

# NOTES TO THE CASH FLOW STATEMENT

YEAR ENDED 30 SEPTEMBER 2007

i) RECONCILIATION OF OPERATING CASH FLOWS	2007 £	2006 £
Operating loss	(810,181)	(502,623)
Depreciation	56,581	97,478
Amounts written off intangible fixed assets	16,231	1,682
Profit on sale of tangible fixed asset	(104)	(52,512)
(Increase)/decrease in stock	(123,094)	11,572
(Increase) in debtors (excluding corporation tax recoverable)	(47,983)	(36,035)
(Decrease)/increase in creditors	(249,932)	334,160
<b>Net cash outflow from operating activities</b>	<b>(1,158,482)</b>	<b>(146,278)</b>

ii) ANALYSIS OF NET FUNDS	2006 £	2007 Cash flow £	Other non-cash charges £	2007 £
Cash at bank and in hand	164,046	1,367,223	–	1,531,269
Debt due after one year	(200,000)	200,000	–	–
	(35,954)	1,567,223	–	1,531,269

iii) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET (DEBT)/FUNDS	2007 £	2006 £
Increase in cash in the period	1,367,223	10,189
Cash inflow from increase in debt	(400,000)	(200,000)
Cash outflow from decrease in debt	600,000	17,307
<b>Change in net funds/(debt) resulting from cash flows</b>	<b>1,567,223</b>	<b>(172,504)</b>
Net (debt)/funds at 1 October	(35,954)	136,550
<b>Net funds/(debt) at 30 September</b>	<b>1,531,269</b>	<b>(35,954)</b>

# NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2007

## 1. ACCOUNTING POLICIES

### Basis of accounting

The consolidated financial statements, which have been prepared in accordance with applicable Accounting Standards and under the historical cost convention, comprise the audited financial statements of Image Scan Holdings Plc and its subsidiary undertakings (see note 10) made up to 30 September in each case.

All subsidiary undertakings have been accounted for using the acquisition method of accounting.

### Going concern

The directors believe that the Company will have sufficient resources to continue in operational existence for the foreseeable future and that no adjustment is required to the carrying value of assets reported. Therefore they have prepared the financial statements on a going-concern basis.

### Goodwill

All goodwill arose prior to the implementation of FRS 10. The amount of £50,949 (2006: £50,949) remains eliminated against reserves and will be charged or credited to the profit and loss account as appropriate on the subsequent disposal of the business to which it relates.

### Depreciation

Depreciation is provided on all tangible fixed assets in use at rates calculated to write off the cost over the expected useful life of each asset as follows:

Computer equipment	–	33⅓% of cost
Demonstration equipment	–	33⅓% of cost
Plant & office equipment	–	33⅓% of cost

Additional depreciation is provided, where appropriate, to reduce the carrying value of tangible fixed assets to their value to the business. Assets under construction are not depreciated until brought into use.

### Leases

Operating lease rentals and other similar rentals are charged to the profit and loss account in equal annual amounts over the term of the agreement.

### 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.

### Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in a period different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell these assets. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

### Stock

Stock is valued at the lower of cost and net realisable value. Work in progress is valued at the cost of materials and direct labour incurred.

### Development costs

Expenditure on development costs is written off as incurred unless there is a clearly definable project with a 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.

### Patent costs

Expenditure on patents in respect of the multi-view X-ray imaging technology is capitalised and treated as an intangible fixed asset. Patents are amortised on a straight-line basis over their remaining life.

Following an impairment review, it was decided to write down the carrying value of the patent to nil as no significant sales, that use that patent, are anticipated in the near future.

### Foreign Currencies

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.

## 2. TURNOVER

Turnover, which excludes value added tax and intra-group trading, represents the value, net of discount, of goods sold and services provided. Turnover is recognised at the point of despatch to the customer. Where stage payments are made, turnover is recognised at the point when all conditions of the contract are met. The Group's main activity is the continuing development of multi-view X-ray imaging techniques with applications in the security and industrial sectors. All turnover is derived from operations in the United Kingdom and is analysed as follows:

	2007			2006		
	Security £	Industrial £	Total £	Security £	Industrial £	Total £
Group turnover by destination						
UK	59,803	1,030,494	1,090,297	449,686	521,838	971,524
US	44,603	23,868	68,471	1,751	274,079	275,830
Rest of World	186,301	196,793	383,094	98,759	76,159	174,918
	290,707	1,251,155	1,541,862	550,196	872,076	1,422,272

An analysis of the loss before tax and net assets by sector has not been included as the directors believe that to do so would be seriously prejudicial to the interests of the Group.

## NOTES TO THE ACCOUNTS (CONTINUED)

## 3. OPERATING LOSS

	2007 £	2006 £
<b>Operating loss is stated after charging:</b>		
Depreciation – owned assets	56,581	97,478
Amortisation – intangible assets	16,231	1,682
Amounts written off development costs	266,813	174,417
Amounts charged under operating leases – equipment	5,400	5,400
Auditors' remuneration		
Audit – Group	12,000	12,000
Audit – Company	1,000	1,000
Other services	3,799	2,267

## 4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2007 £	2006 £
<b>Directors' emoluments</b>		
Management remuneration	255,753	199,775
Fees as directors	40,600	50,263
Pension contributions	17,550	15,680
Compensation for loss of office	26,155	–
	<b>340,058</b>	<b>265,718</b>

	No	No
Number of directors who exercised share options	–	1
Number of directors accruing benefits under:		
Defined contribution pension scheme	3	3

	£	£
<b>The amounts paid in respect of the highest paid director are as follows:</b>		
Emoluments	79,098	68,760
Pension contributions	6,750	6,130
	<b>85,848</b>	<b>74,890</b>

	No	No
<b>Average number of persons employed (including directors)</b>		
Accounts and administration	4	4
Technical	15	11
Directors	6	6
	<b>25</b>	<b>21</b>

	£	£
<b>Staff costs during the year (including directors)</b>		
Wages and salaries	1,000,251	682,192
Social security costs	107,246	73,016
Pension costs	42,623	28,323
	<b>1,150,120</b>	<b>783,531</b>

Ian Johnson Associates Limited, a company in which I S S Johnson has a material interest and of which he is a director, provided consultancy services amounting to £11,821 (2006: £12,276) in the year ended 30 September 2007. An amount of £7,328 (2006: £285) is included in creditors at the year end.

## 5. INTEREST PAYABLE AND SIMILAR CHARGES

	2007 £	2006 £
Interest payable on loans and overdrafts		
– repayable within five years	45,236	9,126

## NOTES TO THE ACCOUNTS (CONTINUED)

6. TAX ON PROFIT ON ORDINARY ACTIVITIES	2007	2006
a) Analysis of credit in the year	£	£
<b>Current tax</b>		
UK corporation tax at 19% (2006: 19%) based on the loss for the year (note 6b)	66,079	37,283
Overprovision in prior year	(3,248)	–
<b>Total current tax</b>	<b>62,831</b>	<b>37,283</b>
<b>Deferred tax</b>		
Current year charge	–	–
<b>Total deferred tax (note 14)</b>	<b>–</b>	<b>–</b>
	2007	2006
b) Factors affecting the tax credit for the year	£	£
Loss on ordinary activities before tax	(824,226)	(507,733)
Tax on loss on ordinary activities at standard rate	(156,602)	(96,469)
<b>Being the effects of:</b>		
Permanent differences	645	688
Accelerated capital allowances	(10,824)	8,544
Current year loss not utilised	114,468	57,123
Loss surrendered to HM Revenue and Customs in exchange for R&D tax relief	52,313	30,114
Tax credit receivable from HM Customs & Excise	(66,079)	(37,283)
<b>Actual tax credit for the year (note 6a)</b>	<b>(66,079)</b>	<b>(37,283)</b>
7. EARNINGS PER SHARE	2007	2006
	£	£
Loss for the year	761,395	470,450
Weighted average number of ordinary shares in issue	40,865,928	34,888,284
Basic and diluted loss per share	1.9	1.3

FRS 14 requires presentation of diluted earnings per share (EPS) when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding share options, net loss per share would only be increased by the exercise of out-of-the-money options. Since it seems inappropriate to assume that option holders would act irrationally and there are no other diluting future share issues, diluted EPS equals basic EPS.

### 8. TANGIBLE FIXED ASSETS

Group	Assets under construction £	Computer equipment £	Demonstration equipment £	Plant & equipment £	Total £
<b>Cost</b>					
At 1 October 2006	89,818	58,437	107,657	46,547	302,459
Additions	51,298	14,534	–	10,860	76,692
Disposals	–	(749)	–	–	(749)
Transfer of assets	(20,183)	–	–	20,183	–
Transfer to stock	(83,013)	–	–	–	(83,013)
<b>At 30 September 2007</b>	<b>37,920</b>	<b>72,222</b>	<b>107,657</b>	<b>77,590</b>	<b>295,389</b>
<b>Depreciation</b>					
At 1 October 2006	–	26,816	68,204	33,241	128,261
Provided during the year	–	18,248	24,993	13,340	56,581
Disposals	–	(104)	–	–	(104)
<b>At 30 September 2007</b>	<b>–</b>	<b>44,960</b>	<b>93,197</b>	<b>46,581</b>	<b>184,738</b>
<b>Net book value</b>					
<b>At 30 September 2007</b>	<b>37,920</b>	<b>27,262</b>	<b>14,460</b>	<b>31,009</b>	<b>110,651</b>
At 30 September 2006	89,818	31,621	39,453	13,306	174,198

## NOTES TO THE ACCOUNTS (CONTINUED)

9. INTANGIBLE FIXED ASSETS	Total
<b>Intellectual Property Rights</b>	<b>£</b>
<b>Cost</b>	
At 1 October 2006	233,797
Disposals	(213,615)
<b>At 30 September 2007</b>	<b>20,182</b>
<b>Amortisation</b>	
At 1 October 2006	217,566
Provided during the year	16,231
Disposals	(213,615)
<b>At 30 September 2007</b>	<b>20,182</b>
<b>Net book value</b>	
<b>At 30 September 2007</b>	<b>-</b>
At 30 September 2006	16,231

10. INVESTMENTS	£
<b>Subsidiary undertakings – Company</b>	
<b>Cost and net book value</b>	
<b>At 1 October 2006 and 30 September 2007</b>	<b>52,004</b>

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	
				2007 £	2006 £
Stereo Scan Systems Limited	Development of advanced imaging technology	England	100%	51,000	51,000
3DX-Ray Limited	Exploitation of advanced imaging technology	England	100%	1	1
Industrial Scanning Inspection Systems Limited	Exploitation of advanced imaging technology	England	100%	1,000	1,000
Baggage Scan Limited	Dormant	England	100%	1	1
Mediscan Limited	Exploitation of advanced imaging technology	England	100%	2	2

11. STOCK	Group		Company	
	2007 £	2006 £	2007 £	2006 £
Stock	50,530	64,907	-	-
Work in progress	132,878	18,166	-	-
Finished stock	105,772	-	-	-
	<b>289,180</b>	<b>83,073</b>	-	-

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

12. DEBTORS	Group		Company	
	2007 £	2006 £	2007 £	2006 £
Trade debtors	254,763	308,403	-	-
VAT recoverable	14,709	11,559	13,539	11,559
Other debtors and prepayments	125,433	26,960	23,502	18,009
Corporation tax recoverable	66,079	37,283	-	-
Amounts due from subsidiary undertakings	-	-	4,796,273	3,673,681
	<b>460,984</b>	<b>384,205</b>	<b>4,833,314</b>	<b>3,703,249</b>

## NOTES TO THE ACCOUNTS (CONTINUED)

13. CREDITORS	Group		Company	
	2007	2006	2007	2006
Amounts falling due within one year	£	£	£	£
Trade creditors	246,422	197,384	55,311	30,030
Deferred income	187,008	388,940	–	–
Taxation and social security	28,511	89,235	–	–
Accruals	23,869	66,777	19,604	21,934
	<b>485,810</b>	<b>742,336</b>	<b>74,915</b>	<b>51,964</b>

At 30 September 2007 accruals included pension contributions amounting to £4,086 (2006: £2,893).

Amounts falling due after more than one year	2007	2006	2007	2006
	£	£	£	£
Other loan	–	200,000	–	200,000

The Company issued £600,000 9% secured loan stock in three tranches of £200,000 each on 23 March 2006, 17 November 2006 and 28 February 2007 all of which were fully repaid by 30 September 2007. £600,000 of warrants were issued with the loan stock at a subscription price of 15p per share, £200,000 of which are exercisable until 31 March 2008 and the remaining £400,000 are exercisable until 30 September 2008.

Loan or instalments thereof are repayable over the following periods:

	2007	2006
	£	£
More than one year but not more than two years	–	200,000
	–	<b>200,000</b>

### 14. PROVISIONS FOR LIABILITIES AND CHARGES

	2007	2006
	Group	Group
	£	£
<b>Deferred tax</b>		
At 1 October	–	–
Charge for the year	–	–
Adjustment in respect of prior periods	–	–

The amount of deferred tax provided and not provided in the accounts are as follows:

	Provided	Not provided	Provided	Not provided
	2007	2007	2006	2006
	£	£	£	£
<b>Group</b>				
Accelerated capital allowances	–	(57,859)	–	(110,325)
Losses	–	(897,915)	–	(743,546)
	–	<b>(955,774)</b>	–	<b>(853,871)</b>

The deferred tax assets would be recoverable against profits generated in the Group in the future. No provision has been made for the deferred tax assets as recoverability of the assets in the near future is uncertain.

There are deferred tax losses of £8,199 (2006: £8,199) unprovided in the Company.

Warranty provision	£
At 1 October 2006	22,373
Charge for the year	6,594
<b>At 30 September 2007</b>	<b>28,967</b>

The warranty provision is made in respect of costs expected to be incurred for sales made during the 2007 financial year. Realisation is expected within 12 months.

## NOTES TO THE ACCOUNTS (CONTINUED)

## 15. COMMITMENTS

At 30 September 2007 the Group was committed to making the following payments during the next year in respect of operating leases:

	2007	2006
	£	£
Within one year:		
Equipment rentals	–	5,600
Land and buildings	62,990	62,990

At 30 September 2007, there were no capital commitments (2006: £Nil).

## 16. CALLED UP SHARE CAPITAL

	2007	2006
	£	£
<b>Authorised:</b>		
100,000,000 ordinary shares of 1p each	1,000,000	500,000
<b>Called up, allotted and fully paid:</b>		
54,948,120 ordinary shares of 1p each	549,481	349,481

On 14 June 2007, the Company made the following issue of shares:

	Nominal Value	Consideration
	£	£
20,000,000 ordinary shares of 1p each	200,000	3,000,000

On 9 November 2007, the Company issued 750,000 ordinary shares of 1p each to Mr Horwood who subsequently was appointed to the Board.

Of the options in place as at 30 September 2007, the following options are still outstanding:

Image Scan Share Option Scheme	Date of issue	Quantity	Exercise Price	Vesting Period	Expiry Date
Image Scan 1999 Approved	04/05/2000	50,000	25p	3 years	31/05/2008
Image Scan 1999 Approved	04/05/2000	10,000	25p	3 years	04/05/2010
Image Scan 1999 Approved	30/04/2001	10,000	50p	3 years	31/05/2008
Image Scan 1999 Approved	30/04/2001	10,000	50p	3 years	30/04/2011
Image Scan 1999 Approved	21/05/2002	4,000	74.5p	3 years	21/05/2012
Enterprise Management Incentive	14/03/2003	79,000	51.5p	3 years	14/03/2013
Unapproved Scheme	31/07/2005	80,000	15p	None	31/07/2010
Enterprise Management Incentive	30/09/2005	314,000	15p	3 years	30/09/2015
Enterprise Management Incentive	02/10/2006	390,000	18.25p	3 years	02/10/2016

Subsequent to the year end, the following options were granted:

Unapproved Scheme	14/11/2007	750,000	10p	3 years	14/11/2017
Enterprise Management Incentive	23/11/2007	300,000	10p	3 years	23/11/2017
Unapproved Scheme	28/01/2008	250,000	10p	3 years	30/11/2017
Unapproved Scheme	28/01/2008	500,000	10p	Over 5 years <sup>4</sup>	30/11/2017
Enterprise Management Incentive	28/01/2008	1,500,000	15p	Over 5 years <sup>4</sup>	30/11/2017

<sup>4</sup> The vesting period follows a 1:2:3:2:1 profile between one and five years from the date of grant.

## NOTES TO THE ACCOUNTS (CONTINUED)

### 17. RESERVES

	Share premium account £	Profit and loss account £	Total £
<b>Group</b>			
Balance at 1 October 2006	4,671,249	(5,163,686)	(492,437)
Loss attributable to members of the Group	–	(761,395)	(761,395)
Premium on share issue during the year	2,581,658	–	2,581,658
<b>Balance at 30 September 2007</b>	<b>7,252,907</b>	<b>(5,925,081)</b>	<b>1,327,826</b>
<b>Company</b>			
Balance at 1 October 2006	4,671,249	(1,513,782)	3,157,467
Profit attributable to members of the Company	–	6,028	6,028
Premium on share issue during the year	2,581,658	–	2,581,658
<b>Balance at 30 September 2007</b>	<b>7,252,907</b>	<b>(1,507,754)</b>	<b>5,745,153</b>

As permitted by section 230 of the Companies Act 1985, a separate profit and loss account for the Company has not been included. The profit for the financial year dealt with in the accounts of the Company was £6,028 (2006: profit £5,391).

### 18. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Group		Company	
	2007 £	2006 £	2007 £	2006 £
Opening shareholders' funds	(142,956)	315,494	3,506,948	3,489,557
Issue of shares – par	200,000	800	200,000	800
Issue of shares – share premium	2,581,658	11,200	2,581,658	11,200
(Loss)/profit attributable to members	(761,395)	(470,450)	6,028	5,391
<b>Closing shareholders' funds</b>	<b>1,877,307</b>	<b>(142,956)</b>	<b>6,294,634</b>	<b>3,506,948</b>

### 19. TRANSACTIONS WITH RELATED PARTIES

The Group has taken advantage of the exemption conferred by FRS 8, paragraph 3(a), and does not disclose transactions within the Group.

### 20. FINANCIAL INSTRUMENTS

The disclosures required by FRS 13 in relation to the nature of any financial instruments used during the year to mitigate interest rate, liquidity and foreign currency risks, are shown in the Directors' Report under the heading "Financial Instruments". As permitted by FRS 13, short term debtors and creditors are excluded from all disclosures other than the currency profile. There are no non-equity shares.

The maturity profile of group financial liabilities, being only bank loans and overdrafts, are shown in note 13. These are all denominated in sterling.

The Group had no undrawn committed borrowing facilities at 30 September 2007 (2006: £nil).

All financial assets and liabilities bear interest at floating rates based on the bank base rate.

Fair values of gross financial assets (cash and short term investments) and gross financial liabilities (bank loans and overdrafts) are considered to be the same as book values at both 30 September 2007 and 30 September 2006.

#### Currency profile

At the year end trade debtors included US\$71,766 (2006: US\$106,882) and trade creditors included US\$13,385, 13,094 Euros and 21,000 South African Rand (2006: US\$nil, EURnil and ZARnil). All other financial assets and liabilities are denominated in Sterling.