

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2002

1. ACCOUNTING POLICIES

Basis of accounting

The consolidated accounts, which have been prepared in accordance with applicable Accounting Standards and under the historical cost convention, comprise the audited accounts 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.

Basis of preparation

The accounts are drawn up on a going concern basis which assumes that continuing support will be provided by shareholders and bank overdraft facilities.

Goodwill

All goodwill arose prior to the implementation of FRS10. This 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	-	33 1/3% of cost
Demonstration equipment	-	25% of cost
Plant & office equipment	-	between 20% and 25% 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 bought 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

Contributions to defined contributions schemes 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

The Group has adopted FRS19 Deferred Tax during the year. This did not give rise to the need for any prior year adjustment. 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 remit these earnings. 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.

Patent costs

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

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.

Prior year adjustment

In the previous year £413,468 was classified as cash in both the Group and the Company balance sheets. This balance represents cash on deposit which is not repayable on demand and is therefore better presented as a short-term investment. Similarly in the cashflow statement and related notes, this amount has been reclassified from cash to liquid resources. There has been no profit impact from this.

2. TURNOVER

Turnover, which excludes value added tax and intra group trading, represents the value, net of discount, of goods sold and services provided. The Group's main activity is the continuing development of multi-view X-ray imaging techniques with applications in the security, industrial and medical sectors. All turnover is derived from operations in the United Kingdom and is analysed as follows:

	UK 2002	USA 2002	Total 2002	UK 2001	USA 2001	Total 2001
	£	£	£	£	£	£
Group turnover by destination						
Security	163,702	169,831	333,533	47,447	-	47,447
Industrial	101,452	-	101,452	15,000	-	15,000
Medical	67,200	-	67,200	-	-	-
Other	512	-	512	-	-	-
	332,866	169,831	502,697	62,447	-	62,447

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.

3. OPERATING LOSS

	2002	2001
	£	£
Operating loss is stated after charging/(crediting):		
Depreciation – owned assets	53,893	42,064
Amortisation – intangible assets	17,500	-
Amounts written off development costs	71,345	-
Research & development	117,654	69,612
Auditors' remuneration		
Audit	13,500	11,100
Other services	6,500	4,112

NOTES TO THE ACCOUNTS CONTINUED

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2002	2001
Directors' emoluments	£	£
Management remuneration	138,908	146,987
Fees as directors	26,500	8,000
	165,408	154,987
Average number of persons employed (including directors)	No	No
Accounts and administration	1	1
Technical	7	5
Directors	7	4
	15	10
Staff costs during the year (including directors)	£	£
Wages and salaries	428,015	247,488
Social security costs	36,741	21,526
	464,756	269,014

The Group contributes to a defined contribution pension scheme for the benefit of N D Fox and S X Godber. For the year ended 30th September 2002 contributions amounted to £3,450 and £1,600 respectively (2001: £2,400 and nil).

The remuneration of I M Robertson amounting to £4,500 was paid to Struan Associates, a business in which he has a material interest, and R Savage amounting to £6,350 was paid to Ratae Management Services, a business in which he has a material interest.

During the year the Group made sales of £67,200 (2001: £nil) to Cell-ID Limited, a company of which N D Fox is also a director. All of this amount is included in debtors at the year end.

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2002	2001
Interest payable on loans and overdrafts	£	£
- repayable within five years	42,193	94,907
- repayable wholly or partly in more than five years	-	520
	42,193	95,427

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2002	2001
a) Analysis of charge in the year	£	£
Current tax		
UK corporation tax at 19% (2001: 20%) based on the profit for the year (note 6b)	-	-
Adjustments in respect of previous years – R&D tax credits recoverable	61,748	-
Total current tax	61,748	-
Deferred tax		
Current year charge	-	-
Adjustments in respect of prior years	-	-
Total current tax (note 14)	-	-
	2002	2001
b) Factors affecting the tax charge for the year	£	£
Loss on ordinary activities before tax	(664,607)	(523,592)
Tax on loss on ordinary activities at standard rate	(126,275)	(104,718)
Effects of:		
Permanent differences	(21,427)	191
Depreciation in excess of capital allowances	7,429	(1,517)
Current year loss not utilised	140,825	106,044
Utilisation of bought forward losses	(552)	-
Actual tax charge for the year (note 6a)	-	-

The Group has accumulated trading losses to be carried forward of approximately £1,900,000 (2001: £1,400,000).

7. EARNINGS PER SHARE

	2002	2001
	£	£
Loss for the year	602,859	523,592
Weighted average number of ordinary shares in issue	15,061,611	12,053,040
Basic and diluted earnings per share	(4.0)	(4.3)

FRS14 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.

NOTES TO THE ACCOUNTS CONTINUED

8. TANGIBLE FIXED ASSETS

Group	Assets under construction	Computer equipment	Demonstration equipment	Plant & office equipment	Total
	£	£	£	£	£
Cost					
At 1 October 2001	-	18,348	135,813	8,328	162,489
Additions	26,334	37,828	3,781	6,708	74,651
Transfer to work in progress	-	-	(48,731)	-	(48,731)
At 30 September 2002	26,334	56,176	90,863	15,036	188,409
Depreciation					
At 1 October 2001	-	8,584	45,511	4,118	58,213
Provided during the year	-	18,726	31,722	3,445	53,893
Transfer to work in progress	-	-	(32,747)	-	(32,747)
At 30 September 2002	-	27,310	44,486	7,563	79,359
Net book value					
At 30 September 2002	26,334	28,866	46,377	7,473	109,050
At 30 September 2001	-	9,764	90,302	4,210	104,276

9. INTANGIBLE FIXED ASSETS

Cost	Patent rights	Development costs	Total
	£	£	£
At 1 October 2001	196,951	68,063	265,014
Additions	13,009	3,282	16,291
Written off	-	(71,345)	(71,345)
At 30 September 2002	209,960	-	209,960
Amortisation			
At 1 October 2001	-	-	-
Provided during the year	17,500	-	17,500
At 30 September 2002	17,500	-	17,500
Net book value			
At 30 September 2002	192,460	-	192,460
At 30 September 2001	196,951	68,063	265,014

10. INVESTMENTS

Subsidiary undertakings - Company	Total
Cost and net book value	£
At 1 October 2001 and 30 September 2002	52,004

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	
				2002	2001
				£	£
Stereo Scan Systems Limited	Development of advanced imaging technology	England	100%	51,000	51,000
Baggage Scan Limited	Exploitation of advanced imaging technology in the security sector	England	100%	1	1
Industrial Scanning Inspection Systems Limited	Exploitation of advanced imaging technology as applied to industrial inspection	England	100%	1,000	1,000
Cargo Scan Limited	Dormant	England	100%	1	1
Mediscan Limited	Exploitation of advanced imaging technology for medical applications	England	100%	2	2

11. STOCK

	Group 2002	Group 2001	Company 2002	Company 2001
	£	£	£	£
Stock	64,998	-	-	-
Work in progress	4,933	5,012	-	-
	69,931	5,012	-	-

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

NOTES TO THE ACCOUNTS CONTINUED

12. DEBTORS

	Group 2002	Group 2001	Company 2002	Company 2001
	£	£	£	£
Trade debtors	264,334	17,625	75,097	-
VAT recoverable	466	4,076	-	-
Other debtors and prepayments	43,672	7,509	3,352	5,298
Corporation tax recoverable	61,748	-	-	-
Amounts due from subsidiary undertakings	-	-	2,588,069	1,566,961
	370,220	29,210	2,666,518	1,572,259

13. CREDITORS

	Group 2002	Group 2001	Company 2002	Company 2001
	£	£	£	£
Amounts falling due within one year:				
Bank overdraft	-	36,555	-	17,916
Bank loan	37,363	37,363	-	-
Other loans	-	516,840	-	516,840
Trade creditors	65,148	66,087	50,253	34,298
Other creditors	1,410	-	-	-
Taxation and social security	13,906	6,993	26,257	25,349
Accruals	39,837	23,272	26,008	15,177
Amounts due to subsidiary undertakings	-	-	380	-
	157,664	687,110	102,898	609,580

Amounts falling due after more than one year

Bank loan	90,842	128,204	-	-
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A bank loan of £100,000 was advanced in March 1998 under the Small Firms Loan Guarantee Scheme. The loan is being repaid by 84 monthly instalments commencing six months after drawdown. Interest is payable at 3% p.a. over Lloyds TSB Bank plc base rate. A further loan of £150,000 was advanced in July 1999 also under the Small Firms Loan Guarantee Scheme. The loan is being repaid by 26 quarterly instalments commencing six months after drawdown. Interest is payable at 2½% p.a. over Lloyds TSB Bank plc base rate. These loans are secured by debentures from the Company and by a legal charge over the life policies of two directors dated 4 November 1998.

On 25th March 2002, the Group repaid the £516,840 loan from Security Change Limited.

Loan or instalments thereof are repayable over the following periods:

	2002	2001
	£	£
Within one year or less or on demand	37,363	37,363
More than one year but not more than two years	37,363	37,363
More than two years but not more than five years	53,479	90,841
More than five years	-	-
	128,205	165,567

14. PROVISIONS FOR LIABILITIES AND CHARGES

	2002	2001
	Group	Group
	£	£
Deferred tax		
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 2002	Not provided 2002	Provided 2001	Not provided 2001
	£	£	£	£
Group				
Accelerated capital allowances	10,957	(13,745)	45,958	(10,561)
Losses	(10,957)	(347,167)	(45,958)	(233,898)
	-	(360,912)	-	(244,459)

There are no timing differences in the Company.

15. COMMITMENTS

At 30 September 2002 the Group was committed to making the following payments during the next year in respect of operating leases for equipment rentals:

	2002	2001
	£	£
Leases which expire: Within one year	5,600	4,800

At 30 September 2002 there were no capital commitments (2001: nil).

16. CALLED UP SHARE CAPITAL

	2002	2001
	£	£
Authorised:		
20,000,000 ordinary shares of 1p each	200,000	200,000
Called up, allotted and fully paid:		
16,250,203 ordinary shares of 1p each	162,502	132,011

During the year, the Company made the following issues of shares for working capital purposes:

	Nominal Value	Consideration
	£	£
1,818,182 ordinary shares of 1p at 55p per share on 11 January 2002	18,182	1,000,000
80,856 ordinary shares of 1p at 60p per share on 20 February 2002	809	48,514
1,150,000 ordinary shares of 1p at 65p per share on 25 April 2002	11,500	747,500

At 30 September 2002, the following options were outstanding:

- Options granted on 3 July 1998 over 300,000 ordinary shares of 1p each, exercisable at any time up to 30 June 2003 at 150p per share.
- Options granted on 4 May 2000 over 80,000 ordinary shares of 1p each under the Image Scan 1999 Approved Share Option Scheme. These options are exercisable after three years, but not later than ten years, at 25p per share.
- Options granted on 30 April 2001 over 40,000 ordinary shares of 1p each under the Image Scan 1999 Approved Share Option Scheme. These options are exercisable after three years, but not later than ten years, at 50p per share.
- Options granted on 1st August 2001 over 25,000 ordinary shares of 1p each, exercisable at any time up to 1 August 2004 at 50p per share.
- Options granted on 20 September 2001 over 120,000 ordinary shares of 1p each, exercisable at any time up to 20 September 2004 at 50p per share.
- Options granted on 22 January 2002 over 90,910 ordinary shares of 1p each, exercisable at any time up to 22 January 2005 at 55p per share.
- Options granted on 25 April 2002 over 76,923 ordinary shares of 1p each, exercisable at any time up to 25 April 2005 at 65p per share.
- Options granted on 21 May 2002 over 12,000 ordinary shares of 1p each under the Image Scan 1999 Approved Share Option Scheme. These options are exercisable at any time up to 21 May 2012 at 74.5p per share. Of these options 1,000 lapsed on 31st July 2002 and a further 1,000 lapsed on 14 October 2002 on the departure of the employees to whom they were granted.

17. RESERVES

Group	Share premium account	Profit and loss account	Total
	£	£	£
Balance at 1 October 2001	1,291,652	(1,399,485)	(107,833)
Issue of shares	1,619,466	-	1,619,466
Loss attributable to members of the Group	-	(602,859)	(602,859)
Balance at 30 September 2002	2,911,118	(2,002,344)	908,774
Company			
Balance at 1 October 2001	1,291,652	4,488	1,296,140
Issue of shares	1,619,466	-	1,619,466
Profit attributable to members of the Company	-	8,654	8,654
Balance at 30 September 2002	2,911,118	13,142	2,924,260

The figures reported in 2001 showed a capital reserve of £50,949 which related to goodwill previously eliminated against reserves prior to FRS10. Upon implementation of FRS10 this amount should have been transferred to the profit and loss reserve. This has been amended in the comparatives this year.

As permitted by section 230 of the Companies Act 1985, a separate profit and loss account for the holding company has not been included. The profit for the financial year dealt with in the accounts of the parent company was £8,654 (2001: £2,229).

18. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Group 2002	Group 2001	Company 2002	Company 2001
	£	£	£	£
Opening shareholders' funds	24,178	(448,408)	1,428,151	429,744
Issue of shares - par	30,491	20,803	30,491	20,803
Issue of shares - share premium	1,619,466	975,375	1,619,466	975,375
(Loss)/profit attributable to members of the company	(602,859)	(523,592)	8,654	2,229
Closing shareholders' funds	1,071,276	24,178	3,086,762	1,428,151

19. TRANSACTIONS WITH RELATED PARTIES

The Group has taken advantage of the exemption conferred by FRS 8, paragraph 3(c), 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 on page 11 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.

The Group had no undrawn committed borrowing facilities at 30 September 2002 (2001: £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 2002 and 30 September 2001.

Currency profile

At the year end trade debtors included US\$134,171 (2001: nil) and trade creditors included US\$9,172 (2001: nil). All other financial assets and liabilities are denominated in Sterling.