

**Image Scan Holdings plc**

**Interim report 2020**

**Chairman’s statement**

**Introduction**

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

**Financial results**

Revenues for the six months ended 31 March 2020 were up over 60% at £2.3m (2019: £1.4m) which included a doubling of portable X-ray unit sales numbers compared to the same period in 2019, while the gross margin on sales held steady at 45% (2019: 47%).

Overhead costs declined slightly to £840k (2019: £854k) although investment in marketing was increased as the company looked to expand its global footprint. The business made a profit of £180k, turning around the loss in the same period last year (2019: loss of £178k).

Order intake, though smaller than the prior year was in line with the Board’s expectations at £1.5m (2019: £2.1m), leaving the Company with a period end order book of £900k, most of which is scheduled for delivery in this financial year. Having reduced previously high levels of stock, period end cash increased to £1.1m (2019: £750k).

**Overview**

The strong portable X-ray order intake seen in the final quarter of FY19 continued into the first quarter of FY 20 with orders from all our main target regions. The large portable X-ray order announced in September 2019 has now been delivered and overall portable sales were more than twice those seen in the same period last year. Three valuable orders for industrial screening systems were also received, of which one has been completed. Aftermarket revenues have increased and included valuable spares orders for a large nuclear screening system originally delivered in 2015.

The product development strategy includes a renewed and extended “Axis” range of X-ray screening systems, combining in-house developments with external technology partnerships. The prototype of a new security X-ray system developed under this plan has produced its first images and will be launched in the second half of FY 2020. Additionally, a UK distribution agreement has been signed with Italian X-ray company, Gilardoni. Work has also started on a broader range of partnerships.

The Company plans to increase its sales efforts in North America and has contracted a former US Marine, who is an experienced programme manager and senior Explosive Ordnance Disposal (EOD) technician. He is providing valuable support to our product development programmes, sharing his extensive user and technical knowledge. He has also started to conduct customer training programmes on the Company’s behalf and is building our social media profile among the bomb technician community.

**Outlook – COVID-19 and beyond**

Having taken steps to ensure a COVID-19 safe working environment, our production facility remains open, and we are building both industrial and security X-ray machines for customers. Provided Government movement guidance remains as now, and our staff remain healthy, we expect to be able to deliver most of the £900k orderbook in this financial year.

Development staff are mostly working from home but use the engineering and test facilities at the site as required, and the product development programme continues to make good progress. In response to a decrease in activity we have selectively taken advantage of the UK Government’s Coronavirus Job Retention Scheme and currently have some staff on furlough.

With our Government customers focussed on their COVID-19 response, security orders have declined, and we expect this to continue until normality is restored. However, some portable X-ray orders are still being received and we should be able to deliver those systems as normal. At the start of the pandemic we experienced some supply chain issues in China, but we believe these to have largely been resolved. Our major industrial customers, for whom we are a critical supplier, are being very supportive in ensuring prompt payments against equipment and support contracts.

We can’t predict when the effects of the pandemic on the business will diminish, but we are managing cash carefully while continuing to invest in expanding our product range, aiming to position the business for a strong return as the crisis wanes.

Our staff at Image Scan continue to be enthusiastic, dedicated and creative and on behalf of my fellow Board members, I would like to formally thank all our personnel for their outstanding response to the current challenging circumstances.

**Bill Mawer**

***Chairman and Chief Executive Officer***

29/04/2020

**Chairman's statement**

**Consolidated income statement**

**For the six months ended 31 March 2020**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Note | **Six months**  **ended**  **31 March 2020**  **(Unaudited)**  **£'000** | **Six months**  **ended**  **31 March 2019**  **(Unaudited)**  **£'000** | Year ended  30 September   2019  (Audited)  £'000 |
| **Revenue** |  | **2,287** | 1,423 | 2,365 |
| Cost of sales |  | **(1,268)** | (747) | (1,087) |
| **Gross profit** |  | **1,019** | **676** | **1,278** |
| Operating expenses |  | **(840)** | (854) | (1,681) |
| **Operating profit/(loss)** |  | **179** | **(178)** | **(403)** |
| Finance income |  | **1** | - | 1 |
| **Profit/(loss) before taxation** |  | **180** | **(178)** | **(402)** |
| Taxation |  | **-** | - | 34 |
| **Profit/(loss) for the period** |  | **180** | **(178)** | **(368)** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Pence** | **Pence** | **Pence** |
| **Earnings per share** |  |  |  |  |
| Basic profit per share | [3] | 0.13 | (0.13) | (0.27) |
| Diluted profit per share |  | 0.13 | (0.13) | (0.27) |

**Consolidated statement of changes in equity**

**For the six months ended 31 March 2020**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Note | **Six months**  **ended**  **31 March 2020**  **(Unaudited)**  **£'000** | **Six months**  **ended**  **31 March 2019**  **(Unaudited)**  **£'000** | Year ended  30 September   2019  (Audited)  £'000 |
| Opening equity shareholders' funds |  | **1,268** | 1,630 | 1.630 |
| Share-based payments | [4] | **4** | 3 | 6 |
| Profit/loss) attributable to equity shareholders |  | **180** | (178) | (368) |
| Closing equity shareholders' funds |  | **1,452** | **1,455** | **1,268** |

**Consolidated statement of financial position**

**As at 31 March 2020**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **As at**  **31 March 2020**  **(Unaudited)**  **£'000** | **As at**  **31 March 2019**  **(Unaudited)**  **£'000** | As at  30 September   2019  (Audited)  £'000 |
| **Non-current assets** |  |  |  |
| Intangible and tangible assets | **40** | 86 | 44 |
|  | **40** | **86** | **44** |
| **Current assets** |  |  |  |
| Inventories | **439** | 804 | 783 |
| Trade and other receivables | **697** | 499 | 664 |
| Cash and cash equivalents | **1,140** | 750 | 641 |
|  | **2,276** | **2,053** | **2,088** |
| **Total assets** | **2,316** | **2,139** | **2,132** |
| **Current liabilities** |  |  |  |
| Trade and other payables | **832** | 646 | 848 |
| **Non-current liabilities** |  |  |  |
| Provisions for liabilities and charges | **32** | 38 | 16 |
| **Total liabilities** | **864** | **684** | **864** |
| **Net assets** | **1,452** | **1,455** | **1,268** |
| **Equity** |  |  |  |
| Share capital | **1,363** | 1,363 | 1,363 |
| Share premium account | **8,328** | 8,328 | 8,328 |
| Retained earnings | **(8,239)** | (8,236) | (8,423) |
| **Equity shareholders' funds** | **1,452** | **1,455** | **1,268** |

**Consolidated cash flow statement**

**For the six months ended 31 March 2020**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Six months**  **ended**  **31 March 2020**  **(Unaudited)**  **£'000** | **Six months**  **ended**  **31 March 2019**  **(Unaudited)**  **£'000** | Year ended  30 September   2019  (Audited)  £'000 |
| **Cash flows from operating activities** |  |  |  |
| Operating profit/(loss) | **179** | (178) | (403) |
| **Adjustments for:** |  |  |  |
| Depreciation | **11** | 12 | 24 |
| Impairment of inventories | **14** | 19 | 13 |
| Increase/(decrease) in provision for warranty | **16** | 3 | (19) |
| Decrease in inventories | **330** | 115 | 142 |
| Increase/(decrease) in trade and other receivables | **(143)** | 237 | 120 |
| Increase/(decrease) in trade and other payables | **29** | (264) | (62) |
| Share-based payment charge | **4** | 3 | 6 |
| **Net cash used in operating activities** | **440** | **(53)** | **(179)** |
| Corporation tax recovered | **64** | 47 | 64 |
| **Net cash outflow from operating activities** | **504** | **(6)** | **(115)** |
|  |  |  |  |
| **Cash flows from investing activities** |  |  |  |
| Interest received | **1** | - | 1 |
| Purchase of intangible and tangible assets | **(6)** | (26) | (27) |
| **Net cash used in investing activities** | **(5)** | **(26)** | **(26)** |
|  |  |  |  |
| **Cash flows from financing activities** |  |  |  |
| Proceeds from issue of share capital | **-** | - | - |
| **Net cash from financing activities** | **-** | **-** | **-** |
|  |  |  |  |
| **Net increase/(decrease) in cash and cash equivalents** | **499** | **(32)** | **(141)** |
| Cash and cash equivalents at beginning of period | **641** | 782 | 782 |
| **Cash and cash equivalents at end of period** | **1,140** | **750** | **641** |

**Notes to the unaudited interim financial statements**

**For the six months ended 31 March 2020**

**1 Basis of preparation**

The interim financial statements, which are unaudited, have been prepared on the basis of the accounting policies expected to apply for the financial year to 30 September 2020 and in accordance with recognition and measurement principles of International Financial Reporting Standards ('IFRSs') as endorsed by the European Union. The accounting policies applied in the preparation of these interim financial statements are consistent with those used in the financial statements for the year ended 30 September 2019.

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

The financial information for the year ended 30 September 2019 does not constitute the full statutory accounts for that period. The annual report and financial statements for the year ended 30 September 2019 have been filed with the Registrar of Companies. The Independent auditor's report on the report and financial statements for the year ended 30 September 2019 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006.

**2 Going concern**

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

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

Basic earnings per ordinary share is based on the profit on ordinary activities before taxation of £180,400 and on 136,354,577 ordinary shares in issue throughout the period.

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

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

Operating expenses includes a charge of £3,877 (2019: £2,777) after valuation of the Company's employee share option schemes in accordance with IFRS 2. Under this standard, the fair value of the options at the grant date is spread over the vesting period. These charges have been credited to equity in accordance with IFRS2 as presented in the consolidated statement of changes in equity.

**5 Additional copies**

Further copies of the 2020 interim report are available on the Company's website, www.ish.co.uk, and from the Company's registered office, 16-18 Hayhill Industrial Estate, Sileby Road, Barrow-upon-Soar, Leicestershire LE12 8LD.