

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document you should immediately consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

A copy of this document, which comprises a prospectus drawn up in accordance with the Public Offers of Securities Regulations 1995 ("the Regulations"), has been delivered to the Registrar of Companies in England and Wales for registration as a prospectus in accordance with Regulation 4(2) of the Regulations. The Directors of Image Scan Holdings plc, whose names appear on page 4 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

If you have sold or otherwise transferred all of your Ordinary Shares in the share capital of Image Scan Holdings plc prior to the date the Ordinary Shares are marked "Ex Entitlement", please forward this document and Application Form to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. However, such documents should not be forwarded or transmitted in or into the United States of America, Canada, Japan, Australia or the Republic of Ireland.

Application will be made for the New Ordinary Shares of Image Scan Holdings plc to be admitted to trading on the Alternative Investment Market ("AIM") of the London Stock Exchange. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk than that associated with established companies attaches. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after careful consideration and consultation with a suitably qualified and regulated independent financial adviser. The rules of AIM are less demanding than those of the Official List of the United Kingdom Listing Authority ("UKLA"). It is emphasised that no application is being made for admission of the Ordinary Shares of Image Scan Holdings plc to the Official List of the UKLA. Furthermore, neither the UKLA nor the London Stock Exchange has examined or approved the contents of this document.

The issue of New Ordinary Shares is conditional upon the passing of the Resolutions and the admission of the New Ordinary Shares to AIM.

Image Scan Holdings plc

(Registered in England and Wales with company number 3062983)

**Placing and Open Offer by Keith, Bayley, Rogers and Co. Limited
of up to 17,320,220 New Ordinary Shares at a price of 7p per share
payable in full on application**

and

Notice of Extraordinary General Meeting

Nominated Adviser

ARM Corporate Finance Limited

Stockbroker

Keith, Bayley, Rogers & Co. Limited

This document does not constitute an offer to sell or the solicitation of an offer to buy shares in any jurisdiction in which such offer or solicitation is unlawful and, in particular, is not for distribution in or into the United States of America, Canada, Australia, Republic of Ireland or Japan or to any national, resident or citizen of the United States of America, Canada, Australia, Republic of Ireland or Japan. The Ordinary Shares have not been and will not be registered under the applicable securities laws of the United States of America, Canada, Australia, Republic of Ireland or Japan. The distribution of this document in other jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restriction. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdiction.

ARM Corporate Finance Limited, which is regulated by the Financial Services Authority, is the Company's nominated adviser for the purposes of the AIM Rules. Its responsibilities as the Company's nominated adviser under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire New Ordinary Shares under the Placing and Open Offer in reliance on any part of this document. No representation or warranty, expressed or implied, is made by ARM Corporate Finance Limited as to any of the contents of this document (without limiting the statutory right of any person to whom this document is issued). Keith, Bayley, Rogers & Co. Limited is the Company's broker and is regulated by the Financial Services Authority. It is acting exclusively for the Company and no-one else in connection with the Placing and Open Offer or Admission. It will not regard any other person as its customer nor be responsible to any person for providing protections afforded to the clients of Keith, Bayley, Rogers & Co. Limited nor for providing advice to any other person in connection with the arrangements described in this document. No representation or warranty, expressed or implied, is made by Keith, Bayley, Rogers & Co. Limited as to any of the contents of this document (without limiting the statutory right of any person to whom this document is issued).

Notice of an Extraordinary General Meeting of Image Scan Holdings plc to be held at the offices of DMH Stallard at 3.00 p.m. (or as soon thereafter as the Annual General Meeting of the Company has been concluded or adjourned) on 25th April, 2005 is set out at the end of this document. A Form of Proxy for use at the Extraordinary General Meeting is enclosed with this document and should be completed, signed and returned in accordance with the instructions thereon, as soon as possible but, in any event, so as to be received by Image Scan Holdings plc's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU by no later than 3.00 p.m. on 23rd April, 2005.

The latest time and date for acceptance and payment in respect of the Open Offer is 3.00 p.m. on 22nd April, 2005. Full details relating to acceptance and payment are set out in Part II of this document and in the Application Form accompanying this document.

CONTENTS

	<i>Page</i>
Expected timetable of Principal events	3
Placing and Open Offer statistics	3
Directors, Secretary and Advisers	4
Definitions	5
Part I Chairman's Letter	8
Part II Letter from Keith, Bayley, Rogers and Co. Limited	18
Part III Financial Information	25
Part IV General Information	28
Notice of Extraordinary General Meeting	41

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	2005
Record Date for the Open Offer	29th March
Latest date for splitting Application Forms (to satisfy <i>bona fide</i> claims only)	20th April
Latest date for receipt of Application Forms and payment in full under the Open Offer	22nd April
Extraordinary General Meeting	25th April
Expected date of commencement of dealings on AIM in the New Ordinary Shares/CREST accounts credited by	28th April
Expected date of despatch of definitive share certificates	6th May

PLACING AND OPEN OFFER STATISTICS

Issue Price	7 Pence
Number of Existing Ordinary Shares	19,335,630
Number of New Ordinary Shares subject to the Open Offer	4,833,907
Number of New Ordinary Shares subject to the Placing	12,486,313
Number of Ordinary Shares in issue following the Placing and Open Offer	36,655,850
Market capitalisation at the Issue Price following the Placing and Open Offer	£2,565,910
Estimated net proceeds of the Placing and Open Offer (assuming entitlement taken in full)	£1,059,415
Percentage of the enlarged issued share capital of the Company represented by New Ordinary Shares issued pursuant to the Placing and Open Offer	47.25

DIRECTORS, SECRETARY AND ADVISERS

Directors	Ian Stuart Southwell Johnson F.Syl (<i>Chairman</i>) Nicholas Darryl Fox BSc (Hons), MSc, MIEE, CEng (<i>Chief Executive Officer</i>) Simon Xerxes Godber BEng (Hons), PhD, MIEE, CEng (<i>Technical Director</i>) Peter John Hughes MBA FCA (<i>Non-executive</i>) Peter Joseph Woods BA OBE (<i>Non-executive</i>)
Registered Office	Pera Innovation Park Nottingham Road Melton Mowbray Leicestershire LE13 0PB
Company Secretary	Louise Joan George ACA, ACIS Pera Innovation Park Nottingham Road Melton Mowbray Leicestershire LE13 0PB
Nominated Adviser	ARM Corporate Finance Limited 12 Pepper Street London E14 9RP
Stockbroker	Keith, Bayley, Rogers & Co. Limited Sophia House 76-80 City Road London EC1Y 2EQ
Solicitors to the Company	DMH Stallard Centurion House 37 Jewry Street London EC3N 2ER
Registrars	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0JQ
Receiving Agent	Capita Registrars Corporate Actions PO Box 166 The Registry 34 Beckenham Road Beckenham Kent BR3 4TH

DEFINITIONS

“2D”	two dimensional;
“3D”	three dimensional;
“Act”	the Companies Act 1985 (as amended);
“Admission”	the admission of the New Ordinary Shares to trading on AIM becoming effective;
“AIM”	the Alternative Investment Market of the London Stock Exchange plc;
“AIM Rules”	the rules of AIM published by the London Stock Exchange plc;
“Applicant”	a Qualifying Shareholder or person entitled by virtue of a <i>bona fide</i> market claim who lodges an Application Form;
“Application Form”	the application form relating to the Open Offer sent to Qualifying Shareholders with this document;
“ARMCF”	ARM Corporate Finance Limited;
“Board”	the Board of Directors of the Company;
“Capita Registrars”	a trading division of Capita IRG Plc;
“Certificated form”	a security which is not in uncertificated form;
“CREST”	the relevant system (as defined in the Regulations) in respect of which CREST Co Limited is the Operator (as defined in such Regulations);
“Directors”	the directors of the Company, whose names are set out on page 4 of this document;
“Enlarged Share Capital”	the issued ordinary share capital of the Company as enlarged by the issue of the New Ordinary Shares (assuming (i) full subscription under the Open Offer; and (ii) no exercise of the Warrants);
“Excess Shares”	such number of Open Offer Shares which are available to Qualifying Shareholders over and above their pro-rata entitlement;
“Existing Ordinary Shares”	the Ordinary Shares in issue at the date of this document;
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company to be convened at 3.00 p.m. (or as soon thereafter as the Annual General Meeting of the Company shall have been concluded or adjourned) on 25th April, 2005, notice of which is set out at the end of this document;
“Form of Proxy”	the form of proxy accompanying this document for use in connection with the EGM;
“Group”	Image Scan Holdings plc and its subsidiary undertakings or any of them as the context permits;

“Image Scan” or “ISH” or the “Company”	Image Scan Holdings plc;
“Issue Price”	7 pence per New Ordinary Share;
“KBR”	Keith, Bayley, Rogers & Co. Limited;
“London Stock Exchange”	London Stock Exchange plc;
“New Ordinary Shares”	the Ordinary Shares to be issued pursuant to the Placing and Open Offer;
“Open Offer Shares”	the 4,833,907 New Ordinary Shares offered for subscription pursuant to the Open Offer;
“Open Offer”	the conditional invitation by the Company to Qualifying Shareholders to subscribe for the Open Offer Shares on the terms and subject to the conditions set out in this document and in the Application Form;
“Ordinary Shares”	ordinary shares of 1p each in the capital of the Company;
“Overseas Shareholder”	Shareholders on the register of members of the Company on the Record Date other than those with a registered address in the United Kingdom;
“Placees”	the subscribers under the Placing;
“Placing and Open Offer Agreement”	the placing and open offer agreement dated 30th March, 2005 between the Company, the Directors, ARMCF and KBR in respect, <i>inter alia</i> , of the Placing and Open Offer;
“Placing Shares”	the 12,486,313 New Ordinary Shares to be issued pursuant to the Placing all of which are being placed;
“Placing”	the conditional placing by KBR of the Placing Shares as described in this document;
“Qualifying Shareholders”	holders of Ordinary Shares on the register of members of the Company at the Record Date excluding certain Overseas Shareholders who are not entitled to participate as described in Part II of this document;
“Record Date”	the close of business on 29th March, 2005;
“Receiving Agent”	Capita Registrars Corporate Actions, PO Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH;
“Regulations”	the Uncertificated Securities Regulations 2001 (SI 3755);
“Resolutions”	the resolutions to be proposed at the EGM, details of which are set out in the notice of the EGM to be found on pages 41 of this document;
“Secured Loan Stock”	9 per cent. Secured Loan Stock 2006;
“Secured Loan Stock Holder(s)”	holder(s) of the Secured Loan Stock;
“Shareholder(s)”	holder(s) of Ordinary Shares;

“Shares” or “Ordinary Shares”	ordinary shares with a nominal value of 1p each in the share capital of the Company;
“Share Option Schemes”	the two Company share option schemes currently in existence, being: <ul style="list-style-type: none"> (i) the Image Scan Enterprise Management Incentives Share Option Plan; and (ii) the Image Scan 1999 Approved Share Option Scheme
“TSA”	the Transport Security Administration of the United States of America;
“Warrants”	the Warrants allocated to the holders of the Secured Loan Stock which entitles each warrant holder, in respect of each warrant held, to subscribe for 1 new ordinary share of 1p at a price of 7p at anytime up to 15th November, 2009;
“Warrant Holder(s)”	holder(s) of the Warrants.

PART I

CHAIRMAN'S LETTER

Image Scan Holdings plc

(Registered in England and Wales with company number 3062983)

Directors:

Ian S S Johnson (*Chairman*)
Nicholas D Fox (*Chief Executive*)
Simon X Godber (*Technical Director*)
Peter J Hughes (*Non-executive*)
Peter J Woods (*Non-executive*)

Registered Office:

Pera Innovation Park
Nottingham Road
Melton Mowbray
Leicestershire
LE13 0PB

31st March, 2005

To Qualifying Shareholders and, for information only, to participants in the Share Option Schemes, Secured Loan Stockholders and Warrant Holders

Dear Shareholder,

1. Introduction

In my statement issued with the preliminary results for the year ended 30th September, 2004, I indicated that your Board was proposing a fund raising to finance the anticipated expansion in sales of the Company. The details of this fund raising are set out in this document.

I further indicated in my statement that, although the launch and subsequent sales of the Rapiscan 3D20 had been slower than anticipated, we are now seeing the first significant sales resulting from the sales and marketing agreement with Rapiscan Systems Inc. (formerly known as Rapiscan Security Products Limited) ("Rapiscan"). The latest call-off of 6 cameras in October 2004 under this agreement was invoiced at a price of £15,000 per camera. This call-off brings the total number of cameras sold to Rapiscan to 16 out of the 150 units which Rapiscan have contracted to purchase prior to 11th February, 2006 under its agreement with the Company.

On the industrial side we have met our target of establishing two key reference sites during 2004. These sites, at Amersham plc and Johnson Matthey, both resulted from lengthy evaluation of our technology by the customers and add significantly to proving the viability of our products.

The Annual Report and the Audited Financial Statements for the year ended 30th September, 2004 are enclosed with this circular.

The first half of the current financial year started well with our largest order to date, amounting to £600,000, being received in December 2004. This order is a follow-up to the first system delivered to Johnson Matthey in September 2004.

Your Board is excited by the opportunities the Group has and is encouraged by the number and value of the enquiries and quotations currently being processed. It is against this background that your Board announced today that the Company is proposing to raise up to £1,212,415 (before expenses) by way of a Placing and Open Offer of 17,320,220 New Ordinary Shares at 7p per share. 12,486,313 Placing Shares have been placed by KBR conditional only upon the passing of the Resolutions at the EGM and Admission to raise £874,042 and a further 4,833,907 New Ordinary Shares are being made available to Shareholders by way of an Open Offer. The net proceeds of the Placing and Open Offer will be used to provide additional working capital for the Group and to repay short term borrowings.

The Open Offer will be made to Qualifying Shareholders on the basis of 1 Open Offer Share for every 4 Existing Ordinary Shares held on the Record Date.

Further information relating to the Open Offer is set out in Part II of this document.

Application has been made to the Inland Revenue and, on the basis of information provided, (which included a draft of this document) the Inland Revenue has indicated that, following the issue, the holding will comply with the requirements of Schedule 28B ICTA 1988 for Venture Capital Trust Schemes and that the shares to be issued will be eligible shares. On the same basis, the Inland Revenue would be able to authorise the Company to issue certificates under Section 306(2) ICTA 1988 for Enterprise Investment Scheme purposes in respect of the shares to be issued. EIS relief only applies to original subscribers and not to subsequent purchasers.

In all other respects the New Ordinary Shares will, when issued and fully paid, rank *pari passu* with the Existing Ordinary Shares.

For EIS relief to apply, investors must subscribe for a minimum of £500 of Open Offer Shares. The Company has accordingly made provision for Shareholders to subscribe for additional Open Offer Shares in addition to their entitlement under the Open Offer by applying for Excess Shares should they wish to do so.

Further information in relation to taxation, including tax reliefs available, is set out in paragraph 10 of Part IV of this document.

2. Board Changes

Following a comprehensive internal review of the Group's medium and long term strategy it was agreed that a re-structuring of the Company's board was required to meet future challenges and to re-align the overhead structure with the foreseeable needs of the Group. These changes are summarised below:

- (a) The posts of Chief Financial Officer and Chief Operating Officer, previously occupied by Mr Ray Gibbs, have been removed.
- (b) The Company is assessing its options for the permanent appointment of a Finance Director. In the meantime the Company has appointed Mr Peter Hughes, who has recent and relevant financial experience, as a Non-executive director to strengthen the finance function.
- (c) The Company has also appointed Mr Peter Woods as a Non-executive director. Mr Woods has significant experience of international business, trade and government negotiations and brings to the Company particular strengths in strategic planning and marketing.

Further details of the Directors can be found in paragraph 5 of this Part I of the document.

3. Business Strategy

The Group's business remains the commercialisation of its expertise and products related to acquiring, interpreting and presenting single and multi-view digital X-ray images. In particular the Group has developed a range of products that enable the end-user to acquire and analyse in real-time, high quality, multi-view X-ray image data to provide either visual or automatic two- and three-dimensional X-ray information concerning the object under inspection.

The Directors believe that the power of these innovative imaging systems is such that they can provide the user with:

- real-time, three-dimensional information about the contents or concealed features within a product, package or piece of luggage;
- the ability to inspect up to 100 per cent. of products as they are produced on a production line to detect concealed faults or contaminants and thereby reduce the cost of after-sales support and potential litigation for the end-customer;
- the ability to use identification of concealed faults, to control manufacturing processes, to reduce scrap and maintain or improve overall quality; and
- the ability to more readily identify the presence of potential threats or contraband concealed within baggage, freight or cargo.

4. Current Trading and Prospects

4.1 *Homeland Security*

Market Background

Following the growth in the Homeland Security sector post the events of 11th September, 2001 (“9/11”), the total security market is now at a significantly higher level than prior to those events. The Homeland Security Research Corporation of the US indicate that the market has grown from its pre 9/11 estimates of \$5 billion in 2000 to \$85 billion in 2004 and forecast that the opportunities will exceed \$130 billion by 2010. As a consequence the Directors believe that this sector remains a strong growth market and one in which the Group will remain active for the foreseeable future.

The security X-ray screening market is dominated by four major companies, Smiths Detection (part of the Smiths Group plc), L-3 Communications Inc., Rapiscan Systems Inc., and in the check baggage screening sector, GE Infrastructure Security (formerly Invision and now part of the GE group). As in any other market, these companies compete on price and technology excellence to maintain and capture increased market share. The Directors believe that it is sales of products incorporating the Group’s technical excellence that could provide any of these existing manufacturers with a market edge by differentiating their product from the norm.

Recent Activities

Over the last 12 months the Group has undertaken a number of actions to consolidate its offerings to this sector, the results of which can be summarised as follows:

- launch of the Rapiscan 3DSP (formerly known as 3D20) model baggage inspection system (incorporating the Axis-3D® camera and operating system supplied by the Group) to the Rapiscan worldwide sales force completed in June 2004;
- development and sale of a new 100cm x 80cm tunnel version, known as 3DLP, in August 2004;
- completion of a prototype high energy (320kV) X-ray imaging system for screening of small vehicles which was delivered to the British government in June 2004;
- completion of a prototype large area detector for explosives and ordnance detection, the PanDEX product, which was demonstrated to a key customer in April 2004. Following feedback the Directors now anticipate the product launch by the end of this financial year;
- completion of the first stage of UK regulator approval for the Threat Image Projection (“TIP”) software; and
- cost benefit review of 2D verses 3D X-ray image presentation formats conducted in the UK at two sites, Rampton (sponsored by the Company) and East Midlands Airport (conducted by the Department for Transport) and in the USA undertaken by the TSA. Preliminary results from the TSA trial indicate a significant improvement in the probability of detection when using Axis-3D presentation formats compared to a standard 2D system.

Current Trading

The Group’s principal route to market for its 3D baggage inspection products is through its strategic partner, Rapiscan, who incorporate the Group’s technology into their Rapiscan 3DSP/LP products which they launched in the summer of 2004. Although launched later than anticipated, the Group has received and delivered call-off orders for six 3DSP units in November 2004. The Group is currently responding to a number of invitations to tender and the Directors believe that the sales of the 3DSP and other security related products will grow throughout 2005.

Aside from the 3DSP/LP products the Group has also delivered its first software product to Galaxy Scientific Corp (“Galaxy”). This software package, marketed under the name of mimiX™, is a core component within a computer based training package which Galaxy delivered to the TSA’s prime contractor in November 2004. The software is now being marketed by Galaxy to a number of potential customers worldwide. The Group is currently negotiating a licence which the Directors believe will generate income from the sales of the software to customers outside the TSA.

4.2 *Industrial Inspection*

Market Background

The Directors believe that X-ray inspection systems, particularly those that can inspect 100 per cent. of products within the production line (“in-line” inspection), offer significant benefits to manufacturers by revealing detailed information on the presence, integrity and geometry of concealed contaminants, components and features. The requirement for industrial inspection is driven by many factors including the need:

- to ensure products meet the quality expectations of the end-customer;
- to control and minimise waste produced by a plant both for economic and environmental reasons;
- to reduce after-sales costs by early identification and elimination of latent faults; and
- to minimise the risk of potential litigation through early identification of potentially hazardous faults or contaminants.

Unlike the Homeland Security sector, X-ray based industrial inspection (often grouped under the general title of non-destructive testing or NDT) is a relatively fragmented industry with a large number of companies providing solutions for a wide range of niche applications. This however provides a significant opportunity for the Group to develop non-conflicting “Partnering Agreements”. These provide for the Group, in association with other companies, to market and sell integrated systems incorporating its multi-view X-ray imaging technology combined with the partnering company’s technology to provide an advanced solution for a specified market sector.

The market for real-time, in-line industrial X-ray systems, beyond the simple foreign body detectors used in the food industry, is relatively new. The Directors believe that technology has only recently reached the stage where advanced, practical and cost effective in-line X-ray systems capable of providing 100 per cent. inspection are technically and commercially viable.

The fragmented nature of the industry makes an accurate assessment of the market size difficult to quantify. However, figures for the conventional NDT X-ray market relating to cabinet and off-line inspection units, have been estimated at US\$150 million. Industry experts estimate that the total potential market for in-line systems will be at least US\$1 billion within 8 years.

Recent Activities

The last 18 months have seen considerable efforts to market the Group’s industrial products by participating in a number of key industrial exhibitions, giving conference papers, direct customer presentations and press releases. Significant achievements include:

- the optimisation of the 3DX-Camera for industrial applications;
- the Group’s high speed, high resolution DEX X-ray camera being integrated into a turnkey solution, the MDXI-300, for Johnson Matthey as an integrated batch inspection system;
- the launch in February 2005 of the MDXI range of industrial X-Ray inspection systems ;
- the first export order being received in March 2005 for a MDXI industrial inspection system; and
- the large area X-ray detector panel (PanDEX) designed for the Homeland Security sector being reconfigured for industrial applications and due for launch during 2005.

Current Trading

A major element within the Group’s business model is to develop key reference sites to demonstrate the efficacy of its technology. During 2004 two such reference sites were established. The first of these was the delivery of two systems to Amersham plc in March 2004. The second was the delivery of a prototype inspection system to Johnson Matthey in September 2004. Subsequently in December 2004, Johnson Matthey placed a significant follow-on order, in excess of £600,000, for a multi-station industrial inspection system. In March 2005, the Group achieved

its first export order with a value of £82,000 for the newly launched MDXI system. Both systems are due for delivery early in the second half 2005.

Having now established credibility for the Group's technology through high profile reference sites, the Board intends to commission a strategic market research report in 2005 to identify the sectors of focus for the Group within the industrial inspection sector.

4.3 *Strategic Partners*

An important element of the Group's business model is establishing a series of partnering agreements to promote the Group's products into niche sectors through established, expert companies who have an installed customer base within that sector. The Group can then focus on the development of application-specific technical solutions against specifications provided by our expert partners.

The Group currently has partnering agreements with Rapiscan and Falcon Vision RT ("Falcon"), details of which are as follows:

4.3.1 *Rapiscan*

Rapiscan is owned by NASDAQ quoted OSI Systems Inc. ("OSI") in California. OSI has thirty years experience of developing, manufacturing and selling security and inspection systems, medical monitoring products and optoelectronic-based components.

Scope of Agreement

The agreement provides for Rapiscan exclusively to promote the 3D X-ray conventional baggage inspection technology developed by the Group in conventional (non-automated) security applications. Rapiscan currently market this product under their product name 3DSP. The Group supplies the camera components for this system on an OEM basis, including the detectors, control electronics, system control and image processing software.

The agreement requires Rapiscan to order 150 camera units from the Group by February 2006.

4.3.2 *Falcon*

Falcon is a Hungarian based company providing visible light metrology systems for the automotive and lighting sectors. Specific systems produced by Falcon for the automotive industry include their QualiLine-C system designed for 100 per cent. inspection of complex castings such as motor vehicle cylinder heads, engine blocks, transmission systems, suspension and brake parts.

Scope of Agreement

The agreement provides for Falcon and the Group to jointly market combined visible light/X-ray metrology inspection systems into the automotive sector, specifically for cylinder head and engine block inspection applications. A prototype has already been developed which enables the in-line inspection of cylinder heads.

In addition to the agreements cited above, the Group is currently in discussion with two other companies which the Directors hope will result in formal agreements during 2005.

5. **Directors**

Ian Stuart Southwell Johnson F.SyI. (*Non-executive Chairman*) aged 62

Mr Johnson is one of the UK's leading security and risk management consultants. In addition to being principal consultant of Ian Johnson Associates Limited, he is a member of the Risk and Security Management Forum, British Security Industry Association and ASIS International of the US. Among the many appointments held, he was adviser to the Chairman of British Airways for ten years and has been a serving member of the National Maritime Security Committee. He has also served as a judge on the Security Industry Awards Panel and is a founder member and Fellow of The Security Institute

and a Law Society accredited expert witness on security and crime prevention. Mr Johnson is a member of both the Audit and Remuneration Committees.

Nicholas Fox BSc (Hons), MSc, CEng, MIEE (*Managing*) aged 48

Mr Fox obtained his first degree from Leicester University in Electronics and Material Engineering and subsequently was awarded an MSc in Information and Instrumentation Engineering from The City University, London for his work in advanced fibre optic laser Doppler instrumentation systems.

Mr Fox is an experienced manager of innovation, with over 20 years experience in supplying technical and commercial solutions to the manufacturing, process control and instrumentation industries. During the early 1990s he led the Systems Division of PERA International, one of the country's leading technology consultancies, before leaving in 1993 to establish a new consultancy specialising in the commercialisation of innovations.

In September 1996, Mr Fox assembled a team of commercial, technical and academic parties to form the Group, and since its inception he has been responsible for the day-to-day running of the Group and carrying out the function of Chief Executive Officer.

Simon Xerxes Godber B Eng (Hons), PhD, CEng, MIEE (*Technical*) aged 39

Dr Godber completed his first degree in Electrical & Electronic Engineering at Trent Polytechnic (now the Nottingham Trent University) in 1988. He subsequently stayed within the 3D Imaging Group at this institution to complete a PhD in novel stereoscopic imaging systems, awarded in 1991. He continued to work in this research group under a fellowship contract, concentrating on 3D aspects of both visible and X-ray imaging systems.

He left the University to fulfil a desire to work freelance as an image-processing consultant and established a close working relationship with the Group. In 1999 he joined the Group as Technical Manager and became responsible for managing and delivering software solutions for security, industrial and medical applications. Dr Godber is now Technical Director and is closely involved with the day-to-day management of the research and development projects.

Peter John Hughes MBA FCA (*Non-executive*) aged 71

Mr Hughes has had an extensive career as both Finance Director and Managing Director of a number of private and public limited companies. In addition to his corporate experience in companies such as Grand Metropolitan Group (now Diageo plc), Newman Industries plc and Dunham-Bush (Europe) plc, Mr Hughes has also contributed to management education in his roles as Visiting Lecturer, Teaching Fellow and Course Director at various universities in the UK, Ireland and USA. Mr Hughes is a member of both the Audit and Remuneration Committees.

Peter Joseph Woods OBE (*Non-executive*) aged 68

Mr Woods has comprehensive management experience in such positions as Chairman and Chief Executive of Rover Group Japan Ltd (BMW Rover Group), Rover Group Executive Regional Director of Japan, Australia and South Africa, Chairman of the European Business Community Japan, Consultant and Senior Adviser to the M D Mitsui UK Trading Co., Managing Director of Retainagroup UK and Senior Adviser to DTI/FCO (Japan Dept.). Mr Woods is currently Chairman of Transense Technologies plc. Mr Woods is also a member of both the Audit and Remuneration Committees.

Further details of Directors' Service Agreements and remuneration can be found in paragraph 5 of Part IV of this document.

6. Financial information

The following is a summary of the financial information of the Company for the last three financial years ended 30th September, 2004. This summary has been extracted from the financial statements enclosed with this document, which should be read in full.

	<i>Years ended 30th September,</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Turnover	502,697	509,750	424,620
Operating loss	(635,718)	(839,773)	(1,262,605)
Loss on Ordinary Activities before taxation	(664,607)	(838,718)	(1,254,969)

As mentioned earlier in this Part I, the Group has made significant progress since 30th September, 2004 with the Group receiving orders for its range of products to a value of approximately £800,000, although in the short term, in line with its projections, the Group continues to incur losses and to absorb working capital.

Looking ahead, the Directors believe that current negotiations with potential customers should generate short to medium term revenues, enabling the Group to move towards profitability, and leading them to view the prospects for the future with confidence.

7. Principal terms of the Placing and Open Offer

Part II of this document comprises a letter from KBR which invites Qualifying Shareholders to apply for the Open Offer Shares at the Issue Price on the basis of:

1 Open Offer Share for every 4 Ordinary Shares held on the Record Date

conditional on the passing of the Resolutions at the EGM and Admission.

In addition, Qualifying Shareholders may subscribe for additional Open Offer Shares by applying for Excess Shares should they so wish.

To be valid, completed Application Forms together with payment in full must be received by 3.00 p.m. on 22nd April, 2005.

The Placing Shares have been placed conditionally by KBR subject to the passing of the Resolutions at the EGM and Admission.

Further information on the Placing and Open Offer including the procedure for application and payment is set out in the letter from KBR in Part II of this document and in the Application Form. The attention of Overseas Shareholders is drawn specifically to paragraph 8 of Part II of this document.

8. Use of proceeds

The Company is now seeing strong growth in commercial orders. To obtain maximum benefit from this position the Company will require additional funds to support both the on-going working capital requirements of the Group to finance these orders and to finance specific additional actions including:

- the repayment of the £200,000 Secured Loan Stock;
- to establish, through a strategic market review, key areas to focus marketing effort for the industrial sector;
- to expand the Group's partnering network;
- to increase the Group's market presence through attendance at targeted trade shows, presentation of papers and journal articles;

- to maintain momentum of technology development to ensure on-going replacement of new generation technological solutions; and
- to re-structure the Group's management team to meet the new strategic demands and, in particular, to strengthen the sales function.

9. Dividend policy

The Company is seeking primarily to achieve capital growth for its shareholders in the medium term and it is not the present intention of the Directors to pay a dividend on the Ordinary Share capital of the Company. The Directors intend to retain any profits for use within the business for the time being. Once the Company has positive distributable reserves, and as and when the Directors consider it appropriate, the Company will adopt an appropriate dividend policy.

10. Corporate governance

So far as possible, given the Group's size and the constitution of the Board, the Directors comply with the principles of best practice as set out in the combined code on corporate governance published by the UK Listing Authority

The Board has appointed an Audit Committee, consisting of I S S Johnson, P J Hughes and P J Woods. This Committee meets at least twice annually and is responsible for ensuring that the financial performance of the Group is properly reported and monitored and for meeting the auditors and reviewing their reports in relation to the accounts and internal control systems.

The Board has appointed a Remuneration Committee, which consists of I S S Johnson, P J Hughes and P J Woods. The Remuneration Committee is responsible for reviewing the performance of the Executive Directors and for setting the scale and structure of their remuneration and the basis of their service contracts bearing in mind the interests of shareholders. The Remuneration Committee also determines the allocation of share options to employees.

Given the size of the Company, the Remuneration Committee also acts as the Nomination Committee responsible for considering and recommending to the Board changes in the Board's composition and membership.

11. Risk factors

Investors should be aware of the risks associated with an investment in the Company. The following list of risks is not intended to be exhaustive. In particular, prospective investors should consider the following:

Operating Losses

The Group has incurred net losses to date. These losses have arisen mainly from the costs incurred in research and development and general administrative costs. There can be no assurance that the Group will achieve profitable operations.

Timing and Level of Demand

There is no guarantee that there will be demand for adequate volumes of, or any demand at all, or demand at acceptable margins for present or future products and/or technologies. There can be no assurance that orders will be received in the anticipated volumes or within the time-scales currently envisaged by the Directors. The placing of orders could be materially delayed by circumstances such as delays in obtaining certification and approvals, customer evaluations taking longer than anticipated, and/or customer development or production or marketing of equipment suitable for the Group's products and/or technologies being later than envisaged.

Product Risk

To remain competitive, the Group must successfully develop technologies and introduce new products on a timely basis that keep pace with rapid technological development and responds to customer requirements. There can be no assurance that the Group will be able to do so.

Intellectual Property

There can be no assurance that claims against the Group regarding infringement of patent applications in the course of examination or other intellectual property rights will not be asserted by third parties from time to time with respect to the Group's products or that the Group's products will not infringe patent, trade mark, copyright or other proprietary rights of third parties. Additionally, in the event of such infringement, there can be no assurance that the Group will be able to obtain licences on reasonable terms, if at all. Failure to obtain pertinent licences or to modify appropriately the Group's product designs could have a material adverse effect on the Group's operating results and financial position.

There is no assurance that the Group can meaningfully protect its right to unpatented proprietary technology or that others will not independently develop substantially equivalent or superior technology. Although the Group has entered into confidentiality agreements with its consultants, representatives and certain of its employees, there can be no assurance that the confidentiality of trade secrets and proprietary know-how will be preserved, or that similar trade secrets or proprietary know-how will not be independently developed by others.

Retention of Key Employees

The Group depends on its technical and management team. The departure from the Group of any executive Director or certain senior employees could, in the short term, have a materially adverse effect on the Group's business. Whilst the Group has entered into service agreements or contracts of employment with all Directors and senior employees with the aim of securing their services, the retention of their services cannot be guaranteed.

Capacity to Meet Demand

Since the Group will not itself directly manufacture the majority of its products, there is a risk that production difficulties outside the Group's control may affect the Group's ability to meet demand.

Competition

It is possible that companies other than the Group may have projects which are not known to the Group, and which could render the Group's products less competitive or obsolete. New entrants may emerge and competitors may develop more effective and more cost-competitive technologies than, or may produce products superior to, those of the Group.

AIM-Quoted Investment

The market for shares traded on AIM may be less liquid and carry a higher risk than the market for shares listed on the Official List. Consequently, the share price may be subject to greater fluctuation than the price of officially listed shares and the Ordinary Shares may be difficult to buy and/or sell.

12. Extraordinary General Meeting

The Placing and Open Offer requires an increase in authorised share capital and authority from shareholders to issue shares other than pro rata to existing shareholdings. At the same time it is appropriate to amend the Articles of Association to increase the amount permitted to be paid by way of fees to any one Director to a sum not exceeding £20,000 per annum.

Accordingly a notice convening an Extraordinary General Meeting of the Company to be held at Centurion House, 37 Jewry Street, London EC3N 2ER at 3.00 p.m. (or as soon thereafter as the Annual General Meeting convened for the same date has been concluded or adjourned) on 25th April, 2005 is set out at the end of this document. At this meeting shareholders will be asked to approve the necessary changes to the share capital of the Company in order that the Placing and Open Offer may proceed.

Shareholders will find enclosed with this document a Form of Proxy for use at the EGM.

Whether or not you intend to attend the EGM in person, and whether or not you intend to apply for any Open Offer Shares under the Open Offer, you are requested to complete and return the Form of

Proxy in accordance with the instructions printed on that form so as to be received by the Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, as soon as possible and in any event no later than 3.00 p.m. on 23rd April, 2005.

Completion and return of the Form of Proxy will not prevent you from attending and voting at the Extraordinary General Meeting in person if you wish to do so.

13. Action to be taken

If you wish to apply for Open Offer Shares under the Open Offer, you should complete the enclosed Application Form which is not transferable in accordance with the instructions set out in this document and the Application Form. If you wish to apply for more Open Offer Shares than your entitlement under the Open Offer you should complete the relevant Box within the Application Form. You should then return the Application Form in the enclosed reply-paid envelope, with the appropriate remittance for the full amount payable on application, to be received no later than 3.00 p.m. on 22nd April, 2005, at the offices of the Company's registrars and receiving agents, Capita Registrars, Corporate Actions, PO Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH.

Further details of the Open Offer are set out in Part II of this document.

14. Further information

Your attention is drawn to the further information set out in Parts II, III and IV, of this document.

15. Directors' intentions

The Directors currently beneficially own (or have a beneficial interest in) an aggregate of 2,270,835 Ordinary Shares (representing 11.74 per cent. of the Existing Ordinary Shares). The Directors intend to take up 1,928,571 Placing Shares under the Placing. In addition Gresham House plc, Welsh Industrial Investment Trust plc and A P Stirling who together hold 3,728,166 Existing Ordinary Shares have also agreed to take up 3,060,202 Placing Shares. Accordingly at least 1,499,750 Open Offer Shares will be available to Qualifying Shareholders as Excess Shares under the Open Offer to Shareholders.

Yours faithfully

I S S Johnson

Chairman

PART II

OPEN OFFER LETTER FROM KEITH, BAYLEY, ROGERS & CO. LIMITED

Sophia House
76/80 City House,
London
EC1Y 2EQ

31st March, 2005

To: Qualifying Shareholders and for information only, to the holders of existing options and warrants over Ordinary Shares

Dear Shareholders,

Proposed Placing and Open Offer of up to 17,320,220 New Ordinary Shares at 7p per share

1. Introduction

It was announced today that Image Scan is proposing to raise up to £1,212,415 (before expenses) by way of a Placing and Open Offer of 17,320,220 New Ordinary Shares at 7p per share. 12,486,313 New Ordinary Shares have been placed by KBR, conditional only on the passing of the Resolutions at the forthcoming EGM and Admission, to raise £874,042 and a further 4,833,907 New Ordinary Shares are being made available to Shareholders by way of Open Offer.

Shareholders' attention is drawn to the letter from the Chairman in Part I of this document which sets out the background to and reasons for the proposals.

This letter and the accompanying Application Form contain the formal terms and conditions of the Open Offer.

2. Details of the Open Offer

KBR, as agent for and on behalf of the Company, hereby offers Qualifying Shareholders the opportunity to apply for Open Offer Shares and Excess Shares at a price of 7p per share payable in full on application (free of expenses). The Open Offer is made on the terms and subject to the conditions set out in this letter and in the Application Form enclosed with this document.

Qualifying Shareholders may apply for any whole number of Open Offer Shares as they wish. Initially, Qualifying Shareholders will be entitled to their maximum pro rata entitlement calculated on the following basis:

1 Open Offer Share for every 4 Existing Ordinary Shares

registered in their name on the Record Date and so in proportion for any greater or lesser number of Existing Ordinary Shares then held, and then may apply for any number of Excess Shares by completing the relevant section of the Application Form. Qualifying Shareholders' maximum pro rata entitlements are shown on the Application Form. Holdings of Existing Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Open Offer.

Valid applications for up to the maximum pro-rata entitlement will be met in full.

Excess applications may be rejected or scaled down at the absolute discretion of the Company, ARMCF and KBR but, so far as practicable, Shareholders will receive a minimum of £500. Any monies paid in excess of the amount due in respect of an excess application will be returned to the applicant without interest.

Fractional entitlements to Open Offer Shares will not be allotted to Qualifying Shareholders and entitlements will be rounded down to the nearest whole number. Fractional entitlements will be aggregated and taken up under the Placing for the benefit of the Company.

Under the Placing and Open Offer Agreement, KBR has conditionally agreed to procure places for all the Placing Shares. Details of the Placing and Open Offer Agreement are set out in paragraph 9 of Part IV of this document.

The New Ordinary Shares will on issue rank *pari passu* in all respects with the Existing Ordinary Shares currently in issue. Application will be made to the London Stock Exchange for the New Ordinary Shares to be admitted to trading on AIM.

3. Conditions of the Open Offer

The Open Offer is conditional on the Placing and Open Offer Agreement becoming or being declared unconditional in all respects by not later than 8.00 a.m. on 28th April, 2005 (or such later time and date, being not later than 13th May, 2005 as KBR, ARMCF and the Company may agree). The principle conditions to the Placing and Open Offer Agreement are:

- (a) the passing of the Resolutions; and
- (b) the London Stock Exchange having admitted the New Ordinary Shares to trading on AIM and such Admission having become effective.

4. Procedure for Application

Applications may only be made for the Open Offer Shares on the enclosed Application Form which is personal to the Qualifying Shareholder named on it and may not be assigned or transferred except in the circumstances described below. The Application Form represents a right to apply for Open Offer Shares and Excess Shares. The Application Form is not a document of title and it may not be sold, assigned or transferred except to satisfy *bona fide* claims in relation to purchases of Ordinary Shares prior to the date on which the Existing Ordinary Shares are marked “ex” the entitlement to participate in the Open Offer pursuant to the Rules of the London Stock Exchange (the “ex-date”). Application Forms may be split but only to satisfy such *bona fide* claims up to 3.00 p.m. on 20th April, 2005. Persons who have, prior to the ex-date, sold or otherwise transferred some or all of their Existing Ordinary Shares should contact their stockbroker, bank or other agent authorised under the FSMA through whom the sale or transfer was effected and refer to the instructions regarding split applications set out in the Application Form, since the invitation to subscribe for Open Offer Shares under the Open Offer may represent a benefit which can be claimed from them by purchasers or transferees under the Rules of the London Stock Exchange.

In an Open Offer, unlike in a rights issue, Open Offer Shares which are not applied for will not be sold in the market for the benefit of those Qualifying Shareholders who do not apply, but will lapse.

Qualifying Shareholders who do not wish to apply for any Open Offer Shares under the Open Offer should not complete or return the Application Form but are encouraged to vote at the Extraordinary General Meeting by completing and returning the enclosed Form of Proxy.

The Application Form shows the number of Existing Ordinary Shares on which the relevant Qualifying Shareholder’s pro rata entitlement has been based calculated on the basis described above.

Qualifying Shareholders wishing to apply for all or any of the Open Offer Shares to which they are entitled together with any Excess Shares they may wish to subscribe for should complete and sign the enclosed Application Form in accordance with the instructions thereon and send or deliver it during normal business hours, in the reply paid envelope provided, together with a remittance for the full amount to Capita Registrars, Corporate Actions, PO Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH so as to arrive as soon as possible and in any event not later than 3.00 p.m. on 22nd April, 2005 at which time the Open Offer will close. Cheques should be made payable to Capita IRG Plc – a/c Image Scan Holdings plc and crossed “Account Payee”. Application Forms received after this time will not be accepted.

Applications once made will be irrevocable and will not be acknowledged. KBR and the Company reserve the right (but shall not be obliged) to treat an Application Form as valid and binding on the person(s) by whom or for whose benefit it is lodged even if such Application Form is not completed in accordance with the relevant instructions. KBR and the Company further reserve the right (but shall not be obliged) to accept either Application Forms received after 3.00 p.m. on 22nd April, 2005 with the envelope bearing a legible postmark not later than 3.00 p.m. on 22nd April, 2005 or from authorised persons (as defined in the FSMA) specifying the Open Offer Shares applied for and undertaking to lodge the Application Form in due course. If an Application Form is sent by post, Qualifying Shareholders are recommended to allow at least 4 working days for delivery. The instructions and other terms set out in the Application Form are part of the Open Offer.

If you are in any doubt about the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

5. Money Laundering

The verification of identity requirements of the Money Laundering Regulations 2003 will apply to the Open Offer and verification of the identity of the applicant(s) for Open Offer Shares may be required. If the value at the issue price of the Open Offer Shares for which you are applying does not exceed the sterling equivalent of €15,000 (currently approximately £9,000) you are not likely to be required to satisfy the verification of identity requirements described below. However, the Receiving Agents may at their absolute discretion require verification of identity from any person lodging an Application Form and, without prejudice to the generality of the foregoing, in particular, any person who either (i) tenders payment by way of cheque or banker's draft drawn on an account name of a person other than the applicant or (ii) appears to the Receiving Agents to be acting on behalf of some other person. In the former case, verification of the identity of the applicant may be required. In the latter case, verification of the identity of any person on whose behalf the applicant appears to be acting may be required. In order to avoid this, if the value at the issue price of the Open Offer Shares for which you are applying does exceed the sterling equivalent of €15,000 (currently approximately £9,000), payment should be made by means of a cheque drawn by the person named in the Application Form (or one of such persons). If this is not practicable and you use a cheque drawn by a third party (for example, a building society cheque or banker's draft) you should:

- (a) write the name, address and date of birth of the person named on the Application Form (or one of such persons) on the back of the cheque, building society cheque or banker's draft and ensure that a copy of the Applicant's passport or driving licence certified by a solicitor or a recent original bank or building society statement or utility bill in the Applicant's name and showing his current address (which originals will be returned by post at the Applicant's risk) is enclosed with your application;
- (b) if a building society cheque or banker's draft is used, ask the building society or bank to endorse the name and account number of the person whose building society or bank account is being debited by the cheque or bankers draft; and
- (c) if you are making the application as agent for one or more persons indicate on the Application Form whether you are a UK or EU regulated person or institution (e.g. a bank or broker) and specify your status. If you are not a UK or EU regulated person or institution, you should contact Capita Registrars, Corporate Actions, PO Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH on 0870 162 3121 or, if calling from outside the United Kingdom on +44 208 639 2157.

If you deliver your Application Form personally you should ensure that you have with you evidence of your identity bearing your photograph (for example your passport). In the event, if it appears to the Receiving Agents that an applicant is acting on behalf of some other person, further verification of the identity of any person on whose behalf the applicant appears to be acting may be required.

By lodging an Application Form, each Qualifying Shareholder undertakes to provide such evidence of identity at the time of lodging the Application Form or, at the absolute discretion of the Company and KBR, at such specified time thereafter as may be requested to ensure compliance with the Money Laundering Regulations 2003.

The Receiving Agents are entitled, in their absolute discretion, to determine whether the verification of identity requirements apply to any applicant and whether such requirements have been satisfied. Neither the Receiving Agents nor the Company nor KBR shall be responsible or liable to any person for any loss or damage suffered as a result of the exercise of their discretion hereunder.

If evidence of identity satisfactory to the Company and KBR and their agents is not provided to any of them on or before 3.00 p.m. on 22nd April, 2005 (or such later date as the Company and KBR may agree), KBR or the Company may terminate the agreement constituted by the acceptance in whole or in part of the application without liability and, in such case, the Open Offer Shares which are the subject of such agreement will be reallocated or sold as soon as reasonably practicable (and for such purpose the Qualifying Shareholder irrevocably authorises the Company, or any person appointed by it for the purpose to execute on his or her behalf any instrument, transfer or other document which may be necessary or desirable in order to effect such reallocation or sale). In such an event, the money payable or paid in respect of the application will be returned (at the applicant's risk and without interest) to the bank or other account on which the cheque or other remittance accompanying the application was drawn.

6. Payment

All payments must be made by cheque or banker's draft in pounds sterling drawn on a bank or building society in the United Kingdom, the Channel Islands or the Isle of Man, which is either a settlement member of the Cheque and Credit Clearing Company Limited or CHAPS Clearing Company Limited or which has arranged for its cheques and banker's drafts to be cleared through the clearing facilities provided for members of either of those companies and must bear the appropriate sort code number in the top right hand corner. Any application that does not comply with these requirements may be treated as invalid.

Cheques or banker's drafts should be made payable to Capita IRG Plc – a/c Image Scan Holdings plc and should be crossed "Account Payee only". Eurocheques, unless drawn on a bank in the United Kingdom, the Channel Islands or the Isle of Man will not be accepted. Any interest earned on payments made before they are due will be retained for the benefit of the Company.

The Company reserves the right to have cheques presented on receipt and to instruct the Receiving Agents to seek special clearance of cheques to allow the Company to obtain value for remittances at the earliest opportunity. Any person returning an Application Form with a remittance in the form of a cheque thereby warrants that the cheque will be honoured on first presentation. If cheques or banker's drafts are presented for payment before the conditions of the Open Offer are fulfilled the monies will be kept in a separate bank account until the conditions are fully met. In the event that the Open Offer does not become unconditional by 8.00 a.m. on 28th April, 2005 (or such later time and date being not later than 13th May, 2005 as KBR and the Company may agree), all application monies will be returned to applicants as soon as is practicable thereafter. The interest earned on monies held in the separate bank account will be retained for the benefit of the Company. If any cheque is not honoured on first presentation the relevant application may be deemed to be invalid.

All documents or remittances sent to or by an applicant (or as he or she may direct) will be sent through the post at his/her own risk.

All enquiries in connection with the procedure for application and completion of the Application Form should be addressed to Capita Registrars.

7. Settlement or Dealings

The result of the Open Offer is expected to be announced on 25th April, 2005. Application will be made to the London Stock Exchange for the New Ordinary Shares to be admitted to AIM. It is expected that Admission will become effective and that dealings in the Existing Ordinary Shares and the New Ordinary Shares will commence on 28th April, 2005.

Subject to the conditions of the Open Offer being satisfied or waived, all New Ordinary Shares to be issued in uncertificated form are expected to be credited to the appropriate CREST Stock Accounts on 28th April, 2005 unless the Company exercises the right to issue such shares in certificated form in

which case definitive certificates are expected to be despatched by post on or before 6th May, 2005. No temporary documents of title will be issued. Pending despatch of definitive share certificates, transfers by non-CREST Qualifying Shareholders will be certified against the share register. All documents or remittances sent by or to an applicant (or his agent as appropriate) will (in the latter case) be sent through the post and will (in both cases) be at the risk of the applicant. Qualifying Shareholders in CREST should note that they will be sent no confirmation of the credit of the shares to their CREST stock account nor any other written communication by the Company in respect of the issue of Open Offer Shares. Notwithstanding any other provision in this document, the Company reserves the right to issue any Open Offer Shares in certificated form.

8. Overseas Shareholders

If you are resident in any jurisdiction other than the United Kingdom you are advised to consult a professional adviser immediately.

The making of the Open Offer to persons who are resident in or citizens of countries other than the United Kingdom may be affected by the law of the relevant jurisdiction other than the United Kingdom and no such person may treat the same as constituting an invitation or offer to him, nor should he in any event use such Application Form, if, in the relevant jurisdiction, such an invitation or offer cannot lawfully be made to him or such Application Form cannot lawfully be used without contravention of any unfulfilled registration or other legal requirements. In such circumstances this document and/or any Application Form are sent for information only. It is the responsibility of any person receiving a copy of this document and/or Application Form outside the United Kingdom and wishing to make any application for any Open Offer Shares pursuant to the Open Offer to satisfy himself as to the full observance of the laws of the relevant jurisdiction, including obtaining all necessary governmental or other consents which may be required and observing all other necessary formalities and paying any issue, transfer or other taxes due in such jurisdiction. Such persons should consult their professional advisers as to whether they require any governmental or other consents or need to observe any applicable legal requirements to enable them to apply for Open Offer Shares pursuant to the Open Offer.

Persons (including, without limitation, custodians, nominees and trustees) receiving an Application Form in connection with the Open Offer should not distribute or send it in or into any jurisdiction where to do so would or might contravene local securities laws or regulations. If an Application Form is received by any person in any such jurisdiction, or by the agent or nominee of such a person, he must not seek to take up the Open Offer Shares except pursuant to an express agreement with the Company. Any person who does forward an Application Form into any such jurisdiction, whether pursuant to a contractual or legal obligation or otherwise should draw the attention of the recipient to the contents of this paragraph. The Company reserves the right to reject a purported application for Open Offer Shares from shareholders in any jurisdiction, or persons who are acquiring Open Offer Shares for resale in any such jurisdiction.

The Company reserves the right, in its absolute discretion, to treat the Open Offer as having been declined in a particular case if it believes acceptance may violate applicable legal or regulatory requirements.

In particular Overseas Shareholders should note the following:

United States and Canada

Neither the Application Form nor the Open Offer Shares have been or will be registered under the US Securities Act of 1933 (as amended) (“Securities Act”), and the relevant exemptions are not being obtained from the Securities Commission of any province of Canada or territory thereof. Therefore, subject to certain exceptions, the Open Offer Shares may not be offered or sold directly or indirectly to any US person (within the meaning of Regulation S of the Securities Act) or for the account or benefit of any person who is a citizen of or a resident of Canada, a corporation, partnership or other entity created or organised in or under any laws of Canada or an estate or trust, the income of which is subject to Canadian income taxation, regardless of its source. Application Forms have not been sent and the Open Offer is not being made to persons with registered addresses in the United States or Canada.

In this document and in the Application Form “United States” means the United States of America, its territories and possessions, all areas subject to its jurisdiction or any potential sub-division thereof, any state of the United States and the District of Columbia.

Australia

Neither this document nor the Application Form nor the Open Offer Shares will be lodged or registered with the Australian Securities Commission under Australia’s Corporations Law and Open Offer Shares are not being offered for subscription or sale and may not be offered, sold or delivered in or into Australia or for the benefit of any person or corporation in Australia. No Application Form will be sent to any person or corporation in Australia, including any shareholder with a registered address in Australia. Payment under an Application Form will constitute a representation or warranty that the person entitled to the same has not received, sent or forwarded the Application Form in or into Australia or to any person or corporation in Australia, and is not subscribing for any of the Open Offer Shares for the account or benefit of any person or corporation in Australia or with a view to their offer, sale or delivery directly or indirectly in or into Australia or to or for the account of any person or corporation in Australia. As used here and in the Application Form “Australia” means the Commonwealth of Australia, its states and possessions.

Japan

The relevant clearances have not been, and will not be, obtained from the Ministry of Finance of Japan and no prospectus in relation to the Open Offer Shares has been or will be lodged with or registered by the Ministry of Finance of Japan and no steps have been taken to enable the Open Offer Shares to be offered, sold, accepted or otherwise delivered in Japan in compliance with applicable laws of Japan. The Open Offer Shares may not therefore be offered, sold, accepted or otherwise delivered directly or indirectly, in or into Japan. Accordingly, Application Forms will not be sent to any person with a registered address in Japan.

Republic of Ireland

No document in relation to the Open Offer Shares has been, or will be, lodged for registration with the Registrar of Companies in the Republic of Ireland and all subscribers for Open Offer Shares must provide addresses outside the Republic of Ireland for the receipt of certificates for Open Offer Shares. Persons will be deemed to have made an invalid application if their Application Form appears to the Company or its agents to have been executed in or dispatched from the Republic of Ireland, or if they provide an address in the Republic of Ireland for registration, or if they are unable to make the representations and warranties set out in the Application Form. Accordingly, Application Forms are not being sent to any Shareholder with a registered address in the Republic of Ireland.

9. Taxation

Shareholders’ attention is drawn to the section headed “United Kingdom taxation” set out in paragraph 10 of Part IV of this document. Any Qualifying Shareholder who is in any doubt as to his or her taxation position should consult a professional adviser without delay.

10. Further Information

Your attention is drawn to the further information set out in Part I and Parts III to IV of this document and to the terms and conditions set out in the enclosed Application Form.

11. Miscellaneous

The rights and remedies of the Company and KBR under these terms and conditions are in addition to any rights and remedies which would otherwise be available to any of them and the exercise or partial exercise of any one right will not prevent the exercise of others or full exercise.

KBR reserves the right to delay the closing time of the Open Offer from 3.00 p.m. on 22nd April, 2005 by giving notice to the London Stock Exchange. In this event, the revised closing time will be published

in such manner as KBR (following consultation with the Company) determines subject to, and having regard to, the AIM Rules.

Qualifying Shareholders agree that all applications, acceptances of applications and contracts resulting from them under the Open Offer shall be governed by and construed in accordance with English law and that for the exclusive benefit of KBR and the Company Qualifying Shareholders irrevocably submit to the jurisdiction of the English Courts and agree that nothing shall limit the Company's or KBR's right to bring any suit or proceedings arising out of or in connection with any such application, acceptances or contracts in any other manner permitted by law or in any court of competent jurisdiction.

Qualifying Shareholders authorise the Company or KBR, on their behalf, to make any appropriate returns to the Inland Revenue in relation to stamp duty reserve tax (if any) on any contract arising on acceptance of an application and in relation to stamp duty (if any) payable on a transfer of shares as a result of such contract.

Qualifying Shareholders authorise the Company and Capita Registrars to send a share certificate for the number of Open Offer Shares for which an application is accepted and/or a cheque for any money returnable and other documents and remittances by post to them at the address (or, in the case of joint applicants, the address of the first named person) stated in their Application Form or, if Box 10 of the Application Form is completed, to the person named therein.

The dates and times referred to in these terms and conditions may be altered by the agreement of the Company, KBR and ARMCF.

All documents and remittances sent or delivered to or by you will be sent or delivered at Shareholders' own risk.

Qualifying Shareholders may only apply for their own benefit for Open Offer Shares in the Open Offer.

Yours faithfully

For and on behalf of
Keith, Bayley, Rogers & Co. Limited

A H Drummon

PART III
FINANCIAL INFORMATION

In order to comply with Part VII, paragraph 7.5 of the Public Offers of Securities Regulations 1995, the financial statements for the three years ended 30th September, 2004 are enclosed with this document. In addition:

- (a) the Directors confirm that the accounts have been prepared in accordance with the law and that they accept responsibility for them; and
- (b) the auditors have confirmed that they have not become aware, since the date of their last report, of any matter affecting the validity of that report at that date.

Accordingly the summary financial information detailed below does not constitute full accounts within the meaning of section 240 of the Act. Audited accounts of the Company for the three years ended 30th September, 2004 have been delivered to Companies House. In each case the auditors have made reports under section 235 of the Act in respect of each set of accounts. In each case the report was unqualified. The auditors did however draw members attention to the going concern note in the accounts for the year ended 30th September, 2004 which stated:

“On 15th November, 2004 the Company issued £200,000 9% secured loan stock repayable at par on 14th November 2005 or on the date of a debt or equity fundraising by the Company which raises not less than £1 million gross, whichever is earlier. £200,000 of warrants were issued with the loan stock at a subscription price of the lower of 10p per share or the price at which the Company next issues new ordinary shares in an open offer, placing or rights issue to ordinary shareholders of the Company.

The Company will shortly announce a placing and open offer to raise in the region of £1m of additional working capital. This will be subject to the Company passing the necessary resolution at an Extraordinary General Meeting. Following meetings and presentations with existing and prospective shareholders, negotiations are now well advanced with verbal indications in excess of £500,000 having been received. These funds are required to repay the loan stock referred to above and to continue operations for the foreseeable future.

In the light of the above 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. The financial statements do not include any adjustments that might result if the above placing and open offer was unsuccessful.”

1. Consolidated profit and loss accounts

	<i>Year ended</i> 30 September 2002 £	<i>Year ended</i> 30 September 2003 £	<i>Year ended</i> 30 September 2004 £
Turnover	502,697	509,750	424,620
Cost of sales	(262,840)	(389,016)	(239,100)
Gross profit	239,857	(120,734)	185,520
Administrative expenses *	(875,575)	(960,507)	(1,448,125)
Operating loss	(635,718)	(839,773)	(1,262,605)
Other income:			
Bank interest received	13,304	8,219	12,513
Interest payable	(42,193)	(7,164)	(4,877)
Loss on ordinary activities before tax	(664,607)	(838,718)	(1,254,969)
Taxation	61,748	50,419	44,486
Retained loss for the year	<u>(602,859)</u>	<u>(788,299)</u>	<u>(1,210,483)</u>

All amounts relate to continuing operations.

There were no recognised gains or losses other than the loss for the period.

* 2004 includes an exceptional charge of £161,995. See note 3 to the accounts for the year ended 30th September, 2004

2. Consolidated balance sheets

	<i>Year ended</i> 30 September 2002 £	<i>Year ended</i> 30 September 2003 £	<i>Year ended</i> 30 September 2004 £
Fixed assets			
Tangible assets	109,050	222,259	191,579
Intangible assets	192,460	178,310	19,594
	<u>301,510</u>	<u>400,569</u>	<u>211,173</u>
Current assets			
Stock and work in progress	69,931	26,957	44,449
Debtors	370,220	127,717	146,189
Short term investments	42,924	–	–
Cash at bank and in hand	535,197	209,655	50,027
	<u>1,018,272</u>	<u>364,329</u>	<u>240,665</u>
Creditors: amounts falling due within one year	(157,664)	(427,251)	(343,722)
Net current liabilities	<u>(860,608)</u>	<u>(62,922)</u>	<u>(103,057)</u>
Total assets less current liabilities	1,162,118	337,647	108,116
Creditors: amounts falling due after more than one year	(90,842)	(54,670)	(17,307)
Provisions for liabilities and charges	–	–	(15,700)
Net assets	<u>1,071,276</u>	<u>(282,977)</u>	<u>75,109</u>
Capital and reserves			
Called up share capital	162,502	162,502	193,356
Share premium account	2,911,118	2,911,118	3,882,879
Profit and loss account	(2,002,344)	(2,790,643)	(4,001,126)
Equity shareholders funds	<u>1,071,276</u>	<u>282,977</u>	<u>75,109</u>

3. Cash flow

<i>Notes</i>	<i>Year ended 30 September 2002 £</i>	<i>Year ended 30 September 2003 £</i>	<i>Year ended 30 September 2004 £</i>
Net cash outflow from operating activities	(797,227)	(237,723)	(1,060,615)
Returns on investments and service:			
Interest received	13,304	8,219	12,513
Interest payable	(42,193)	(7,164)	(4,877)
	<u>(28,889)</u>	<u>1,055</u>	<u>7,636</u>
Taxation			
Corporation tax recovered	–	97,389	54,431
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(74,651)	(189,360)	(90,421)
Purchase of intangible fixed assets	(16,291)	(3,655)	(20,182)
	<u>(90,942)</u>	<u>(193,015)</u>	<u>(110,603)</u>
Net cash flow before management of liquid resources and financing	<u>(917,058)</u>	<u>(332,294)</u>	<u>(1,109,151)</u>
Management of liquid resources			
Withdrawal of short term deposits	370,544	42,924	–
Financing:			
Issue of ordinary share capital	1,649,957	–	986,885
Bank loans repaid	(37,363)	(36,172)	(37,362)
Other loans repaid	(516,840)	–	–
	<u>1,095,754</u>	<u>(36,172)</u>	<u>949,523</u>
Increase/(decrease) in cash in the year	<u><u>549,240</u></u>	<u><u>(325,542)</u></u>	<u><u>(159,628)</u></u>

4. Reconciliation of movement in shareholders' funds

	<i>Year ended 30 September 2002 £</i>	<i>Year ended 30 September 2003 £</i>	<i>Year ended 30 September 2004 £</i>
Opening shareholders' funds	24,178	1,071,276	282,977
Issue of shares at par	30,491	–	30,854
Issue of shares – share premium	1,619,466	–	971,761
Loss attributable to the members	(602,859)	(788,299)	(1,210,483)
	<u>1,071,276</u>	<u>282,977</u>	<u>75,109</u>

PART IV
GENERAL INFORMATION

1. The Company

- 1.1 The Company was incorporated in England on 31st May, 1995 as a private limited company under the Act as Rapidgrade Limited with registered number 3062983. It changed its name on 10th October, 1996 to Image Scan Holdings Limited. On 30th July, 1998 the Company was re-registered as a public limited company under the name of Image Scan Holdings plc. The liability of members of the Company is limited.
- 1.2 The registered office of the Company and its subsidiaries is at Pera Innovation Park, Nottingham Road, Melton Mowbray, Leicestershire LE13 0PB.

2. Details of Subsidiaries

The Company is the holding company of a group of companies whose business principally consists of the development of proprietary software and hardware to provide innovative methods of acquiring, interpreting and presenting X-Ray images and has five wholly owned subsidiary undertakings as follows:

(i) *Stereo Scan Systems Limited:*

On 11th October, 1996 the Company acquired the entire issued share capital of Stereo Scan Systems Limited being 102 ordinary shares of 50p each, by way of the issue of 5,100,000 Ordinary Shares of 1p each at par in the Company credited as fully paid. Stereo Scan Systems Limited was incorporated on 24th May, 1995 under the Act under the name Displaytest Limited. On 17th April, 1996 it changed its name to Stereo Scan Systems Limited. Its registered number is 3060726.

(ii) *3DX-Ray Limited:*

On 18th October, 1996 the Company acquired for £1 the entire issued share capital of 3DX-Ray Limited being one ordinary share of £1. 3DX-Ray Limited was incorporated on 13th August, 1996 under the Act under the name Stoicvoice Limited. On 28th October, 1996 it changed its name to Baggage Scan Limited and on 27th January, 2004 it changed its name to 3DX-Ray Limited. Its registered number is 3237543.

(iii) *Baggage Scan Limited:*

On 18th October, 1996 the Company acquired for £1 the entire issued share capital of Baggage Scan Limited being one ordinary share of £1. Baggage Scan Limited was incorporated on 19th July, 1996 under the Act under the name Employmentcharter Limited. On 24th October, 1996 it changed its name to Cargo Scan Limited and on 27th January, 2004 it changed its name to Baggage Scan Limited. Its registered number is 3227064.

(iv) *Mediscan Limited:*

On 27th November, 1996 the Company acquired for £2 the entire issued share capital of Mediscan Limited being two ordinary shares of £1 each. Mediscan Limited was incorporated on 27th November, 1996 under the Act with a registered number of 3284658.

(v) *Industrial Scanning Inspection Systems Limited:*

On 6th August, 1998 the Company subscribed for the entire issued share capital of Industrial Scanning Inspection Systems Limited being 1,000 ordinary shares of £1 each for cash at par. One share was subscribed for jointly with Stereo Scan Systems Limited. Industrial Scanning Inspection Systems Limited was incorporated on 6th August, 1998 under the Act with a registered number of 3611085.

3. Share Capital

- 3.1 The Company's present authorised share capital is £245,000 divided into 24,500,000 Ordinary Shares of 1p each.
- 3.2 By a special resolution passed on 25th March, 2004, the Directors were generally authorised and empowered pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94(2) of the Act) for cash pursuant to the authority conferred by the EGM held on 25th April, 2002 (as if Section 89(1) of the Act did not apply to any such allotment) up to an aggregate nominal amount of five per cent of the Company's issued share capital as shown by the latest published annual accounts. This sum amounts to £8,125 and to date no new shares have been issued. Such powers shall expire fifteen months after the date on which the

Resolution was passed or, if earlier, at the conclusion of the next annual general meeting of the Company, save that the Directors are entitled to make at any time prior to the expiry of the power conferred, any offer or agreement which would or might require equity securities to be allotted after the expiry.

- 3.3 The Resolutions to be proposed at the EGM, notice of which is incorporated in this circular will, if passed:
- (a) increase the authorised share capital of the Company from £245,000 to £500,000 by the creation of 25,500,000 new Ordinary Shares, ranking *pari passu* in all respects with the Existing Ordinary Shares in the capital of the Company;
 - (b) empower the Directors, pursuant to Section 80 of the Act to allot relevant securities up to an aggregate nominal amount of £306,644 to expire on the conclusion of the next annual general meeting of the Company or 15 months after the passing of the resolution, whichever is the earlier;
 - (c) authorise and empower the Directors, pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94(2) of the Act) for cash pursuant to the authority conferred by the Resolution referred to in sub-paragraph 3.3(b) above as if Section 89(1) of the Act did not apply to any such allotment, provided that such power shall be limited to (i) the allotment of equity securities or the sale of relevant shares in connection with the Placing and Open Offer as described in this document; (ii) the allotment of equity securities up to an aggregate nominal value of £28,571.42 pursuant to the granting of warrants under the terms of the issue of 9% Secured Loan Stock; and (iii) to the allotment of equity securities or the sale of relevant shares otherwise than pursuant to the Placing and Open Offer up to an aggregate maximum nominal amount of £9,667 being five per cent. of the present issued share capital and shall expire 15 months after passing the resolution or on the conclusion of the Company's next annual general meeting, if earlier, save that the Directors may allot equity securities after the date of such expiry pursuant to an offer or agreement made by the Company prior to that date; and
 - (d) amend the Articles of Association to increase the amount permitted to be paid by way of fees to any one Director to a sum not exceeding £20,000 per annum.

- 3.4 The following table shows the authorised and issued share capital of the Company as at the date of this document and, conditional upon the passing of the Resolutions, as it will be immediately following the Placing and Open Offer:

<i>Ordinary Shares</i>	<i>Number</i>	<i>£</i>
Existing (as at 29th March, 2005)		
Authorised	24,500,000	£245,000.00
Issued and fully paid	19,335,630	£193,356.30
Following the Placing and Open Offer (assuming all Offer Shares fully subscribed)		
Authorised	50,000,000	£500,000.00
Issued and fully paid	36,655,850	£366,558.50

The Existing Ordinary Shares are admitted to AIM and application will be made for the New Ordinary Shares to be admitted to trading on AIM.

- 3.5 Save as provided in this paragraph 3, the provisions of Section 89(1) of the Act (which, to the extent not disapplied pursuant to Section 95 of the Act, confers on the shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) apply to the authorised but unissued share capital of the Company.
- 3.6 Save as disclosed in this document and save for the issue of the New Ordinary Shares pursuant to the Placing and Open Offer and any shares to be issued pursuant to the Share Options and Warrants referred to in paragraphs 3.8 and 3.9 below:
- (i) no share or loan capital of the Company or any of its subsidiaries has been issued or is now proposed to be issued fully or partly paid either for cash or for consideration other than in cash;
 - (ii) no commissions, brokerage, discounts or other special terms have been granted by the Company or any of its subsidiaries or is now proposed in connection with the issue or sale of any of its share or loan capital; and
 - (iii) save as set out in this document, no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.
- 3.7 Following the Placing and Open Offer, (assuming all Offer Shares are fully subscribed) 13,344,150 Ordinary Shares will remain unissued and save as provided for in this document no material issue of Ordinary Shares will be made (other than to shareholders pro rata to existing holdings) and no issue of Ordinary Shares will

be made which would effectively alter the control of the Company and no change will be made to the nature of its business without in each case the prior approval of the shareholders in general meeting.

- 3.8 The following table sets out details of options to subscribe for Ordinary Shares outstanding as at 29th March, 2005 (being the latest practicable date prior to publication of this document):

<i>Date of Grant</i>	<i>Number of Ordinary Shares</i>	<i>Exercise Price (p)</i>	<i>Exercise Period</i>
4th May, 2000	80,000	25p	10 years
30th April, 2001	40,000	50p	10 years
27th March, 2002	100,000	65p	3 years
21st May, 2002	7,000	74½p	10 years
14th March, 2003	139,000	51½p	10 years
17th March, 2005	160,000	15p	2 years

The options under the Share Option Schemes were granted for nil consideration.

In addition to the above the Company intends to grant a further 30,000 options at an exercise price of 15p per share and an exercise period of 2 years.

Save as disclosed in this paragraph 3.8, no shares in the capital of the Company or any of its subsidiary undertakings is under option, or has been agreed, conditionally or unconditionally, to be put under option.

- 3.9 The following table sets out details of Warrants to subscribe for Ordinary Shares outstanding as at 29th March, 2005 (being the latest practicable date prior to publication of this document) arising from the issue of the Secured Loan Stock:

<i>Date of Grant</i>	<i>Number of warrants</i>	<i>Subscription Price (p)</i>	<i>Exercise Period</i>
15th November, 2004	2,857,142	7p	5 years

The warrants are held equally between Gresham House plc and A P Stirling who, in turn, are substantial shareholders as disclosed in paragraph 3.11 below.

- 3.10 Save as disclosed in this document and as shareholders of the Company, none of the Directors has or has had any direct or indirect interest in any assets which during the period from incorporation of the Company to the date of this document, have been acquired, disposed of or leased to the Company or are proposed to be acquired, disposed of or leased to the Company.
- 3.11 At the date of this document the Directors are aware of the following shareholders who are beneficially interested in Ordinary Shares amounting to 3 per cent. or more of the issued share capital of the Company in addition to those set out in paragraph 4.1 below:

<i>Name</i>	<i>Number of shares</i>	<i>Percentage of Existing Shares</i>	<i>Number of Ordinary Shares following the Placing and Open Offer*</i>	<i>Percentage of Ordinary Shares following the Placing and Open Offer*</i>
Gresham House plc	2,021,631	10.46	3,499,999	9.55
Welsh Industrial Investment Trust plc	1,169,000	6.05	2,000,000	5.46
3PC Investment Trust plc	1,610,394	8.33	2,012,992	5.49
AiM VCT 2 plc	1,610,394	8.33	2,012,992	5.49
Newinnhall Trust Limited	830,000	4.29	1,037,500	2.83
Gresham House No 1 Pension Scheme	750,000	3.88	937,500	2.56
A P Stirling	749,166	3.87	1,500,000	4.09

3PC Investment Trust plc and AiM VCT 2 plc are under the common management of ISIS Asset Management, together with ISIS AiM Growth, which holds 143,000 shares. This gives ISIS Asset Management an overall holding of 17.4%.

* Assuming entitlement on the basis of 1 Open Offer Share for every 4 Existing Ordinary Shares taken in full, other than in respect of Gresham House plc, Welsh Industrial Investment Trust plc and A P Stirling who are participating in the Placing only.

In addition Gresham House plc and A P Stirling have the benefit of warrants as set out in paragraph 3.9 above.

- 3.12 Save as set out in sub-paragraphs 3.10 and 3.11 above, the Directors are not aware of any person who is, or will be, entitled to control the exercise of 10 per cent. or more of the total votes available to be cast on all matters at general meetings of the Company.

4. Directors' and Other Interests

- 4.1 The interests of the Directors (all of which are beneficial) and of all such persons connected (within the meaning of Section 346 of the Act) with the Directors in the issued share capital of the Company, as notified to the Company under the provisions of Sections 324 or 328 of the Act, assuming the Open Offer is subscribed for in full, as shown, or as will be shown, in the register of interests required to be maintained under the provisions of Section 325 of the Act, are set out in the table below:

<i>Name</i>	<i>Number of shares</i>	<i>Percentage of Existing Shares</i>	<i>Number of Ordinary Shares following the Placing and Open Offer***</i>	<i>Percentage of Ordinary Shares following the Placing and Open Offer***</i>	<i>Options</i>	<i>Option Price</i>	<i>Final Exercise Date</i>
N D Fox	2,270,835	11.74	2,485,121	6.78	None		
S X Godber	None	–	71,428	0.19	50,000*	25p	04.05.2010
					10,000*	50p	29.04.2011
					20,000**	51.5p	13.03.2013
I S S Johnson	None	–	142,857	0.39	None		
P J Hughes	None	–	71,429	0.19	80,000	15p	31.03.2007
P J Woods	None	–	1,428,571	3.90	80,000	15p	31.03.2007

* These options were granted under the Image Scan 1999 Approved Share Option Scheme.

** These options were granted under the Image Scan Enterprise Management Share Incentive Option Scheme.

*** After taking account of the Placing Shares under the Placing.

- 4.2 The aggregate remuneration and benefits in kind (including pension contributions) paid or granted to the Directors for the year ended 30th September, 2004 was £265,181. For the current financial year to 30th September, 2005, the estimated aggregate of such payments is £235,000.
- 4.3 No loans are outstanding from the Company to any of the Directors nor has any guarantee been provided by the Company for the benefit of the Directors.
- 4.4 Set out below is information relating to each Director in respect of partnerships or directorships (apart from the Company) which they have held over the previous five years and brief details of companies in receivership or liquidation where they were directors at the time or within twelve months preceding such events. Save as disclosed in this paragraph, no Director has any unspent convictions nor has any Director been the subject of any public criticisms by statutory or regulatory authorities or bankruptcy proceedings or individual voluntary arrangements.

<i>Director</i>	<i>Current Directorships</i>	<i>Past Directorships</i>
N D Fox	Baggage Scan Limited 3DX-Ray Limited Industrial Scanning Inspection Systems Limited Mediscan Limited Omnitech Consultants Limited Stereo Scan Systems Limited Cell-ID Limited	None
S X Godber	Baggage Scan Limited 3DX-Ray Limited Industrial Scanning Inspection Systems Limited Mediscan Limited Stereo Scan Systems Limited	None

I S S Johnson	Ian Johnson Associates Limited IJA Group Limited The Security Institute	IJA Research Limited IJA International Limited Data Genetics Global Limited Privacy Management Limited Agent Associates Training & Consultancy Limited
P J Hughes	Capital Investment Partners Limited Mount Carmel Hughes Associates Elancor Limited (in liquidation) Meta 4 Systems Limited (in liquidation) Elancor Consulting Limited (in liquidation) EDC Photonic Limited (in liquidation)	Cadac SMP Limited Orderequip Limited Derek Hunter & Partners Limited CAD House Systems Limited QA Design Systems Limited The Media Gateway Limited Simplifymybusiness.com Limited Dunham-Bush (Europe) PLC Dunham-Bush Limited Dunham-Bush AP Limited Santric Limited DTR Supplies Limited
P J Woods	Transense Technologies plc	Retainagroup Limited

On 15th July, 2004 the Directors of Elancor Limited, of which Mr Hughes is a director, and its subsidiaries Meta 4 Systems Limited, Elancor Consulting Limited and EDC Photonic Limited issued formal instructions to convene meetings in order to place the company into creditors voluntary liquidation under section 98 of the Insolvency Act 1986. These meetings were held on 30th July, 2004 and Joint Liquidators appointed. The statement of affairs indicated a creditors deficiency of £3m.

In July 1990 Mr Hughes was disciplined by FIMBRA for not keeping certain records and the company of which Mr Hughes was a director was fined £1,000 plus costs. Mr Hughes was also fined a further £1,000 plus costs for the same offence by The Institute of Chartered Accountants in England and Wales. Mr Hughes subsequently resigned from FIMBRA.

5. Directors' Service Contracts and Emoluments

(a) *Current Directors*

- 5.1 The following service contracts have been entered into by the Directors and the Company:
- 5.2 A Service Agreement 26th March, 2002 between the Company (1) and N D Fox (2) whereunder Mr Fox is employed as Chief Executive Officer for the period to 31st March, 2004 and thereafter until terminated by either party upon 6 months notice. Mr Fox's current annual salary amounts to £57,700, a car allowance of £7,000, private medical insurance and pension contributions £5,770 all reviewable annually.
- 5.3 A Service Agreement dated 26th March, 2002 between the Company (1) and S X Godber (2) whereunder Dr Godber is employed as Technical Director for the period to 31st March, 2004 and thereafter until terminated by either party upon 6 months notice. Dr Godber's current annual salary amounts to £46,100, a car allowance of £6,000, private medical insurance and pension contributions of £2,400, all reviewable annually.
- 5.4 The Non-executive Chairman, Ian Johnson, has entered into a letter of appointment with the Company for the period to his re-election as a director in accordance with the Articles of Association of the Company. Mr Johnson's current annual fees for his services as Chairman are £20,000. Additionally, any days worked in excess of 2 days per month are chargeable at a rate of £800 per day. Ian Johnson Associates Limited, a company in which Mr Johnson has a material interest and of which he is a director, provided consultancy services amounting to £13,258 (2003: £9,026) in the year ended 30th September, 2004.
- 5.5 On 17th March, 2005 Peter Hughes entered into a letter of appointment with the Company for the period to his re-election as a director in accordance with the Articles of Association of the Company. Mr. Hughes' current annual fees for his services as a Non-executive director are £12,000. Additionally, any days worked in excess of 2 days per month are chargeable at a rate of £350 per day.
- 5.6 On 17th March, 2005 Peter Woods entered into a letter of appointment with the Company for the period to his re-election as a director in accordance with the Articles of Association of the Company. Mr. Woods' current annual fees for his services as a Non-executive director are £12,000. Additionally, any days worked in excess of 2 days per month are chargeable at a rate of £500 per day.

5.7 Save as set out above, there are no service or consultancy agreements between any Director and any member of the Group which do not expire or cannot be determined within 6 months, and no such contracts are proposed.

(b) *Past Director*

A Service Agreement dated 1st January, 2004 between the Company (1) and R J Gibbs (2) whereunder Mr Gibbs was employed as Chief Financial and Operating Officer for the period to 31st December, 2004 and thereafter until terminated by either party upon 12 months notice. Mr Gibbs' annual salary amounted to £100,000, a car allowance of £10,000, private medical insurance and pension contributions of £9,000, all reviewable annually.

On 27th January, 2005 the Company served notice on Mr Gibbs to terminate his service agreement for cost cutting reasons. The Company has entered into a compromise agreement which provides for a payment of £60,000 as compensation for loss of office and an additional amount subject to a maximum sum of £30,000 before tax to be used by Mr Gibbs solely to subscribe for his entitlement for New Ordinary Shares under a capital fund raising. Mr Gibbs currently holds 345,000 Ordinary Shares.

6. Memorandum and Articles of Association

(a) The Company's memorandum of association includes within its objects clause the carrying on business as an investment holding company. The objects of the Company are set out fully in clause 3 of the memorandum of association. The liability of members is limited.

(b) The articles of association, as adopted by the Company on 22nd April, 2002, may be summarised as follows:

(i) *Shares*

Subject to any resolution of the Company in general meeting the Directors have unconditional authority, for the purposes of Section 80 of the Act, to allot, grant options over, offer or otherwise deal with or dispose of any relevant securities (as defined by Section 80(2) of the Act) of the Company to such persons at such times and generally on such terms and conditions as the Directors may determine. The authority shall, unless renewed, varied or revoked by the Company in general meeting and subject to Section 80(7) of the Act, be for a period of five years from the date of adoption of the Articles and for a maximum amount of relevant securities equivalent to the authorised but as yet unissued share capital of the Company at the date of adoption of the Articles. The Directors are be empowered to make any and all invitations for and grants of options to subscribe for shares and allotments of shares pursuant to any employees' share schemes adopted by the Company in general meeting.

(ii) *Dividends*

Subject to relevant statutory provisions, and to the rights attaching to any class of shares, the holders of the Ordinary Shares are entitled, *pari passu* amongst themselves, to the profits of the Company available for distribution and resolved to be distributed according to the amounts paid up on the Ordinary Shares held by them provided that no dividend shall be declared in excess of the amount recommended by the Directors. Interim dividends may be paid if profits are available for distribution and if the Directors so resolve.

(iii) *Return of Capital*

On a winding up of the Company, a liquidator may, subject to the sanction of a special resolution of the Company and any other sanction required by statute, divide amongst the members the balance of the assets available for distribution and determine how such divisions shall be carried out between members.

(iv) *Voting*

On a show of hands at any general meeting every member who is present in person shall have one vote and on a poll every such member who is present in person or by proxy shall have one vote for every share held by him. A corporate member may authorise a person to act as its representative at general meetings and such person shall be entitled to exercise such powers as the corporate member could exercise if it were an individual member.

(v) *Restrictions on Voting.*

A member of the Company shall not, if the directors so determine, be entitled to attend or vote, or to exercise rights of membership as aforesaid, if he or any other person appearing to be interested in such shares has failed to comply with a notice given under Section 212 of the Companies Act 1985 within 14 days from the date of service of such notice.

(vi) *Record Dates and Unclaimed Dividends*

The Company or its directors may fix any date as the record date for any dividend, distribution, allotment or issue and such record date may be on or at any time after any date on which such dividend, distribution, allotment or issue is declared, paid or made. Any dividend unclaimed after a period of 12 years from the date when it became due for payment shall be forfeited and shall revert to the Company.

(vii) *Modification of Class Rights*

Subject to the statutory provisions, any rights attaching to any class of share in the Company may be modified, abrogated or varied in any manner with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of the class, or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the relevant class.

(viii) *Transfer*

All transfers of shares must be effected by an instrument of transfer in the usual common form or in any other form acceptable to the directors and must be executed by or on behalf of the transferor and (in the case of a partly paid share) the transferee. The transferor is deemed to remain the holder of the shares concerned until the name of the transferee is entered in the register of members in respect of them. The directors have a discretion to refuse to register a transfer of any share which is not fully paid without giving a reason but must provide the transferee with a notice of the refusal within two months, provided that the Directors shall not refuse to register any transfer or renunciation of partly paid shares which are listed on The London Stock Exchange, or traded on any recognised stock exchange or OFEX on the grounds that they are partly paid shares in circumstances where such refusal would prevent dealings in such shares from taking place on an open and proper basis.

The Directors may subject to the provision of the articles relating to disclosure of interests, decline to register a transfer in respect of shares which are the subject of a notice under Section 212 of the Act and which represent 0.25 per cent or more in nominal value of the issued shares of their class, and in respect of which the required information has not been received by the Company within 14 days.

(ix) *Alteration of Capital*

The Company may alter its share capital as follows:

- (a) by ordinary resolution, it may increase its share capital, consolidate and divide all or any of its shares into shares of larger amount, sub-divide all or any of its shares into shares of smaller amount and cancel any shares not taken or agreed to be taken by any person; and
- (b) by special resolution and subject to the statutory provisions, it may reduce its share capital, any capital redemption reserve or any share premium account in any manner.

Subject to the extent permitted by the Act and, if applicable, by the Rules of the London Stock Exchange or any relevant recognised stock exchange or OFEX, the Company may purchase any of its own shares.

(x) *Directors*

- (a) Unless altered by ordinary resolution of the Company, the minimum number of directors of the Company is two and the number is not subject to a maximum.
- (b) The aggregate fees paid to the directors for their services in the office of director in addition to any remuneration payable to a director as the Board may in its discretion determine by reason of his appointment to any executive office or payable to a director who performs services which, in the opinion of the directors, go beyond the ordinary duties of a director shall not exceed £10,000 per annum or such higher amount as may be determined by ordinary resolution of the Company.
- (c) At each annual general meeting of the Company one-third of the directors who are subject to retirement by rotation (or, if their number is not three or a multiple of three, the number nearest to but not more than one-third) shall retire from office by rotation. A person shall not be prevented from being appointed a director and shall not be required to vacate the office of director, by reason only of the fact that such person has attained the age of 70 years. A director shall not be required to hold any shares in the Company.

(xi) *Directors' interests*

Save as provided in the articles, a director shall not vote or be counted in a quorum at a meeting in relation to any resolution concerning any contract, arrangement or transaction in which he is to his knowledge materially interested.

(xii) *Borrowing Powers*

Save as provided in the articles, the directors may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital and to create and issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The directors shall restrict the borrowing of the Company so that the aggregate amount at any one time outstanding in respect of monies borrowed by the Company (exclusive of intra-Group borrowing and after deducting cash deposited) shall not at any time, without the previous sanction of an ordinary resolution of the Company, exceed the amount of £1 million.

7. Working Capital

The Directors are of the opinion, having made due and careful enquiry and taking into account the estimated net proceeds of the Placing and Open Offer, that the working capital available to the Company and the Group will be sufficient for their present requirements, that is for at least the next twelve months.

8. The Placing and Open Offer

By an agreement dated 30th March, 2005 between the Company (1), ARMCF (2), KBR (3) and the Directors (4) (the "Placing and Open Offer Agreement") KBR has agreed, as agent for and on behalf of the Company:

- (a) to invite Qualifying Shareholders to subscribe for Open Offer Shares at 7p per share. Valid applications up to their maximum pro-rata entitlement on the basis of 1 Open Offer Share for every 4 Existing Ordinary Shares held at the close of business on the Record Date and so in proportion for any greater or lesser number of Existing Ordinary Shares then held, will be met in full. Excess applications may be rejected or scaled down at the absolute discretion of the Directors, ARMCF and KBR but, as far as practicable, Shareholders will receive a minimum of £500; and
- (b) to procure persons to subscribe for all of the Placing Shares at 7p per share.

The Placing and Open Offer Agreement provides for the Company to pay to KBR a fee of £15,000 plus value added tax together with a commission equal to 6 per. cent. on the value of the Placing Shares allotted to Places out of which sub-commissions will be paid.

The Placing and Open Offer Agreement also contains certain warranties and indemnities given by the Company and the Directors in favour of ARMCF and KBR as to the accuracy of the information contained in this document and other matters relating to the Company and its business under which the liability of the Company is unrestricted but the liability of the Directors is restricted to an aggregate of £244,000.

The obligations of ARMCF and KBR under the Placing and Open Offer Agreement are conditional upon the passing of the Resolutions at the EGM and on Admission. They may also be terminated in certain circumstances if there occurs either a material breach of any of the warranties or a change in the national or international, financial, economic, market or political conditions and/or any financial position or prospects of the Company.

The Company has agreed to pay costs, charges and expenses connected with the Placing and Open Offer, including all fees and commissions payable in connection with Admission, the expenses of the Registrar, printing and advertising expenses, postage and all legal, accounting and other professional fees and expenses.

9. Material Contracts

The following contracts are the only contracts which (not being contracts entered into in the ordinary course of business), have either been entered into by a member of the Group during the two years immediately preceding the date of this document and are, or may be, material or are contracts which contain provisions under which a member of the Group has an obligation or entitlement which is material to the Group as at the date of this document.

9.1 The Placing and Open Offer Agreement referred to in paragraph 8 above.

9.2 The compromise agreement referred to in paragraph 5(b) above.

9.3 An agreement dated 15th November, 2004 relating to the issue of £200,000 9% Secured Loan Stock; £100,000 to each of Security Change Limited and Exchange Services Limited. The Loan Stock is secured by a second fixed and floating debenture and is repayable on 14th November, 2005 or on the date of a debt or

equity fundraising by the Company which raises not less than £1 million gross, whichever is earlier. On approval by shareholders of the Placing and Open Offer the Secured Loan Stock will become repayable out of the net proceeds.

10. United Kingdom Taxation

The following comments are general in character and are based on certain aspects of current UK law and Inland Revenue practice. Parts of the summary may not apply to certain classes of Shareholders, such as dealers in securities, or to Shareholders who are not absolute beneficial owners of the shares. **Any Shareholder who is in doubt as to his or her tax position or who is or may be subject to tax in a jurisdiction other than the UK should consult an appropriate professional adviser without delay.**

10.1 *Taxation of dividends*

- (i) Under current UK tax legislation, no tax is withheld from dividend payments by the Company. In addition, the Company no longer has to account for advance corporation tax in respect of dividends.
- (ii) A UK resident individual Shareholder will be entitled to a tax credit in respect of any dividend received from the Company and will be taxed on the aggregate of the dividend and the tax credit (the “gross dividend”). The value of the tax credit is one ninth of the dividend received (or ten per cent. of the gross dividend).
- (iii) In the case of a UK resident individual who is either not liable to income tax or liable at the starting, lower and basic rates only, there will be no further tax to pay. A UK resident individual who is liable to income tax at the higher rate will be subject to income tax on the gross dividend at 32.5 per cent. but will be able to set the tax credit off against part of this liability. A UK resident Shareholder who is not liable to income tax on the dividend (or part of it) is not able to claim payment of the tax credit in cash from the Inland Revenue.
- (iv) A UK resident corporate Shareholder will not normally be liable to UK taxation on any dividend received. UK resident corporate Shareholders (including authorised unit trusts and open-ended investment companies) and pension funds are not entitled to payment in cash of the related tax credit.
- (v) Whether Shareholders who are resident for tax purposes in countries other than the UK are entitled to the whole or a proportion of the tax credit in respect of dividends on their shares depends in general upon the provisions of any double taxation convention or agreement which exists between such countries and the UK. In addition, individual Shareholders who are resident in countries other than the UK but who are Commonwealth citizens, nationals of member states of the European Economic Area or fall within certain other categories of person within Section 278 of the Income and Corporation Taxes Act 1988 are entitled to the entire tax credit which they may set against their total UK income tax liability. Such Shareholders should consult their own tax advisers on the possible application of such provisions and any relief or credit which may be claimed in respect of such tax credit in their own jurisdictions. However, in general, cash payments are not recoverable from the Inland Revenue in respect of tax credits.

10.2 *Capital Gains*

- (i) Shareholders who are resident or ordinarily resident for tax purposes in the UK may, depending upon their individual circumstances, be liable to UK taxation on chargeable gains on a disposal of shares.
- (ii) A Shareholder who is not resident or ordinarily resident for tax purposes in the UK will not be liable to UK taxation on chargeable gains unless the Shareholder carries on a trade, profession or vocation in the UK through a branch or agency in the UK and the shares are, or have been, used, held or acquired for the purposes of such trade, profession or vocation or for the purposes of such branch or agency.
- (iii) The treatment for the purposes of UK taxation on chargeable gains of the issue of New Ordinary Shares to a Qualifying Shareholder under the Placing and Open Offer will depend upon whether the Qualifying Shareholder is within the charge to UK capital gains tax or UK corporation tax on chargeable gains:
 - (A) Qualifying Shareholders within the charge to UK capital gains tax.

As regards New Ordinary Shares which can be identified as acquired by a Qualifying Shareholder by virtue of so much of the Qualifying Shareholder’s existing holding of Ordinary Shares as was acquired before 6th April, 1998, the issue of New Ordinary Shares by the Company to the Qualifying Shareholder up to and including such Qualifying Shareholder’s pro rata entitlement should be treated as a reorganisation of the share capital of the Company for the purposes of UK capital gains tax. Accordingly, the Qualifying Shareholder will not be

treated as making a disposal of all or part of the Qualifying Shareholder's existing holding of Ordinary Shares and the New Ordinary Shares acquired under the Placing and Open Offer will be treated as the same asset, and as if they had been acquired at the same time as, the related part of the existing holding of Ordinary Shares. The subscription price paid for such New Ordinary Shares will be added to the acquisition cost of that part of the Qualifying Shareholder's existing holding of Ordinary Shares.

Any New Ordinary Shares acquired (or treated as acquired) by a Qualifying Shareholder by virtue of so much of the Qualifying Shareholder's existing holding of Ordinary Shares as was acquired on or after 6th April, 1998 or through subscription above the maximum pro rata entitlement will be treated as an asset distinct from the Ordinary Shares in respect of which the New Ordinary Shares are issued.

On a subsequent disposal of Ordinary Shares, the Ordinary Shares disposed of will, for the purposes of computing the capital gain or loss arising on the disposal (and ignoring rules relating to same day acquisitions and bed-and-breakfast transactions), be identified, first, with Ordinary Shares acquired (or treated as acquired) on or after 6th April, 1998 (identifying disposals with the most recent acquisitions) and then, to the extent necessary, with Ordinary Shares held (or treated as held) on 6th April, 1998. No indexation allowance in respect of periods on or after 6th April, 1998 will be due in computing the gain or loss arising on disposal. Instead, through taper relief, gains arising on the disposal of Ordinary Shares will be reduced by a specified percentage depending on the complete number of years for which the Ordinary Shares have been held (or treated as held). The more favourable taper relief applicable to business assets may be available in respect of chargeable gains realised on Ordinary Shares in certain circumstances.

(B) Qualifying Shareholders within the charge to UK corporation tax on chargeable gains.

The issue of New Ordinary Shares by the Company to a Qualifying Shareholder up to and including such Qualifying Shareholder's pro rata entitlement should be treated as a reorganisation of the share capital of the Company for the purposes of UK corporation tax on chargeable gains. Accordingly, the Qualifying Shareholder will not be treated as making a disposal of all or part of the Qualifying Shareholder's existing holding of Ordinary Shares and the New Ordinary Shares acquired under the Placing and Open Offer will be treated as the same asset as, and as if they had been acquired at the same time as, the existing holding of Ordinary Shares. The subscription price paid for such New Ordinary Shares will be added to the acquisition cost of the existing holding of Ordinary Shares and will qualify for indexation allowance from the date on which payment for the New Ordinary Shares is made or is liable to be made.

Any New Ordinary Shares acquired by a Qualifying Shareholder through subscription above the maximum pro rata entitlement will not be treated as acquired on a reorganisation of the share capital of the Company but will be treated (subject to the pooling provisions) as an addition to the Qualifying Shareholder's existing holding of Ordinary Shares.

10.3 Enterprise Investment Scheme ("EIS")

The EIS is designed to encourage, through the availability of certain tax reliefs to investors, investment in qualifying, unquoted trading companies through the subscription of ordinary shares in such companies.

(A) The principal tax reliefs currently available to each individual are:

- income tax relief equal to 20%, of the amount subscribed for the qualifying EIS investment (up to a maximum aggregate amount for all qualifying EIS investments made in any one year of £40,000, i.e. 20% of £200,000 or the actual income tax liability of the investor for the year if this is lower) may be set off, on a pound for pound basis, against the investor's income tax liability for the tax year in which those shares are issued to him, thus potentially reducing the effective initial cost of investment to 80% of the sum invested;
- provided a qualifying EIS investment is held for at least three years and income tax relief is not withdrawn or reduced, it is exempt from capital gains tax on its first disposal;
- a subscription for EIS shares may also entitle the individual Investor to Capital Gains Tax Deferral Relief (see below), in which case an individual investor paying tax at the higher rate may qualify for income tax relief of 20% and capital gains deferment of up to 40%, totalling up to 60% of the investment up to the maximum subscription for which income tax relief is available, currently £200,000. Any excess invested over this sum will qualify for capital gains tax deferment if applicable; and
- if the qualifying EIS investment fails or is sold at less than cost, Loss Relief (see below) should be available on the net loss against the investor's taxable income or capital gains. For the

purposes of such Loss Relief, the loss incurred will be reduced by the amount of EIS income tax relief given, which has not been withdrawn.

(B) *Availability of Tax Certificates*

Application has been made to the Inland Revenue and, on the basis of information provided, (which included a draft of this document) the Inland Revenue has indicated that they would be able to authorise the Company to issue certificates under Section 306(2) ICTA 1988 in respect of the shares to be issued.

A formal application for EIS qualifications will be made once the New Ordinary Shares have been issued. Provided such application is successful an EIS 2 form will then be issued by the Inland Revenue to the Company and an EIS 3 form will be issued by the Company to relevant investors to enable them to claim their tax relief. It is the Company's intention to remain a qualifying company, as defined, for the three-year period, to ensure that any EIS relief given to shareholders is not put at risk. Subject to the above, the Directors consider that qualifying individuals subscribing for New Ordinary Shares should be able to obtain EIS income tax relief within the EIS limits in respect of the year ending 5th April, 2006 on the amounts subscribed for the New Ordinary Shares provided they continue to satisfy the statutory conditions and the Company continues to be a qualifying company. Eligibility for relief will depend on individual investors' circumstances.

(C) *CGT Deferral Relief*

If the Company is a qualifying company for EIS and CGT Deferral Relief purposes, the subscriptions for New Ordinary Shares by an individual will be considered as a qualifying investment for CGT Deferral Relief purposes irrespective of whether EIS income tax relief is claimed by the individual in respect of such subscription. Where individuals have made a chargeable gain on the disposal of any asset in the period of three years before and twelve months after investment in qualifying shares, they should be eligible to claim deferment of some or all of the gains against the subscription for the New Ordinary Shares under the CGT Deferral Relief provisions, provided, that the Company continues to satisfy the relevant statutory requirements.

The deferred gain would then crystallise when the New Ordinary Shares were sold or when the Company ceased to satisfy the conditions for relief if earlier. It should be noted that, for CGT Deferral Relief purposes, a subscription for shares in the Company cannot be used to defer a gain on the disposal of other shares in the Company.

CGT Deferral Relief, unlike EIS income tax relief, is available to certain trustees.

(D) *Loss Relief*

If an investor is an individual or an investment company, relief for losses (in the case of individuals, after taking into account any EIS income tax relief given and not withdrawn) incurred by that investor on disposal of the qualifying shares should in principle be available under Sections 573 to 576 of the Taxes Act, against income of the same or previous year. This relief should be available provided the Company and the investor satisfy the relevant statutory requirements.

10.4 *Inheritance Tax*

Ordinary Shares are assets situated in the UK for the purposes of UK inheritance tax. A gift of Ordinary Shares by, or the death of, an individual Shareholder may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax even if the Shareholder is neither domiciled nor deemed to be domiciled in the UK.

10.5 *Stamp Duty and Stamp Duty Reserve Tax*

- (i) No stamp duty or stamp duty reserve tax (SDRT) will be payable on the issue of New Ordinary Shares unless the New Ordinary Shares are acquired for the purposes of an arrangement for the provision of clearance services or the issue of depository receipts. The Company will not be responsible for the payment of stamp duty or stamp duty reserve tax in any such case. Where Ordinary Shares are held in certificated form, no stamp duty or SDRT will arise on a transfer of such Ordinary Shares into CREST unless such transfer is made for a consideration in money or money's worth, in which case a liability to SDRT (usually at a rate of 0.5 per cent.) will arise. Paperless transfers of Ordinary Shares within CREST will be liable to SDRT rather than stamp duty.
- (ii) Any transfer on sale of Ordinary Shares outside CREST will give rise to a liability on the purchaser to ad valorem stamp duty or SDRT, in the case of stamp duty usually at the current rate of 0.5 per

cent. of the consideration paid (and rounded up to the next £5) and, in the case of SDRT, normally at the rate of 0.5 per cent. of the consideration paid.

These comments are intended only as a general guide to the current tax position in the United Kingdom as at the date of this document. The comments assume that Ordinary Shares are held as an investment and not as an asset of financial trade. The above is a summary of the general nature of the reliefs available and should not be construed as constituting advice.

If shareholders are in any doubt as to their tax position, require more detailed information than the general outline above, or are subject to tax in a jurisdiction other than the United Kingdom, they should consult their professional adviser.

11. Minimum amount

In the opinion of the Directors the minimum amount that must be raised for the purposes set out in paragraph 21 of Schedule 1 to the Public Offer of Securities Regulations 1995 is £874,000 which will be applied as follows:-

(a) Purchase of property	£ Nil
(b) Repayment of 9% Secured Loan Stock	£200,000
(b) Preliminary expenses and expenses of the Placing and Open Offer	£153,000
(c) Repayment of any money borrowed by the Company in respect of any of the foregoing matters	£nil
(d) The balance, after payment of the sums described above, in respect of working capital	£521,000

12. Litigation

Save as mentioned below, the Group is not engaged in any legal or arbitration proceedings, active or (so far as the Company is aware) pending or threatened against, or being brought by, the Company which are having or may have a significant effect of the Company's financial position.

The Company is in correspondence with Scanna (MSC) Limited who had alleged that the Company had breached its confidentiality agreement. The Company strenuously denied that any such breach had occurred and requested documented evidence of the alleged breach. The Company has subsequently received a letter from Scanna's legal representatives noting that they will not be taking the matter further at this stage but reserving the right to take action should any evidence come to light.

13. General

13.1 Save as disclosed in this document there has been no significant change in the financial or trading position of the Company nor any significant recent trends concerning the Company's business since 30th September, 2004 the date to which the latest published audited accounts of the Company were prepared.

13.2 The Company's accounting reference date is 30th September.

13.3 A copy of this document together with the Application Form has been delivered for registration to the Registrar of Companies in England and Wales in accordance with Regulation 4(2) of the Public Offers of Securities Regulations 1995.

13.4 Save as disclosed in this document no person (excluding the professional advisers mentioned in this document and trade suppliers) has received, directly or indirectly, from the Company within twelve months preceding the date of this document or entered into contractual arrangements to receive, directly or indirectly, from the Company on or after the date of this document fees totalling £10,000 or more or securities in the Company with a value of £10,000 or more calculated by reference to the Issue Price or any other benefit with a value of £10,000 or more at the date of this document.

13.5 The auditors of the Company are Deloitte & Touche LLP of 1 Woodborough Road, Nottingham NG1 3FG.

13.6 The Company maintains insurance cover for directors and officers against liabilities which may attach to them by reason of their office.

13.7 Deloitte & Touche LLP has given and not withdrawn its written consent to the issue of this document with the references to its name in the form and context in which they appear.

13.8 KBR has given and not withdrawn its written consent to the issue of this document with the references to its name in the form and context in which they appear.

- 13.9 ARMCF has given and not withdrawn its written consent to the issue of this document with the references to its name in the form and context in which they appear.
- 13.10 The total expenses of or incidental to the Placing and Open Offer (assuming all the Placing and Open Offer Shares are issued) which are payable by the Company (including professional fees, printing, advertising costs and amounts payable under the Placing and Open Offer) are estimated to amount to approximately £153,000 exclusive of VAT.
- 13.11 The Issue Price represents a premium of 6p over the nominal value of 1p for each New Ordinary Share. The premium on the Placing and Open Offer as a whole amounts to £1,039,213.
- 13.12 Copies of the document are available free of charge up to the date of Admission from the Company's registered office and from ARMCF during normal business hours (Saturdays and public holidays excepted) and shall remain available for at least one month after Admission.

Date 31st March, 2005

NOTICE OF EXTRAORDINARY GENERAL MEETING

Image Scan Holdings plc

(Incorporated in England and Wales under the Companies Act 1985 with Registered No. 3062983)

NOTICE is hereby given that an Extraordinary General Meeting of the above named Company will be held at 3.00 p.m. (or as soon thereafter as the Annual General Meeting of the Company has concluded or adjourned) on 25th April, 2005 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 of which the resolutions numbered 1 and 2 will be proposed as ordinary resolutions and the resolutions numbered 3 and 4 will be proposed as special resolutions:

Ordinary Resolutions

1. Pursuant to sections 121 and 123 of the Companies Act 1985 (as amended) (the "Act"), the authorised shared capital of the Company be and is hereby increased from £245,000 to £500,000 by the creation of 25,500,000 new Ordinary Shares of 1p each, ranking *pari passu* in all respects with the existing Ordinary Shares of 1p each in the capital of the Company.
2. Subject to and conditionally upon the passing of resolution 1 above the directors of the Company be and they are hereby generally and unconditionally authorised for the purposes of section 80 of the Act to exercise all the powers of the Company to allot relevant securities (as defined in the said section) of the Company up to an aggregate nominal amount of £306,644 in substitution for all existing such authorities previously conferred on the directors which are hereby revoked but without prejudice to any allotment, offer or agreement already made pursuant to thereto. The authority conferred by this resolution shall expire on the conclusion of the next Annual General Meeting of the Company or 15 months after the passing of this resolution, whichever is the earlier, but may be previously revoked or varied from time to time by the Company in general meeting so that the Company may before such expiry, revocation or variation make an offer or agreement which would or might require relevant securities to be allotted after such expiry, revocation or variation and the Directors may allot relevant securities in pursuance of such offer or agreement as if such authority had not expired or been revoked or varied.

Special Resolution

3. The Directors be and they are hereby empowered pursuant to section 95 of the Act, subject to and conditionally upon the passing of resolution 2 above, to allot equity securities (as defined by Section 94(2) of the Act) for cash pursuant to the authority conferred by resolution 2 above as if Section 89(1) of the Act did not apply to any such allotment provided that such powers shall be limited to:
 - (i) the allotment of equity securities or the sale of relevant shares in connection with the Placing and Open Offer as described in the circular to the shareholders of the Company dated 31st March 2005 (of which this notice forms part);
 - (ii) the allotment (otherwise pursuant to sub-paragraph (i) above) of equity securities for cash up to an aggregate nominal amount of £28,571.42 pursuant to the granting of warrants under the terms of the issue of 9% Secured Loan Stock 2006; and
 - (iii) the allotment of equity securities or the sale of relevant shares otherwise than pursuant to sub-paragraph (i) up to an aggregate maximum nominal amount of £9,667 being five per cent of the present issued share capital

subject in the case of an allotment of shares to the continuance of the authority conferred by resolution 2 above, the power hereby conferred shall expire 15 months after the passing of this resolution or at the conclusion of the Company's next annual general meeting if earlier but may be previously revoked or varied from time to time by Special Resolution but so that the Company

may before such expiry, revocation or variation make an offer or agreement which would or might require equity securities to be allotted or relevant shares to be sold after such expiry, revocation or variation and the directors may allot relevant shares and sell relevant shares in pursuance of such offer or agreement as if such power had not expired or been revoked or varied.

4. That the Articles of Association of the Company be amended by the replacement of Article 23.1 with the following:

“The Directors (other than alternate directors) shall be paid out of the funds of the Company by way of fees for their services such sums (not exceeding £20,000 per annum in respect of any one director) as the Board shall from time to time determine, and/or such additional sums as may from time to time be determined by ordinary resolution of the Company.”

By Order of the Board

Louise George ACA ACIS
Company Secretary

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

Dated 31st March 2005

Notes:

1. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the register of members of the Company as at 3.00 p.m. on 23rd April 2005 or, in the event that the meeting is adjourned, in such register 48 hours before the time of the adjourned meeting, shall be entitled to attend and vote at the meeting in respect of the number of Ordinary Shares registered in their names at the relevant time. Changes after the relevant time will be disregarded in determining the rights of any person to attend or vote at the meeting.
2. Any shareholder who is entitled to attend and vote at this meeting is entitled to appoint a proxy or proxies to attend and vote, on a poll, on his or her behalf. A proxy need not be a member of the Company. Completion and return of the form of proxy will not preclude a member from attending and voting at the meeting in person should he subsequently decide to do so.
3. A Form of Proxy is enclosed for the holders of Ordinary Shares. Please read carefully the instructions on how to complete the card for the appointment of a proxy. To be effective, the Form of Proxy must be deposited, together with any powers of attorney or other authority at the offices of Capita Registrars at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to be received not later than 3.00 p.m. on 23rd April 2005 or, in the case of a poll taken subsequent to the date of the meeting or adjourned meeting, not later than 48 hours before the time appointed for the taking of the poll.

