

Image Scan Holdings plc
interim report 2013

Advanced x-ray systems



Corporate statement

Image Scan Holdings plc is a specialist in innovative real-time 2D and 3D x-ray technology operating globally in the security, industrial inspection and nuclear sectors.

The Group's principal activity is the design, build and supply of portable, rapid deployment and static, advanced x-ray security screening systems to Governments, security organisations and law enforcement agencies and of high-quality image acquisition systems for non-destructive testing to commercial organisations worldwide.

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Chairman's statement

BRIAN S EMSLIE
CHAIRMAN

“The Board anticipates that going forward the Company can achieve profitability on a sustainable basis and that this will provide a platform for future growth.”

Introduction

I am pleased to present the Company's interim results for the six months ended 31 March 2013.

Financial results

Revenue for the six months at £1,072,000 (2012: £1,760,000) was down across both our core sectors mainly due to starting the year with a much lower opening order book of £400,000 (2012: £2.3 million). The margin strengthened to 42% (2012: 37%) due to the sales mix being predominantly repeat builds of standard systems.

Administrative expenses on normal activities were up to £715,000 (2012: £653,000) which reflects increases across most areas of expenditure. In addition, there were two exceptional charges incurred:

- an anticipated loss of £112,000 on the latter stages of the nuclear contract; and
- restructuring costs of £25,000 to reduce ongoing operating costs by 20%.

The resultant loss after tax was £390,000 (2012: profit £6,000) and the loss per share was 0.5p (2012: profit per share of 0.01p).

The cash position as at the end of the period was £138,000 (2012: £122,000). The Company has an agreed £100,000 overdraft facility with the Royal Bank of Scotland. The current overdrawn bank balance of £56,000 reflects relatively high inventory levels. This investment has been necessitated by the need to respond swiftly to prospective contracts and has involved stock build of the critical and longer lead time components used in the FlatScan product range. This has given rise to a temporary increase in inventory of £200,000 since the start of the financial year.

Overview

Security revenue in the period was £546,000 (2012: £1,120,000). The comparable period last year included £570,000 relating to the sale of the SVXi, small vehicle x-ray inspection system, which did not reoccur in the same period this year. However, revenue from other security products was comparable.

Industrial revenue of £526,000 (2012: £640,000) included the sale of a MDXi system to an existing customer and MDXi systems to a new customer in the US.

Whilst the nuclear contract is expected to be marginally profitable overall, there is an anticipated loss of £112,000 on the latter stages. Up to the milestones within the period to March 2012, the contract was reportedly operating in line with the original budgeted costs and therefore the profit on those phases was recorded at that time. However, over the last year the completion of the software

Chairman's statement continued

Overview continued

development has absorbed excess costs to a point that an exceptional loss of £112,000 has been recognised within the interim results. In addition to the actual cost, the Company is bearing the opportunity cost of having key development resources absorbed by this contract to the detriment of other critical product developments for the business. In light of this experience, the Company will shift its focus primarily onto the production and sale of standard equipment, ideally from stock, where costs can be better controlled and margins improved, compared to large one-off projects.

Outlook

The Company has total confirmed orders of £2.7 million having started the year with an opening order book of £0.4 million (2012: £2.3 million) and secured new orders in the year to date of £2.3 million (2012: £2.1 million). Of this £1.1 million was recognised as revenue in the first half and of the remaining £1.6 million, £1.2 million should be deliverable prior to the financial year end. This rate of order intake is 14% ahead compared to the same period last year and comprises over 70% security sales.

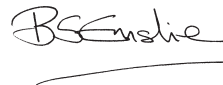
Capitalising on the significant investment into product development last year, the Company has recently secured a repeat order for the SVXi, a mobile x-ray screening system targeted at customs and border control in South East Asia. Also since the period end the Company has sold a number of AXIS-64 and AXIS-3D baggage screening systems into the Middle East and Africa and secured its first sale of the FlatScan-TPXi system into Germany and a multiple unit sale into the Middle East.

Recent industrial contract wins include the sale of MDXi x-ray inspection systems to a new customer in Europe. Meanwhile there are strong prospects of repeat sales from existing industrial clients.

In view of these results and the repositioning of the Company towards standard product sales, the Board has revisited the level of overheads and has restructured the business accordingly to reflect the future resource requirement. It is anticipated that the ongoing annual costs saving will be around 20%, the benefit of which should flow through in full in the last quarter.

As of today Ian Johnson will be standing down as Non-executive Director having served on the Board of Image Scan since 2001. As a leading adviser to the security sector, Mr Johnson has provided invaluable support to the Company in identifying reputable partners and establishing reliable sales channels, particularly in the Middle East and the UK. His contribution over the past eleven years has been much appreciated by the rest of the Board.

Given the underlying level of standard equipment sales in recent years, the Board anticipates that going forward the Company can achieve profitability on a sustainable basis and that this will provide a platform for future growth. However, the Board is mindful of the challenges faced in managing the cash flow and is therefore considering ways of introducing further funding to meet the working capital requirements to operate and develop the business.



Brian S Emslie
Chairman
20 June 2013

Consolidated income statement

FOR THE SIX MONTHS ENDED 31 MARCH 2013

	Six months ended 31 March 2013 (Unaudited) £	Six months ended 31 March 2012 (Unaudited) £	Year ended 30 September 2012 (Audited) £
Revenue	1,072	1,760	4,302
Cost of sales	(619)	(1,102)	(2,647)
Gross profit	453	658	1,655
Administrative expenses			
- Normal activities	(715)	(653)	(1,624)
- Losses on nuclear contract	(112)	-	-
- Restructuring costs	(25)	-	-
Operating (loss)/profit	(399)	5	31
Finance revenue	-	1	1
(Loss)/profit before taxation	(399)	6	32
Taxation	10	-	76
(Loss)/profit for the period	(389)	6	108
	Pence	Pence	Pence
Earnings per share			
Basic and diluted (loss)/earnings per share	(0.50)	0.01	0.14

Consolidated statement of changes in equity

FOR THE SIX MONTHS ENDED 31 MARCH 2013

	Six months to 31 March 2013 (Unaudited) £	Six months to 31 March 2012 (Unaudited) £	Year to 30 September 2012 (Audited) £
Opening equity shareholders' funds	977	907	907
Share-based payments	–	–	(2)
Profit/(loss) attributable to equity shareholders	(390)	6	72
	587	913	977

Consolidated balance sheet

AS AT 31 MARCH 2013

	As at 31 March 2013 (Unaudited) £	As at 31 March 2012 (Unaudited) £	As at 30 September 2012 (Audited) £
Non-current assets			
Plant and equipment	31	47	39
Intangible assets	–	–	–
	31	47	39
Current assets			
Inventories	650	696	413
Trade and other receivables	240	437	1,122
Cash and cash equivalents	138	122	74
Current tax asset	–	–	75
	1,028	1,255	1,684
Total assets	1,059	1,302	1,723
Current liabilities			
Trade and other payables	426	390	700
Non-current liabilities			
Provisions for liabilities and charges	46	34	46
Total liabilities	472	424	746
Net assets	587	878	977
Equity			
Share capital	763	763	763
Share premium account	7,501	7,501	7,501
Retained earnings	(7,677)	(7,386)	(7,287)
Equity shareholders' funds	587	878	977

This interim financial information was approved by the Board of Directors on 20 June 2013.

Brian S Emslie
Chairman

Consolidated cash flow statement

FOR THE SIX MONTHS ENDED 31 MARCH 2013

	Six months to 31 March 2013 (Unaudited) £	Six months to 31 March 2012 (Unaudited) £	Year to 30 September 2012 (Audited) £
Cash flows from operating activities			
Operating (loss)/profit	(400)	5	31
Adjustments for:			
Depreciation	11	16	34
Increase in inventories	(237)	(381)	(97)
Decrease/(increase) in trade and other receivables	548	130	(555)
Increase/(decrease) in trade and other payables	60	(604)	(283)
Share-based payment charge	–	–	(3)
Corporation tax recovered	85	29	30
Net cash inflow/(outflow) from operating activities	67	(805)	(843)
Cash flows from investing activities			
Interest received	–	1	1
Purchase of property, plant and equipment	(3)	(19)	(29)
Proceeds on disposal of property, plant and equipment	–	–	–
Net cash used in investing activities	(3)	(18)	(28)
Cash flows from financing activities			
Issue of ordinary share capital	–	–	–
Net cash generated from financing activities	–	–	–
Net increase/(decrease) in cash and cash equivalents	64	(823)	(871)
Cash and cash equivalents at beginning of period	74	945	945
Cash and cash equivalents at end of period	138	122	74

Notes to the unaudited interim financial statements

FOR THE SIX MONTHS ENDED 31 MARCH 2013

1 Basis of preparation

The interim financial information for the six months ended 31 March 2013 has been prepared under International Financial Reporting Standards ('IFRS') as adopted by the EU in accordance with International Accounting Standard 34 'Interim Financial Reporting'. The interim financial statements have been prepared in accordance with the Company's accounting policies under IFRS and the historical cost convention. The interim financial statements are neither audited nor reviewed and do not constitute statutory accounts as defined by Section 434 of the Companies Act 2006. The comparatives for the financial year ended 30 September 2012 are not the Company's full statutory accounts for the year. The Auditors' report on those accounts was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies.

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 after taxation of £6,000 and on 76,267,932 ordinary shares in issue throughout the period.

IAS 33 requires presentation of diluted EPS when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. Earnings or loss per share would not be affected by the exercise of out-of-the-money options since it is inappropriate to assume that option holders would act irrationally. Accordingly as there are no other diluting future share issues, diluted EPS equals basic EPS.

4 IFRS 2 'Share-based payments'

Operating expenses includes a charge of £nil (2012: £nil) 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 items have been added back in the consolidated statement of changes in equity.

5 Additional copies

Further copies of the interim report 2013 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.

Professional advisers

Directors

Brian Emslie BMet (Hons)

Non-executive Chairman

Louise George BSc, FCA, ACIS

Chief Executive Officer

Vincent Deery BEng

Sales and Marketing Director

Nick Fox MSc, CEng, MIEE

Non-executive Director

Company Secretary

Louise J George BSc, FCA, ACIS

Registered Office

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Nottingham NG1 2JS

Solicitors**Browne Jacobson**

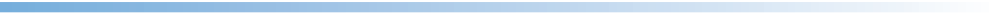
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