

**Image Scan Holdings plc**

**Interim report 2022**

**Chairman’s statement**

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**Introduction**

Image Scan Holdings plc is a specialist in innovative X-ray technology, operating globally in the security and industrial inspection sectors. The Company’s principal activity is the design, manufacture, and supply of both portable and fixed X-ray security screening systems to governments, security organisations and law enforcement agencies. The Company also supplies high-quality screening systems used in the manufacture of catalytic converters and diesel particulate filters.

**Financial results**

Order intake for the first six months ended 31 March 2022 (“H1 2022”) increased by 10% to £1,029k (H1 2021: £938k) and included the acquisition of some significant new customers for both industrial and security systems. Revenues declined by 9% to £790k (H1 2021: £868k). Gross margin on those revenues was at 52% (H1 2021: 55%), the reduction in part due to increased costs for materials, components and shipping.

Operating expenses increased to £752k (H1 2021: £682k), reflecting the loss of government COVID-19 support schemes and higher expenditure on marketing and travel. The latter was driven by the re-opening of travel routes and the return of security trade shows, which provide an important showcase for the Company’s products. The overall effect of reduced sales and margin, coupled with higher costs, led to a loss in H1 2022 of £345k (H1 2021: loss of £201k).

Stock increased to £581k (H1 2021: £366k). Part of this increases was driven by decisions to hold higher than normal quantities of parts, in particular electronic components, as a buffer against anticipated shortages and price increases. The process of amortising appropriate research and development spend, which began in FY 2021, led to an increase in non-current assets to £425k (H1 2021: £360k).

The Company finished H1 2022 with an orderbook of £721k (H1 2021: £702k) and positive cash balance of £777k (H1 2021: £1.1m).

**Overview**

As in the same period last year, the overall level of trading was disappointing, with delays to several significant overseas government procurements. However, our high-value ThreatScan®-LSC portable X-ray system, which combines large format and compact detector panels in a single package, is proving popular with UK police forces. We now have three customers in this sector. We have also received a portable X-Ray order from a US Federal agency and found new customers for the Axis-CXi cabinet X-ray system.

An important milestone in H1 2022 was the market launch of the new ThreatScan®-AS1 portable X-Ray system. This is the first time the Company has used amorphous silicon detector technology, which is the same technology used in the majority of medical X-ray systems. The new system is highly integrated, combining generator, detector panel, computer, touch-screen display, Wi-Fi unit and power supplies in a single rugged case. A second tablet computer adds further flexibility in the use of the system. In what has become a crowded market, this bold move by the Company aims to provide the best performing portable X-ray system in the world. Initial response from early demonstrations in the Middle East and the UK, has been positive. The system will be demonstrated at security trade shows in Singapore and North America in the next few months.

Development of the new Axis conveyor X-ray systems was delayed somewhat due to the focus on the ThreatScan®-AS1 which is now complete, and the system will be offered to customers in the second half of FY2022. Following signature of a distribution agreement, we added the Serstech range of portable chemical analysers to our product range and are now presenting these to our global customers and partners. We are also offering other third-party products to customer and distribution partners through our website.

In the industrial market, with the automotive industry heavily impacted by COVID-19, it is encouraging that the business was both able to gain a new customer and received follow-on orders from existing customers. All our industrial service contracts were maintained through the continuing pandemic, despite the difficulties arising from travel restrictions.

Global supply chains have been considerably disrupted by multiple factors and this is reflected in price inflation and shortages across multiple commodities and components. Transport costs have also increased dramatically. The Company has worked hard to isolate itself as far as possible from the effects of these trends. However, we have had to accept higher prices for scarce electronics components and have taken decisions to protect production schedules by holding higher stock levels of certain items than would be normal to ensure customer deliveries continue to be made on time.

**Outlook**

The pandemic continues to impact global trade and travel, and only recently has attendance at security trade shows and demonstrations to overseas customers restarted. This has been a far from ideal environment in which to launch our ambitious new portable X-ray system but, with additional demonstration units in production, promotion of this important system is a key focus for H2 2022. We look for a number of delayed government procurements for portable X-ray systems to finally close and are working hard to ensure this happens sufficiently quickly to impact second half sales for FY 2022.

The automotive sector will be slow to recover from COVID-19 and our business in this sector is likely to be impacted while our customers adjust their manufacturing footprint to reflect the magnitude and distribution of global demand for catalytic converters. This makes our success in winning a new customer even more important, and it is to be hoped that their trial of the first machine leads to the same type of global deployment carried out by our other industrial customers. We have now successfully imaged components for an automotive fuel cell manufacturer and will continue to explore opportunities in this area.

As indicated in our trading update on 22 February 2022, while we expect the overall financial year to be stronger in H2 2022, it is unlikely H2 2022 will be sufficiently strong to enable the Company to fully recover the H1 2022 loss. We therefore expect to trade in line with market expectations for the year as a whole.

**Bill Mawer**

***Executive Chairman***

27/04/2022

**Consolidated income statement**

**For the six months ended 31 March 2022**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | Note | **Six months****ended****31 March 2022****(Unaudited)****£'000** | Six monthsended31 March 2021(Unaudited)£'000 | Year ended30 September 2021(Audited)£'000 |
| **Revenue** |   | **790** | 868 | 2,873 |
| Cost of sales |   | **(383)** | (387) | (1,359) |
| **Gross profit** |   | **407** | **481** | **1,514** |
| Operating expenses |   | **(752)** | **(682)** | (1,325) |
| **Operating (loss)/profit** |   | **(345)** | **(201)** | **189** |
| Finance income |   | **-** | **-** | - |
| **Loss/(profit) before taxation** |   | **(345)** | **(201)** | **189** |
| Taxation |   | **-** | **-** | 51 |
| **Loss/(profit) for the period** |   | **(345)** | **(201)** | **240** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   |   | **Pence** | **Pence** | **Pence** |
| **Earnings per share** |   |   |   |   |
| Basic profit per share | [3] | (0.25) | (0.15) | 0.18 |
| Diluted profit per share |   | (0.25) | (0.15) | 0.17 |

**Consolidated statement of changes in equity**

**For the six months ended 31 March 2022**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | Note | **Six months****ended****31 March 2022****(Unaudited)****£'000** | Six monthsended31 March 2021(Unaudited)£'000 | Year ended30 September 2021(Audited)£'000 |
| Opening equity shareholders' funds |   | **1,649** | 1,409 | 1,409 |
| Shares Issued |  | **10** | - | - |
| (Loss)/profit attributable to equity shareholders |   | **(345)** | (201) | 240 |
| Closing equity shareholders' funds |   | **1,314** | **1,208** | **1,649** |

**Consolidated statement of financial position**

**As at 31 March 2022**

|  |  |  |  |
| --- | --- | --- | --- |
|   | **As at****31 March 2022****(Unaudited)****£'000** | **As at****31 March 2021****(Unaudited)****£'000** | As at30 September 2021(Audited)£'000 |
| **Non-current assets** |   |   |   |
| Intangible and tangible assets | **425** | 61 | 360 |
|   | **425** | **61** | **360** |
| **Current assets** |  |  |  |
| Inventories | **581** | 366 | 393 |
| Trade and other receivables | **591** | 404 | 741 |
| Cash and cash equivalents | **777** | 1,048 | 1,186 |
|   | **1,949** | **1,818** | **2,320** |
| **Total assets** | **2,374** | **1,879** | **2,680** |
| **Current liabilities** |  |  |  |
| Trade and other payables | **874** | 671 | 836 |
| **Non-current liabilities** | **186** | - | 195 |
| **Total liabilities** | **1,060** | **671** | **1,031** |
| **Net assets** | **1,314** | **1,208** | **1,649** |
| **Equity** |  |  |  |
| Share capital | **1,368** | 1,363 | 1,363 |
| Share premium account | **8,333** | 8,328 | 8,328 |
| Retained earnings | **(8,387)** | (8,483) | (8,042 |
| **Equity shareholders' funds** | **1,314** | **1,208** | **1,649** |

**Consolidated cash flow statement**

**For the six months ended 31 March 2022**

|  |  |  |  |
| --- | --- | --- | --- |
|   | **Six months****ended****31 March 2022****(Unaudited)****£'000** | **Six months ended 31 March 2021 (Unaudited) £'000** | Year ended30 September 2021(Audited)£'000 |
| **Cash flows from operating activities** |   |   |   |
| Operating (loss)/profit | **(345)** | (201) | 189 |
| **Adjustments for:** |  |  |  |
| Depreciation | **7** | 10 | 8 |
| Amortisation of Intangibles | **12** | - | 19 |
| Impairment of inventories | **5** | 9 | - |
| Amortisation of right of use asset | **23** | 21 | 43 |
| (Decrease)/increase in provision for warranty | **(13)** | (9) | 12 |
| (Increase)/decrease in inventories | **(196)** | 75 | 57 |
| Decrease/(increase) in trade and other receivables | **148** | (90) | (426) |
| Increase/(decrease) in trade and other payables | **67** | (98) | 45 |
| Lease Interest | **(3)** | - | 4 |
| **Net cash used in operating activities** | **(295)** | **(283)** | **(49)** |
| Corporation tax recovered | **(5)** | (1) | 51 |
| **Net cash outflow from operating activities** | **(300)** | **(284)** | **2** |
|   |  |  |  |
| **Cash flows from investing activities** |  |  |  |
| Interest received | **-** | - | - |
| Purchase of intangible and tangible assets | **(103)** | (7) | (130) |
| **Net cash used in investing activities** | **(103)** | **(7)** | **(130)** |
|   |  |  |  |
| **Cash flows from financing activities** |  |  |  |
| Share Issue | **10** |  |  |
| (Repayment)/proceeds from bank loan | **-** | (50) | (50) |
| Lease payments | **(16)** | (21) | (46) |
| **Net cash used in financing activities** | **(6)** | **(71)** | **(96)** |
|   |  |  |  |
| **Net decrease in cash and cash equivalents** | **(409)** | **(362)** | **(224)** |
| Cash and cash equivalents at beginning of period | **1,186** | 1,410 | 1,410 |
| **Cash and cash equivalents at end of period** | **777** | **1,048** | **1,186** |

**Notes to the unaudited interim financial statements**

**For the six months ended 31 March 2022**

**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 2022 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 2021.

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 2021 does not constitute the full statutory accounts for that period. The annual report and financial statements for the year ended 30 September 2021 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 2021 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006.

**2 Going concern**

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

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

Basic earnings per ordinary share is based on the loss on ordinary activities before taxation of £345k and on 136,854,577 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 Additional copies**

Further copies of the 2022 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.