balances are in place to meet its commitments and to monitor risk on an ongoing basis by undertaking cash flow forecasting procedures. The Group has positive cash balances and has therefore been able to meet its working capital requirements throughout the year under review.

Brexit

Recognizing the current uncertainty over the outcome of the UK's negotiations to leave the EU, an analysis of the potential impact of Brexit on the Group has been carried out. This identifies potential impacts in the areas of workforce, cross border trade, taxation, contracts and uncertainty. Actions to prepare for each potential impact have been identified including a review of the supply chain and these actions are regularly reviewed by the Board.

Approved and signed by order of the Board



William Mawer

Chief Executive Officer

2 December 2019

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 30 September 2019.

Directors

The Directors who served during the year were as follows: W R Mawer, V J Deery, R A Leaver, T D Jackson and S A Atwell King (appointed November 2018)

Directors' And Officers' Liability Insurance

The Group had in force during the year, and has in force at the date of this report, a qualifying indemnity in favour of its Directors and officers against the financial exposure that they may incur in the course of their professional duties as Directors and officers of the Company and/or its subsidiaries.

Shareholdings

At the date of this report, the number of issued shares were 136,544,577 and the following substantial shareholdings have been notified to the Company:

	%	Ordinary shares of 1 pence each
Rise Step International Development Ltd	22.70	30,873,331
D Allenby	10.71	14,601,305
Old Mutual plc	7.00	9,540,021
Charles Cozens	4.04	5,510,500
Directors shareholdings		
W R Mawer	3.83	5,204,682
R A Leaver	0.37	500,000
V J Deery	0.06	83,077
S A Atwell King	0.06	75,000

Dividends

The Directors are unable to recommend the payment of a dividend.

Research And Development

Research and development was mainly focused on developing the portable X-ray inspection system as set out in the Strategic Report. Costs in the year amounted to £408,531 (2018: £383,187).

Company Number

03062983 (England and Wales).

Strategic Report

The Group has chosen, in accordance with Section 414C of the Companies Act 2006, to set out the following information in the Strategic Report and Chairman's statement which would otherwise be required to be contained in the Directors' Report:

- financial risk management objectives;
- indication of exposure to currency risk, credit risk and liquidity risk; and
- likely future developments of the business.

DIRECTORS' REPORT (CONTINUED)

Directors' Statement Of Responsibilities

The Directors are responsible for preparing the Strategic Report, the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market ('AIM').

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and its subsidiaries will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Going concern

The Directors regularly review the performance of the Group against forecasts to ensure that they are able to react on a timely basis to opportunities and issues as they arise. The Group plans to secure a number of sales contracts over the course of the coming year in order to fund the working capital requirements and achieve a profitable position. After making appropriate enquiries, and given the prudent level of net assets retained in the Group, the Directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Statement As To Disclosure Of Information To Auditors

So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditors are unaware, and each Director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Post Balance Sheet Events

There were no significant post balance sheet events since the year end that would affect the Group's results.

Auditors

The auditors, BDO LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

On behalf of the Board

William Mawer

Chief Executive Officer

2 December 2019

CORPORATE GOVERNANCE

STATEMENT OF COMPLIANCE WITH THE 2018 CORPORATE GOVERNANCE CODE

The Board recognise that high standards of corporate governance underpin our continuing success and as a Board we acknowledge our responsibility in leading this process.

We continually review the framework within which we operate and the processes implemented to ensure that they reflect the complexities of our business and, whilst acknowledging our size, are also capable of adding value as the business grows. In line with the London Stock Exchange's recent changes to the AIM Rules requiring all AIM-listed companies to adopt and comply with a recognised corporate governance code, the Board has adopted the 2018 Quoted Companies Alliance Corporate Governance Code (the "QCA Code") as the basis of the Group's governance framework.

We are not fully compliant with all of the requirements of the QCA Code; the posts of Chairman and Chief Executive Office are presently held by the same individual as this currently suits the Company's strategic plans and while we considers our non-executive directors to be independent in character and judgement; neither are technically independent as defined by the QCA Code because both participate in the Company's share option schemes.

Within Image Scan, we promote a culture of good governance in dealing with all key stakeholders: our employees, our customers, our suppliers and our shareholders. This section of the annual report alongside the disclosure on our website describes our corporate governance structures and processes and how they have been applied throughout the year ended 30th September 2019.

WR Mawer
Chairman, Image Scan Holdings plc

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The Board ensures that the Group adopts proper standards of corporate governance and that the principles of best practice as set out in the QCA Corporate Governance Code are followed so far as is practicable and appropriate to the size and nature of the Group and the constitution of the Board. Set out below is a summary of how, the Group is applying the key requirements of the Code and an explanation of where it has chosen not to comply.

1. Establish a strategy and business model which promote long-term value for shareholders

The strategy and business operations of the Group are set out in the Strategic Report on pages 7 to 10 of this report. The Group's strategy and business model are developed and approved by the Board. The management team is responsible for implementing the strategy and managing the business at an operational level. The Group's overall strategic objective is focused on the development and commercialisation of market leading X-ray solutions for use in the global security and industrial inspection markets.

2. Seek to understand and meet shareholder needs and expectations

The Board recognises that Image Scan communicates with its shareholders principally through its website and the Annual Report. Shareholders can also sign up to receive news releases directly from the Company by email. The Chairman makes himself available to major shareholders on request and periodically attends meetings and gives presentations to shareholders.

The Annual General Meeting of the Company, normally attended by all directors, gives the directors the opportunity to report to shareholders on current and proposed operations and enables the shareholders to express their views of the Group's business activities. Shareholders are invited to ask questions during the meeting and to meet with directors after the formal proceedings have ended.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success

The Board believes that, in addition to its shareholders, its main stakeholder groups are its employees, customers, suppliers and relevant Statutory Authorities in its areas of operation.

The Group's operations and working methodologies take account of the need to balance the needs of all of these stakeholder groups while maintaining focus on the Board's primary responsibility to promote the success of the Group for the benefit of its members as a whole. The Group endeavours to take account of feedback received from stakeholders, making amendments to working arrangements and operational plans where appropriate and where such amendments are is consistent with the Group's longer term strategy.

Through the various procedures and systems it operates, the Group ensures full compliance with health and safety and environmental legislation relevant to its activities as well as maintain quality certification ISO9001:2015.

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Board is responsible for the Group's internal control and risk management systems and for monitoring their effectiveness. The Board maintains a system of internal controls to safeguard shareholders' investment and the Group's assets, and has established a continuous process for identifying, evaluating and managing the significant risks the Group faces.

Details of the principal risks and how they are mitigated alongside side the Group's internal control and risk management process are set out in the Strategic Report on pages 7 to 10 of this report.

The Board considers risk to the business on an ongoing basis and the Group formally reviews and documents the principal risks at least annually. The Board is responsible for reviewing and evaluating risk in the business.

5. Maintain the Board as a well-functioning, balanced team led by the Chair

Throughout the year the Board of Image Scan comprised a combined Chairman/CEO, two further Executive Directors and two Non-Executive Directors. At every AGM, one-third of the Directors must retire by rotation. The Board's role is to establish the strategic objectives and policies; oversee all aspects of the Group's finances; continuously review performance and controls; manage risk; decide on key business transactions and manage the interests of stakeholder groups.

The Board reserves for itself a range of key decisions such as strategy, acquisitions, significant contracts and internal controls, to ensure it retains proper direction and control of the Group, whilst delegating authority to individual Directors who are responsible for the executive management of the business.

The QCA Code recommends that the role of Chairman and Chief Executive should not be exercised by the same individual. The role of Executive Chairman is held by Bill Mawer. In light of Bill's significant, unique and proven expertise, knowledge and industry relationships the Board continues to believe that combining the roles of Chairman and Chief Executive remains the right approach at this stage in the Group's development.

Under the QCA code, all Non-Executive Directors are not considered independent by virtue of their participation in a share option scheme, as a result the Group is not compliant with the requirement for companies below the FTSE 350 to have least two independent directors. At the same time, the Board considers that all Non-Executive Directors act independently of the Executive and are well placed to appropriately police adherence to the Group's strategy.

The Group does not have a director designated as a Senior Independent Director. In light of the size of the Board, and the Company's stage of development, the Board does not consider it necessary to appoint a Senior Independent Director at this stage, but will nevertheless keep this under review as part of the Board's evaluation on Board effectiveness.

Attendance at Board and its Committee meetings

The following meetings were held during the year.

	No. of Meetings	Attendance				
		W Mawer	R Leaver	T Jackson	V Deery	S Atwell King
Board	13	→13	13	13	13	13
Audit Committee	2	2	2	→ 2	n/a	n/a
Remuneration Committee	2	1	→2	2	n/a	n/a
Nomination Committee	1	→1	1	1	n/a	n/a

→Indicates the Chair of the committee

The terms of reference of the audit committee stipulate that three meetings per year should be held, however given the size of the board, some of the audit committee business was conducted by the full Board including review of the Risk Management system and Internal Controls.

6. Ensure that between them, the directors have the necessary up-to-date experience, skills and capabilities

The Board is composed of three executive and two non-executive directors who regularly meet throughout the year and receive timely information in a form and of a quality appropriate to enable it to discharge their duties.

The structure of the Board is subject to continual review to ensure that it is appropriate for the Group. The Directors' varied backgrounds and experience give Image Scan a good mix of the knowledge and expertise necessary to manage the business effectively.

The skills and experience of the Board are set out in their biographical details on the Investor Relations website http://www.3dx-ray.com/investor-relations/board-of-directors. The experience and knowledge of each of the Directors gives them the ability to constructively challenge the strategy and to scrutinise performance. The Board also has access to external advisors where necessary.

7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

The Board undertakes an annual evaluation under a formal, self-evaluation process which was put in place in 2018. This process has led to a number of actions, including improvements to information that the Board receives and the creation of Board led initiatives reviewed regularly at Board meetings. The process focuses closely on objectives and targets for improving performance.

8. Promote a corporate culture that is based on ethical values and behaviours

The Group is committed to a culture of equal opportunities for all employees. The Board aims to be diverse in terms of its range of culture, nationality and international experience. In November 2018, Ms Atwell King was appointed as Finance Director, improving the gender balance of the Board, which had previously been all male. If it is agreed to further expand the Board (or if new replacement directors are sought in the future), the Board will, subject to identifying appropriate candidates, consider the balance of the Board in making further appointments.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The Board is acting to strengthen the culture of the business through a process that develops a set of values consistent with the vision and objectives of the Group and flows these down though a set of specific initiatives. These initiatives are driven personally by the Chief Executive and a report on the progress against each initiative is given to the Board each month.

9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

The Board has twelve scheduled meetings a year, but meets more frequently if required, and, together with the Audit, Remuneration and Nominations Committees, deals with all important aspects of the Group's affairs. The Board receives timely information in a form and of a quality appropriate to enable it to discharge its duties. All Board Committees have their own terms of reference, which are available from the Company Secretary.

Audit Committee

The Audit Committee comprises Tim Jackson, who acts as the Chairman, Richard Leaver and Bill Mawer.
Tim Jackson is considered to have recent and relevant financial and legal knowledge and experience.

The Audit committee has three scheduled meetings per year.

The Audit committee report can be found on page 18 and19 of this report.

Remuneration Committee

The Remuneration Committee comprises Richard Leaver, who acts as the Chairman, Tim Jackson and Bill Mawer.

The Remuneration Committee normally meets at least once a year.

The Remuneration committee report can be found on pages 21 and 22 of this report.

Nominations Committee

The Nominations Committee compromises of Bill Mawer, who acts as the Chairman, Tim Jackson and Richard Leaver.

The Nominations Committee normally meets at least once a year.

The nomination committee report can be found on page 20 of this report.

10. Communicate how the Group is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Board recognises that Image Scan communicates with its shareholders principally through its website and the Annual Report. Shareholders can also sign up to receive news releases directly from the Company by email. The Chairman makes himself available to major shareholders on request and periodically attends meetings and gives presentations to shareholders.

The Annual General Meeting of the Company, normally attended by all directors, gives the directors the opportunity to report to shareholders on current and proposed operations and enables the shareholders to express their views of the Group's business activities. Shareholders are invited to ask questions during the meeting and to meet with directors after the formal proceedings have ended.

The results of voting on all resolutions in future general meetings will be posted to the Group's website.

The Group communicates with its staff in a number of ways including annual appraisals and monthly staff briefings.

Share Dealing Code

The Company has adopted a share dealing code for the Directors and certain employees, which is appropriate for a company whose shares are admitted to trading on AIM (including relating to the restrictions on dealings during close periods in accordance with MAR and with Rule 21 of the AIM Rules for Companies) and the Company takes all reasonable steps to ensure compliance with the share dealing code by the Directors and any relevant employees.

Anti-Bribery Policy

The Group believes that it has robust policies and procedures for combating bribery and corruption which are periodically reviewed.

AUDIT COMMITTEE REPORT

Membership and attendance

	Director	Attendance
Chairman	Tim Jackson	2
Member	Bill Mawer	2
Member	Richard Leaver	2

Roles and responsibilities

The Audit Committee has responsibility for:

- the Company's financial reporting.
- narrative reporting ensuring that the financial performance of the Group is properly monitored and reported on.
- whistleblowing arrangements.
- internal financial controls – identifying and commissioning specific internal control reviews.
- appointment of external auditors.
- the external audit process – meeting the external auditors and reviewing any reports from them regarding accounts and internal control systems.

It also oversees:

- the Group's Risk Register.
- developments in relevant legislation and regulation.
- the Group's system of internal controls and risk management.

Activities during the year

During the year, the following matters were considered by the committee:

Financial statements and reports

- reviewed annual report and accounts, and received reports from the external auditor;
- reviewed the effectiveness of the Group's internal controls and disclosures made in the annual report and accounts;
- reviewed management representation letters, going concern reviews and significant areas of accounting estimates and judgements, including warranty and stock valuation and impairment; and
- reported to the Board on the appropriateness of accounting policies and practices, including the adoption of IFRS15 Revenue Recognition and IFRS 9 Financial Instruments which came into effect on 1 October 2018 as well as the implications of adopting IFRS16 Leases in the financial year to September 2020.

Risk management

- considered the Group risk register, which identified, evaluated and set out mitigation of risks, and reviewed the principal risks and uncertainties disclosed in the annual report and accounts.

External audit and non-audit work

- reviewed the relationship with the external auditor, BDO LLP including its independence, objectivity and effectiveness and, based on that review, recommended to the Board its reappointment at the forthcoming Annual General Meeting;
- reviewed, considered and agreed the scope and methodology of the audit work to be undertaken by the external auditor;
- agreed the terms of engagement and fees to be paid to the external auditor; and
- reviewed any non-audit fees incurred during the year.

AUDIT COMMITTEE REPORT (CONTINUED)

Internal controls and risk management

The Board is responsible for the effectiveness of the Group's system of internal control, which has been designed and implemented to meet the requirements of the Group and the risks to which it is exposed. The Group has a robust risk management process that follows a sequence of risk identification, and assignment of ownership to manage mitigation activities. The Committee reviews the Group risk register at least once each year to assess the actions being taken by senior management to monitor and mitigate the risks.

The Group's principal risks and uncertainties are described on pages 9 and 10 of the Strategic Report.

The following key elements comprise the internal control environment which has been designed to identify, evaluate and manage, rather than eliminate, the risks faced by the Group in seeking to achieve its business objectives and ensure accurate and timely reporting of financial data for the Company and the Group:

- an appropriate organisational structure with clear lines of responsibility;
- an experienced and qualified finance function, which regularly assesses the risks facing the Group;
- an annual strategic and business planning process;
- a systems of control procedures and delegated authorities; and
- a robust financial control, budgeting and rolling forecast system, which includes regular monitoring, variance analysis and key performance indicator reviews;

Going concern

Financial projections covering a period of not less than two years are prepared to support the review of going concern.

Significant accounting matters

The Audit Committee assesses whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements. The Committee reviews accounting papers prepared by management which provides details on the main financial reporting judgements. The Committee also reviews reports by the external auditor on the full year results which highlight any issues arising from the work undertaken.

I look forward to meeting with shareholders at the Annual General Meeting in February to answer any questions on the work of the Committee.

Tim Jackson
Chairman of the Audit Committee
2 December 2019

NOMINATION COMMITTEE REPORT

Membership and attendance

	Director	Attendance
Chairman	Bill Mawer	1
Member	Tim Jackson	1
Member	Richard Leaver	1

Roles and responsibilities

The Nomination Committee has responsibility for:

- assessing whether the size, structure and composition of the Board (including its skills, knowledge, experience, independence and diversity, including gender diversity) continue to meet the Group's business and strategic needs, in particular that the roles of Chairman and Chief Executive Officer are held by one person;
- examining succession planning; and
- identifying and nominating, for approval by the Board, candidates to fill Board vacancies as and when they arise, together with leading the process for such appointments.

Activities during the year

The Nominations Committee met once during the year, reviewing on the occasion the structure and make-up of the Board.

A skills matrix has been developed, identifying the experience and skills needed by the Image Scan Board and the skillset of each Board member assessed against this. No significant gaps were identified.

I look forward to meeting with shareholders at the Annual General Meeting in February to answer any questions on the work of the Committee.

Bill Mawer

Chairman of the Nomination Committee

2 December 2019

REMUNERATION COMMITTEE REPORT

Membership and attendance

	Director	Attendance
Chairman	Richard Leaver	2
Member	Tim Jackson	2
Member	Bill Mawer	2

Roles and responsibilities

The role of the Committee is to recommend to the Board a strategy and framework for remuneration for Executive Directors and the senior management team to attract and retain leaders who are focused and incentivised to deliver the Group's strategic business priorities, within a remuneration framework which is aligned with the interests of our shareholders and thus designed to promote the long-term success of the Group.

The Committee's main responsibilities are:

- establishing and maintaining formal and transparent procedures for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors, and monitoring and reporting on them;
- determining the remuneration, including pension arrangements, of the Executive Directors; and
- approving annual long-term incentive arrangements together with their targets and levels of awards.

Activities during the year

Matters considered and decisions reached by the Committee during the year included:

- reviewed and approved the remuneration policy for 2018/19;
- reviewed and approved the parameters of the Annual Bonus Plan for the Group;
- manage the Company's share option schemes
- reviewed and approved Executive Directors salaries for 2019/20; and
- reviewed performance measures for 2019/20 for the Executive Directors

The details of the Directors' remuneration are found in the Directors' remuneration report.

I look forward to meeting with shareholders at the Annual General Meeting in February to answer any questions on the work of the Committee.

Richard Leaver
Chairman of the Remuneration Committee
2 December 2019

DIRECTORS’ REMUNERATION REPORT

The Directors present the Directors’ remuneration report for the year ended 30 September 2019. This report has not been prepared in accordance with the Directors’ report regulations because, as an AIM listed company, Image Scan Holdings plc does not fall within the scope of these regulations.

Remuneration policy

The Remuneration Committee has devised a remuneration policy to ensure that executive Directors and staff are suitably motivated and appropriately rewarded in line with companies of a similar size and nature. The Board is responsible for setting the remuneration of the non-executive Directors, which comprises fees for their services in connection with Board and Board Committee meetings. The non-executive Directors are not eligible to join the Company’s pension scheme but may be awarded shares under the Company’s Unapproved Share Option Scheme.

The shareholders will be given the opportunity to question the Chairman, Richard Leaver, on any aspect of the Company’s remuneration policy and to vote on the remuneration report at the Annual General Meeting.

Base salary and benefits

Base salaries for the executive Directors are reviewed annually by the Remuneration Committee. At the present stage of development, with modest levels of turnover, the salaries paid to executive Directors reflect the lower end of the salary scale compared to other public companies in similar situations. Salary increases based on performance will only be made when the Company’s profitability allows.

Service contracts

Directors have rolling service contracts, which are governed by the following policies, and will also be applied to any future board appointment:

- the notice period required by either the Company or an executive Director to terminate their contract is six months;
- the notice period required by either the Company or a non-executive Director to terminate their contract is three months; and
- in the event of termination for unsatisfactory performance (if necessary, decided by an independent tribunal) or for any reasons of misconduct, no compensation is payable.

Directors’ emoluments

Information about directors’ emoluments is as follows:

Directors	Basic salary	Fees	Benefits	Bonus	Pension contributions	Total emoluments 2019	Total emoluments 2018
	£	£	£	£	£	£	£
Executive							
V J Deery	96,490	-	754	3,400	8,954	**109,598**	107,164
W R Mawer	105,959	-	7,947	-	-	**113,906**	119,950
S A Atwell King[1]	72,325	-	850	-	6,545	**79,720**	-
Non-executive							
R A Leaver	-	16,587	-	-	-	**16,587**	15,750
T D Jackson	-	16,587	-	-	-	**16,587**	23,449
Total 2019	**274,774**	**33,174**	**9,551**	**3,400**	**15,499**	**336,398**	**266,313**
Total 2018	205,295	39,199	9,741	3,390	8,688	266,313	276,699

This table excludes any share-based payments.

[1] SA Atwell King appointed from November 2018

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Share option schemes

The Remuneration Committee is responsible for awarding options over ordinary shares to executive Directors and key personnel under the Company's Enterprise Management Incentive Share Option (EMI) scheme and to non-executive Directors under the Unapproved scheme. These schemes potentially offer long term incentives to Directors and key personnel.

The Remuneration Committee believes that the potential for share ownership and participation in the growing value of the Company increases the commitment and loyalty of Directors and staff.

The following existing options have been granted:

Holder	Image Scan share option scheme	Number	Exercise price	Date of grant	Vesting period	Expire
V J Deery	EMI	300,000	4.0p	01/03/2010	3 years	01/03/2020
V J Deery	EMI	1,000,000	2.0p	17/09/2014	3 years	17/09/2024
S A Atwell King	EMI	300,000	2.0p	17/09/2014	3 years	17/09/2024
W R Mawer	Unapproved Scheme	1,500,000	3.375p	11/04/2014	3 years	11/04/2024
W R Mawer	EMI	1,000,000	2.0p	17/09/2014	3 years	17/09/2024
R A Leaver	Unapproved Scheme	400,000	3.375p	11/04/2014	3 years	11/04/2024
T D Jackson	Unapproved Scheme	400,000	2.5p	22/09/2014	3 years	22/09/2024
W R Mawer	EMI	1,000,000	2.25p	22/12/2015	3 years	22/12/2025
V J Deery	EMI	1,000,000	2.25p	22/12/2015	3 years	22/12/2025
R A Leaver	Unapproved Scheme	200,000	2.25p	22/12/2015	3 years	22/12/2025
T D Jackson	Unapproved Scheme	200,000	2.25p	22/12/2015	3 years	22/12/2025
S A Atwell King	EMI	200,000	2.25p	22/12/2015	3 years	22/12/2025
V J Deery	EMI	440,000	6.25p	04/07/2017	3 years	04/07/2027
W R Mawer	EMI	440,000	6.25p	04/07/2017	3 years	04/07/2027
R A Leaver	Unapproved Scheme	50,000	6.25p	04/07/2017	3 years	04/07/2027
T D Jackson	Unapproved Scheme	50,000	6.25p	04/07/2017	3 years	04/07/2027
S A Atwell King	EMI	200,000	6.25p	04/07/2017	3 years	04/07/2027

Richard Leaver
Chairman of the Remuneration Committee
2 December 2019

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF IMAGE SCAN HOLDINGS PLC

Opinion

We have audited the financial statements of Image Scan Holdings Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 September 2019 which comprise the consolidated statement of comprehensive income, the consolidated and the company statements of financial position, the consolidated and the company statements of changes in equity, the consolidated and the company cash flow statements and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Risk of misstatement in revenue recognition

Refer to the Accounting Policies page 35 and note 3 page 36. The Group's significant revenue stream is the sale of X-ray systems. We consider the Group's revenue recognition as a key audit matter due to judgement involved in interpreting contracts, identifying relevant performance obligations subsequently the recognition of revenue in accordance with the requirements of IFRS 15 Revenue from Contracts with Customers. The risk is heightened as the profile of invoicing and cash collection does not mirror the delivery of the performance obligations within a contract. Therefore, there is a significant risk of misstatements in respect of year-end cut off and the existence of revenue and the completeness of deferred revenue.

How the key audit matter was addressed in our audit

We have verified the existence of revenue throughout the year by determining an expectation of revenue based upon the movements between, trade receivables, accrued income and deferred income. We verified these movements (on a sample basis) to supporting documentation.

We reviewed the position paper prepared by management on the implementation of IFRS 15 and reviewed a sample of contracts to corroborate the performance obligations identified. Following this review and in light of our knowledge of the business we confirmed that the Group policies had been appropriately updated to comply with the standard and that the impact of adopting the standard on the revenue recognised in accordance with the old policy was not material.

We reviewed projects in progress at the year end and for a sample we obtained the customer contract to identify the distinct performance obligations and confirmed that revenue relating to the performance obligations completed had been recognised. We confirmed that the amount of revenue allocated to the different performance obligations appeared reasonable in light of sales prices achieved for the delivery of individual elements of the contract when they are delivered in isolation.

INDEPENDENT AUDITOR’S REPORT (CONTINUED)
TO THE SHAREHOLDERS OF IMAGE SCAN HOLDINGS PLC

For projects that were in progress at the year end where performance obligations had not been satisfied, but invoices raised on account we verified appropriate amounts had been deferred and shown as contract balances with costs of production recognised as work in progress.

We selected all projects at the year-end that were material along with a selection of other projects until only an immaterial amount was not tested. Our testing covered 96% of the projects by value open at the year-end.

Key observations

We noted no material exceptions through performing these procedures.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and forming our opinions.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £24,000 (2018: £35,000), which was based, in both years, on 1% of turnover which is considered an appropriate benchmark in light of the stage of development of the business. The decrease of materiality this year is a reflection of the decrease in turnover in the business.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at £18,000 (2018: £26,250) which represents 75% (2018: 75%) of the above materiality levels based on a low level of expected misstatements.

Whilst materiality for the financial statements as a whole was £24,000, each component of the Group was audited to a lower level of materiality which is used to determine the financial statement areas that are included within the scope of our audit and the extent of sample sizes used during the audit. Materiality applied to the relevant components of the Group was as follows:

Materiality in respect of both components of the group, Image Scan Holdings Plc (Parent Company – insignificant component) and 3DX-Ray Limited (trading subsidiary – significant component) has been set at £22,800 (2018: £33,000) which represents 95% of Group materiality. Performance materiality has been set at 75% of these figures levels based on a low level of expected misstatements.

Reporting threshold

An amount below which identified misstatements are considered to be clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £1,200, which was set at 5% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We evaluated any uncorrected misstatements against both quantitative measures of materiality discussed above and in light of other relevant qualitative considerations when forming our opinion.

An overview of the scope of our audit

The Group manages its operations from a single location in the UK and consists of the Group holding company, one trading subsidiary and one dormant subsidiary. The trading subsidiary, 3DX-Ray Limited, is considered to be the only significant component of the group. The group engagement team carried out a full scope audit on this significant component of the group. Our audit work on the trading component was executed at a level of materiality applicable to the individual entity, which was lower than group materiality. Although the Parent Company was deemed to be an insignificant component, we have carried out a full scope audit as we were required to give a separate audit opinion on that entity.

The Group engagement team carried out statutory audits for all companies in the Group. The engagement team included tax specialists who reviewed tax R&D calculations.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report and financial statements other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Directors' statement of responsibilities set out on page 11, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Gareth Singleton

Gareth Singleton (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
Nottingham
United Kingdom
2 December 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Note	2019	2018
		£	£
REVENUE	3	**2,365,202**	3,464,910
Cost of sales		**(1,086,595)**	(1,819,617)
Gross profit		**1,278,607**	1,645,293
Operating expenses		**(1,213,842)**	(1,213,842)
Research and development expenses		**(408,531)**	(383,187)
Total administrative expenses		**(1,681,310)**	(1,597,029)
OPERATING PROFIT BEFORE EXCEPTIONAL COSTS	4	**(402,703)**	48,264
Exceptional costs	6	**-**	(250,458)
OPERATING LOSS		**(402,703)**	(202,194)
Finance income		**892**	344
LOSS BEFORE TAXATION		**(401,811)**	(201,850)
Taxation	7	**33,939**	(17,839)
LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR FROM CONTINUING OPERATIONS ATTRIBUTABLE TO THE EQUITY OWNERS OF THE PARENT COMPANY		**(367,872)**	(219,689)
		Pence	Pence
Earnings per share	8		
Basic		**(0.27)**	(0.16)
Diluted		**(0.27)**	(0.16)

There were no other comprehensive income for 2019 (2018:£nil)

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2019

	Note	2019 £	2018 £
NON-CURRENT ASSETS			
Intangible Assets	9	**25,334**	18,877
Property, plant and equipment	10	**11,575**	15,067
Deferred Tax Asset	12	**7,150**	37,344
		44,059	71,288
CURRENT ASSETS			
Inventories	13	**783,089**	938,639
Trade and other receivables	14	**663,959**	783,470
Cash and cash equivalents	15	**640,489**	781,635
		2,087,537	2,503,744
TOTAL ASSETS		**2,131,596**	2,575,032
CURRENT LIABILITIES			
Trade and other payables	16	**848,037**	909,966
Warranty provision	17	**16,000**	34,999
		864,037	944,965
NET ASSETS		**1,267,559**	1,630,067
EQUITY			
Share capital	19	**1,363,546**	1,363,546
Share premium account		**8,327,910**	8,327,910
Retained earnings		**(8,423,897)**	(8,061,389)
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS		**1,267,559**	1,630,067

These financial statements were approved by the Board of Directors on 2 December 2019.

Signed on behalf of the Board of Directors

William Mawer
Chief Executive Officer
Company Number 03062983

The accompanying notes form an integral part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2019

	Note	2019 £	2018 £
NON-CURRENT ASSETS			
Investments in Group undertakings	11	**20,612**	19,756
CURRENT ASSETS			
Trade and other receivables	14	**1,247,825**	1,740,028
Cash and cash equivalents	15	**35,726**	24,399
		1,283,551	1,764,427
TOTAL ASSETS		**1,304,163**	1,784,183
CURRENT LIABILITIES			
Trade and other payables	16	**36,604**	154,116
NET ASSETS		**1,267,559**	1,630,067
EQUITY			
Share capital	19	**1,363,546**	1,363,546
Share premium account		**8,327,910**	8,327,910
Retained earnings		**(8,423,897)**	(8,061,389)
TOTAL EQUITY		**1,267,559**	1,630,067

As permitted by s408 of the Companies Act 2006, a separate income statement for the Company has not been included. The loss for the financial year dealt with in the financial statements of the Company was £367,872 (2018: loss of £219,689).

These financial statements were approved and authorised for issue by the Board of Directors on 2 December 2019.

Signed on behalf of the Board of Directors

William Mawer
Chief Executive Officer
Company Number 03062983

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Share capital	Share premium	Retained earnings	Total
CONSOLIDATED	**£**	**£**	**£**	**£**
As at 1 October 2017	1,357,046	8,317,410	(7,853,357)	1,821,099
Loss for the year and total comprehensive income/(expenditure) for the year	-	-	(219,689)	(219,689)
Transactions with owners:				
Shares issued during the year	6,500	10,500	-	17,000
Share issue Costs	-	-		-
Share-based transactions	-	-	11,657	11,657
As at 30 September 2018	1,363,546	8,327,910	(8,061,389)	1,630,067
Loss for the year and total comprehensive income/(expenditure) for the year	-	-	(367,872)	(367,872)
Transactions with owners:				
Shares issued during the year	-	-	-	-
Share issue Costs	-	-	-	-
Share-based transactions	-	-	5,364	5,364
As at 30 September 2019	**1,363,546**	**8,327,910**	**(8,423,897)**	**1,267,559**

	Share capital	Share premium	Retained earnings	Total
COMPANY	**£**	**£**	**£**	**£**
As at 1 October 2016	1,357,046	8,317,410	(7,853,357)	1,821,099
Loss for the year and total comprehensive income/(expenditure) for the year	-	-	(219,689)	(219,689)
Transactions with owners:				
Shares issued during the year	6,500	10,500	-	17,000
Share issue Costs	-	-	-	-
Share-based transactions	-	-	11,657	11,657
As at 30 September 2018	1,363,546	8,327,910	(8,061,389)	1,630,067
Loss for the year and total comprehensive income/(expenditure) for the year	-	-	(367,872)	(367,872)
Transactions with owners:				
Shares issued during the year	-	-	-	-
Share issue Costs	-	-	-	-
Share-based transactions	-	-	5,364	5,364
As at 30 September 2019	**1,363,546**	**8,327,910**	**(8,423,897)**	**1,267,559**

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

YEAR ENDED 30 SEPTEMBER 2019

	Note	2019 £	As restated 2018 £
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit before research and development expenditure and exceptional costs		**5,828**	431,451
Research and development expenditure		**(408,531)**	(383,187)
Exceptional costs		**-**	(250,458)
Operating loss		**(402,703)**	(202,194)
Adjustments for:			
Depreciation		**13,482**	14,763
Amortisation of intangible assets		**10,458**	1,081
Impairment of inventories		**13,297**	43,602
Decrease in inventories		**142,253**	112,638
Decrease in trade and other receivables		**119,511**	774,208
Decrease in trade and other payables		**(61,929)**	(1,256,282)
Decrease in warranty provisions		**(18,999)**	(12,978)
Share-based payments		**5,364**	11,657
Cash generated used in operating activities		**(179,266)**	(513,505)
Corporation tax recovered		**64,133**	47,628
Net cash flows used in from operating activities		**(115,133)**	(465,877)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**892**	344
Purchase of intangibles	9	**(16,915)**	(19,958)
Purchase of property, plant and equipment	10	**(9,990)**	(2,988)
Net cash used in investing activities		**(26,013)**	(22,602)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		**-**	17,000
Financial costs of fundraising		**-**	-
Net cash generated from financing activities		**-**	17,000
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(141,146)**	(471,479)
Cash and cash equivalents at beginning of year		**781,635**	1,253,114
CASH AND CASH EQUIVALENTS AT END OF YEAR	15	**640,489**	781,635

The accompanying notes form an integral part of these financial statements.

COMPANY CASH FLOW STATEMENT

YEAR ENDED 30 SEPTEMBER 2019

	Note	2019	As restated 2018
		£	£
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating loss		**(367,872)**	(219,689)
Adjustments for:			
Increase in intercompany bad debt provision		**468,078**	76,597
Increase trade and other receivables		**24,125**	17,093
Increase in trade and other payables		**(117,512)**	110,304
Share-based payment		**4,508**	8,880
Net cash from / (used in) operating activities		**11,327**	(6,815)
CASH FLOWS FROM INVESTING ACTIVITIES			
Movements in intercompany balances		**130,952**	130,952
Net cash generated/(used) in investment activities		**130,952**	130,952
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		**-**	17,000
Finance costs of fund raising		**-**	-
Net cash flow generated from financing activities		**-**	17,000
NET INCREASE IN CASH AND CASH EQUIVALENTS		**11,327**	10,185
Cash and cash equivalents at beginning of year		**24,399**	14,214
CASH AND CASH EQUIVALENTS AT END OF YEAR	**15**	**35,726**	24,399

During the year the directors reassessed the presentation of movements in intercompany balances and concluded that these would have been more appropriately present as an adjustment to operating profit in arriving at cash generated from operating activities. The amount reclassified is £130,952.

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019

1. General Information

Image Scan Holdings plc is a public limited company incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given in the Officers and Professional Advisers section. The nature of the Group's operations and its principal activities are set out in the Strategic Report and in the revenue note in the financial statements.

These financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Group operates.

2. Significant Accounting Policies

Basis of preparation

These consolidated and single entity financial statements have been prepared in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and the International Financial Reporting Interpretation Committee ('IFRIC') interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS as adopted by the EU. The financial statements have been prepared under the historical cost convention.

Going concern

The Directors regularly review the performance of the Group against forecasts to ensure that they are able to react on a timely basis to opportunities and issues as they arise. In assessing whether the going concern basis is appropriate in the preparation of the financial statements, the directors have prepared group profit and cash flow forecasts for a period of more than 12 months from the date of the financial statements being approved. The Group plans to secure a number of sales contracts over the course of the coming year in order to fund the working capital requirements and achieve a profitable position going forward. After making appropriate enquiries and given the prudent level of net assets retained in the Group, the Directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements

New accounting standards, amendments and interpretations

The Group has adopted the following new standards (effective 1 October 2018) in these financial statements

- IFRS15 Revenue Recognition

  IFRS 15 sets out a single and comprehensive framework for revenue recognition and replaces IAS 18 Revenue and associated interpretations. The core principle within IFRS15 is that a vendor should recognise revenue to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration to which the vendor expects to be entitled in exchange for those goods or services. Revenue should be recognised by a vendor when or as control over the goods or services is transferred to the customer.

  This core principle is in substance consistent with the basis upon which our previous revenue policy was predicated. We have applied the fully retrospective method to transition to IFRS 15 and, having regard to the practical expedients, have assessed that for the current contracts within the Group there is no significant impact on revenue as previously recognised. The new policy is set out below.

Significant Accounting Policies (Continued)

- IFRS 9 Financial Instruments

  IFRS 9 addresses the classification and measurement of financial assets and liabilities and replaces IAS 39. Among other things, the standard introduced a forward-looking credit loss impairment model whereby entities need to consider and recognise impairment triggers that might occur in the future (an “expected loss” model).

  The Board has applied an expected credit loss impairment model to assess impairment losses on its financial assets measured at amortised cost (such as trade receivables) and has determined, based on historic experience, that there is no material impact on numbers reported in the financial statements for the year ended 30 September 2019 or as at 1 October 2018. Thus the Group has taken the modified retrospective approach and chosen not to restate the comparative period on the adoption of IFRS 9.

  In applying IFRS 9, the Group considered the probability of a default occurring over the contractual life of its trade receivables on initial recognition of those assets. Having looked at the historical losses and having regard to the current and future performance of its counterparties, it has been concluded that any changes to the amounts previously recognised were not material.

  At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective and have not been adopted early by the Group.

- IFRS16 Leases

  IFRS 16 sets out the principles for recognition, measurement and presentation of leases and will replace IAS 17 Leases.

  Adoption of IFRS 16 will result in the Group recognising right-of-use assets and lease liabilities for all contracts that are, or contain, a lease. For leases currently classified as operating leases, under current accounting requirements the Group does not recognise related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing in its annual financial statements the total commitment.

  The Board has decided it will apply the modified retrospective adoption method in IFRS 16, and, therefore, will only recognise leases on balance sheet as at 1 October 2019. In addition, it has decided to measure right-of-use assets by reference to the measurement of the lease liability on that date. This will ensure there is no immediate impact to net assets on that date. At 30 September 2019 operating lease commitments amounted to £73,000 as disclosed in note 18, and the impact on profit before tax for the Group for the financial year ended 30 September 2019 is not expected to be material and there will be no impact on opening equity at 1 October 2019.

Leases

Leases where substantially all of the risks and rewards of ownership of the assets remain with the lessor are accounted for as operating leases and the expense is accounted for on a straight-line basis over the term of the lease.

Revenue recognition

Revenue recognition is determined by reference to the performance obligations as set out in individual customer contracts. The selling price for each performance obligation is based upon the relative standalone selling price, excluding value-added taxes and discounts allowed. The Board have categorised performance obligations as follows;

Product Manufacturing – Point in Time –

Revenue on contract for product sales is recognised when the risks and rewards of ownership are transferred to the customer which is usually when goods have passed relevant Factory Acceptance Tests and met specific terms of the contract as agreed on an individual basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

Significant Accounting Policies (Continued)

Delivery – Point in Time –

If there is an element of delivery revenue which is unbundled from the total contract, this is recognised separately to the product revenue. This revenue is recognised separately if the contract stipulates that control will pass to a customer on an ex-works basis but the customer has requested that the company arranges delivery rather than the customer taking responsibility of that delivery. Where this occurs, this proportion of revenue is not recognised until delivery of the product has been made.

Installation and commissioning – Point in Time –

Under IFRS 15 this is determined to be a distinct agreed-upon contractual task separate from the manufacture of the product or delivery of the item. Revenue is recognised at the point at which installation has been completed and Site Acceptance Testing (SAT) is issued. This point is when control passes.

Support – Over Time –

Support contracts are raised separately to the manufacture of products, delivery and installation and commissioning. Support is recognised evenly over time as the customer simultaneously receives and consumes the benefits provided by the company's performance, as the company performs it.

Extended warranty – Over Time –

It is customary for the company to provide a warranty of twelve months to customers and this is accounted for in line with IAS 37 Provisions, Contingent Liability and Contingent Assets. An extended warranty of greater than 12 months is sometimes requested by a customer which provides the customer with a service in addition to the assurance that the product complies with agreed-upon customary specifications. This additional warranty is deemed to be a distinct performance obligation and typically a parts only obligation and revenue is recognised over time of duration of the extended warranty if it is material.

Taxation

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantively enacted by the balance sheet date.

R&D tax credits are accounted for in the period to which they relate in order to match receipt of tax credits with the related expenditure.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Intangible Assets

Acquired software, inclusive of lifetime licenses, are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. Costs are amortised over the estimated useful lives of each asset.

Business software	-	three years

Significant Accounting Policies (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is charged to the income statement on a straight-line basis over the expected useful life of each asset as follows:

Computer equipment	-	three years
Demonstration equipment	-	three years
Plant and equipment	-	three years

Assets under construction are not depreciated until brought into use.

Pension costs

The Group operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the Group in an independently administered fund. Contributions are charged against profits as they arise.

Investments

The investments in subsidiary undertakings are stated at cost. Provisions are made if, in the opinion of the Directors, there has been impairment in value.

Inventories

Inventories are valued at the lower of cost and net realisable value. Costs are calculated as the cost of materials and direct labour costs incurred. Net realisable value is based on the estimated selling price less further costs of disposal.

Development costs

Recognisable value that will lead to known future revenue against which the costs can be amortised. Where such costs are capitalised, they are valued at cost less provision for impairment and amortisation.

No costs have been capitalised in this year as R&D expenditure has not reached a point where future profitability can be accessed.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Sterling at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are accounted for in arriving at the operating result.

Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares, both ordinary and deferred;
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issues; and
- "Retained earnings" include all current and prior year results, as disclosed in the consolidated statement of comprehensive income, plus the equity component of share options issued.

Share-based payments

The Company issues equity settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant. The fair value so determined is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. The level of vesting is reviewed annually, and the charge is adjusted to reflect actual and estimated levels of vesting.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

Significant Accounting Policies (Continued)

The fair value of services received in return for share options granted is measured by reference to the fair value of share options. The estimate of the fair value of the services received is measured based on the Black-Scholes option pricing model. This model takes into account the following variables: exercise price, share price at date of grant, expected term, expected share price volatility, risk-free interest rate and expected dividend yield. Expected volatility is estimated by considering historic average share price volatility.

Financial instruments

Financial assets and liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument. The Group's financial instruments comprise cash, trade receivables and trade and other payables.

Trade receivables

Trade receivables are initially stated at their fair value plus transaction costs, then subsequently at amortised cost using the effective interest method, if applicable, less impairment losses. Impairment losses against trade receivables carried at amortised cost are recognised by reference to any expected credit losses against those assets. The simplified approach for calculating impairment of financial assets has been used.

Cash and cash equivalents

The Group manages short-term liquidity through the holding of cash and highly liquid interest-bearing deposits. Only deposits that are readily convertible into cash with maturities of three months or less from inception, with no penalty of lost interest, are shown as cash or cash equivalents.

Trade payables

Trade payables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. All financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in the finance cost in the statement of comprehensive income.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

Amounts recoverable from group companies

The company has amounts receivable from other group companies which are measured at amortised cost less impairment losses. Unless there has been a significant increase in credit risk, impairment losses are calculated based on a 12 month expected credit loss model. Where there has been a significant increase in credit risk lifetime expected credit, losses are calculated by considering, on a discounted basis, the cash shortfalls that would be incurred in various default scenarios over the remaining lives of the assets and multiplying the shortfalls by the probability of each scenario occurring. The allowance is the sum of these probability weighted outcomes.

Significant Accounting Policies (Continued)

Accounting judgements and key sources of estimation uncertainty

As stated above, the preparation of financial statements under IFRS requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Key Judgements

(a) Revenue recognition on contracts.

The Group enters into sales with customers with contractual terms specific to each contract including stage payments and revenue is recognised in accordance with the accounting policy set out on page 33. In applying the accounting policy, the Board must determine that all the relevant criteria are met in accordance with IFRS15 Revenue Recognition and the Group's accounting policy in order to recognise revenue. This requires detailed review of the contractual terms and an understanding of the performance obligations in place with each specific customer. At the year end, there is £620k (2018: £151k) of deferred income in relation to payments in advance that would be recognised if certain contract terms were altered.

Key Estimates

(a) Impairment of inventory

As disclosed in note 13, an impairment has been made against the carrying value of components, accessories and demonstration inventory. The nature of the inventory requires an assessment of the application of the accessory items in future sales, the condition of demonstration inventory when returned and residual value should the items not be saleable.

Due to the nature of the inventory, changes in the basis of the estimates for the condition of inventory or residual values applied could have a material impact on the impairment provided but the directors believe that if the full provision was reversed this would have a value of less than £50k.

(b) Impairment of amounts recoverable from subsidiary company

The Company acts as a holding company for the trading subsidiary and provides funding in the way of intercompany loan, as disclosed in note 14. The Board must determine if there has been a significant increase in credit risk on the intercompany loan to establish the impairment model applied. The Board has used the results of the subsidiary compared to budget and expectations to inform the assessment and various default scenarios to assess the lifetime credit risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

3. Revenue

The Group has only one business sector, being the continuing development of advanced X-ray imaging techniques. The Group has disaggregated revenue into the following tables which is intended to define how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic date. This is reviewed by William Mawer as the Chief Operating Decision Maker. Information about our product range can be found within the business model set out on inside cover of this report.

All revenue is derived from operations in the United Kingdom.

	2019	2018
	£	£
Group revenue by destination		
UK	**167,279**	299,279
Europe, the Middle East and Africa	**755,901**	943,650
Asia	**1,226,423**	2,103,419
Americas	**215,599**	118,562
	2,365,202	3,464,910

	2019	2018
	£	£
Group revenue by type		
Original Equipment	**1,919,543**	2,947,852
After Sales	**445,659**	517,058
	2,365,202	3,464,910

	2019	2018
	£	£
Group revenue by timing of transfer of goods		
Point in time (determined by contract)	**2,039,987**	3,214,220
Over time	**325,215**	250,690
	2,365,202	3,464,910

Gross profit against this income was £1,278,607 (FY18: £1,645,293) and trade is primarily B2B.

During the year to 30 September 2019, sales of £1,539,850 were made to three customers (the largest - £587,012, the second largest - £566,860 and the third largest - £385,977) accounting for 65% of total revenue (2018: sales of £1,607,167 were made to two customers (the largest customer - £1,187,547 and the second largest - £419,620 accounting for 46% of total revenue)).

4. Operating Loss

	2019	2018
	£	£
Operating profit is stated after charging		
Depreciation of property, plant and equipment	**13,482**	14,763
Impairment of intangible assets	**10,458**	1,081
Operating leases	**41,653**	38,274
Auditors' remuneration		
Audit – Subsidiary	**17,500**	15,435
Audit – Company	**7,500**	4,145
Other services	**4,673**	13,225
Cost of inventories recognised as an expense (included in cost of sales)	**887,366**	1,480,922
Exchange rate gain/(loss)	**4,391**	(8,286)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

5. Information Regarding Directors And Employees

	Group		Company	
	2019	2018	**2019**	2018
	£	£	**£**	£
Directors' emoluments				
Management remuneration	**287,725**	218,426	**287,725**	218,426
Fees as Directors	**33,174**	39,199	**33,174**	39,199
Pension contributions	**15,499**	8,688	**15,499**	8,688
Share-based payments (option scheme)	**4,508**	8,880	**4,508**	8,880
	340,906	275,193	**340,906**	275,193
	Number	**Number**	**Number**	**Number**
Number of Directors accruing benefits under:				
Defined contribution pension scheme	**2**	1	**2**	1
	£	£	**£**	£
The amounts paid in respect of the highest paid Director are as follows:				
Emoluments	**113,906**	119,950	**113,906**	119,950
	113,906	119,950	**113,906**	119,950
	Number	Number	**Number**	Number
Average number of persons employed (including Directors)				
Accounts and administration	**2**	3	**-**	-
Technical	**14**	15	**-**	-
Directors	**5**	4	**5**	4
	21	22	**5**	4
	£	£	**£**	£
Staff costs during the year (including directors)				
Total Employment Costs				
Wages and salaries	**1,019,877**	978,081	**320,899**	257,625
Social security costs	**109,844**	109,205	**-**	-
Pension costs	**43,706**	38,452	**15,499**	8,688
Share-based payments (option scheme)	**5,364**	11,657	**4,508**	8,880
	1,178,791	1,137,395	**340,906**	275,193

Directors' remuneration is detailed within the remuneration report set out on pages 21 to 22.

Related party transactions are disclosed in note 20.

6. Exceptional Costs

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Exceptional costs	-	250,458	-	250,458
		250,458	-	250,458

In 2018 the Group incurred exceptional costs relating to the potential acquisition of Todd Research Limited. As announced on 04/09/18, the acquisition of Todd Research Limited was not completed and therefore these costs have been presented as exceptional due to their size and effect on the Groups results for the year.

7. Tax On Results On Ordinary Activities

a) Analysis of credit in the year	2019	2018
	£	£
Current tax		
Current tax on losses for the year	**64,133**	47,628
Deferred tax (charge)/credit for the year (note 12)	(30,194)	(65,467)
Total current tax credit (note 7b)	**33,939**	(17,839)

TThe deferred tax asset of £7,150 (2018: £37,344) was recognised in the year as Directors considered that the Group will be able to utilise brought forward tax losses against future profits.

The reasons for the difference between the actual tax credit for the year and the standard rate of corporation tax in the UK applied to results for the year are as follows:

b) Reconciliation of tax credit	2019	2018
	£	£
Loss on ordinary activities before tax	**(401,811)**	(201,850)
Tax on loss on ordinary activities at 19% (2018:19%)	**(76,344)**	(38,352)
Being the effects of		
Disallowable Expenditure	**908**	48,533
Enhanced R&D relief	**(47,499)**	(62,945)
Other timing differences	**4,404**	(755)
Share based payment relief	**-**	(7,980)
Surrender of tax losses for R&D tax credit refund	**64,133**	47,628
Losses carried forward not recognised as deferred assets	**88,337**	(3,968)
Actual tax credit for the year (note 7a)	**33,939**	(17,839)

The directors have reassessed the classification of the R&D tax credit and took the decision to reclassify this from other operating income and present this within taxation for the year ended 30 September 2019, including the comparative period. The amount reclassified was £47,628.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

8. Earnings Per Share

	2019	2018
	£	£
Loss for the year	**(367,873)**	(219,689)
Weighted average number of ordinary shares in issue	**136,354,577**	135,774,838
Number of diluted shares	**141,966,352**	141,207,627
Basic loss per share	**(0.27p)**	(0.16p)
Diluted profit per share	**(0.27p)**	(0.16p)

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. 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. The share options could potentially dilute basic earnings per share in the future, but were not included in a calculation of diluted earnings per share in the current year because they are antidilutive.

9. Intangible Assets

The Group's intangible assets comprises of software and licences relating to business and accounting systems.

Group	**Business Software**	**Total**
	£	**£**
Cost		
At 1 October 2019	-	-
Additions	19,958	19,958
At 30 September 2018	**19,958**	**19,957**
Additions	**16,915**	**16,915**
At 30 September 2019	**36,873**	**36,873**
Impairment		
At 1 October 2017	-	-
Provided during the year	1,081	1,081
At 30 September 2018 (as restated)	**1,081**	**1,081**
Provided during the year	**10,458**	**10,458**
At 30 September 2019	**11,539**	**11,539**
Net book value		
At 30 September 2019	**25,334**	**25,334**
At 30 September 2018 (as restated)	18,877	18,877

The directors have reassessed the classification of software and licensing and took the decision to reclassify this from property plant and equipment and present this as an intangible asset for the year ended 30 September 2019, including the comparative period.

10. Property, Plant And Equipment

Group	Computer equipment £	Demonstration equipment £	Plant and equipment £	Total £
Cost				
At 1 October 2017	107,224	76,044	102,271	285,539
Additions	2,988	-	-	2,988
At 30 September 2018	**110,212**	**76,044**	**102,271**	**288,527**
Additions	**9,691**	**-**	**299**	**9,990**
At 30 September 2019	**119,903**	**76,044**	**102,570**	**298,517**
Depreciation				
At 1 October 2017	83,760	76,044	98,893	258,697
Provided during the year	12,815	-	1,948	14,763
At 30 September 2018	**96,575**	**76,044**	**100,841**	**273,460**
Provided during the year	**11,986**	**-**	**1,496**	**13,482**
At 30 September 2019	**108,561**	**76,044**	**102,337**	**286,942**
Net book value				
At 30 September 2019	**11,342**	**-**	**233**	**11,575**
At 30 September 2018	13,637	-	1,430	15,067

11. Investments

Subsidiary undertakings – Company	2019 £	2018 £
Cost	**51,001**	51,001
Capital contribution to subsidiary undertakings	**20,611**	19,755
Impairment	**(51,000)**	(51,000)
Balance at 30 September	**20,612**	19,756

The impairment provision relates solely to Image Scan Limited (formerly Stereo Scan Limited).

The subsidiary undertakings of Image Scan Holdings plc, all of which principally trade and are registered in England, are as follows:

Company	Principal activities	Country of incorporation and operations	Ordinary share capital	Investment shares at cost 2019 £	Investment shares at cost 2018 £
Image Scan Ltd (previously Stereo Scan Ltd)	Development of advanced imaging technology	England	100%	**51,000**	51,000
3DX-Ray Ltd	Exploitation of advanced imaging technology	England	100%	**1**	1

The registered office of all subsidiary undertakings is 16-18 Hayhill Industrial Estate, Sileby Road, Barrow-Upon-Soar, Leicestershire, LE12 8LD.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

12. Deferred Tax Asset

The Group has unused tax losses of £5.7m (2018: £5.5m) and other temporary timing differences amounting to £nil (2018: £nil). Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where the directors believe it is probable that these assets will be recovered.

The movement on the deferred tax account is shown below:

Deferred tax	2019	2018
	£	£
At 1 October 2018	**37,344**	102,811
Recognised in the year	**(30,194)**	(65,467)
At 30 September 2019	**7,150**	37,344

The provision for deferred tax is calculated based on the tax rates enacted or substantially enacted at the balance sheet date. The Finance (No.2) Act 2015 enacted the corporation tax rate to reduce from the current rate of 20% to 19% from 1 April 2017 with a further reduction to 18% from April 2020. On 24 March 2016, the Chancellor of the Exchequer announced that legislation would be introduced in Finance Act 2016 to reduce the main rate of corporation tax to 17% from 1 April 2020, superseding the 18% rate effective from that date introduced in Finance (No.2) Act 2015. These changes to the future tax rate were substantively enacted at the balance sheet date. The provision for deferred tax in the financial statements has been based upon the relevant rate to the timing differences are expected to reverse.

The level of deferred tax asset recognised is subject to estimation uncertainty and has been based on prudent forecasts and current year profitability levels. Sensitising the base used in the estimates by any reasonably measure (+ or – 25%) would not result in material changes to the level of the deferred tax asset recognised.

13. Inventories

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Raw materials	**439,853**	560,846	**-**	-
Work in progress	**218,391**	255,871	**-**	-
Finished goods	**124,845**	121,922	**-**	-
	783,089	938,639	**-**	-

There are no significant differences between the replacement costs and the inventories values shown above.

During the year, a provision was made against demonstration equipment and other stock of £47,628 (2018: £146,788) in the Group accounts.

14. Trade And Other Receivables

	Group		Company	
	2019	2018	**2019**	2018
	£	£	**£**	£
Trade receivables	**377,772**	452,129	**-**	-
Accrued income on contracts	**8,022**	17,827	**-**	-
Other receivables and prepayments	**263,410**	192,154	**33,627**	31,852
VAT recoverable	**14,755**	121,360	**663**	28,509
Amounts due from subsidiary undertakings	**-**	-	**1,213,535**	1,679,667
	663,959	783,470	**1,247,825**	1,740,028

At 30 September 2019, the lifetime expected credit loss provision for trade receivables and contract assets is as follows:

	Group	Up to 3 months	3 to 6 months	Over 6 months
	£	£	£	£
Expected loss rate		0.001%	0.001%	0.001%
Gross carrying amount	**333,307**	333,466	240	-
Loss provision	**333**	333	-	-

An amount of £44k within Trade Receivables is not considered to be due and will only fall due once the relevant commercial terms are fulfilled.

Loss provision is considered immaterial and therefore has not been provided for. All gross carrying amounts relate to customers with no default history.

At 30 September 2019, the lifetime expected credit loss provision for amounts due for group undertakings is as follows:

Company	**2019**	2018
	£	£
Amounts recoverable from Group undertakings	**9,859,505**	9,857,559
Expected credit loss brought forward	**(8,177,892)**	(8,101,296)
Impairment in financial year	**(468,078)**	(76,596)
Expected credit loss carried forward	**(8,645,970)**	(8,177,892)
At 30 September 2019	**1,213,535**	1,679,667

The details regarding the intercompany debtor can be found in Transactions with Related Parties (note 20). In assessing the recoverable amount from Group undertakings, a number of scenarios have been considered. These range from subsidiary undertakings performing in line with forecasts and below forecasts.

The amounts due from the subsidiary undertakings are due on demand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

15. Cash And Cash Equivalents

	Group		Company	
	2019	2018	**2019**	2018
	£	£	**£**	£
Cash and cash equivalents	**640,489**	781,635	**35,726**	24,399

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying value of these assets approximates their fair value. Cash at bank earns interest at floating rates based on daily bank deposit rates.

16. Trade And Other Payables

Amounts falling due within one year	Group		Company	
	2019	2018	**2019**	2018
	£	£	**£**	£
Trade payables	**111,058**	615,685	**297**	121,259
Contract Liabilities	**620,233**	151,056	**-**	-
Other tax and social security	**30,273**	29,109	**-**	-
Accruals	**86,473**	114,116	**36,307**	32,857
	848,037	909,966	**36,604**	154,116

At 30 September 2019 accruals included pension contributions amounting to £nil (2018: £nil).

In line with the requirements of IFRS 15 Revenue Recognition, a practical expedient has been taken on contract liabilities which will be satisfied within 12 months.

Of the opening contract liabilities of £151,036, £16,826 was not realised in the financial year.

17. Provisions For Liabilities And Charges

Group warranty provision	2019	2018
	£	£
At 1 October 2018	**34,999**	47,977
Provision in year	**17,112**	41,527
Used in year	**(14,768)**	(38,516)
Released during the year	**(21,343)**	(15,989)
At 30 September 2019	**16,000**	34,999

A warranty provision is recognised in respect of labour and material costs estimated to be arising on product sold during the last financial year. It is expected that most of these costs will be incurred in the next financial year.

18. Commitments

At 30 September 2019, the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

Land and buildings	**2019**	2018
	£	£
Within one year	**38,000**	38,000
Between two and five years	**35,000**	73,000
Over five years	**-**	-
	73,000	111,000

19. Share Capital

	2019	2018
	£	£
Authorised		
200,000,000 ordinary shares of 1 pence each	**2,000,000**	2,000,000
Called up, allotted and fully paid		
136,354,577 (2018: 136,577) ordinary shares of 1 pence each	**1,363,546**	1,363,546

During the year, the company made the no issues of shares:

The following share options are outstanding at 30 September 2019:

Image Scan Share Option Scheme	Date of issue	Quantity	Exercise price	Fair value	Vesting period	Expiry date
Enterprise Management Incentive	01/03/2010	315,000	4.0p	1,895	3 years	02/03/2020
Enterprise Management Incentive	17/09/2014	2,700,000	2.0p	15,215	3 years	17/09/2024
Unapproved Scheme	11/04/2014	1,900,000	3.375p	16,139	3 years	11/04/2024
Unapproved Scheme	22/09/2014	400,000	2.5p	2,513	3 years	22/09/2024
Enterprise Management Incentive	22/12/2015	3,200,000	2.25p	14,263	3 years	22/12/2025
Unapproved Scheme	22/12/2015	400,000	2.25p	1,783	3 years	22/12/2025
Enterprise Management Incentive	04/07/2017	1,390,000	6.25p	15,300	3 years	04/07/2027
Unapproved Scheme	04/07/2017	100,000	6.25p	1,101	3 years	04/07/2027

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

19. Share Capital (continued)

Share option movement

Details of the number of share options and the weighted average exercise price ('WAEP') outstanding during the year are as follows:

	209	**2019**	2018	2018
	£	**WAEP**	£	WAEP
At 1 October 2018	**10,475,000**	**3.03**	11,395,000	3.02
Options issued in year	**-**	**-**	-	-
Options exercised in year	**-**	**-**	(450,000)	2.0
Options exercised in year	**-**	**-**	(200,000)	4.0
Options lapsed in year	**(50,000)**	**2.25**	(20,000)	10.0
Options lapsed in year	**(20,000)**	**6.25**	(200,000)	2.25
Options lapsed in year	**-**	**-**	(50,000)	6.25
At 30 September 2019	**10,405,000**	**3.03**	10,475,000	3.03

The weighted average remaining contractual life of share options outstanding at the yearend was 5.10 years (2018: 6.06 years).

Options have been valued using the following inputs to the Black-Scholes model:

Expected volatility (based on closing prices in the year prior to issue)	50%
Expected life	3.5 years
Risk-free rate	2.2%
Expected dividends	Zero

The Group recognised the following expenses relating to equity settled share-based transactions:

	2019	**2018**
	£	**£**
Employee benefits (note 5)	**5,364**	**11,657**

20. Transactions With Related Parties

During the year, Image Scan Holdings plc provided management services to the value of £582,746 (2018: £530,042) to its subsidiary company 3DX-Ray Limited.

At the year end the Company was owed the following amounts by subsidiary companies against which a bad debt provision of £8,674,279 (2018: £8,177,892) is held:

	2019	2018
	£	£
3DX-Ray Ltd	**8,972,288**	8,970,343
Image Scan Ltd	**887,217**	887,217

The bad debt charged to 3DX-Ray Ltd's debtor balance during the period is £496,386 (2018: £76,596).

IXO Machinery Equipment (Shanghai) Co Ltd and Aerosino Corporation Inc, are considered to be related parties as they are related to Rise Step International Limited, which is itself a substantial shareholder of the Company. IXO Machinery Equipment (Shanghai) Co Ltd and Aerosino Corporation Inc, provided goods to the value of £13,810 (2018: £22,030) and £13,830 (2018: £31,744) respectively. An amount of £8,791 (2018: £7,774) is due to Aerosino Corporation Inc, and is included in trade payables at the year end.

AVS Partners Limited is considered to be a related party by virtue of William Mawer having a material interest in, and being a director in, the company. AVS Partners Limited provided consultancy services to the value of £1,535 (2018: £3,595). An amount of £378 (2018: £551) is included in trade payables at the year end.

During the year an amount of £7,103 (2018: £nil) was paid to P Mawer is respect of consultancy services provided to the Group. P Mawer is considered to be a related party by virtue of them being classified as an immediate family member of William Mawer. An amount of £nil was due to P Mawer at the end of the year.

The directors have the authority and responsibility for planning, directing and controlling the activities of the Group (and the Company), and they are therefore the key management personnel. Their remuneration for the year was £377,512 (2018: £294,575).

21. Financial Instruments

The principal financial assets of the Group are bank balances, trade and other receivables. The main purpose of these financial instruments is to generate sufficient working capital for the Group to continue its operations. The Group's principal financial liabilities are trade and other payables. Given the short-term nature of these assets and liabilities the carrying value is considered to be an approximation to fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

21. Financial Instruments (continued)

Financial instruments by category

Financial assets	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Cash and cash equivalents	**640,489**	781,635	**35,726**	24,399
Trade and other receivables	**498,663**	547,992	**1,185,227**	1,679,667
	1,139,152	1,329,627	**1,220,953**	1,704,066

Financial liabilities	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Trade and other payables	**197,531**	729,802	**36,604**	154,116
	197,531	729,802	**36,604**	154,116

Credit risk

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below. All classes relate to financial assets classified as loans and receivables.

The credit risk is primarily attributable to trade receivables. The Group's policy is to operate contracts on a cash positive basis. Payment terms typically require a substantial deposit on placement of the order and a majority of the invoice paid prior to shipment as set out in the Strategic report on pages 7 to 10.

The Company's exposure to credit risk is primarily limited to amounts due from subsidiary undertakings. The Company's policy is to review annually the trading prospects of the subsidiary compared to the carrying value of the net intercompany balance. Whilst there has been no significant changes in the credit risk associated with this, it is considered to be stage 3 credit impaired as defined by IFRS 9 Financial Instruments. As such the life time expected credit loss has been recognised.

Liquidity risk

The Group's funding strategy is to generate sufficient working capital to settle liabilities as they fall due. There is no external debt. Liquidity risk is managed through cash flow forecasting to ensure working capital requirements are identified promptly.

The Group's financial liabilities have contractual maturities as follows:

21. Financial Instruments (continued)

Liquidity risk

The Group's and Company's funding strategy is to generate sufficient working capital to settle liabilities as they fall due. There is no external debt. Liquidity risk is managed through cash flow forecasting to ensure working capital requirements are identified promptly.

The Group's financial liabilities have contractual maturities as follows:

Financial Liability Profile	2019	2018
	£	£
Due in less than one month	82,084	466,847
Due between one and three months	71,658	253,071
Due between three months and one year	43,789	9,884
Due after one year	-	-
	197,531	729,802

Currency profile

At 30 September 2019 amounted owed included US$nil (2018: $26,931) and amounts payable included US$10,800 and Euro 1,722 (2018: US$295,999 and ZAR 70,796). All other financial assets and liabilities are denominated in Sterling.

Currency risk is not considered to be significant for the Group.

Capital management

The Company's policy is to maintain a strong capital base in order to safeguard the future development of the business. The Company finances its operations through retained earnings, share capital and the management of working capital.

NOTICE AND AGENDA OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the shareholders will be held at 1.30 p.m. on 25 February 2020 at the registered offices of the Company at 16-18 Hayhill Industrial Estate, Barrow upon Soar Leicestershire, LE12 8LD for the purpose of considering and, if thought fit, passing the following resolutions as to Resolutions 1–5 as Ordinary Resolutions.

Ordinary resolutions

1. To receive and adopt the financial statements for the year ended 30 September 2019 together with the reports of the Directors (including the strategic report) and auditors thereon.
2. To receive and adopt the remuneration report contained within the annual report for the year ended 30 September 2019.
3. To re-elect as a Director V J Deery
4. To re-elect as a Director R A Leaver.
5. To re-appoint BDO LLP as auditors and to authorise the Directors to fix their remuneration.

By order of the Board

Sarah Atwell-King

Company Secretary

NOTICE AND AGENDA OF ANNUAL GENERAL MEETING (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

Notes:

1. Please note the AGM will be held in the first floor meeting room and if you have any concerns about accessing the meeting, please contact the Company Secretary in advance at CoSec@ish.co.uk to discuss your requirements.
2. A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote on his or her behalf.
3. A proxy need not be a member of the Company.
4. Completion and return of a form of proxy does not preclude a member from attending and voting at the meeting in person should he or she so wish.
5. A form of proxy is available on the Company's website, www.ish.co.uk, or by request from the Company Secretary and to be valid must be completed and returned so as to reach the Registrar of the Company, Neville Registrars Ltd, Neville House, Steelpark Road, Halesowen, B62 8HD, together with a letter or power of attorney or other written authority, if any, under which it is signed or a notarially certified or office copy of such power (written authority) not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof.
6. As permitted by Regulation 41 of the Uncertificated Securities Regulations 2001, members who hold shares in uncertificated form must be entered on the Company's register of members at 1.30 pm on 23rd February 2020 in order to be entitled to attend and/or vote at the meeting in respect of the number of shares registered in their name at such time. Changes to entries on the register of members after that time will be disregarded in determining the rights of any person to attend and/or vote at the meeting.
7. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

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