

**IMAGE SCAN HOLDINGS PLC
("Image Scan" or the "Company")**

**PRELIMINARY RESULTS
FOR THE YEAR ENDED 30 SEPTEMBER 2006**

Image Scan, a world leader in the field of real-time 3D and 2D x-ray imaging for the 'Homeland Security' and 'Industrial Inspection' markets, announces preliminary results for the year ended 30 September 2006, which reflect significantly increased sales, reduced losses and an overall improvement in gross margin.

KEY POINTS

- Five fold increase in the year end order book to £1.7m (2005: £326,000);
- Sales up 69% to £1,422,000 (2005: £843,000);
- Improved gross margin of 50% (2005: 47%);
- Loss on ordinary activities after taxation reduced to £470,000 (2005: £692,000);
- Total order intake in 2006 of £2.8m;
- Growing maintenance and spares contracts represent a new, repeat income stream;
- Signed two distribution and a licence agreement within the security sector;
- Progress towards profitability continues.

Peter Woods, Chairman of Image Scan, commented:

"We have made significant advances in the commercialisation of our technology and the conversion of sales opportunities. At the year end, the order book stood at £1.7m (2005: £326,000). Future prospects look strong with a substantial sales leads pipeline resulting from new distribution and licence agreements and increased marketing activity.

The Board anticipates another significant increase in annual turnover, and continuing progress towards profitability in 2007."

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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.

Overheads of £1,220,000 (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.

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 lead pipeline is 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.

Peter Woods

Chairman

12 January 2007

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

(i) EARNINGS PER SHARE	2006 Pence	2005 Pence
Loss for the year	<u>470,450</u>	<u>692,110</u>
Weighted average number of ordinary shares in issue	<u>34,888,284</u>	<u>25,931,619</u>
Basic and diluted loss per share	<u>1.3</u>	<u>2.7</u>

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.

CONSOLIDATED BALANCE SHEET
30 September 2006

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

CONSOLIDATED CASH FLOW STATEMENT	Note	2006	2005
Year ended 30 September 2006		£	£
Net cash outflow from operating activities	(ii)	(146,278)	(738,032)
Returns on investments and servicing of finance			
Interest received		4,016	5,580
Interest payable		(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		(135,904)	(70,764)
Receipts from sales of tangible fixed assets		72,500	1,796
Purchase of intangible fixed assets		-	-
		(63,404)	(68,968)
Net cash outflow		(184,504)	(791,302)
Financing			
Issue of ordinary share capital		12,000	932,495
Bank loans repaid		(17,307)	(37,363)
Other loans advanced		200,000	-
		194,693	895,132
Increase in cash in the year	(iii), (iv)	10,189	103,830

ii) 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)

iii) ANALYSIS OF NET FUNDS	2005 £	2006 Cash flow £	Other non-cash changes £	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)
	<u>136,550</u>	<u>(172,504)</u>	<u>-</u>	<u>(35,954)</u>

iv) 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 increased debt	(200,000)	-
Cash outflow from decrease in debt	17,307	37,363
Change in net (debt)/funds resulting from cash flows	<u>(172,504)</u>	<u>141,193</u>
Net funds/(debt) at 1 October	<u>136,550</u>	<u>(4,643)</u>
Net (debt)/funds at 30 September	<u><u>(35,954)</u></u>	<u><u>136,550</u></u>

Notes to the Preliminary Statement

1. The financial information set out above does not constitute the Company's statutory accounts for the years ended 30 September 2006 and 30 September 2005 but is derived from those accounts. Statutory accounts for 2005 have been delivered to the Registrar of Companies, and those for 2006 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

The financial information has been prepared in accordance with the accounting policies adopted for the 2005 accounts.

2. It is intended that the financial statements for the year ended 30 September 2006 will be posted to shareholders in February 2007 and will also be available thereafter at the registered office, Pera Innovation Park, Nottingham Road, Melton Mowbray, Leicestershire, LE13 0PB.
3. The Annual General Meeting will be held on 23 March 2007, at the offices of DMH Stallard, Centurion House, 37 Jewry, London, EC3N 2ER.