

IMAGE SCAN HOLDINGS PLC

Report and Financial Statements
30 September 2007

IMAGE SCAN HOLDINGS PLC

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IMAGE SCAN HOLDINGS PLC

OFFICERS AND PROFESSIONAL ADVISERS

NON-EXECUTIVE CHAIRMAN

Gilbert Chalk, MBA

EXECUTIVE DIRECTORS

Nicholas D Fox, MSc

Chief Executive Officer

Louise J George, BSc, FCA, ACIS

Finance Director

NON-EXECUTIVE DIRECTORS

Ian S S Johnson

Jerry A Horwood, BSc

COMPANY SECRETARY

Louise J George, BSc, FCA, ACIS

REGISTERED OFFICE

Pera Innovation Park

Nottingham Road

Melton Mowbray

Leicestershire LE13 0PB

PRINCIPAL BANKERS

Royal Bank of Scotland plc

8 South Parade

Nottingham NG1 2JS

SOLICITORS

DMH Stallard

Centurion House

37 Jewry Street

London EC3N 2ER

Browne Jacobson

44 Castle Gate

Nottingham NG1 7BJ

REGISTRARS

Capita Registrars

Northern House

Woodsome Park

Fenay Bridge

Huddersfield HD8 0LA

AUDITORS

Wilkins Kennedy

Bridge House

London Bridge

London SE1 9QR

IMAGE SCAN HOLDINGS PLC

CHAIRMAN'S STATEMENT

INTRODUCTION

I became involved with the Company as a consultant in October 2007 and was appointed to the Board as Chairman on 30 November 2007. Accordingly I report on the Preliminary Results for the year ended 30 September 2007, and take the opportunity to detail the actions that have been taken since the 2007 financial year end and to outline the Board's plans for the future direction of the Company.

FINANCIAL RESULTS

After half year sales at £1,133,000, the second half year proved disappointing with total sales for the year of £1,542,000 (2006: £1,422,000), an increase of 8%. Revenue arose mainly from contracts with British Nuclear Group and Johnson Matthey.

The reduced activity in the second half saw the gross margin fall for the full year to 46% (2006: 50%). Whilst the margins proved strong on the British Nuclear contract, the need to develop the second generation MDXi-NT industrial inspection system for Johnson Matthey and customer-led delays in the installation of that system had a significant impact on the margins and also on additional R&D expenditure during the year.

Overheads rose to £1,522,000 (2006: £1,220,000) mainly reflecting a net increase of 5 staff in the period to June 2007 partly in order to meet the Company's obligations on the Johnson Matthey and British Nuclear Group contracts. These contracts and other developments led to a higher R&D spend of £267,000 (2006: £174,000).

The shortfall from plan in the second half, together with increased overheads resulted in a loss of £761,000 (2006: £470,000). These losses include impairment provisions against formerly capitalised R&D and IPR, and a provision against a prospective bad debt. The loss per share was 1.9p (2006: 1.3p).

During the year the Company raised £3 million by means of a placing, part of which was used to repay £600,000 loan stock. There are warrants outstanding relating to these loans to subscribe for 6 million shares at 15p, 2 million of which expire on 31 March 2008 and the remainder on 30 September 2008. The Company also has an agreed £100,000 overdraft facility with the Royal Bank of Scotland to cover working capital requirements. At 30 September 2007 the net cash balance was £1,531,000 (2006: net debt of £36,000).

OVERVIEW

As indicated above, during the year the Company developed the second generation MDXi-NT industrial inspection system

for installation at Johnson Matthey plants in South Africa and in the UK, and worked closely with British Nuclear Group on developing a new industrial inspection system. In addition, the Company extended functionality of the TPXi portable suspect package inspection system to incorporate airport-style materials discrimination screening, high penetration and multilingual functionality.

SECURITY

The Company worked with the US Government's Transport Security Administration ("TSA") which is the regulator and principal purchasing authority for the USA aviation security sector, to develop a glassesless 3D X-ray baggage inspection system. The need to wear glasses has been perceived as one of the barriers to wide-spread adoption of the technology.

Following the sale in 2006 of an AXIS-3D® system into China for evaluation ahead of the 2008 Olympic Games, our customer has recently placed an order for a further four units to provide heightened security measures for key locations at this year's Beijing Olympics.

Sales of the TPXi system through our Belgium-based distributor, Industrial Control Machines S.A. ('ICM') totalled 15 in 2007 and were followed by a further 14 systems in the first quarter of our current financial year. ICM spent much of 2007 working with their world-wide network of agents to get the TPXi system on the relevant tender lists and to place evaluation units with key potential purchasers. As a result of their marketing activities and the enhanced functionality of the TPXi system, ICM now have a substantial sales lead pipeline. Achievement of the 2008 budget will be dependent on ICM meeting their indicated sales targets. In addition, within the UK, the British Transport Police, who were the first adopters of the technology, have recently placed a £116,000 order for further systems.

INDUSTRIAL

During the year the Company installed the new MDXi-NT system at two Johnson Matthey plants and has been awarded the maintenance contracts for the installed X-ray inspection equipment at Johnson Matthey bases in the UK, the US and South Africa. Annual support revenue arising under these contracts exceeds £100,000 plus sales of spares. Discussions are underway regarding the provision of equipment at future Johnson Matthey production lines.

The Company has made good progress on the British Nuclear Group contract with £450,000 of revenue falling in 2007 and the final £400,000 expected within the first half of 2008. Further opportunities within the nuclear industry are being explored.

CHAIRMAN'S STATEMENT (CONTINUED)

SALES & MARKETING

The Company had high expectations for revenue growth which did not materialise in the second half of 2007. As a result changes have been made to the sales and marketing personnel with Nick Fox taking on the responsibility for the sales area at the Board level and the appointment of Jerry Horwood as a non executive director in November 2007 to provide fresh impetus to this area. I am also pleased to announce the appointment of Vince Deery as Group Sales and Marketing Manager as of 1 January 2008.

Sales to the industrial sector are being managed directly within Europe and through a distributor, X-metrix, within the US. Focus continues to be on the pharmaceutical and automotive industries.

STAFF

During the year Image Scan invested in additional staff with key industrial experience of project management, operations, service and applications. Following the shortfall in orders in the second half, headcount was reduced by 3, and subsequent to the year end there has been a further net reduction of 4 staff. These changes reflect a shift from a technology-driven, R&D organisation to a business focused on its customers and the delivery of commercial solutions. Total overhead savings as a result of these reductions amount to approximately £330,000 in a full year. Current headcount is 16 staff and in addition 2 executive and 3 non-executive directors.

This has been a difficult and challenging year for all concerned and the Board would like to express its appreciation for the loyalty and dedication of our staff.

We believe that we now have a strengthened operational team that should be better able to deliver on the sales opportunities that are clearly available for the Company's leading technology and to deliver projects on time and to budget.

OUTLOOK

On being invited to join the Board of Image Scan, I carried out my own review of the Company's products and this included discussions with some of Image Scan's major customers. My findings were positive with regard to the technical capability of the products and the close working relationships with customers. The challenge is to position the Company to best exploit its leading technology through further focus on its existing and potential customer base. With the support of Jerry Horwood and Ian Johnson on the sales and marketing strategy and of myself on corporate strategy, this step-change is achievable, but the Company still has to demonstrate that it can deliver on its promise. The objective for the current year is to strengthen the

financial position of the Company through increased trading. This achievement will be skewed towards the second half of the year and remains particularly dependent on the Company converting significant order prospects in the homeland security market into firm sales wins. Given that the Company has now reduced its overheads substantially such sales conversion will lead to the fulfilment of this objective.

At the year end the order book stood at £0.8 million (2006: £1.7 million). As stated our sales lead pipeline has some strong prospects both from direct sales and through our distributor activity. The Board will remain focused on increasing turnover through the commercial realisation of our technology whilst retaining a tight control over costs. The Board will also pursue strategic options available for expansion of the Company.

Gilbert Chalk
Chairman

31 January 2008

DIRECTORS' REPORT

THE DIRECTORS PRESENT THEIR ANNUAL REPORT AND THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2007

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.

RESULTS AND DIVIDENDS

The results for the year ended 30 September 2007 show a loss after tax of £761,395 (2006: £470,450). The directors do not recommend the payment of a dividend.

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 2007 ORDINARY SHARES OF 1p EACH	30 SEPTEMBER 2006 ORDINARY SHARES OF 1p EACH
N D Fox	2,531,788	2,485,121
L J George	148,000	100,000
I S S Johnson	142,857	142,857
J A Horwood (appointed 14 November 2007)	–	–
Gilbert Chalk (appointed 30 November 2007)	–	–
R I Higgons (resigned 23 June 2007)	–	–
P J Woods (resigned 2 November 2007)	1,595,238	1,420,571
S X Godber (resigned 13 November 2007)	71,428	71,428

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

Holder	Image Scan Share Option Scheme	No.	Exercise Price	Date of Grant	Vesting Period	Expire/Lapse
N D Fox	Enterprise Management Incentive	80,000	15p	30/09/2005	3 years	30/09/2015
L J George	Enterprise Management Incentive	10,000	51.5p	14/03/2003	3 years	14/03/2013
	Enterprise Management Incentive	80,000	15p	30/09/2005	3 years	30/09/2015
S X Godber ¹	Image Scan 1999 Approved	50,000	25p	04/05/2000	3 years	31/05/2008
	Image Scan 1999 Approved	10,000	50p	30/04/2001	3 years	31/05/2008
	Enterprise Management Incentive	20,000	51.5p	14/03/2003	3 years	31/12/2007
	Enterprise Management Incentive	80,000	15p	30/09/2005	3 years	31/12/2007
R I Higgons ²	Enterprise Management Incentive	80,000	24p	01/07/2006	3 years	23/07/2007
P J Woods ²	Unapproved	80,000	15p	25/04/2005	None	02/11/2007
I S S Johnson	Unapproved	80,000	15p	31/07/2005	None	31/07/2010

The following options were issued during the year:

N D Fox	Enterprise Management Incentive	100,000	18.25p	02/10/2006	3 years	02/10/2016
L J George	Enterprise Management Incentive	100,000	18.25p	02/10/2006	3 years	02/10/2016
S X Godber ¹	Enterprise Management Incentive	100,000	18.25p	02/10/2006	3 years	31/12/2007
R I Higgons ²	Enterprise Management Incentive	100,000	18.25p	02/10/2006	3 years	23/07/2007

Since the year end, the following options have been granted:

J A Horwood	Unapproved	750,000	10p	14/11/2007	3 years	14/11/2017
I S S Johnson	Unapproved	250,000	10p	28/01/2008	3 years	30/11/2017
G J Chalk	Unapproved	500,000	10p	28/01/2008	Over 5 years ³	30/11/2017
N D Fox	Enterprise Management Incentive	750,000	15p	28/01/2008	Over 5 years ³	30/11/2017
L J George	Enterprise Management Incentive	750,000	15p	28/01/2008	Over 5 years ³	30/11/2017

¹ Following his departure from the Company, the options held by Dr Godber under the Enterprise Management Incentive Share Option Scheme have lapsed and those held under the Image Scan 1999 Approved Share Option Scheme will lapse on 31 May 2008.

² The options held by Mr Higgons and Mr Woods have lapsed following their departure from the Company.

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

DIRECTORS' REPORT (CONTINUED)

The share price high and low during the year were 34.5p and 6.25p per share respectively. The closing mid-market price was 7.375p per share.

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	7.27	4,874,999
Welsh Industrial Investment Trust plc	5.39	3,000,000
A P Stirling	4.36	1,524,166
David Allenby	6.11	3,405,175
Calculus Capital	3.29	1,833,333

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 £266,813 (2006: £174,417).

FIXED ASSETS

The intangible assets as detailed in note 9 are included at a net book value of £Nil (2006: £16,231).

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 2007, trade creditors represented 53 days purchases (2006: 59 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

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and

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 Mr Chalk, Mr Johnson and Mr Horwood. The Company's Nominations Committee comprises Mr Chalk, Mr Johnson and Mr Fox. All three committees are under the chairmanship of Mr Chalk.

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 31 January 2008
Signed on behalf of the Board

Louise 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 2007 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 20. 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 2007 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

31 January 2008

GROUP PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 SEPTEMBER 2007

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	Note	2007 £	2006 £
TURNOVER	2	1,541,862	1,422,272
Cost of sales		(830,327)	(705,082)
Gross profit		711,535	717,190
Administrative expenses		(1,521,716)	(1,219,813)
OPERATING LOSS	3	(810,181)	(502,623)
Interest receivable		31,191	4,016
Interest payable	5	(45,236)	(9,126)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(824,226)	507,733
Taxation	6	62,831	37,283
RETAINED LOSS FOR THE FINANCIAL YEAR	17, 18	(761,395)	(470,450)
Profit and loss account brought forward		(5,163,686)	(4,693,236)
Profit and loss account carried forward		(5,925,081)	(5,163,686)
		Pence	Pence
Earnings per share	7		
Basic and diluted loss per share		1.9	1.3

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 2007

	Note	2007 £	2006 £
FIXED ASSETS			
Tangible fixed assets	8	110,651	174,198
Intangible fixed assets	9	–	16,231
		110,651	190,429
CURRENT ASSETS			
Stock and work in progress	11	289,180	83,073
Debtors	12	460,984	384,205
Cash at bank and in hand		1,531,269	164,046
		2,281,433	631,324
CREDITORS: amounts falling due within one year	13	(485,810)	(742,336)
NET CURRENT ASSETS/(LIABILITIES)		1,795,623	(111,012)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,906,274	79,417
CREDITORS: amounts falling due after more than one year	13	–	(200,000)
Provisions for liabilities and charges	14	(28,967)	(22,373)
		1,877,307	(142,956)
CAPITAL AND RESERVES			
Called up share capital	16	549,481	349,481
Share premium account	17	7,252,907	4,671,249
Profit and loss account	17	(5,925,081)	(5,163,686)
EQUITY SHAREHOLDERS' FUNDS	18	1,877,307	(142,956)

These financial statements were approved by the Board of Directors on 31 January 2008.

Signed on behalf of the Board of Directors

N D FOX
Chief Executive Officer

L J GEORGE
Finance Director

COMPANY BALANCE SHEET

30 SEPTEMBER 2007

Annual Report and Accounts 2007

	Note	2007 £	2006 £
FIXED ASSETS			
Investments	10	52,004	52,004
CURRENT ASSETS			
Debtors	12	4,833,314	3,703,249
Cash at bank and in hand		1,484,231	3,659
		6,317,545	3,706,908
CREDITORS: amounts falling due within one year	13	(74,915)	(51,964)
NET CURRENT ASSETS		6,242,630	3,654,944
TOTAL ASSETS LESS CURRENT LIABILITIES		6,294,634	3,706,948
CREDITORS: amounts falling due after more than one year	13	–	(200,000)
		6,294,634	3,506,948
CAPITAL AND RESERVES			
Called up share capital	16	549,481	349,481
Share premium account	17	7,252,907	4,671,249
Profit and loss account	17	(1,507,754)	(1,513,782)
EQUITY SHAREHOLDERS' FUNDS	18	6,294,634	3,506,948

These financial statements were approved by the Board of Directors on 31 January 2008.

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 2007

	Note	2007 £	2006 £
Net cash outflow from operating activities	(i)	(1,158,482)	(146,278)
Returns on investments and servicing of finance			
Interest received		31,191	4,016
Interest payable	5	(45,236)	(9,126)
		(14,045)	(5,110)
Taxation			
Corporation tax recovered		34,035	30,288
Capital expenditure and financial investment			
Purchase of tangible fixed assets	8	(76,692)	(135,904)
Receipts from sales of tangible fixed assets	8	749	72,500
		(75,943)	(63,404)
Net cash outflow		(1,214,435)	(184,504)
Financing			
Issue of ordinary share capital		2,781,658	12,000
Bank loans repaid	13	–	(17,307)
Other loans advanced		400,000	200,000
Other loans repaid		(600,000)	–
		2,581,658	194,693
Increase in cash in the year	(ii), (iii)	1,367,223	10,189

NOTES TO THE CASH FLOW STATEMENT

YEAR ENDED 30 SEPTEMBER 2007

Annual Report and Accounts 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
Net cash outflow from operating activities	(1,158,482)	(146,278)

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
Change in net funds/(debt) resulting from cash flows	1,567,223	(172,504)
Net (debt)/funds at 1 October	(35,954)	136,550
Net funds/(debt) at 30 September	1,531,269	(35,954)

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 £
Operating loss is stated after charging:		
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 £
Directors' emoluments		
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	–
	340,058	265,718

	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	79,098	68,760
Pension contributions	6,750	6,130
	85,848	74,890

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

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

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	£	£
Current tax		
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)	–
Total current tax	62,831	37,283
Deferred tax		
Current year charge	–	–
Total deferred tax (note 14)	–	–
	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)
Being the effects of:		
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)
Actual tax credit for the year (note 6a)	(66,079)	(37,283)
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 £
Cost					
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)
At 30 September 2007	37,920	72,222	107,657	77,590	295,389
Depreciation					
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)
At 30 September 2007	–	44,960	93,197	46,581	184,738
Net book value					
At 30 September 2007	37,920	27,262	14,460	31,009	110,651
At 30 September 2006	89,818	31,621	39,453	13,306	174,198

NOTES TO THE ACCOUNTS (CONTINUED)

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

10. INVESTMENTS	£
Subsidiary undertakings – Company	
Cost and net book value	
At 1 October 2006 and 30 September 2007	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	
				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	-	-	-
	289,180	83,073	-	-

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
	460,984	384,205	4,833,314	3,703,249

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
	485,810	742,336	74,915	51,964

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
	–	200,000

14. PROVISIONS FOR LIABILITIES AND CHARGES

	2007	2006
	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
	2007	2007	2006	2006
	£	£	£	£
Group				
Accelerated capital allowances	–	(57,859)	–	(110,325)
Losses	–	(897,915)	–	(743,546)
	–	(955,774)	–	(853,871)

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
At 30 September 2007	28,967

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
	£	£
Authorised:		
100,000,000 ordinary shares of 1p each	1,000,000	500,000
Called up, allotted and fully paid:		
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 Unapproved Scheme	14/03/2003	79,000	51.5p	3 years	14/03/2013
Enterprise Management Incentive	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 ⁴	30/11/2017
Enterprise Management Incentive	28/01/2008	1,500,000	15p	Over 5 years ⁴	30/11/2017

⁴ 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 £
Group			
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
Balance at 30 September 2007	7,252,907	(5,925,081)	1,327,826
Company			
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
Balance at 30 September 2007	7,252,907	(1,507,754)	5,745,153

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
Closing shareholders' funds	1,877,307	(142,956)	6,294,634	3,506,948

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.

NOTICE OF MEETING

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the shareholders will be held at 11.00 am on Thursday 13 March 2008 at the offices of Seymour Pierce, 20 Old Bailey, London, EC4M 7EN for the purpose of considering and, if thought fit, passing the following resolutions as to resolutions 1-6 as Ordinary Resolutions and as to resolution 7 as a Special Resolution.

ORDINARY RESOLUTIONS

1. To receive and adopt the financial statements for the year ended 30 September 2007 together with the reports of the directors and auditors thereon.
2. To re-elect as a director J Horwood who retires in accordance with the Company's Articles of Association.
3. To re-elect as a director G Chalk who retires in accordance with the Company's Articles of Association.
4. To re-elect as a director I Johnson who retires by rotation and offers himself for re-election.
5. To re-appoint Wilkins Kennedy as auditors and to authorise the directors to fix their remuneration.
6. That for the purposes of section 80 Companies Act 1985 ("the Act") the Directors be hereby generally and unconditionally authorised to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal amount of the authorised but unissued equity share capital of the Company provided that this authority shall expire (unless previously varied or revoked) on the fifth anniversary of then passing of this resolution save that the Directors may allot relevant securities after the date of such expiry pursuant to an offer or agreement made by the Company prior to that date.

SPECIAL RESOLUTION

7. To authorise and empower the directors, pursuant to Section 95 of the Companies Act 1985, to allot equity securities (as defined in Section 94(2) of the Act) pursuant to the authority conferred by resolution 5 as if Section 89(1) of the Act did not apply to any such allotment, provided that such power shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount being ten percent of the Company's issued share capital as shown by the latest published annual accounts of the Company and shall expire on the date which is fifteen months after the date on which this resolution is passed or, if earlier, at the conclusion of the next annual general meeting of the Company, save that the directors be entitled to make at any time prior to the expiry of the power hereby conferred any offer or agreement which would or might require securities to be allotted after expiry.

By order of the board

L J George
Company Secretary

31 January 2008

Registered Office:
Pera Innovation Park
Nottingham Road
Melton Mowbray
Leicestershire LE13 0PB

Notes:

1. A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote on his or her behalf. A proxy need not be a member of the Company.
2. Completion and return of a form of proxy does not preclude a member from attending and voting at the meeting in person should he or she so wish.
3. A form of proxy is enclosed and to be valid must be completed and returned so as to reach the Registrar of the Company, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, together with a letter or power of attorney or other written authority, if any, under which it is signed or a notarially certified or office copy of such power (written authority) not less than forty eight hours before the time fixed for holding the meeting or any adjournment thereof.
4. To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent RA10 not less than forty eight hours before the time fixed for holding the meeting or any adjournment thereof. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through the CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members, and those CREST Members who have appointed voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST Manual. We may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertified Securities Regulations 2001. In any case your proxy form must be received by the company's registrar no later than forty eight hours before the time fixed for holding the meeting or any adjournment thereof.
5. Copies of the directors' service contracts will be available for inspection at the Registered Office of the Company during normal business hours.

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