

IMAGE SCAN HOLDINGS PLC

Report and Financial Statements

30 September 2006

IMAGE SCAN HOLDINGS PLC

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IMAGE SCAN HOLDINGS PLC

OFFICERS AND PROFESSIONAL ADVISERS

NON-EXECUTIVE CHAIRMAN

Peter J Woods, BA, OBE

EXECUTIVE DIRECTORS

Nicholas D Fox, MSc

Louise J George, BSc, FCA, ACIS

Simon X Godber, PhD

Robin I Higgons, BSc, MBA

Chief Executive Officer

Finance Director

Technical Director

Sales & Marketing Director

NON-EXECUTIVE DIRECTORS

Ian S S Johnson

COMPANY SECRETARY

Louise J George, BSc, FCA, ACIS

REGISTERED OFFICE

Pera Innovation Park

Nottingham Road

Melton Mowbray

Leicestershire LE13 0PB

AUDITORS

Wilkins Kennedy

Bridge House

London Bridge

London SE1 9QR

NOMINATED ADVISER AND BROKER

KBC Peel Hunt Ltd

111 Old Broad Street

London EC2N 1PH

PRINCIPAL BANKERS

Royal Bank of Scotland plc

8 South Parade

Nottingham NG1 2JS

REGISTRARS

Capita Registrars

Northern House

Woodsome Park

Fenay Bridge

Huddersfield HD8 0LA

SOLICITORS

DMH Stallard

Centurion House

37 Jewry Street

London EC3N 2ER

Browne Jacobson

44 Castle Gate

Nottingham NG1 7BJ

IMAGE SCAN HOLDINGS PLC

CHAIRMAN'S STATEMENT

INTRODUCTION

I am pleased to report on the Preliminary Results for Image Scan for the year ended 30 September 2006, and comment on the Board's view of your Company's prospects for the following financial year.

Image Scan remains focused on the development and commercialisation of market leading real-time 3D and 2D x-ray solutions for use in the global industrial and security inspection markets. The Company's industrial inspection solutions include the MDXi unit and the X-line systems. The security portfolio includes a unique 3D baggage inspection system for corporate and airport security and TPXi, a portable bomb and suspect package detection system.

FINANCIAL RESULTS

Sales in the year increased by 69% to £1,422,000 (2005: 843,000), continuing the strong growth experienced in 2005 and with even greater expectations for 2007.

The gross margin of 50% (2005: 47%) has improved in the second half of the year, having reported a 45% margin at the time of the Interim Results. Investment in the distribution network, and customer-funded development work, suppressed the gross profit in the first six months, with the commercial contracts in the second half restoring the overall margin.

Administrative expenses of £1,219,000 (2005: £1,116,000) reflect the investment made in sales and marketing by the appointment of a sales manager and a sales & marketing director, as well as increased marketing activity. There was also increased investment in research and development to consolidate and extend the Company's product base and to identify future potential for our technology with expenditure at £174,000 (2005: £128,000). These critical investments will quicken the pace of orders through and beyond 2007, building a sound foundation for profitability growth.

Losses for the year were significantly reduced at £470,000 (2005: £692,000), with the losses in the first half of £279,000 comparing to £191,000 in the second half. The loss per share was 1.3p (2005: 2.7p).

During the year the Company issued £200,000 9% loan stock followed by a further £200,000 since the year end. These loans are repayable by 31 March 2008 and have warrants to subscribe for 2 million shares at 20p. The Company has also agreed a £100,000 overdraft facility with the Royal Bank of Scotland to cover working capital requirements resulting from the increased order book. At 30 September 2006 the bank balance was £164,000.

OVERVIEW

SECURITY

The Company has received a welcome endorsement from the US Government's Transport Security Administration ("TSA") which is the regulator and principal purchasing authority for the USA aviation security sector. A report, that the TSA is soon to release, details the results of their independent trials on the Company's 3D x-ray baggage inspection system, AXIS-3D®. This report will clearly indicate the significant benefits of using 3D technology when compared to conventional 2D systems and goes as far as to quantify that the probability of threat detection improves by greater than 10% when using 3D technology. This strong endorsement of the Company's 3D technology will enhance the promotion and potential sales of the AXIS-3D® systems over the next 12 months.

The launch, in November 2005, of the TPXi portable x-ray imaging system, which is targeted at the inspection of suspect packages, has led to orders in the year exceeding £0.3m including units supplied to the British Transport Police for the protection of London's primary mass transport stations. To promote TPXi worldwide the Company has entered into distribution agreements with UK-based KeTech Defence Ltd (KeTech) and Belgium-based Industrial Control Machines S.A. ('ICM').

In April 2006, the Company successfully entered into a five year licence agreement with Scanlogik LLC for the development, supply and maintenance of imaging hardware and software for their new range of baggage screening system, the Vertigo range.

INDUSTRIAL

Following the installation of two X-Line inspection systems onto Johnson Matthey's production lines in the US and the UK in the first half of the year, the Company was awarded additional contracts for the supply of second generation MDXi systems for installation at plants in South Africa and in the UK.

To support the increasing installed base of X-Line and MDXi systems across the world, the Company has formed a dedicated group focused on maintenance and after-sales support. This new group has already been awarded maintenance and spares contracts in excess of £100,000. This represents a new, recurring revenue stream for the Company which will grow significantly in line with our increasing installed base.

CHAIRMAN'S STATEMENT (CONTINUED)

Another major success for the Company was the award of a £1m contract with British Nuclear Group for in-line x-ray inspection systems to enhance their current manufacturing inspection capability. This contract was awarded to the Company following a 12 month international competitive tendering process in which the Company was able to demonstrate superior technical advantages over the competition. It is believed that this first major contract into the nuclear power industry will lead to further opportunities for the Company's special projects group.

CLIENTS

Image Scan is a business of its time, providing complete solutions in the topical areas of 'Homeland Security' and 'Industrial Inspection'. Image Scan's products provide leading edge solutions and products to commercial organisations and Government Agencies such as regulators and Police Forces.

The Company's portfolio of clients over the last year have included world class names such as Johnson Matthey, British Nuclear Group, British Transport Police, Rapiscan Systems Ltd, Crown Cork & Seal, a Johnson & Johnson company and the Transport Security Administration.

MARKETING

During the period, we invested soundly in the sales and marketing organisation and staffing, appointed three new security trading partners: KeTech, ICM and Scanlogik, attended a greater number of trade exhibitions and increased trade press coverage. The benefit of this investment can be seen in the five fold increase in the year end order book.

Sales to the industrial sector have been managed directly to date, but the Company intends to shortly appoint a distributor to drive the sales of our industrial inspection equipment within the healthcare and automotive markets in mainland Europe.

STAFF

Image Scan's staff have continued to show outstanding commitment to the Company through a very demanding and challenging year, for which the Board expresses its appreciation. The Company has recruited four additional technical staff since the year end to provide the essential resources required to meet the sales targets for 2007.

OUTLOOK

The Company has continued to make good progress with the investment in sales and marketing resulting in a very positive end to the financial year both in terms of financial results and improved order book. There is now international representation for the baggage screening technology through Rapiscan and Scanlogik and for the TPXi system through KeTech and ICM. Our ability to directly market the industrial inspections systems ourselves has been successful, but we intend to strengthen this further with the appointment of European distributors.

At the year end the order book stood at £1.7m (2005: £326,000). In addition, our sales prospects are stronger than ever as a result of our distribution and licence agreements and the increased marketing activity referred to above. The Board anticipates another significant increase in annual turnover and sound growth towards profitability in 2007.

P J Woods
Chairman

12 January 2007

DIRECTORS' REPORT

THE DIRECTORS PRESENT THEIR ANNUAL REPORT AND THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2006

BUSINESS ACTIVITY, REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The principal activities of the Group have been the continuing development of three-dimensional imaging technology. Further details can be found in the Chairman's Statement set out in pages 3 to 4. The Company acts as a holding company.

DIRECTORS AND THEIR INTERESTS

The present directors are listed on page 2. The directors' interests, all of which were beneficial, in the shares of the Company at the year end were as follows:

	30 SEPTEMBER 2006 ORDINARY SHARES OF 1p EACH	30 SEPTEMBER 2005 ORDINARY SHARES OF 1p EACH
N D Fox	2,485,121	2,485,121
L J George	100,000	100,000
S X Godber	71,428	71,428
R I Higgons (appointed 1 July 2006)	-	-
P J Hughes (resigned 3 May 2006)	-	71,429
I S S Johnson	142,857	142,857
P J Woods	1,420,571	1,420,571

The following existing options had been granted at the start of the year:

N D Fox Under the Image Scan Enterprise Management Incentives Share Option Plan, on 30 September 2005, 80,000 ordinary shares of 1p each at a price of 15p per share. The options are exercisable at any time after three years but no later than ten years from the date of grant.

L J George Under the Image Scan Enterprise Management Incentives Share Option Plan, on 14 March 2003, 10,000 ordinary shares of 1p each at a price of 51.5p per share; and on 30 September 2005, 80,000 ordinary shares of 1p each at a price of 15p per share. In both cases the options are exercisable at any time after three years but no later than ten years from the date of grant.

S X Godber Under the Image Scan 1999 Approved Share Option Scheme, on 4 May 2000, 50,000 ordinary shares of 1p each at a price of 25p per share; and on 30 April 2001, 10,000 ordinary shares of 1p each at a price of 50p per share. In both cases the options are exercisable at any time after three years but no later than ten years from the date of grant.

Under the Image Scan Enterprise Management Incentives Share Option Plan, on 14 March 2003, 20,000 ordinary shares of 1p each at a price of 51.5p per share; and on 30 September 2005, 80,000 ordinary shares of 1p each at a price of 15p per share. In both cases the options are exercisable at any time after three years but no later than ten years from the date of grant.

RESULTS AND DIVIDENDS

The results for the year ended 30 September 2006 show a loss after tax of £470,450 (2005: £692,110). The directors do not recommend the payment of a dividend.

P J Woods On 25 April 2005, 80,000 ordinary shares of 1p each at a price of 15p per share, exercisable at any time up to 31 March 2007.

I S S Johnson On 31 July 2005, 80,000 ordinary shares of 1p each at a price of 15p per share, exercisable at any time up to 31 July 2007.

P J Hughes On 25 April 2005, 80,000 ordinary shares of 1p each at a price of 15p per share, exercisable at any time up to 31 March 2007. On 30 June 2006 Peter Hughes exercised this option at which time the share price was 20.25p.

R I Higgons Under the Image Scan Enterprise Management Incentives Share Option Plan, on 1 July 2006, 80,000 ordinary shares of 1p each at a price of 24p per share. The options are exercisable at any time after three years but no later than ten years from the date of grant.

On 2 October 2006 share options of 100,000 ordinary shares at 1p each at a price of 18.25p per share were granted under the Image Scan Enterprise Management Incentives Share Option Plan to each of N D Fox, S X Godber, L J George and R I Higgons. The options are exercisable at any time after three years but no later than ten years from the date of grant.

The share price high and low during the year were 24.75p and 9.75p per share respectively. The closing mid-market price was 19p per share.

DIRECTORS' REPORT (CONTINUED)

SUBSTANTIAL SHAREHOLDINGS

At the date of this report the following substantial shareholdings have been notified to the Company:

	%	ORDINARY SHARES OF 1p EACH
Gresham House plc	9.41	3,288,368
AiM VCT 2 plc	3.35	1,172,367
Welsh Industrial Investment Trust plc	3.12	1,089,000
A P Stirling	4.36	1,524,166
David Allenby	4.15	1,450,652

RESEARCH AND DEVELOPMENT

The Group was focused in the year on research and development, with considerable technical staff effort applied to developing the next generation TPXi and MDXi systems. Costs of this in the year amounted to £174,417 (2005: £127,578).

FIXED ASSETS

The intangible assets as detailed in note 9 are included at a net book value of £16,231 (2005: £17,913). The directors believe the intellectual property rights are worth considerably in excess of this amount.

The movement in investments during the year is detailed in note 10 to the accounts.

PAYMENT POLICY

The Company's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction and then to abide by these terms. At 30 September 2006, trade creditors represented 59 days purchases (2005: 66 days).

FINANCIAL INSTRUMENTS

The Group's financial instruments during the year comprised bank loans, overdraft and cash (or cash equivalents). The main purpose of these instruments is the financing of the Group's operations.

Following a review, the Board decided not to enter into any derivative transactions in the year to manage currency, interest rate or liquidity risk. Methods used by the Group to manage these risks are summarised below.

Interest rate risk

The Group finances its operations by a mixture of proceeds from new share capital and external borrowings. Bank borrowings are denominated in sterling and bear interest at floating rates.

Liquidity risk

The Group policy to manage liquidity risk is to ensure sufficient overdraft and loan facilities are in place.

Foreign currency risk

The Group does not make sufficient sales and purchases in foreign currency to justify maintaining foreign currency bank accounts. Until such a time as the volume of foreign currency sales or purchases determine foreign currency exchange risk hedging necessary, transactions will be settled at spot rate.

DIRECTORS' STATEMENT OF RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial period and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTORS' REPORT (CONTINUED)

Going concern

The directors have acknowledged the latest guidance on going concern and, after making appropriate enquiries, have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

CORPORATE GOVERNANCE

The Company is quoted on the Alternative Investment Market (AIM) and is therefore not required to comply with the provisions of the Combined Code. Nevertheless, by continuous review, the Company ensures that proper standards of corporate governance are in operation and the principles of the Combined Code are followed so far as is practicable and appropriate to the size and nature of the Company. The Company's Audit Committee and Remuneration Committee both comprise Peter Woods and Ian Johnson. The Company's Nominations Committee comprises Peter Woods, Nick Fox and Ian Johnson. All three committees are under the chairmanship of Peter Woods.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

Wilkins Kennedy have expressed their willingness to continue in office as auditors of the company. A resolution to re-appoint Wilkins Kennedy as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors on 12 January 2007
and signed on behalf of the Board

L J George
Company Secretary

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF IMAGE SCAN HOLDINGS PLC

We have audited the financial statements of Image Scan Holdings Plc for the year ended 30 September 2006 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cashflow statement (and notes i-iii thereto) and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you, whether in our opinion, the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law, regarding directors' remuneration and transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company and the group affairs as at 30 September 2006 and of the loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Wilkins Kennedy
Chartered Accountants and
Registered Auditors, London

12 January 2007

GROUP PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 SEPTEMBER 2006

Annual Report and Accounts 2006

	Note	2006 £	2005 £
TURNOVER	2	1,422,272	843,089
Cost of sales		(705,082)	(444,252)
Gross profit		717,190	398,837
Administrative expenses		(1,219,813)	(1,116,370)
OPERATING LOSS	3	(502,623)	(717,533)
Interest receivable		4,016	5,580
Interest payable	5	(9,126)	(10,446)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(507,733)	(722,399)
Taxation	6	37,283	30,289
RETAINED LOSS FOR THE FINANCIAL YEAR	17, 18	(470,450)	(692,110)
Retained reserves brought forward		(4,693,236)	(4,001,126)
Revenue reserves carried forward		(5,163,686)	(4,693,236)
		Pence	Pence
Earnings per share	7		
Basic and diluted loss per share		1.3	2.7

There are no recognised gains or losses other than the loss for the year and the prior year. All amounts relate to continuing operations during each year.

The reconciliation of movement in shareholders' funds can be found in note 18.

CONSOLIDATED BALANCE SHEET

30 SEPTEMBER 2006

	Note	2006 £	2005 £
FIXED ASSETS			
Tangible fixed assets	8	174,198	155,760
Intangible fixed assets	9	16,231	17,913
		190,429	173,673
CURRENT ASSETS			
Stock and work in progress	11	83,073	94,645
Debtors	12	384,205	341,175
Cash at bank and in hand		164,046	153,857
		631,324	589,677
CREDITORS: amounts falling due within one year	13	(742,336)	(427,356)
NET CURRENT ASSETS/(LIABILITIES)		(111,012)	162,321
TOTAL ASSETS LESS CURRENT LIABILITIES		79,417	335,994
CREDITORS: amounts falling due after more than one year	13	(200,000)	-
Provisions for liabilities and charges	14	(22,373)	(20,500)
		(142,956)	315,494
CAPITAL AND RESERVES			
Called up share capital	16	349,481	348,681
Share premium account	17	4,671,249	4,660,049
Profit and loss account	17	(5,163,686)	(4,693,236)
EQUITY SHAREHOLDERS' FUNDS	18	(142,956)	315,494

These financial statements were approved by the Board of Directors on 12 January 2007.

Signed on behalf of the Board of Directors

N D FOX
Chief Executive Officer

L J GEORGE
Finance Director

COMPANY BALANCE SHEET

30 SEPTEMBER 2006

Annual Report and Accounts 2006

	Note	2006 £	2005 £
FIXED ASSETS			
Investments	10	52,004	52,004
CURRENT ASSETS			
Debtors	12	3,703,249	3,505,414
Cash at bank and in hand		3,659	5,302
		3,706,908	3,510,716
CREDITORS: amounts falling due within one year	13	(51,964)	(73,163)
NET CURRENT ASSETS		3,654,944	3,437,553
TOTAL ASSETS LESS CURRENT LIABILITIES		3,706,948	3,489,557
CREDITORS: amounts falling due after more than one year	13	(200,000)	–
		3,506,948	3,489,557
CAPITAL AND RESERVES			
Called up share capital	16	349,481	348,681
Share premium account	17	4,671,249	4,660,049
Profit and loss account	17	(1,513,782)	(1,519,173)
EQUITY SHAREHOLDERS' FUNDS	18	3,506,948	3,489,557

These financial statements were approved by the Board of Directors on 12 January 2007.

Signed on behalf of the Board of Directors

N D FOX
Chief Executive Officer

L J GEORGE
Finance Director

CONSOLIDATED CASH FLOW STATEMENT

YEAR ENDED 30 SEPTEMBER 2006

	Note	2006 £	2005 £
Net cash outflow from operating activities	(i)	(146,278)	(738,032)
Returns on investments and servicing of finance			
Interest received		4,016	5,580
Interest payable	5	(9,126)	(10,446)
		(5,110)	(4,866)
Taxation			
Corporation tax recovered		30,288	20,564
Capital expenditure and financial investment			
Purchase of tangible fixed assets	8	(135,904)	(70,764)
Receipts from sales of tangible fixed assets	8	72,500	1,796
		(63,404)	(68,968)
Net cash outflow		(184,504)	(791,302)
Financing			
Issue of ordinary share capital		12,000	932,495
Bank loans repaid	13	(17,307)	(37,363)
Other loans advanced		200,000	–
		194,693	895,132
Increase in cash in the year	(ii), (iii)	10,189	103,830

NOTES TO THE CASH FLOW STATEMENT

YEAR ENDED 30 SEPTEMBER 2006

Annual Report and Accounts 2006

i) RECONCILIATION OF OPERATING CASH FLOWS	2006 £	2005 £
Operating loss	(502,623)	(717,533)
Depreciation	97,478	104,787
Amounts written off intangible fixed assets	1,682	1,681
Profit on sale of tangible fixed asset	(52,512)	–
Decrease/(increase) in stock	11,572	(50,196)
Increase in debtors (excluding corporation tax recoverable)	(36,035)	(185,262)
Increase in creditors	334,160	108,491
Net cash outflow from operating activities	(146,278)	(738,032)

ii) ANALYSIS OF NET FUNDS	2005 £	2006 Cash flow £	Other non-cash charges £	2006 £
Cash at bank and in hand	153,857	10,189	–	164,046
Debt due within one year	(17,307)	17,307	–	–
Debt due after one year	–	(200,000)	–	(200,000)
	136,550	(172,504)	–	(35,954)

iii) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET (DEBT)/FUNDS	2006 £	2005 £
Increase in cash in the period	10,189	103,830
Cash inflow from increase in debt	(200,000)	–
Cash outflow from decrease in debt	17,307	37,363
Change in net (debt)/funds resulting from cash flows	(172,504)	141,193
Net funds/(debt) at 1 October	136,550	(4,643)
Net (debt)/funds at 30 September	(35,954)	136,550

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2004

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.

Going concern

The directors believe that given the £200,000 loan stock issued on 17 November 2006 (see note 19 Post Balance Sheet Events), 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 FRS10. The amount of £50,949 (2005: £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	–	33 $\frac{1}{3}$ % of cost
Demonstration equipment	–	33 $\frac{1}{3}$ % of cost
Plant & office equipment	–	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

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.

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:

	2006			2005		
	Security £	Industrial £	Total £	Security £	Industrial £	Total £
Group turnover by destination						
UK	449,686	521,838	971,524	140,463	609,078	749,541
US	1,751	274,078	275,829	–	85,935	85,935
Rest of World	98,759	76,160	174,919	7,613	–	7,613
	550,196	872,076	1,422,272	148,076	695,013	843,089

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

	2006 £	2005 £
Operating loss is stated after charging:		
Depreciation – owned assets	97,478	104,787
Amortisation – intangible assets	1,682	1,681
Amounts written off development costs	174,417	127,578
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	2,267	2,150

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2006 £	2005 £
Directors' emoluments		
Management remuneration	198,653	184,411
Fees as directors	50,263	41,246
Compensation for loss of office	–	67,740
	248,916	293,397

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

	£	£
The amounts paid in respect of the highest paid director are as follows:		
Emoluments	68,760	40,297
Pension contributions	6,130	–
Compensation for loss of office	–	67,740
	74,890	108,037

	No	No
Average number of persons employed (including directors)		
Accounts and administration	4	3
Technical	11	10
Directors	6	5
	21	18

	£	£
Staff costs during the year (including directors)		
Wages and salaries	682,192	649,120
Social security costs	73,016	60,882
Pension costs	28,323	6,420
	783,531	716,422

The Group contributes to a defined contribution pension scheme for the benefit of N D Fox, S X Godber and L J George. For the year ended 30 September 2006, contributions amounted to £6,130, £4,900 and £4,650 (2005: £3,000, £2,400 and £1,020) respectively.

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 £12,276 (2005: £16,544) in the year ended 30 September 2006. An amount of £285 (2005: £2,651) is included in creditors at the year end.

Mount Carmel Hughes Associates, a business of which P J Hughes is a joint owner, provided consultancy services amounting to £nil (2005: £3,981) in the year ended 30 September 2006.

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2006 £	2005 £
Interest payable on loans and overdrafts		
– repayable within five years	9,126	10,446

NOTES TO THE ACCOUNTS (CONTINUED)

6. TAX ON PROFIT ON ORDINARY ACTIVITIES	2006	2005
a) Analysis of credit in the year	£	£
Current tax		
UK corporation tax at 19% (2005: 19%) based on the loss for the year (note 7b)	37,283	30,288
Total current tax	37,283	30,288
Deferred tax		
Current year charge	-	-
Total deferred tax (note 15)	-	-
	2006	2005
b) Factors affecting the tax credit for the year	£	£
Loss on ordinary activities before tax	(507,733)	(722,399)
Tax on loss on ordinary activities at standard rate	(96,469)	(137,256)
Being the effects of:		
Permanent differences	688	224
Depreciation in excess of capital allowances	8,544	19,909
Current year loss not utilised	57,123	94,307
Loss surrendered to HM Revenue and Customs in exchange for R&D tax credits	30,114	23,043
Tax credit receivable from HM Revenue and Customs	(37,283)	(30,288)
Adjustment in respect of prior period	-	(227)
Actual tax charge for the year (note 7a)	(37,283)	(30,288)
7. EARNINGS PER SHARE	2006	2005
	£	£
Loss for the year	470,450	692,110
Weighted average number of ordinary shares in issue	34,888,284	25,931,619
Basic and diluted loss per share	1.3	2.7

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 & equipment	Total
	£	£	£	£	£
Cost					
At 1 October 2005	-	98,450	365,797	58,068	522,315
Additions	89,818	25,335	11,464	9,287	135,904
Disposals	-	(65,348)	(269,604)	(20,808)	(355,760)
At 30 September 2006	89,818	58,437	107,657	46,547	302,459
Depreciation					
At 1 October 2005	-	74,489	248,224	43,842	366,555
Provided during the year	-	17,675	69,596	10,207	97,478
Disposals	-	(65,348)	(249,616)	(20,808)	(335,772)
At 30 September 2005	-	26,816	68,204	33,241	128,261
Net book value					
At 30 September 2006	89,818	31,621	39,453	13,306	174,198
At 30 September 2005	-	23,961	117,573	14,226	155,760

NOTES TO THE ACCOUNTS (CONTINUED)

9. INTANGIBLE FIXED ASSETS	Total
Intellectual Property Rights	£
Cost	
At 1 October 2005	233,797
Additions	-
At 30 September 2006	233,797
Amortisation	
At 1 October 2005	215,884
Provided during the year	1,682
At 30 September 2006	217,566
Net book value	
At 30 September 2006	16,231
At 30 September 2005	17,913

10. INVESTMENTS	£
Subsidiary undertakings – Company	
Cost and net book value	
At 1 October 2005 and 30 September 2006	52,004

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 2006	Investment shares at cost 2005
				£	£
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 as applied to industrial inspection	England	100%	1,000	1,000
Baggage 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	
	2006	2005	2006	2005
	£	£	£	£
Stock	64,907	60,822	-	-
Work in progress	18,166	33,823	-	-
	83,073	94,645	-	-

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

12. DEBTORS	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Trade debtors	308,403	266,701	-	-
VAT recoverable	11,559	17,035	11,559	17,035
Other debtors and prepayments	26,960	27,151	18,009	19,719
Corporation tax recoverable	37,283	30,288	-	-
Amounts due from subsidiary undertakings	-	-	3,673,681	3,468,660
	384,205	341,175	3,703,249	3,505,414

NOTES TO THE ACCOUNTS (CONTINUED)

13. CREDITORS

	Group		Company	
	2006	2005	2006	2005
Amounts falling due within one year	£	£	£	£
Bank loan	-	17,307	-	-
Trade creditors	197,384	162,499	30,030	49,177
Deferred income	388,940	175,994	-	-
Taxation and social security	89,235	45,323	-	-
Accruals	66,777	26,233	21,934	23,986
	742,336	427,356	51,964	73,163

At 30 September 2006 accruals included pension contributions amounting to £2,893 (2005: £nil).

Amounts falling due after more than one year

	2006	2005	2006	2005
	£	£	£	£
Other loan	200,000	-	200,000	-

A bank loan of £150,000 was advanced in July 1999 also under the Small Firms Loan Guarantee Scheme. The loan was repaid by 26 quarterly instalments commencing six months after drawdown and was fully repaid by 30 September 2006. Interest was payable at 2½% p.a. over the Royal Bank of Scotland plc base rate.

On 23 March 2006 the Company issued £200,000 9% secured loan stock repayable at par on 16 March 2007 or on the date of a debt or equity fundraising by the Company which raised not less than £300,000 gross, whichever is earlier. This repayment date has since been extended to 31 March 2008. £200,000 of warrants were issued with the loan stock at a subscription price of the lower of 20p per share or the price at which the Company next issues ordinary shares in an open offer, placing or rights issue to ordinary shareholders of the Company.

Loan or instalments thereof are repayable over the following periods:

	2006	2005
	£	£
Within one year or less or on demand	-	17,307
More than one year but not more than two years	200,000	-
More than two years but not more than five years	-	-
	200,000	17,307

14. PROVISIONS FOR LIABILITIES AND CHARGES

	2006	2005
	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	Not provided	Provided	Not provided
	2006	2006	2005	2005
Group	£	£	£	£
Accelerated capital allowances	-	(110,325)	-	(105,336)
Losses	-	(743,546)	-	(687,620)
	-	(853,871)	-	(792,956)

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 losses of £8,242 (2005: £9,223) unprovided in the Company.

Warranty provision

	£
At 1 October 2005	20,500
Charge for the year	1,873
At 30 September 2006	22,373

The warranty provision is made in respect of costs expected to be incurred for sales made during the 2005-06 financial year. Realisation is expected within 12 months.

NOTES TO THE ACCOUNTS (CONTINUED)

15. COMMITMENTS

At 30 September 2005 the Group was committed to making the following payments during the next year in respect of operating leases:

	2006	2005
	£	£
Within one year:		
Equipment rentals	5,600	5,600
Land and buildings	62,990	62,990

At 30 September 2006, there were no capital commitments (2005: £Nil).

16. CALLED UP SHARE CAPITAL

	2006	2005
	£	£
Authorised:		
50,000,000 ordinary shares of 1p each	500,000	500,000
Called up, allotted and fully paid:		
34,948,120 ordinary shares of 1p each	349,481	348,681

On 30 June 2006, the Company made the following issue of shares:

	Nominal Value	Consideration
	£	£
80,000 ordinary shares of 1p each	800	12,000

At 30 September 2006, the following options were outstanding:

- Options granted on 4 May 2000 over 70,000 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 30,000 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 21 May 2002 over 6,000 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 114,000 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.
- Options granted on 25 April 2005 over 80,000 ordinary shares of 1p each, exercisable at any time up to 31 March 2007 at 15p per share.
- Options granted on 25 April 2005 over 30,000 ordinary shares of 1p each, exercisable at any time up to 24 April 2007 at 15p per share.
- Options granted on 31 July 2005 over 80,000 ordinary shares of 1p each, exercisable at any time up to 31 July 2007 at 15p per share.
- Options granted on 30 September 2005 over 433,000 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 15p per share.
- Options granted on 1 July 2006 over 80,000 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 24p per share.

Following the year end, options were granted on 2 October 2006 over 660,000 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 18.25p per share.

17. RESERVES

	Share premium account	Profit and loss account	Total
	£	£	£
Group			
Balance at 1 October 2005	4,660,049	(4,693,236)	(33,187)
Loss attributable to members of the Group	–	(470,450)	(470,450)
Premium on share issue during the year	11,200	–	11,200
Balance at 30 September 2006	4,671,249	(5,163,686)	(492,437)
Company			
Balance at 1 October 2005	4,660,049	(1,519,173)	3,140,876
Profit attributable to members of the Company	–	5,391	5,391
Premium on share issue during the year	11,200	–	11,200
Balance at 30 September 2006	4,671,249	(1,513,782)	3,157,467

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 £5,391 (2005: profit £1,193).

NOTES TO THE ACCOUNTS (CONTINUED)

18. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Opening shareholders' funds	315,494	75,109	3,489,557	2,555,869
Issue of shares – par	800	155,325	800	155,325
Issue of shares – share premium	11,200	777,170	11,200	777,170
(Loss)/profit attributable to members	(470,450)	(692,110)	5,391	1,193
Closing shareholders' funds	(142,956)	315,494	3,506,948	3,489,557

19. POST BALANCE SHEET EVENTS

On 17 November 2006 the Company issued £200,000 9% secured loan stock repayable at par on 31 March 2008 or on the date of a debt or equity fundraising by the Company which raises not less than £500,000 gross, whichever is earlier. £200,000 of warrants were issued with the loan stock at a subscription price of the lower of 20p per share or the price at which the Company next issues ordinary shares in an open offer, placing or rights issue to ordinary shareholders of the Company.

20. 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.

21. 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 14. These are all denominated in sterling.

The Group had no undrawn committed borrowing facilities at 30 September 2006 (2005: £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 2006 and 30 September 2005.

Currency profile

At the year end trade debtors included US\$106,882 (2005: US\$157,070) and trade creditors included US\$nil (2005: US\$13,080). All other financial assets and liabilities are denominated in Sterling.

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