Company Registration No. 3062983

IMAGE SCAN HOLDINGS PLC

Report and Financial Statements
for the year ended 30 September 2005

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IMAGE SCAN HOLDINGS PLC

OFFICERS AND PROFESSIONAL ADVISERS

NON-EXECUTIVE CHAIRMAN
Peter J Woods, BA, OBE

EXECUTIVE DIRECTORS

Nicholas D Fox, MSc	*Chief Executive Officer*
Louise J George, BSc, FCA, ACIS	*Finance Director (appointed 1 June 2005)*
Simon X Godber, PhD	*Technical Director*

NON-EXECUTIVE DIRECTORS
Peter J Hughes, MBA, FCA
Ian S S Johnson

COMPANY SECRETARY
Louise J George, BSc, FCA, ACIS

REGISTERED OFFICE
Pera Innovation Park
Nottingham Road
Melton Mowbray
Leicestershire LE13 0PB

AUDITORS
Wilkins Kennedy
Bridge House
London Bridge
London SE1 9QR

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

BROKER
Keith, Bayley, Rogers & Co Ltd
Sophia House
76-80 City Road
London EC1Y 2EQ

NOMINATED ADVISER
ARM Corporate Finance Ltd
12 Pepper Street
London E14 9RP

REGISTRARS
Capita Registrars
34 Beckenham Road
Beckenham
Kent BR3 4TU

CHAIRMAN'S STATEMENT

INTRODUCTION

The year to 30 September 2005 was one of substantial progress. During the year the management team has been strengthened, we have seen a sharp growth in industrial sales, the relationship with Rapiscan has been revitalised, and we have completed the development of and launched our portable security product TPXi.

FINANCIAL RESULTS

I am pleased to report that our turnover was almost double the prior year at £843,000 (2004: £425,000) with the industrial sector accounting for 82% and security for 18%.

Administrative costs in 2005 have been reduced on a like-for-like basis by 13% compared with 2004 and were £1,116,000 (2004: £1,448,000, which included the write-off of certain patent costs amounting to £162,000). The benefits of these savings will continue into future years. R&D expenditure increased by 8% to £128,000.

The pre-tax loss for the year was significantly reduced to £722,000 (2004: £1,255,000), with substantial improvement from a loss of £542,000 in the first half to one of £180,000 in the second half of the year.

Following the successful placing and open offer, which raised £932,000 net of costs, we have reduced loan funding by £237,000 and increased cash balances to £154,000 (2004 £50,000).

SIGNIFICANT EVENTS

The most significant operational events in the year were:

- Following a major review of world-wide sales and marketing strategy, initiated after the April 2005 fund-raising, we have identified and clarified those market opportunities with the greatest potential. We have appointed an Industrial Products Sales Manager, a Marketing Manager and a Project Manager, and discussions are well advanced for the appointment of two world-wide distributors, to take full advantage of these opportunities.
- Repeat sales, such as those announced to Johnson Matthey and other USA clients in the automotive market, accounted for the majority of our turnover and confirmed the validity of our 2D/3D technology in the industrial inspection sector. Sales of stand-alone batch inspection equipment systems using Image Scan X-Line x-ray camera technology and multi-station industrial inspection systems such as the MDXi product range, have progressed well.
- During the year we concentrated on broadening our industrial customer base and are currently in discussion with over twenty companies with sound industrial sector potential. These present good prospects for order placement in the automotive, pharmaceutical and medical markets over the medium term.
- The resolution of the Rapiscan situation was an important step-change for the Company, clearing away a significant structural barrier to the development of sales in the aviation security sector. The renewed relationship has led to early additional sales revenue and improved cash flow, as well as strengthened 2D & 3D opportunities for growth with Rapiscan and greater flexibility in developing wider market partnerships.
- We launched TPXi, our new security product targeted at explosives and ordnance detection, in November 2005 at the Milipol exhibition in Paris. In terms of 2D design technology, wireless configuration, ease of use and price, the TPXi clearly makes a valuable contribution to today's market for fully portable scanning detectors in the security, customs, and non-destructive testing applications markets. The market reaction at Milipol and since the launch has been extremely positive and we anticipate strong sales growth. The market size for this sector is estimated to reach $1.2 billion by 2009.

OUTLOOK

We believe the significant achievements of 2005 will continue into 2006. The year ended with a healthy order book of £326,000 which increased to £684,000 by the end of October 2005.

Cash balances have increased since the year end and revenue is growing steadily.

OTHER MATTERS

Finally, the commitment of all members of staff at Image Scan to meet the Company needs over the last year has been extraordinarily positive and I would like to take this opportunity to thank everyone for this response, and for their persistence, ingenuity, and hard work.

P J Woods
Chairman

12 December 2005

DIRECTORS' REPORT

THE DIRECTORS PRESENT THEIR ANNUAL REPORT AND THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2005

BUSINESS ACTIVITY, REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The principal activities of the Group have been the continuing development of 2D and 3D imaging technology. Further details can be found in the Chairman's Statement set out on page 3. The Company acts as a holding company.

RESULTS AND DIVIDENDS

The results for the year ended 30 September 2005 show a loss of £692,110 (2004: £1,210,483). The directors do not recommend the payment of a dividend.

DIRECTORS AND THEIR INTERESTS

The present directors are listed on page 1. R J Gibbs resigned as a director on 28 January 2005. The directors' interests, all of which were beneficial, in the shares of the Company at the year end were as follows:

	30 SEPTEMBER 2005 ORDINARY SHARES OF 1p EACH	30 SEPTEMBER 2004 ORDINARY SHARES OF 1p EACH
N D Fox	2,485,121	2,270,835
L J George	100,000	50,000
S X Godber	71,428	–
P J Hughes	71,429	–
I S S Johnson	142,857	–
P J Woods	1,428,571	–

The following existing options had been granted at the start of the year and have not subsequently lapsed:

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

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

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

The following share options were granted during the year:

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

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

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

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

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

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

No director exercised share options during the year.

The share price high and low during the year were 13½p and 7p per share respectively. The closing mid-market price on 30 September 2005 was 11¼p 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	10.58	3,688,369
3PC Investment Trust plc	5.69	1,984,867
AiM VCT 2 plc	5.69	1,984,867
Welsh Industrial Investment Trust plc	6.08	2,120,000
A P Stirling	6.65	2,318,332
Newinnhall Trust Limited	3.58	1,250,000

3PC Investment Trust plc and AiM VCT 2 plc are under common management of Bluehone Investors LLP.

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 2006. Costs of this in the year amounted to £127,578 (2004: £118,438).

FIXED ASSETS

The intangible assets as detailed in note 10 are included at a net book value of £17,913 (2004: £19,594). 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 11 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 2005, trade creditors represented 66 days purchases (2004: 107 days).

FINANCIAL INSTRUMENTS

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

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

Interest rate risk

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

Liquidity risk

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

Foreign currency risk

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

DIRECTORS' STATEMENT OF RESPONSIBILITIES

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

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

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

Going concern

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

CORPORATE GOVERNANCE

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

AUDITORS

Deloitte retired as auditors during the year and we thank them for their contribution over the past three years. Wilkins Kennedy were appointed in their place and have expressed their willingness to continue in office as auditors of the Company. A resolution to re-appoint Wilkins Kennedy as the Company's auditors 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

12 December 2005

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 2005 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cashflow statement (and notes i-iii thereto) and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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's statement and the Directors' report. We consider the implications for our report if we become aware of any 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 2005 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Wilkins Kennedy
Chartered Accountants and
Registered Auditors, London

12 December 2005

GROUP PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 SEPTEMBER 2005

	Note	2005 £	2004 £
TURNOVER	2	843,089	424,620
Cost of sales		(444,252)	(239,100)
Gross profit		398,837	185,520
Administrative expenses (including exceptional charge of £nil (2004:£161,995) see note 3)		(1,116,370)	(1,448,125)
OPERATING LOSS	4	(717,533)	(1,262,605)
Interest receivable		5,580	12,513
Interest payable	6	(10,446)	(4,877)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(722,399)	(1,254,969)
Taxation	7	30,289	44,486
RETAINED LOSS FOR THE FINANCIAL YEAR	18, 19	(692,110)	(1,210,483)
Retained reserves brought forward		(4,001,126)	(2,790,643)
Revenue reserves carried forward		(4,693,236)	(4,001,126)
		Pence	**Pence**
Earnings per share			
Basic and diluted loss per share	8	(2.7)	(6.3)

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 19.

CONSOLIDATED BALANCE SHEET

30 SEPTEMBER 2005

	Note	2005 £	2004 £
FIXED ASSETS			
Tangible fixed assets	9	155,760	191,579
Intangible fixed assets	10	17,913	19,594
		173,673	211,173
CURRENT ASSETS			
Stock and work in progress	12	94,645	44,449
Debtors	13	341,175	146,189
Cash at bank and in hand		153,857	50,027
		589,677	240,665
CREDITORS: amounts falling due within one year	14	(427,356)	(343,722)
NET CURRENT ASSETS/(LIABILITIES)		162,321	(103,057)
TOTAL ASSETS LESS CURRENT LIABILITIES		335,994	108,116
CREDITORS: amounts falling due after more than one year	14	–	(17,307)
Provisions for liabilities and charges	15	(20,500)	(15,700)
		315,494	75,109
CAPITAL AND RESERVES			
Called up share capital	17	348,681	193,356
Share premium account	18	4,660,049	3,882,879
Profit and loss account	18	(4,693,236)	(4,001,126)
EQUITY SHAREHOLDERS' FUNDS	19	315,494	75,109

These financial statements were approved by the Board of Directors on 12 December 2005.
Signed on behalf of the Board of Directors

N D FOX
Chief Executive Officer

L J GEORGE
Finance Director

COMPANY BALANCE SHEET

30 SEPTEMBER 2005

	Note	2005 £	2004 £
FIXED ASSETS			
Investments	11	52,004	52,004
CURRENT ASSETS			
Debtors	13	3,505,414	2,697,290
Cash at bank and in hand		5,302	2,272
		3,510,716	2,699,562
CREDITORS: amounts falling due within one year	14	(73,163)	(195,697)
NET CURRENT ASSETS		3,437,553	2,503,865
		3,489,557	2,555,869
CAPITAL AND RESERVES			
Called up share capital	17	348,681	193,356
Share premium account	18	4,660,049	3,882,879
Profit and loss account	18	(1,519,173)	(1,520,366)
EQUITY SHAREHOLDERS' FUNDS	19	3,489,557	2,555,869

These financial statements were approved by the Board of Directors on 12 December 2005.
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 2005

	Note	2005 £	2004 £
Net cash outflow from operating activities	(i)	(738,032)	(1,060,615)
Returns on investments and servicing of finance			
Interest received		5,580	12,513
Interest payable	6	(10,446)	(4,877)
		(4,866)	7,636
Taxation			
Corporation tax recovered		20,564	54,431
Capital expenditure and financial investment			
Purchase of tangible fixed assets	9	(70,764)	(90,421)
Receipts from sales of tangible fixed assets	9	1,796	–
Purchase of intangible fixed assets	10	–	(20,182)
		(68,968)	(110,603)
Net cash outflow		(791,302)	(1,109,151)
Financing			
Issue of ordinary share capital		932,495	986,885
Bank loans repaid	14	(37,363)	(37,362)
		895,132	949,523
Increase/(decrease) in cash in the year	(ii), (iii)	103,830	(159,628)

NOTES TO THE CASH FLOW STATEMENT

YEAR ENDED 30 SEPTEMBER 2005

i) RECONCILIATION OF OPERATING CASH FLOWS	2005 £	2004 £
Operating loss	(717,533)	(1,262,605)
Depreciation	104,787	121,101
Amounts written off intangible fixed assets	1,681	178,898
(Increase)/decrease in stock	(50,196)	(17,492)
(Increase)/decrease in debtors (excluding corporation tax recoverable)	(185,262)	(12,686)
Increase/(decrease) in creditors	108,491	(67,831)
Net cash outflow from operating activities	(738,032)	(1,060,615)

ii) ANALYSIS OF NET FUNDS	2004 £	2005 Cash flow £	Other non-cash charges £	2005 £
Cash at bank and in hand	50,027	103,830	–	153,857
Debt due within one year	(37,363)	37,363	(17,307)	(17,307)
Debt due after one year	(17,307)	–	17,307	–
	(4,643)	141,193	–	136,550

iii) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)	2005 £	2004 £
Increase/(decrease) in cash in the period	103,830	(159,628)
Cash inflow from increase in debt	(200,000)	–
Cash outflow from decrease in debt	237,363	37,362
Change in net funds/(debt) resulting from cash flows	141,193	(122,266)
Net (debt)/funds at 1 October	(4,643)	117,623
Net funds/(debt) at 30 September	136,550	(4,643)

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2004

1. ACCOUNTING POLICIES

Basis of accounting

The consolidated accounts, which have been prepared in accordance with applicable Accounting Standards and under the historical cost convention, comprise the audited accounts of Image Scan Holdings Plc and its subsidiary undertakings (see note 11) 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 the Company will have sufficient resources to continue in operational existence for the foreseeable future and that no adjustment is required to the carrying value of assets reported. Therefore they have prepared the financial statements on a going-concern basis.

Goodwill

All goodwill arose prior to the implementation of FRS10. The amount of £50,949 (2004: £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 – 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.

Development costs

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

Patent costs

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

Foreign Currencies

Assets and liabilities in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account 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:

		2005			2004	
	Security £	Industrial £	Total £	Security £	Industrial £	Total £
Group turnover by destination						
UK	140,463	609,078	749,541	187,163	194,080	381,243
US	–	85,935	85,935	43,377	–	43,377
Rest of World	7,613	–	7,613	–	–	–
	148,076	695,013	843,089	230,540	194,080	424,620

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.

3. ADMINISTRATIVE EXPENSES

Following an impairment review of intangible assets in 2004 it was decided to write down the carrying value of the Nottingham Trent University patents to nil. The company's technology had progressed beyond the original patents and no significant sales were anticipated in the near future that would use the original patent. The amount written off and charged to administrative expenses was £nil (2004 – £161,995).

4. OPERATING LOSS

	2005	2004
	£	£
Operating loss is stated after charging:		
Depreciation – owned assets	104,787	121,101
Amortisation – intangible assets	1,681	16,903
Impairment – intangible assets	–	161,995
Amounts written off development costs	127,578	118,438
Amounts charged under operating leases – equipment	5,400	5,400
Auditors' remuneration		
Audit – Group	12,000	14,000
Audit – Company	1,000	1,000
Other services	2,150	8,146

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2005	2004
	£	£
Directors' emoluments		
Management remuneration	184,411	237,848
Fees as directors	41,246	27,333
Compensation for loss of office	67,740	–
	293,397	265,181

	£	£
The amounts paid in respect of the highest paid director are as follows:		
Emoluments	40,297	113,001
Compensation for loss of office	67,740	–
	108,037	**113,001**

	No	No
Average number of persons employed (including directors)		
Accounts and administration	3	3
Technical	10	10
Directors	5	4
	18	**17**

	£	£
Staff costs during the year (including directors)		
Wages and salaries	649,120	609,089
Social security costs	60,882	65,329
Pension costs	6,420	5,400
	716,422	**679,818**

The Group contributes to a defined contribution pension scheme for the benefit of N D Fox, S X Godber and L J George. For the year ended 30 September 2005, contributions amounted to £3,000, £2,400 and £1,020 (2400: £3,000, £2,400 and £nil) respectively.

Ian Johnson Associates Limited, a company in which I S S Johnson has a material interest and of which he is a director, provided consultancy services amounting to £16,544 (2004: £13,258) in the year ended 30 September 2005. An amount of £2,651 (2004: £2,640) is included in creditors at the year end.

Mount Carmel Hughes Associates, a business of which P J Hughes is a partner, provided consultancy services amounting to £3,981 (2004: £nil) in the year ended 30 September 2005.

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2005	2004
	£	£
Interest payable on loans and overdrafts		
– repayable within five years	10,446	4,877

NOTES TO THE ACCOUNTS (CONTINUED)

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

a) Analysis of credit in the year	2005 £	2004 £
Current tax		
UK corporation tax at 19% (2004: 19%) based on the loss for the year (note 7b)	30,288	20,564
Adjustments in respect of previous years – R&D tax credits recoverable	–	23,922
Total current tax	**30,288**	**44,486**
Deferred tax		
Current year charge	–	–
Adjustments in respect of prior years	–	–
Total deferred tax (note 15)	–	–

b) Factors affecting the tax credit for the year	2005 £	2004 £
Loss on ordinary activities before tax	(722,399)	(1,254,969)
Tax on loss on ordinary activities at standard rate	(137,256)	(238,444)
Being the effects of:		
Permanent differences	224	39,299
Depreciation in excess of capital allowances	19,909	23,009
Current year loss not utilised	94,307	159,856
Loss surrendered to HM Revenue and Customs in exchange for R&D tax credits	23,043	16,280
Tax credit receivable from HM Revenue and Customs	(30,288)	(20,564)
Adjustment in respect of prior period	(227)	(23,922)
Actual tax charge for the year (note 7a)	**(30,288)**	**(44,486)**

8. EARNINGS PER SHARE

	2005 £	2004 £
Loss for the year	692,110	1,210,483
Weighted average number of ordinary shares in issue	25,931,619	19,073,580
Basic and diluted earnings per share (pence)	(2.7)	(6.3)

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 issues diluting future share values; diluted EPS equals basic EPS.

9. TANGIBLE FIXED ASSETS

Group	Assets under construction £	Computer equipment £	Demonstration equipment £	Plant & equipment £	Total £
Cost					
At 1 October 2004	11,423	82,620	300,347	59,638	454,028
Additions	54,027	15,830	–	907	70,764
Disposals	–	–	–	(2,477)	(2,477)
Transfer of assets	(65,450)	–	65,450	–	–
At 30 September 2005	–	**98,450**	**365,797**	**58,068**	**522,315**
Depreciation					
At 1 October 2004	–	61,594	171,315	29,540	262,449
Provided during the year	–	12,895	76,909	14,983	104,787
Disposals	–	–	–	(681)	(681)
At 30 September 2005	–	**74,489**	**248,224**	**43,842**	**366,555**
Net book value					
At 30 September 2005	–	**23,961**	**117,573**	**14,226**	**155,760**
At 30 September 2004	11,423	21,026	129,032	30,098	191,579

NOTES TO THE ACCOUNTS (CONTINUED)

10. INTANGIBLE FIXED ASSETS	Total £
Cost	
At 1 October 2004	233,797
Additions	–
At 30 September 2005	**233,797**
Amortisation	
At 1 October 2004	214,203
Provided during the year	1,681
Impairment	–
At 30 September 2005	**215,884**
Net book value	
At 30 September 2005	**17,913**
At 30 September 2004	19,594

11. INVESTMENTS

Subsidiary undertakings – Company	**£**
Cost and net book value	
At 1 October 2004 and 30 September 2005	**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 2005 £	2004 £
Stereo Scan Systems Limited	Development of advanced imaging technology	England	100%	51,000	51,000
3DX-Ray Limited	Exploitation of advanced imaging technology	England	100%	1	1
Industrial Scanning Inspection Systems Limited	Exploitation of advanced imaging technology as applied to industrial inspection	England	100%	1,000	1,000
Baggage Scan Limited	Dormant	England	100%	1	1
Mediscan Limited	Exploitation of advanced imaging technology for medical applications	England	100%	2	2

12. STOCK	Group		Company	
	2005 £	**2004** £	**2005** £	**2004** £
Stock	60,822	44,449	–	–
Work in progress	33,823	–	–	–
	94,645	**44,449**	**–**	**–**

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

13. DEBTORS	Group		Company	
	2005 £	**2004** £	**2005** £	**2004** £
Trade debtors	266,701	102,136	–	–
VAT recoverable	17,035	15,324	17,035	15,122
Other debtors and prepayments	27,151	8,165	19,719	8,168
Corporation tax recoverable	30,288	20,564	–	–
Amounts due from subsidiary undertakings	–	–	3,468,660	2,674,000
	341,175	**146,189**	**3,505,414**	**2,697,290**

14. CREDITORS

	Group		Company	
	2005	2004	2005	2004
Amounts falling due within one year	£	£	£	£
Bank loan	17,307	37,363	–	–
Trade creditors	162,499	185,752	49,177	142,181
Taxation and social security	45,323	45,065	–	–
Accruals and deferred income	202,227	75,542	23,986	53,516
	427,356	343,722	73,163	195,697

Amounts falling due after more than one year

	2005	2004	2005	2004
	£	£	£	£
Bank loan	–	17,307	–	–

A bank loan of £100,000 was advanced in March 1998 under the Small Firms Loan Guarantee Scheme. The loan was repaid in 84 monthly instalments commencing six months after drawdown and was fully repaid by 30th September 2005. Interest during the year was payable at 3% p.a. over the Royal Bank of Scotland Bank 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 2_% p.a. over the Royal Bank of Scotland plc base rate.

Loan or instalments thereof are repayable over the following periods:

	2005	2004
	£	£
Within one year or less or on demand	17,307	37,363
More than one year but not more than two years	–	17,307
	17,307	54,670

15. PROVISIONS FOR LIABILITIES AND CHARGES

	2005	2004
	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
	2005	2005	2004	2004
Group	£	£	£	£
Accelerated capital allowances	–	(105,336)	–	(86,165)
Losses	–	(687,620)	–	(592,251)
	–	(792,956)	–	(678,416)

The deferred tax assets would be recoverable against profits generated in the Group in the future. No provision has been made for the deferred tax assets as recoverability of the assets in the near future is uncertain.

There are losses of £9,223 (2004: £9,223) unprovided in the Company.

Warranty provision	£
At 1 October 2004	15,700
Charge for the year	4,800
At 30 September 2005	**20,500**

The warranty provision is made in respect of costs which may be incurred as a result of sales during the 2005 financial year. At this present time, the provision represents the directors' best estimate given the lack of historical warranty data. Realisation is expected within 12 months.

16. COMMITMENTS

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

	2005	2004
	£	£
Within one year:		
Equipment rentals	5,600	5,600
Land and buildings	62,990	62,990

At 30 September 2005, there were no capital commitments (2004: £Nil).

17. CALLED UP SHARE CAPITAL

	2005	2004
	£	£
Authorised:		
50,000,000 ordinary shares of 1p each	500,000	245,000
Called up, allotted and fully paid:		
34,868,120 ordinary shares of 1p each	348,681	193,356

On 28 April 2005, the Company made the following issue of shares for working capital purposes:

	Nominal Value	Consideration
	£	£
15,532,490 ordinary shares of 1p each	155,325	1,087,275

At 30 September 2005, 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 21 May 2002 over 7,000 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 139,000 ordinary shares of 1p each under the Image Scan Enterprise Management Incentives Share Option Plan. These options are exercisable after three years, but not later than ten years, at 51.5p per share.
- Options granted on 25 April 2005 over 160,000 ordinary shares of 1p each, exercisable at any time up to 31 March 2007 at 15p per share.
- Options granted on 25 April 2005 over 30,000 ordinary shares of 1p each, exercisable at any time up to 24 April 2007 at 15p per share.
- Options granted on 31 July 2005 over 80,000 ordinary shares of 1p each, exercisable at any time up to 31 July 2007 at 15p per share.
- Options granted on 30 September 2005 over 433,000 ordinary shares of 1p each under the Image Scan Enterprise Management Incentives Share Option Plan. These options are exercisable after three years, but not later than ten years, at 15p per share.

18. RESERVES

Group	Share premium account £	Profit and loss account £	Total £
Balance at 1 October 2004	3,882,879	(4,001,126)	(118,247)
Loss attributable to members of the Group	–	(692,110)	(692,110)
Premium on share issue during the year	777,170	–	777,170
Balance at 30 September 2005	**4,660,049**	**(4,693,236)**	**(33,187)**
Company			
Balance at 1 October 2004	3,882,879	(1,520,366)	2,362,513
Profit attributable to members of the Company	–	1,193	1,193
Premium on share issue during the year	777,170	–	777,170
Balance at 30 September 2005	**4,660,049**	**(1,519,173)**	**3,140,876**

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 £1,193 (2004: loss £1,536,465).

NOTES TO THE ACCOUNTS (CONTINUED)

19. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Opening shareholders' funds	75,109	282,977	2,555,869	3,089,719
Issue of shares – par	155,325	30,854	155,325	30,854
Issue of shares – share premium	777,170	971,761	777,170	971,761
(Loss)/profit attributable to members	(692,110)	(1,210,483)	1,193	(1,536,465)
Closing shareholders' funds	**315,494**	**75,109**	**3,489,557**	**2,555,869**

20. 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.

21. FINANCIAL INSTRUMENTS

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

The maturity profile of group financial liabilities, being only bank loans and overdrafts, are shown in note 14. These are all denominated in sterling.

The Group had no undrawn committed borrowing facilities at 30 September 2005 (2004: £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 2005 and 30 September 2004.

Currency profile

At the year end trade debtors included US$157,070 (2004: US$55,000) and trade creditors included US$13,080 (2004: US$400). 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 10.00am on 23 March 2006 at the offices of DMH Stallard, Centurion House, 37 Jewry Street, London, EC3N 2ER for the purpose of considering and, if thought fit, passing the following resolutions as to resolutions 1-4 as Ordinary Resolutions and as to resolution 5 as a Special Resolution.

ORDINARY RESOLUTIONS

1. To receive and adopt the financial statements for the year ended 30 September 2005 together with the reports of the directors and auditors thereon.
2. To re-elect as a director L J George who retires in accordance with the Company's Articles of Association.
3. To re-elect as a director S X Godber who retires by rotation and offers himself for re-election.
4. To re-appoint Wilkins Kennedy as auditors and to authorise the directors to fix their remuneration.

SPECIAL RESOLUTION

5. 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 22nd 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, 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. 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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