

# NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2003

## 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.

### Goodwill

All goodwill arose prior to the implementation of FR510. The amount of £50,949 (2002: £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	- 33½% of cost
Demonstration equipment	- between 25% and 33½% 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

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.

### 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.

### 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.

## 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 2003 £	USA 2003 £	Total 2003 £	UK 2002 £	USA 2002 £	Total 2002 £
<b>Group turnover by destination</b>						
Security	316,526	50,770	367,296	163,702	169,831	333,533
Industrial	124,548	-	124,548	101,452	-	101,452
Medical	17,906	-	17,906	67,200	-	67,200
Other	-	-	-	512	-	512
	<b>458,980</b>	<b>50,770</b>	<b>509,750</b>	<b>332,866</b>	<b>169,831</b>	<b>502,697</b>

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

	2003 £	2002 £
<b>Operating loss is stated after charging:</b>		
Depreciation – owned assets	76,151	53,893
Amortisation – intangible assets	17,805	17,500
Amounts written off development costs	-	71,345
Research & development	150,211	117,654
Auditors' remuneration		
Audit – Group	14,000	12,500
Audit – Company	1,000	1,000
Other services	8,550	6,500

## 4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2003 £	2002 £
<b>Directors' emoluments</b>		
Management remuneration	141,833	138,908
Fees as directors	28,949	26,500
	<b>170,782</b>	<b>165,408</b>

	No	No
<b>Average number of persons employed (including directors)</b>		
Accounts and administration	2	1
Technical	10	7
Directors	6	7
	<b>18</b>	<b>15</b>

	£	£
<b>Staff costs during the year (including directors)</b>		
Wages and salaries	506,422	428,015
Social security costs	50,757	36,741
	<b>557,179</b>	<b>464,756</b>

The Group contributes to a defined contribution pension scheme for the benefit of N D Fox and S X Godber. For the year ended 30 September 2003, contributions amounted to £3,000 and £2,400 respectively (2002: £3,450 and £1,600).

The remuneration of I M Robertson amounting to £4,000 (2002: £4,500) was paid to Struan Associates, a business in which he has a material interest, and R Savage amounting to £5,225 (2002: £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 £17,906 (2002: £67,200) to Cell-ID Limited, a company of which N D Fox is also a director. An amount of £5,177 is included in debtors at the year end.

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 £9,026 (2002: £nil) in the year ended 30 September 2003. An amount of £2,837 (2002: £nil) is included in creditors at the year end.

## 5. INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £	2002 £
<b>Interest payable on loans and overdrafts</b>		
- repayable within five years	7,164	42,193

## NOTES TO THE ACCOUNTS (CONTINUED)

### 6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2003	2002
	£	£
<b>a) Analysis of charge in the year</b>		
<b>Current tax</b>		
UK corporation tax at 19% (2002: 19%) based on the profit for the year (note 6b)	14,778	-
Adjustments in respect of previous years – R&D tax credits recoverable	35,641	61,748
<b>Total current tax</b>	<b>50,419</b>	<b>61,748</b>
<b>Deferred tax</b>		
Current year charge	-	-
Adjustments in respect of prior years	-	-
<b>Total deferred tax (note 14)</b>	<b>-</b>	<b>-</b>

	2003	2002
	£	£
<b>b) Factors affecting the tax charge for the year</b>		
Loss on ordinary activities before tax	(838,718)	(664,607)
Tax on loss on ordinary activities at standard rate	(159,356)	(126,275)
<b>Being the effects of:</b>		
Permanent differences	2,784	(21,427)
Depreciation in excess of capital allowances	17,716	7,429
Current year loss not utilised	127,156	140,825
Loss surrendered to Inland Revenue in exchange for R&D tax credits	11,700	-
Tax credit receivable from Inland Revenue	(14,778)	-
Adjustment in respect of prior periods	(35,641)	(61,748)
Utilisation of bought forward losses	-	(552)
<b>Actual tax charge for the year (note 6a)</b>	<b>(50,419)</b>	<b>(61,748)</b>

The Group has accumulated trading losses to be carried forward of approximately £2,300,000 (2002: £1,900,000).

### 7. EARNINGS PER SHARE

	2003	2002
	£	£
Loss for the year	788,299	602,859
Weighted average number of ordinary shares in issue	16,250,203	15,061,611
Basic and diluted earnings per share	(4.9)	(4.0)

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.

### 8. TANGIBLE FIXED ASSETS

Group	Assets under construction	Computer equipment	Demonstration equipment	Plant & office equipment	Total
	£	£	£	£	£
<b>Cost</b>					
At 1 October 2002	26,334	56,176	90,863	15,036	188,409
Additions	86,880	22,351	57,032	23,097	189,360
Disposals	-	(8,184)	-	(5,978)	(14,162)
Transfer of assets	(113,214)	-	96,162	17,052	-
<b>At 30 September 2003</b>	<b>-</b>	<b>70,343</b>	<b>244,057</b>	<b>49,207</b>	<b>363,607</b>
<b>Depreciation</b>					
At 1 October 2002	-	27,310	44,486	7,563	79,359
Provided during the year	-	19,816	42,356	13,979	76,151
Disposals	-	(8,184)	-	(5,978)	(14,162)
<b>At 30 September 2003</b>	<b>-</b>	<b>38,942</b>	<b>86,842</b>	<b>15,564</b>	<b>141,348</b>
<b>Net book value</b>					
<b>At 30 September 2003</b>	<b>-</b>	<b>31,401</b>	<b>157,215</b>	<b>33,643</b>	<b>222,259</b>
At 30 September 2002	26,334	28,866	46,377	7,473	109,050

## NOTES TO THE ACCOUNTS (CONTINUED)

## 9. INTANGIBLE FIXED ASSETS

	Total £
<b>Cost</b>	
At 1 October 2002	209,960
Additions	3,655
<b>At 30 September 2003</b>	<b>213,615</b>
<b>Amortisation</b>	
At 1 October 2002	17,500
Provided during the year	17,805
<b>At 30 September 2003</b>	<b>35,305</b>
<b>Net book value</b>	
<b>At 30 September 2003</b>	<b>178,310</b>
At 30 September 2002	192,460

## 10. INVESTMENTS

	£
<b>Subsidiary undertakings - Company</b>	
<b>Cost and net book value</b>	
<b>At 1 October 2002 and 30 September 2003</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	Principle activities	Country of incorporation and operations	Ordinary share capital %	Investment shares at cost	
				2003 £	2002 £
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		Company	
	2003 £	2002 £	2003 £	2002 £
Stock	19,271	64,998	-	-
Work in progress	7,686	4,933	-	-
	<b>26,957</b>	<b>69,931</b>	-	-

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

## 12. DEBTORS

	Group		Company	
	2003 £	2002 £	2003 £	2002 £
Trade debtors	50,098	264,334	-	75,097
VAT recoverable	20,443	466	14,375	-
Other debtors and prepayments	42,398	43,672	42,401	3,352
Corporation tax recoverable	14,778	61,748	-	-
Amounts due from subsidiary undertakings	-	-	3,106,809	2,588,069
	<b>127,717</b>	<b>370,220</b>	<b>3,163,585</b>	<b>2,666,518</b>

## NOTES TO THE ACCOUNTS (CONTINUED)

### 13. CREDITORS

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
<b>Amounts falling due within one year</b>				
Bank loan	37,363	37,363	-	-
Trade creditors	263,084	65,148	112,288	50,253
Other creditors	12,775	1,410	-	-
Taxation and social security	18,910	13,906	-	26,257
Accruals	95,119	39,837	49,618	26,008
Amounts due to subsidiary undertakings	-	-	3,848	380
	<b>427,251</b>	<b>157,664</b>	<b>165,754</b>	<b>102,898</b>
<b>Amounts falling due after more than one year</b>				
	2003	2002	2003	2002
	£	£	£	£
Bank loan	54,670	90,842	-	-

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 Royal Bank of Scotland 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 Royal Bank of Scotland 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.

Loan or instalments thereof are repayable over the following periods:

	2003	2002
	£	£
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	17,307	53,479
	<b>92,033</b>	<b>128,205</b>

### 14. PROVISIONS FOR LIABILITIES AND CHARGES

	2003	2002
	£	£
<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:

Group	Provided	Not provided	Provided	Not provided
	2003	2003	2002	2002
	£	£	£	£
Accelerated capital allowances	7,863	(37,797)	10,957	(13,745)
Losses	(7,863)	(440,087)	(10,957)	(347,167)
	-	<b>(477,884)</b>	-	<b>(360,912)</b>

No provision has been made for the deferred tax assets as recoverability of the assets in the near future is uncertain. These are no timing differences in the Company.

### 15. COMMITMENTS

At 30 September 2003 the Group was committed to making the following payments during the next year in respect of operating leases for equipment rentals:

	2003	2002
	£	£
Leases which expire:		
Within one year	5,600	5,600

At 30 September 2003, there were no capital commitments (2002: £Nil).

## NOTES TO THE ACCOUNTS (CONTINUED)

## 16. CALLED UP SHARE CAPITAL

	2003	2002
	£	£
<b>Authorised:</b>		
20,000,000 ordinary shares of 1p each	200,000	200,000
<b>Called up, allotted and fully paid:</b>		
16,250,203 ordinary shares of 1p each	162,502	162,502

On 29 October 2003, the Company made the following issue of shares for working capital purposes:

	Nominal Value	Consideration
	£	£
3,085,427 ordinary shares of 1p each	30,854	1,079,899

At 30 September 2003, the following options were outstanding:

- 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 20 September 2001 over 100,000 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 45,455 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 10,000 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 74.5p per share.
- Options granted on 14 March 2003 over 149,000 ordinary shares of 1p each under the Image Scan Enterprise Management Incentives Share Option Plan. These options are exercisable after three years, but not later than ten years, at 51.5p per share.

The following options lapsed during the year:

- 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 1 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 20,000 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 45,455 ordinary shares of 1p each, exercisable at any time up to 22 January 2005 at 55p per share.
- Options granted on 21 May 2002 over 1,000 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 74.5p per share.

## 17. RESERVES

	Share premium account	Profit and loss account	Total
	£	£	£
<b>Group</b>			
Balance at 1 October 2002	2,911,118	(2,002,344)	908,774
Loss attributable to members of the Group	-	(788,299)	(788,299)
<b>Balance at 30 September 2003</b>	<b>2,911,118</b>	<b>(2,790,643)</b>	<b>120,475</b>
<b>Company</b>			
Balance at 1 October 2002	2,911,118	13,142	2,924,260
Profit attributable to members of the Company	-	2,957	2,957
<b>Balance at 30 September 2003</b>	<b>2,911,118</b>	<b>16,099</b>	<b>2,927,217</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 £2,957 (2002: £8,654).

## NOTES TO THE ACCOUNTS (CONTINUED)

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

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Opening shareholders' funds	1,071,276	24,178	3,086,762	1,428,151
Issue of share – par	-	30,491	-	30,491
Issue of share - share premium	-	1,619,466	-	1,619,466
(Loss) / profit attributable to members	(788,299)	(602,859)	2,957	8,654
Closing shareholders' funds	282,977	1,071,276	3,089,719	3,086,762

### 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 9 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 2003 (2002: £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 2003 and 30 September 2002.

#### Currency profile

At the year end trade debtors included US\$nil (2002: US\$134,171) and trade creditors included US\$nil (2002: US\$9,172). All other financial assets and liabilities are denominated in Sterling.