

Report and Financial Statements for the year ended 30 September 2003



CLEAR

VISION



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IMAGE SCAN HOLDINGS PLC

CHAIRMAN AND CHIEF EXECUTIVE REVIEW

INTRODUCTION

This year has seen the completion of an intensive development programme culminating in the first “active use” sales of our security products. Going forward our systems hardware improvements will enable us to quickly meet customer requirements providing innovative and cost effective solutions. The Company’s prime focus over the next 12 months will be to turn its current product range into sales. Although our initial focus is on sales of the AXIS-3D® systems in the security sector, early interest in industrial inspection indicates that significant opportunities exist in a market where we believe there is no comparable competition. It is against this backdrop that we are pleased to present the results of Image Scan for the financial year ended 30th September 2003.

OPERATIONS REVIEW

The Company’s business is underpinned by a common set of technologies which enables it to operate in two primary sectors: security and industrial inspection, using a core product set, configured for specific applications. We have



USB 2 Board – part of the modularisation of hardware

made significant progress, both in terms of technology development and market-place acceptance. Work within the medical sector, particularly relating to the development of a unique cervical smear screening system, continues to progress well. Although we are still approximately two years away from commercial productivity in the medical sector, the initial reaction from experts within the field has been encouraging.

The Company has used the previous twelve months to refine its core technology for use in a series of clearly defined products consisting of X-ray cameras, image acquisition and processing software. The most significant of these activities has been the modularisation of our hardware components to a common interface for all cameras and detectors based on in-house, custom designed electronics. This has produced an effective ‘tool-box’ of hardware options that can be configured rapidly, with minimal technical risk, to meet new applications as they arise.



3DX-Camera™ frame and detectors

SECURITY SECTOR

Our principal hardware products within the security sector are the 2DX-Camera™ and 3DX-Camera™ systems which respectively form the image acquisition components for advanced 2D and 3D X-ray security screening units. Within this sector our products address the regulated aviation and the substantially larger unregulated corporate and secure building markets. Acceptance in the aviation sector will provide a strong basis for approval within the corporate and secure building arena. It is the Company’s intention to supply these products, and their associated software systems, to existing players in the security sector either on a license or an OEM basis. As reported previously, our first push into this market will be through our alliance partner, Rapiscan, in accordance with our manufacturing and marketing agreement in respect of 3D cameras for conventional baggage screening. Progress to date has been significant:

CHAIRMAN AND CHIEF EXECUTIVE REVIEW (CONTINUED)

- Expected engineering sign-off and CE approval for the Rapiscan version of the AXIS-3D® system followed by the planned international launch in January 2004.
- Significant pre-launch marketing of the product has been undertaken by both companies with successful demonstrations to selected customers and exhibitions in the UK, USA, Australasia, CIS, France, Greece and the Middle East with additional demonstrations in Dubai, South Africa and India planned for the next couple of months.
- Sales of equipment for active service have been achieved to the British and Romanian governments.

Having now established a route to market for our 3D X-ray camera, the Company is also actively marketing its capabilities in the supply of our advanced 2DX-Camera™: the 2D version of the 3DX-Camera™. We believe that this market will result in some exciting additional sales opportunities for the current and future years. Initiatives already taken include:

- Recent proposals for the supply of 2DX-Cameras™ (including imaging software) to two additional prospective customers.
- Completion of a commercially funded development programme to produce an 'application specific' 2D camera for incorporation into a customer's existing product range. Following the successful prototype development, the engineering is scheduled to commence in late 2004 with product release anticipated some six to nine months later.

INDUSTRIAL

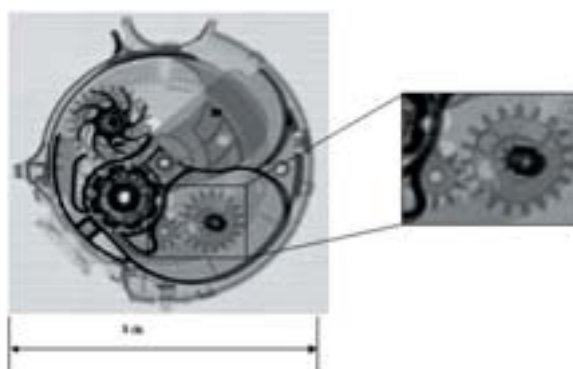
This year has seen the launch of the Company's new DEX™ industrial inspection system at the international exhibition Vision 2003 held in Stuttgart during October. The reaction from this event and subsequent marketing initiatives lead us to believe that the Company's X-ray products are currently unique in the market place. It is believed that the DEX™ unit, designed for high speed, high resolution in-line X-ray

inspection will form the basis for the Company's industrial inspection products.

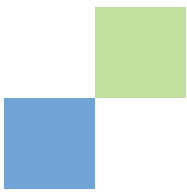


DEX™ demonstration unit

In order to be very focused on relevant markets where real benefits are easily demonstrable and potentially significant to the customer, our initial marketing for the DEX™ camera has concentrated on the pharmaceutical sector. We have in a relatively short time-frame commenced work with two customers requiring X-ray inspection of blister packs and these collaborations are anticipated to move towards funded feasibility trials during the second quarter of 2004. Quotations for more conventional inspection units used for tasks such as screening of waste, which are based on the 2DX-Camera™, have been issued in recent months with the first commercial sales also anticipated for early 2004. Significant quotations and enquiries generated since the product launch are being pursued at present.



Example of an all plastic GlaxoSmithKline Diskus® asthma device



CHAIRMAN AND CHIEF EXECUTIVE REVIEW (CONTINUED)

We are also pleased to announce the appointment of our first agent for industrial sales, Mr Massimo Bonfante, who will represent the Company's products in Italy. Following an initial sales tour in Italy in November this year, the Company is now addressing a number of active leads.

Our patented VIXion® system will be used for rapid and cost effective customer evaluations to enable prompt turnaround from enquiry to quotation.

FUTURE

The Company's prime focus over the next twelve months is to turn its current product range into sales, although as an innovative company we are continually looking at the enhancement of our technology portfolio through new focused development programmes. The two most significant new areas of interest are:

Security

The Company is in discussion with a number of potential collaboration partners to combine its advanced X-ray imaging systems with complementary technologies (such as Thermal Neutron Analysis, X-ray scatter, RF detection and novel vapour and trace systems) to produce hybrid systems that can address the stated Transport Security Administration's (TSA) objectives of improving the automation of threat detection for both carry-on and checked baggage.

Industrial

The successful introduction in modularisation of our hardware over the last six months has ensured that we have a minimal risk and rapid approach to meeting customers' application requirements. However, within the industrial sector in particular, there is a similar need to have the same modularisation and rapid development tools for our software solutions. Taking a novel approach to systems development, the Company has embarked on the creation of a rapid development tool for our software applications, to be called *XeroPoint*.

On a more general marketing note, the Company has been disappointed at the slow and often unfocused nature of regulatory driven third party trials of our security technology in the aviation sector. To address this, the Board has agreed to initiate its own *Cost Benefit Analysis* (CBA) which will objectively compare and enumerate the benefits of 2D versus 3D X-ray imaging system. Although an internal initiative, we believe, that the CBA will be endorsed by

aviation sector regulators both here in the UK and equally importantly within the USA. Our discussions with the Department for Transport lead us to conclude that they are positive about the technology and keen to support it. We have also been advised that 3D technology has been placed on a "fast track" development and implementation programme within the TSA. The CBA, which started in November 2003, is anticipated to be completed in April 2004 and is designed to quantitatively demonstrate the improvements in probability of reducing false alarms, probability of detection and the improvement in time to operator competency (effectively how long it takes to train a new screener) of the AXIS-3D® system.

STAFFING

This year has seen a number of staff changes both at Board and operational level. The non-executive directors Mr Savage, Mr Robertson and Mr Tipple (Chairman) have resigned their seats on the Board and Mr Johnson has taken on the role of interim non-executive Chairman. This will allow the Company time to find new candidates to fill this role and recruit a third non-executive Board member.

We are pleased to announce the addition of Mr Gibbs as a full time member of the Executive board, taking on the joint role of Chief Financial and Operating Officer. This combined role will release Mr Fox, Chief Executive Officer, from some operational duties and enable him to focus on the key role of market development.

At the operational level, our staffing remains relatively constant, although roles have changed to reflect the Company's increased emphasis on product marketing and sales delivery. Although staff numbers will be governed by actual sales levels it is anticipated that there will be a modest increase in staffing over the next twelve months, as the commercialisation of our product range commences.

We would like to thank the staff for all their efforts, dedication and flexibility shown over the last year.

FINANCIAL RESULTS AND ACCOUNTING POLICY

Sales for the year were marginally ahead of 2002 at £510,000. As a consequence of the sales mix in the year, the gross margin at 23.7% was significantly lower than the 47.7% recorded in 2002. The gross profit is not expected to remain at the low 2003 level as commercial sales in both sectors are due to commence in the current year.

CHAIRMAN AND CHIEF EXECUTIVE REVIEW (CONTINUED)

Last year we reported that overheads in the second half of 2002 were £450,000 giving an annual run-rate of £900,000. In this year overheads have risen to £961,000. This increase is a direct result of the use of an interim manager to secure rapid internal engineering sign off on the AXIS-3D® system plus the support costs of the Rapiscan pre-launch promotion campaign.

Included in overheads is the internally funded research and development expenditure which is £150,000 (2002: £118,000). All research and development costs are expensed as incurred in accordance with the group accounting policy.

The loss for the year, after R&D tax credits amounts to £788,000 (2002: £603,000), being a loss per share of 4.9p (2002: 4.0p). In accordance with current policy there is no dividend.

The balance sheet shows a net increase in tangible fixed assets of £113,000 being primarily the DEX industrial unit and the VIXion® system. The remaining elements of the balance sheet reflect the lower second half activity at the sales level with reduced working capital creating positive cash flows of £508,000 to offset the loss in the year. After accounting for the bank loan of £92,000 (2002: £128,000) the net cash sum at the year end was £118,000 (2002: £450,000).

Shareholders funds at £283,000 (2002: £1,071,000) received a boost on 29th October when shareholders at an EGM

approved a placing which raised £1,080,000 at 35p per share. The net sum of £986,885 has increased cash balances accordingly, and there are now 19,335,630 shares in issue. The shareholder circular outlined the reasons for the placing and set out the Board's plans for this current fiscal year.

With the Rapiscan AXIS-3D® product launch now set for early January and normal industry lead times of eight to ten weeks it is unlikely that significant sales revenue will be forthcoming until the second half of 2004. Whilst industrial sales prospects are looking promising, the Board's view is that expectations for the full year will depend on the rapidity of the market take up of the AXIS-3D® system in the Rapiscan product, and that this is unlikely to be ascertained until the half year.

To mitigate the effect of possible slippage, we have embarked on an aggressive marketing campaign to attract new security based OEM customers requiring new and upgraded 2D systems. We expect to have positive results to announce in this regard in the early part of 2004.

I S S Johnson
Chairman

N D Fox
Chief Executive Officer
15 December 2003



AXIS 3D® Image courtesy of Rapiscan Security Products Ltd



OFFICERS AND PROFESSIONAL ADVISORS

NON-EXECUTIVE CHAIRMAN

Nigel J Tipple, BA (Oxon) *(resigned 21 November 2003)*

EXECUTIVE DIRECTORS

Nicholas D Fox, MSc *Chief Executive Officer*
Raymond J Gibbs, BA, FCA *Chief Financial and Operating Officer*
Simon X Godber, PhD *Technical Director*

NON-EXECUTIVE DIRECTORS

Ian S S Johnson *(appointed interim Chairman 21 November 2003)*
Iain M Robertson, MA *(resigned 23 June 2003)*
Robert Savage, BSc *(resigned 23 June 2003)*

COMPANY SECRETARY

Louise J George, BSc, ACA

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

Stallard Solicitors
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

Deloitte & Touche LLP
Nottingham

DIRECTORS' REPORT

THE DIRECTORS PRESENT THEIR ANNUAL REPORT AND THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2003

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 and Chief Executive review set out in pages 2 to 5. The Company acts as a holding company.

RESULTS AND DIVIDENDS

The results for the year ended 30 September 2003 show a loss of £788,299 (2002: £602,859). The directors do not recommend the payment of a dividend.

DIRECTORS AND THEIR INTERESTS

The present directors are listed on page 6. The directors' interests, all of which were beneficial, in the shares of the Company at the year end were as follows:

| | 30 SEPTEMBER 2003 ORDINARY SHARES OF 1p EACH | 30 SEPTEMBER 2002 ORDINARY SHARES OF 1p EACH |
|---------------|--|--|
| N J Tipple | - | - |
| N D Fox | 2,270,835 | 2,270,835 |
| S X Godber | - | - |
| I S S Johnson | - | - |
| I M Robertson | 5,000 | 5,000 |
| R J Gibbs | 60,000 | - |
| R Savage | 2,000 | 2,000 |

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

N J Tipple 100,000 ordinary shares of 1p each at a price of 50p per share exercisable at any time up to 20 September 2004.

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.

I M Robertson 20,000 ordinary shares of 1p each at a price of 50p per share exercisable at any time up to 20 September 2004 and 45,455 ordinary shares of 1p each at a price of 55p per share exercisable at any time up to 22 January 2005. These lapsed on 23 June 2003 as a result of the director's resignation.

R Savage 25,000 ordinary shares of 1p each at a price of 50p per share exercisable at any time up to 1 August 2004. These lapsed on 23 June 2003 as a result of the director's resignation.

I S S Johnson 45,455 ordinary shares of 1p each at a price of 55p per share exercisable at any time up to 22 January 2005.

R J Gibbs 76,923 ordinary shares of 1p each at a price of 65p per share exercisable at any time up to 25 April 2005.

The following share options were granted during the year:

S X Godber 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. The options are exercisable at any time after three years but no later than ten years from the date of grant.

On 29 October 2003 R J Gibbs purchased 285,000 ordinary shares of 1p each at a price of 35p per share in Image Scan Holdings plc. There have been no other changes in directors' shareholdings since the year end. No directors exercised share options during the year.

The share price high and low during the year were 64.5p and 39p per share respectively. The closing mid-market price was 40p 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 | 10.44 | 2,018,964 |
| 3PC Investment Trust plc | 8.33 | 1,610,394 |
| AiM VCT 2 plc | 8.33 | 1,610,394 |
| Welsh Industrial Investment Trust plc | 6.05 | 1,169,000 |
| A P Stirling | 4.51 | 871,666 |
| Newinnhall Trust Limited | 4.28 | 826,666 |
| Gresham House No 1 Pension Scheme | 4.01 | 775,000 |
| Tilney Investment | 3.70 | 715,000 |

3PC Investment Trust plc and AiM VCT 2 plc are under common ownership of ISIS Asset Management, together with ISIS AiM Growth, which holds 143,000 shares. This gives ISIS Asset Management an overall holding of 17.40%.

SHARE TRANSACTIONS

On 29 October 2003, the Company issued 3,085,427 ordinary shares of 1p each. Details of this issue is given in note 16 to the accounts.

RESEARCH AND DEVELOPMENT

The Group was focused in the year on research and development, with considerable technical staff effort applied to completing key product offerings ready for commercial launch in 2004. Costs of this in the year amounted to £150,211 (2002: £117,654).

FIXED ASSETS

The intangible assets as detailed in note 9 are included at a net book value of £178,310 (2002: £192,460). 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 2003, trade creditors represented 88 days purchases (2002: 38 days).

DIRECTORS' REPORT (CONTINUED)

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 makes minimal sales and purchases in foreign currency and therefore the foreign currency exchange risk is considered to be negligible.

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.

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 has 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.

AUDITORS

On 1 August 2003, Deloitte & Touche, the Company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

L J George
Company Secretary
15 December 2003



INDEPENDENT AUDITORS' REPORT

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 2003 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 auditors' 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

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 with the Company and other members of the Group is not disclosed.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman and Chief Executive review

and the directors' report. We consider the implications for our report if we become aware of an apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards 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 of the state of affairs of the Company and the Group as at 30 September 2003 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and
Registered Auditors
Nottingham

15 December 2003

GROUP PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 SEPTEMBER 2003

| | Note | 2003 £ | 2002 £ |
|---|--------|--------------|--------------|
| TURNOVER | 2 | 509,750 | 502,697 |
| Cost of sales | | (389,016) | (262,840) |
| Gross profit | | 120,734 | 239,857 |
| Administrative expenses | | (960,507) | (875,575) |
| OPERATING LOSS | 3 | (839,773) | (635,718) |
| Interest receivable | | 8,219 | 13,304 |
| Interest payable | 5 | (7,164) | (42,193) |
| LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION | | (838,718) | (664,607) |
| Taxation | 6 | 50,419 | 61,748 |
| LOSS ON ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | | (788,299) | (602,859) |
| Dividends | | - | - |
| RETAINED LOSS FOR THE FINANCIAL YEAR | 17, 18 | (788,299) | (602,859) |
| Retained reserves brought forward | | (2,002,344) | (1,399,485) |
| Revenue reserves carried forward | | (2,790,643) | (2,002,344) |
| | | Pence | Pence |
| Earnings per share | 7 | | |
| Basic and diluted loss per share | | 4.9 | 4.0 |

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 2003

| | Note | 2003 £ | 2002 £ |
|--|------|-------------|-------------|
| FIXED ASSETS | | | |
| Tangible fixed assets | 8 | 222,259 | 109,050 |
| Intangible fixed assets | 9 | 178,310 | 192,460 |
| | | 400,569 | 301,510 |
| CURRENT ASSETS | | | |
| Stock and work in progress | 11 | 26,957 | 69,931 |
| Debtors | 12 | 127,717 | 370,220 |
| Short term investments | | - | 42,924 |
| Cash at bank and in hand | | 209,655 | 535,197 |
| | | 364,329 | 1,018,272 |
| CREDITORS: amounts falling due within one year | 13 | (427,251) | (157,664) |
| NET CURRENT ASSETS / (LIABILITIES) | | (62,922) | 860,608 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | |
| CREDITORS: amounts falling due after more than one year | 13 | (54,670) | (90,842) |
| | | 282,977 | 1,071,276 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 16 | 162,502 | 162,502 |
| Share premium account | 17 | 2,911,118 | 2,911,118 |
| Profit and loss account | 17 | (2,790,643) | (2,002,344) |
| EQUITY SHAREHOLDERS' FUNDS | 18 | 282,977 | 1,071,276 |

These financial statements were approved by the Board of Directors on 15 December 2003
Signed on behalf of the Board of Directors

N D FOX
Director

COMPANY BALANCE SHEET

30 SEPTEMBER 2003

| | Note | 2003 £ | 2002 £ |
|---|------|-----------|-----------|
| FIXED ASSETS | | | |
| Investments | 10 | 52,004 | 52,004 |
| CURRENT ASSETS | | | |
| Debtors | 12 | 3,163,585 | 2,666,518 |
| Short term investments – deposit account | | - | 42,924 |
| Cash at bank and in hand | | 39,884 | 428,214 |
| | | 3,203,469 | 3,137,656 |
| CREDITORS: amounts falling due within one year | 13 | (165,754) | (102,898) |
| NET CURRENT ASSETS | | 3,037,715 | 3,034,758 |
| | | 3,089,719 | 3,086,762 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 16 | 162,502 | 162,502 |
| Share premium account | 17 | 2,911,118 | 2,911,118 |
| Profit and loss account | 17 | 16,099 | 13,142 |
| EQUITY SHAREHOLDERS' FUNDS | 18 | 3,089,719 | 3,086,762 |

These financial statements were approved by the Board of Directors on 15 December 2003

Signed on behalf of the Board of Directors

N D FOX
Director

CONSOLIDATED CASH FLOW STATEMENT

YEAR ENDED 30 SEPTEMBER 2003

| | Note | 2003 £ | 2002 £ |
|---|-------------|------------------|----------------|
| Net cash outflow from operating activities | (i) | (237,723) | (797,227) |
| Returns on investments and servicing of finance | | | |
| Interest received | | 8,219 | 13,304 |
| Interest payable | 5 | (7,164) | (42,193) |
| | | 1,055 | (28,889) |
| Taxation | | | |
| Corporation tax recovered | | 97,389 | - |
| Capital expenditure and financial investment | | | |
| Purchase of tangible fixed assets | 8 | (189,360) | (74,651) |
| Purchase of intangible fixed assets | 9 | (3,655) | (16,291) |
| | | (193,015) | (90,942) |
| Net cash outflow before management of liquid resources | (ii) | (332,294) | (917,058) |
| Management of liquid resources | | | |
| Withdrawal of short term deposits | | 42,924 | 370,544 |
| Financing | | | |
| Issue of ordinary share capital | 18 | - | 1,649,957 |
| Bank loans repaid | 13 | (36,172) | (37,363) |
| Other loans repaid | | - | (516,840) |
| | | (36,172) | 1,095,754 |
| (Decrease) / increase in cash in the year | (ii), (iii) | (325,542) | 549,240 |

NOTES TO THE CASH FLOW STATEMENT

YEAR ENDED 30 SEPTEMBER 2003

| i) RECONCILIATION OF OPERATING CASH FLOWS | 2003 £ | 2002 £ |
|---|------------------|------------------|
| Operating loss | (839,773) | (635,718) |
| Depreciation | 76,151 | 53,893 |
| Amortisation | 17,805 | 17,500 |
| Research and development written off | - | 71,345 |
| Decrease / (increase) in stock | 42,974 | (48,934) |
| Decrease / (increase) in debtors | 195,533 | (279,262) |
| Increase in creditors | 269,587 | 23,949 |
| Net cash outflow from operating activities | (237,723) | (797,227) |

| ii) ANALYSIS OF NET DEBT | 2002 £ | 2003 Cash flow £ | Other non-cash charges £ | 2003 £ |
|---------------------------|-----------|------------------------|--------------------------------|-----------|
| Cash at bank and in hand | 535,197 | (325,542) | | 209,655 |
| Debt due within one year | (37,363) | 36,172 | (36,172) | (37,363) |
| Debt due after one year | (90,841) | - | 36,172 | (54,669) |
| | | 36,172 | | |
| Current asset investments | 42,924 | (42,924) | | - |
| | 449,917 | (332,294) | - | 117,623 |

| iii) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN THE FUNDS / (DEBT) | 2003 £ | 2002 £ |
|---|------------------|----------------|
| (Decrease) / increase in cash in the period | (325,542) | 549,240 |
| Cash outflow from decrease in debt | 36,172 | 554,203 |
| Cash outflow from decrease in liquid resources | (42,924) | (370,544) |
| Change in net debt resulting from cash flows | (332,294) | 732,899 |
| Net debt at 1 October | 449,917 | (282,982) |
| Net funds at 30 September | 117,623 | 449,917 |

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2003

1. ACCOUNTING POLICIES

Basis of accounting

The consolidated accounts, which have been prepared in accordance with applicable Accounting Standards and under the historical cost convention, comprise the audited accounts of Image Scan Holdings plc and its subsidiary undertakings (see note 10) made up to 30 September in each case.

All subsidiary undertakings have been accounted for using the acquisition method of accounting.

Goodwill

All goodwill arose prior to the implementation of FR510. The amount of £50,949 (2002: £50,949) remains eliminated against reserves and will be charged or credited to the profit and loss account as appropriate on the subsequent disposal of the business to which it relates.

Depreciation

Depreciation is provided on all tangible fixed assets in use at rates calculated to write off the cost over the expected useful life of each asset as follows:

| | |
|--------------------------|--------------------------------|
| Computer equipment | - 33½% of cost |
| Demonstration equipment | - between 25% and 33½% of cost |
| Plant & office equipment | - between 20% and 25% of cost |

Additional depreciation is provided, where appropriate, to reduce the carrying value of tangible fixed assets to their value to the business. Assets under construction are not depreciated until bought into use.

Leases

Operating lease rentals and other similar rentals are charged to the profit and loss account in equal annual amounts over the term of the agreement.

Pension costs

Contributions to defined contributions schemes are charged against profits as they arise.

Investments

The investments in subsidiary undertakings are stated at cost. Provisions are made if, in the opinion of the directors, there has been impairment in value.

Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in a period different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell these assets. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Stock

Stock is valued at the lower of cost and net realisable value. Work in progress is valued at the cost of materials and direct labour incurred.

Patent costs

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

Development costs

Expenditure on development costs is written off as incurred unless there is a clearly definable project with a recognisable value that will lead to known future revenue against which the costs can be amortised. Where such costs are capitalised, they are valued at cost less provision for impairment.

2. TURNOVER

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

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

An analysis of the loss before tax and net assets by sector has not been included as the directors believe that to do so would be seriously prejudicial to the interests of the Group.

NOTES TO THE ACCOUNTS (CONTINUED)

3. OPERATING LOSS

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

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

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

| | No | No |
|---|-----------|-----------|
| Average number of persons employed (including directors) | | |
| Accounts and administration | 2 | 1 |
| Technical | 10 | 7 |
| Directors | 6 | 7 |
| | 18 | 15 |

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

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

The remuneration of I M Robertson amounting to £4,000 (2002: £4,500) was paid to Struan Associates, a business in which he has a material interest, and R Savage amounting to £5,225 (2002: £6,350) was paid to Ratae Management Services, a business in which he has a material interest.

During the year the Group made sales of £17,906 (2002: £67,200) to Cell-ID Limited, a company of which N D Fox is also a director. An amount of £5,177 is included in debtors at the year end.

Ian Johnson Associates Limited, a company in which I S S Johnson has a material interest and of which he is a director, provided consultancy services amounting to £9,026 (2002: £nil) in the year ended 30 September 2003. An amount of £2,837 (2002: £nil) is included in creditors at the year end.

5. INTEREST PAYABLE AND SIMILAR CHARGES

| | 2003 £ | 2002 £ |
|---|-----------|-----------|
| Interest payable on loans and overdrafts | | |
| - repayable within five years | 7,164 | 42,193 |

NOTES TO THE ACCOUNTS (CONTINUED)

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

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

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

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

7. EARNINGS PER SHARE

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

FRS14 requires presentation of diluted earnings per share (EPS) when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding share options, net loss per share would only be increased by the exercise of out-of-the-money options. Since it seems inappropriate to assume that option holders would act irrationally and there are no other diluting future share issues, diluted EPS equals basic EPS.

8. TANGIBLE FIXED ASSETS

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

NOTES TO THE ACCOUNTS (CONTINUED)

9. INTANGIBLE FIXED ASSETS

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

10. INVESTMENTS

| | £ |
|--|---------------|
| Subsidiary undertakings - Company | |
| Cost and net book value | |
| At 1 October 2002 and 30 September 2003 | 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 | |
|--|---|---|--------------------------|---------------------------|-----------|
| | | | | 2003 £ | 2002 £ |
| Stereo Scan Systems Limited | Development of advanced imaging technology | England | 100% | 51,000 | 51,000 |
| Baggage Scan Limited | Exploitation of advanced imaging technology in the security sector | England | 100% | 1 | 1 |
| Industrial Scanning Inspection Systems Limited | Exploitation of advanced imaging technology as applied to industrial inspection | England | 100% | 1,000 | 1,000 |
| Cargo Scan Limited | Dormant | England | 100% | 1 | 1 |
| Mediscan Limited | Exploitation of advanced imaging technology for medical applications | England | 100% | 2 | 2 |

11. STOCK

| | Group | | Company | |
|------------------|---------------|---------------|-----------|-----------|
| | 2003 £ | 2002 £ | 2003 £ | 2002 £ |
| Stock | 19,271 | 64,998 | - | - |
| Work in progress | 7,686 | 4,933 | - | - |
| | 26,957 | 69,931 | - | - |

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

12. DEBTORS

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

NOTES TO THE ACCOUNTS (CONTINUED)

13. CREDITORS

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

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

Loan or instalments thereof are repayable over the following periods:

| | 2003 | 2002 |
|--|---------------|----------------|
| | £ | £ |
| Within one year or less or on demand | 37,363 | 37,363 |
| More than one year but not more than two years | 37,363 | 37,363 |
| More than two years but not more than five years | 17,307 | 53,479 |
| | 92,033 | 128,205 |

14. PROVISIONS FOR LIABILITIES AND CHARGES

| | 2003 | 2002 |
|--|------|------|
| | £ | £ |
| 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:

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

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

15. COMMITMENTS

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

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

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

NOTES TO THE ACCOUNTS (CONTINUED)

16. CALLED UP SHARE CAPITAL

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

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

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

At 30 September 2003, the following options were outstanding:

- Options granted on 4 May 2000 over 80,000 ordinary shares of 1p each under the Image Scan 1999 Approved Share Option Scheme. These options are exercisable after three years, but not later than ten years, at 25p per share.
- Options granted on 30 April 2001 over 40,000 ordinary shares of 1p each under the Image Scan 1999 Approved Share Option Scheme. These options are exercisable after three years, but not later than ten years, at 50p per share.
- Options granted on 20 September 2001 over 100,000 ordinary shares of 1p each, exercisable at any time up to 20 September 2004 at 50p per share.
- Options granted on 22 January 2002 over 45,455 ordinary shares of 1p each, exercisable at any time up to 22 January 2005 at 55p per share.
- Options granted on 25 April 2002 over 76,923 ordinary shares of 1p each, exercisable at any time up to 25 April 2005 at 65p per share.
- Options granted on 21 May 2002 over 10,000 ordinary shares of 1p each under the Image Scan 1999 Approved Share Option Scheme. These options are exercisable after three years, but not later than ten years, at 74.5p per share.
- Options granted on 14 March 2003 over 149,000 ordinary shares of 1p each under the Image Scan Enterprise Management Incentives Share Option Plan. These options are exercisable after three years, but not later than ten years, at 51.5p per share.

The following options lapsed during the year:

- Options granted on 3 July 1998 over 300,000 ordinary shares of 1p each, exercisable at any time up to 30 June 2003 at 150p per share.
- Options granted on 1 August 2001 over 25,000 ordinary shares of 1p each, exercisable at any time up to 1 August 2004 at 50p per share.
- Options granted on 20 September 2001 over 20,000 ordinary shares of 1p each, exercisable at any time up to 20 September 2004 at 50p per share.
- Options granted on 22 January 2002 over 45,455 ordinary shares of 1p each, exercisable at any time up to 22 January 2005 at 55p per share.
- Options granted on 21 May 2002 over 1,000 ordinary shares of 1p each under the Image Scan 1999 Approved Share Option Scheme. These options are exercisable after three years, but not later than ten years, at 74.5p per share.

17. RESERVES

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

As permitted by section 230 of the Companies Act 1985, a separate profit and loss account for the Company has not been included. The profit for the financial year dealt with in the accounts of the Company was £2,957 (2002: £8,654).

NOTES TO THE ACCOUNTS (CONTINUED)

18. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

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

19. TRANSACTIONS WITH RELATED PARTIES

The Group has taken advantage of the exemption conferred by FRS 8, paragraph 3(c), and does not disclose transactions within the Group.

20. FINANCIAL INSTRUMENTS

The disclosures required by FRS 13 in relation to the nature of any financial instruments used during the year to mitigate interest rate, liquidity and foreign currency risks, are shown in the Directors' Report on page 9 under the heading "Financial Instruments". As permitted by FRS 13, short term debtors and creditors are excluded from all disclosures other than the currency profile. There are no non-equity shares. The maturity profile of Group financial liabilities, being only bank loans and overdrafts, are shown in note 13.

The Group had no undrawn committed borrowing facilities at 30 September 2003 (2002: £Nil).

All financial assets and liabilities bear interest at floating rates based on the bank base rate.

Fair values of gross financial assets (cash and short term investments) and gross financial liabilities (bank loans and overdrafts) are considered to be the same as book values at both 30 September 2003 and 30 September 2002.

Currency profile

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



NOTICE OF MEETING

NOTICE AND AGENDA OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the shareholders will be held at 10am on 25 March 2004 at Pera Innovation Park, Nottingham Road, Melton Mowbray, Leicestershire, LE13 0PB for the purpose of considering and, if thought fit, passing the following resolutions as to resolutions 1-3 as Ordinary Resolutions and as to resolution 4 as a Special Resolution.

ORDINARY RESOLUTIONS

1. To receive and adopt the financial statements for the year ended 30 September 2003 together with the reports of the directors and auditors thereon.
2. To re-elect as a director N D Fox who retires by rotation and offers himself for re-election.
3. To re-appoint Deloitte & Touche LLP as auditors and to authorise the directors to fix their remuneration.

SPECIAL RESOLUTION

4. To authorise and empower the directors, pursuant to Section 95 of the Companies Act 1985 ('the Act'), to allot equity securities (as defined in Section 94(2) of the Act) pursuant to the authority conferred by the Extraordinary General Meeting held on 22 April 2002 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 five 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

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, PO Box 25, 34 Beckenham Road, Beckenham, Kent, BR3 4BR, 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. 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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