IMAGE SCAN HOLDINGS PLC

ANNUAL REPORT 2008

CORPORATE STATEMENT

"Image Scan Holdings plc develops 3D and 2D x-ray imaging technology, which is incorporated into a range of x-ray inspection systems for the homeland security and industrial markets.

Image Scan's products have been endorsed by world-leading players and government bodies, such as: the US Transport Security Administration; the Home Office Scientific Development Branch; the British Transport Police; Johnson Matthey; and the British Nuclear Group.

The outcome of the financial year 2008 has seen a marked improvement on the previous year in terms of both turnover and reduced losses."

HIGHLIGHTS

KEY POINTS

- Sales at £2,004,000 (2007: £1,542,000)
- Gross margin at 45% (2007: 46%)
- Reduced overheads of £1,360,000 (2007: £1,522,000)
- Loss on ordinary activities after taxation down to £331,000 (2007: £761,000)
- Year-end net cash of £1,535,000 (2007: £1,531,000)
- Significant new industrial customer, Boston Power Inc., secured against major international competition, opening up a new industrial sector

POST YEAR END

- Following an extensive trial of Image Scan's baggage screening system, AXIS-3D®, in China, an order for £630,000 has been confirmed
- Repeat order from Johnson Matthey of £141,000 for an MDXi-NT industrial inspection system for their plant in Japan
- Current order book at £743,000
- Restructuring of the Board
- Further reduction in headcount since year end

CHAIRMAN'S STATEMENT

"The orders from China, Johnson Matthey and Boston Power are all positive endorsements of our technology. However, notwithstanding these recent successes, trading conditions are difficult with both general security and industrial sales being under budget in the first quarter. As a consequence there has been a reassignment of roles amongst the Executive Directors and a reduction of headcount in recognition of the need for particularly tight control of overheads and renewed focus of effort on the commercialisation of the existing product range."

INTRODUCTION

I am pleased to report on the preliminary results for Image Scan for the year ended 30 September 2008 and comment on the Board's view of your Company's prospects for the following financial year.

The outcome of the financial year 2008 has seen a marked improvement on the previous year in terms of both turnover and reduced losses. Security sales were steady throughout the year. However, industrial sales experienced a slow-down towards the end of the year, having completed the final £400,000 of the British Nuclear Group contract in the first half.

FINANCIAL RESULTS

Revenue in the year ended September 2008 increased by 30% to £2,004,000 (2007: £1,542,000). Sales growth came from a threefold improvement in the security sector, with sales of the 3D x-ray baggage screening system, AXIS-3D® into the US and China, and both direct and distributor sales of the portable Flatscan-TPXi device.

The gross margin of 45% was comparable to the prior year (2007: 46%), with both sectors performing at the same level.

Overheads were reduced by £162,000 to £1,360,000 (2007: £1,522,000) following a net reduction in headcount of four staff and lower Research and Development ('R&D') spend of £211,000 (2007: £267,000).

The combination of increased revenue and tighter control of costs resulted in a much reduced net loss of £331,000 (2007: £761,000). The loss per share was 0.6 pence (2007: 1.9 pence).

Year-end cash balances remained stable at £1,535,000 (2007: £1,531,000) due to reduced working capital requirements, careful cash management and other non-operational factors, including the receipt of interest, R&D tax credits and the issue of £60,000 share capital. The current cash balances are £1,258,000, reflecting a shortfall in sales in the first three months of the current year. The Company also has an agreed £100,000 overdraft facility with the Royal Bank of Scotland, to cover working capital requirements.

OVERVIEW

Security

Following the initial purchase and evaluation of the AXIS-3D® system in March 2006, Shanghai Unitech Ltd, a Chinese company, acquired four units during the year to provide heightened security measures for key locations at the Beijing Olympics. Further comprehensive negotiations with Shanghai Unitech resulted in two additional orders for the second generation AXIS-3D® baggage screening system. The first order was for an evaluation machine which was delivered in June 2008. The second order, valued at £630,000, was conditional on the satisfactory acceptance testing of the new design. The original trial period was extended following issues relating to the reliability of certain bought-in components used in both the trial and the earlier units. An alternative source of supply has been identified and these new components have proved to be reliable on the evaluation system. As a result, the conditional contract has been confirmed on the basis that the Company replaces the original defective components on all systems at an estimated cost to the Company of £25,000, with delivery due in the second half of the current financial year.

Sales of the Flatscan-TPXi system through our Belgium-based distributor, Industrial Control Machines S.A. ('iCM') increased from 15 in 2007 to 44 in 2008. In addition, within the UK, the British Transport Police, who were the first adopters of the technology, acquired two Flatscan-TPXi systems and four portable screening cabinets to launch their new stop and search initiative on the London Underground and mainline stations.

Industrial

During the first half, the Company successfully completed the £1 million contract to British Nuclear Group and in the second half sold a system to Boston Power Inc. for the inspection of laptop batteries at their plant in Taiwan. This contract with Boston Power was won against major international competition and represented further endorsement of the Company's technology. This is expected to result in follow on sales into the same sector in the current financial year.

The Company was delighted to recently receive a £141,000 order from Johnson Matthey for an MDXi-NT system for the inspection of catalytic converters at their plant in Japan. This order is scheduled for delivery in March 2009.

CHAIRMAN'S STATEMENT CONTINUED

OUTLOOK

In spite of recent successes in securing the orders from China and Japan, visibility of future orders is uncertain due to the general downturn in the world economy. Other anticipated orders have been delayed due to the impact of the economic climate in the automotive sector. There also appears to have been a slower take-up of Flatscan-TPXi sales in recent months, although experience has shown that impetus for sales within the security sector can often be event-driven. As a result, it is difficult to predict when the current sales' prospects will convert into firm orders.

In the light of the above, the Board has taken the following remedial measures to restructure the Company and reduce overheads:

- Louise George, hitherto the Company's Finance Director, has been appointed Chief Executive. This has enabled Nick Fox to step into the role of Chief Technical Officer, providing the technical lead throughout the Company and in particular to the sales process. The Group's finance and accounting function will be under the overall direction of Louise George with support principally being provided from existing and, if necessary, outsourced temporary staff;

- the Company's sales and marketing function will be strengthened through the recruitment of an additional Sales Executive who will report to Vince Deery, the Sales and Marketing Director of the Company's principal operating subsidiary, 3DX-RAY Limited. The Board is encouraged by the progress to date in widening and extending the Company's sales opportunities but further resource is required in this key function to capitalise on the prospects and to convert them to firm orders;

- a reassignment of roles and responsibilities amongst the technical and engineering staff has resulted in a reduction in headcount, taking the number of permanent full-time equivalent staff, excluding the Board, to twelve;

- the above changes result in annualised savings of £100,000. Associated redundancy costs in the current year are expected to be approximately £30,000; and

- additional technical and engineering support will be contracted in as required to meet peak demands on the business.

The Board believes that these changes will result in the management of the business being more focused, with costs being tightly controlled on a reduced overall overhead and with resource being directed to marketing and project priorities. It is clearly a fundamental requirement in the current difficult trading environment to give the Company the best opportunity to garner its resources to maximum effect and to continue progress towards profitability. However, the Board continues to pursue a wider strategic solution that will enable the Company and shareholders to recover value over a shorter time horizon.

STAFF

During the year our staff have shown great loyalty and commitment to meeting tight customer deadlines. Their ability to achieve a quick turnaround on the contract with Boston Power was one of the critical success factors on the project. I would like to take this opportunity to thank everyone at the Company for their continuing support.

Gilbert J Chalk
CHAIRMAN
22 DECEMBER 2008

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 30 September 2008.

BUSINESS ACTIVITY, REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The principal activities of the Group have been the continuing development of 3D imaging technology. Further details can be found in the Chairman's statement set out on pages 1 and 2. The Company acts as a holding company.

RESULTS AND DIVIDENDS

The results for the year ended 30 September 2008 show a loss after tax of £330,936 (2007: £761,395). The Directors do not recommend the payment of a dividend.

KEY PERFORMANCE INDICATORS

Monthly consolidated management accounts are prepared for the Board which include key metrics such as turnover and gross profit by sector, Earnings Before Interest, Taxes, Depreciation and Amortisation ('EBITDA') and trade and other receivables figures.

DIRECTORS

The Directors who held office on 30 September 2008 were as follows:

Gilbert J Chalk	Non-executive Chairman	Appointed 30 November 2007
Louise J George	Chief Executive Officer	
Nick D Fox	Chief Technical Officer	
Ian S S Johnson	Non-executive Director	
Jerry A Horwood	Non-executive Director	Appointed 14 November 2007

Other Directors holding office during the year were as follows:

Peter J Woods	Non-executive Chairman	Resigned 2 November 2007
Simon X Godber	Technical Director	Resigned 13 November 2007

SHAREHOLDINGS

At the date of this report the following substantial shareholdings have been notified to the Company:

	%	Ordinary shares of 1 pence each
Gresham House plc	7.27	4,048,852
David Allenby	6.15	3,425,708
Welsh Industrial Investment Trust plc	5.39	3,000,000
Calculus Capital	3.25	1,810,645
A P Stirling	2.74	1,524,166

DIRECTORS' SHAREHOLDINGS:

N D Fox	4.55	2,531,788
J A Horwood	1.35	750,000
L J George	0.27	148,000
I S S Johnson	0.26	142,857

PAYMENT POLICY

The Group's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction and then to abide by these terms. At 30 September 2008, trade payables represented 57 days' purchases (2007: 53 days').

DIRECTORS' REPORT CONTINUED

RESEARCH AND DEVELOPMENT
The Group was focused in the year on R&D, with considerable technical staff effort applied to developing the next generation TPXi and the DEX camera systems. Costs in the year amounted to £211,216 (2007: £266,813).

FIXED ASSETS
The intangible assets, as detailed in note 10, have been fully written down in a previous period.

There has been no movement in fixed asset investments during the year, as detailed in note 11 to the financial statements.

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

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

Interest rate risk
The Group finances its operations by a mixture of share capital and external borrowings. Bank borrowings are denominated in Sterling and bear interest at floating rates.

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

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

DIRECTORS' STATEMENT OF RESPONSIBILITIES
The Directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS
The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that one ought to have taken as a Director in order to make oneself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITORS
Wilkins Kennedy have expressed their willingness to continue in office as auditors of the Company. A resolution to reappoint Wilkins Kennedy as the Company's auditors will be proposed at the forthcoming Annual General Meeting ('AGM').

By order of the Board

L George

Louise J George
COMPANY SECRETARY
22 DECEMBER 2008

STATEMENT OF CORPORATE GOVERNANCE

The Company is quoted on the Alternative Investment Market ('AIM') and is therefore not required to comply with the provisions of the Combined Code. Nevertheless, by continuous review, the Company ensures that proper standards of corporate governance are in operation and the principles of the Combined Code are followed so far as is practicable and appropriate to the size and nature of the Company.

Set out below is a summary of how, at 30 September 2008, the Company was dealing with the key requirements of the Combined Code.

THE BOARD

The Board, which presently consists of two Executive and three Non-executive Directors, meets regularly throughout the year and receives timely information in a form and of a quality appropriate to enable it to discharge its duties.

The Board considers all its Non-executive Directors to be independent in character and judgement, however, none are technically independent as defined by the Code.

The posts of Chairman and Chief Executive Officer are held by separate individuals and the division of responsibilities is clearly defined and understood.

The Board considers the current Board structure appropriate for the Company.

There are processes in place enabling Directors to take independent advice at the Company's expense in the furtherance of their duties and to have access to the advice and services of the Company Secretary.

BOARD COMMITTEES

The Audit Committee comprises Gilbert Chalk, who has recent and relevant financial experience, Ian Johnson and Jerry Horwood. The Audit Committee met three times during the year; once with the Audit Partner and on two further occasions as part of the main Board.

The Remuneration Committee comprises Gilbert Chalk, Ian Johnson and Jerry Horwood. The Remuneration Committee met twice during the year. The Committee is responsible for determining the contractual terms, remuneration and other benefits of the Executive Directors. The report of the Remuneration Committee is set out on pages 7 and 8.

The Nominations Committee comprises Gilbert Chalk, Louise George and Ian Johnson. The Nominations Committee met twice during the year.

All three Committees are currently under the Chairmanship of Gilbert Chalk.

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board is responsible for the Company's system of internal control including financial, operational and compliance controls, risk management and for reviewing effectiveness. The Board has introduced procedures designed to meet the particular needs of the Company in managing the risks to which it is exposed. The Board is satisfied with the effectiveness of the internal controls but, by their very nature, these procedures can provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board has reviewed the need for an internal audit function. The Board has decided that, given the nature of the Company's business and assets and the overall size of the Company, the systems and procedures currently employed provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets, is in place. An internal audit function is therefore considered unnecessary.

RELATIONS WITH SHAREHOLDERS

The Chairman makes himself available to major shareholders on request and periodically attends meetings with and gives presentations to shareholders. The AGM is normally attended by all Directors, and shareholders are invited to ask questions during the meeting and to meet with Directors after the formal proceedings have ended.

REMUNERATION REPORT

The Directors present the remuneration report for the year ended 30 September 2008. This report has not been prepared in accordance with the Directors' Report Regulations because, as an AIM company, Image Scan Holdings plc does not fall within the scope of these regulations.

REMUNERATION POLICY

The Remuneration Committee has devised a remuneration policy to ensure that Executive Directors and staff are suitably motivated and appropriately rewarded in line with companies of a similar size and nature. The Board is responsible for setting the remuneration of the Non-executive Directors, which comprises fees for their services in connection with Board and Board Committee meetings. The Non-executive Directors are not eligible to join the Company's pension scheme but may be awarded shares under the Company's Unapproved Share Option Scheme.

The shareholders will be given the opportunity to question the Chairman, Gilbert Chalk, on any aspect of the Company's remuneration policy and to vote on the remuneration report at the AGM.

BASE SALARY AND BENEFITS

Base salaries for the Executive Directors are reviewed annually by the Remuneration Committee. At the present stage of development, with modest levels of turnover, the salaries paid to Executive Directors reflect the lower end of the salary scale compared to other public companies in similar situations. Salary increases based on performance will only be made when the Company's profitability allows.

In addition to the base salary, the full-time Executive Directors, Louise George and Nick Fox, were also entitled to the following benefits: 30 days' holiday per annum; cash allowance in lieu of a company car; private medical cover; and life assurance based on four times basic annual salary.

DIRECTORS' PENSION POLICY

Full-time Executive Directors are entitled to join the Company's defined contribution pension scheme, to which the Company contributes the equivalent of 10% of their basic gross salary.

SERVICE CONTRACTS

Directors have rolling service contracts, which are governed by the following policies, and will also be applied to any future Board appointment:

- the notice period required by either the Company or an Executive Director to terminate their contract is six months;
- the notice period required by either the Company or a Non-executive Director to terminate their contract is three months; and
- in the event of termination for unsatisfactory performance (if necessary, decided by an independent tribunal) or for any reasons of misconduct, no compensation is payable.

DIRECTORS' EMOLUMENTS

Information about Directors' emoluments is as follows:

Directors	Basic salary	Fees	Benefits	Pension contributions	Loss of office	Total emoluments 2008	Total emoluments 2007
EXECUTIVE							
N D Fox	78,875	—	688	7,744		**87,307**	85,848
L J George	63,625	—	528	5,613		**69,766**	68,236
S X Godber	10,167	—	89	900	39,867	**51,023**	69,236
R I Higgons	—	—	—	—	—	**—**	76,137
NON-EXECUTIVE							
G J Chalk	—	14,400	—	—	—	**14,400**	—
I S S Johnson	—	16,667	—	—	—	**16,667**	12,600
J A Horwood	—	—	—	—	—	**—**	—
P J Woods	—	1,750	—	—	5,250	**7,000**	28,000
TOTAL 2008	**152,667**	**32,817**	**1,305**	**14,257**	**45,117**	**246,163**	**340,057**
Total 2007	253,708	40,600	2,044	17,550	26,155		

SHARE OPTION SCHEMES

The Remuneration Committee is responsible for awarding options over ordinary shares to Executive Directors and key personnel under the Company's Enterprise Management Incentive Share Option scheme ('EMI') and to Non-executive Directors under the Unapproved scheme. These schemes potentially offer long term incentives to Directors and key personnel.

The Remuneration Committee believes that the potential for share ownership and participation in the growing value of the Company increases the commitment and loyalty of Directors and staff. All Directors have been awarded share options during the year and these are fully disclosed below.

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

Holder	Image Scan Share Option Scheme	Number	Exercise price (pence)	Date of grant	Vesting period (years)	Expire
N D Fox	EMI	80,000	15	30/09/2005	3	30/09/2015
	EMI	100,000	18.25	02/10/2006	3	02/10/2016
L J George	EMI	10,000	51.5	14/03/2003	3	14/03/2013
	EMI	80,000	15	30/09/2005	3	30/09/2015
	EMI	100,000	18.25	02/10/2006	3	02/10/2016
I S S Johnson	Unapproved	80,000	15	31/07/2005	None	31/07/2010

The following options were issued during the year:

Holder	Image Scan Share Option Scheme	Number	Exercise price (pence)	Date of grant	Vesting period (years)	Expire
J A Horwood	Unapproved	750,000	10	14/11/2007	3	14/11/2017
I S S Johnson	Unapproved	250,000	10	28/01/2008	3	30/11/2017
G J Chalk	Unapproved	500,000	10	28/01/2008	Over 5[1]	30/11/2017
N D Fox	EMI	750,000	15	28/01/2008	Over 5[1]	30/11/2017
L J George	EMI	750,000	15	28/01/2008	Over 5[1]	30/11/2017

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

SHARE PRICE PERFORMANCE

The share price high and low during the year was 12 pence and 2.38 pence per share respectively. The closing mid-market price was 2.38 pence per share.

On behalf of the Board

Gilbert J Chalk
CHAIRMAN, REMUNERATION COMMITTEE
22 DECEMBER 2008

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF IMAGE SCAN HOLDINGS PLC

We have audited the financial statements of Image Scan Holdings plc for the year ended 30 September 2008 which comprise the consolidated income statement, the consolidated and company balance sheets, the consolidated and company cash flow statements, the consolidated and company statements of changes in equity and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and IFRS as adopted for use in the European Union are set out in the Directors' statement of responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you, whether in our opinion, the information given in the Directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law, regarding Directors' remuneration and transactions, is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's statement, the Directors' report, the statement of corporate governance and the remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the Company's and Group's affairs as at 30 September 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

Wilkins Kennedy

Wilkins Kennedy

CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS, LONDON

22 DECEMBER 2008

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2008

	Note	2008 £	2007 £
CONTINUING OPERATIONS			
REVENUE	3	2,004,519	1,541,862
Cost of sales		(1,096,538)	(830,327)
GROSS PROFIT		907,981	711,535
Administrative expenses		(1,360,318)	(1,521,716)
OPERATING LOSS	4	(452,337)	(810,181)
Finance income		75,068	31,191
Finance costs	6	—	(45,236)
LOSS BEFORE TAXATION		(377,269)	(824,226)
Taxation	7	46,333	62,831
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		(330,936)	(761,395)
		Pence	Pence
EARNINGS PER SHARE	8		
Basic and diluted loss per share		0.6	1.9

There are no recognised gains or losses other than the loss for the year and the prior year.

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET
AS AT 30 SEPTEMBER 2008

	Note	2008 £	2007 £
NON-CURRENT ASSETS			
Property, plant and equipment	9	140,149	110,651
Other intangible assets	10	—	—
		140,149	110,651
CURRENT ASSETS			
Inventories	12	154,027	289,180
Trade and other receivables	13	153,405	394,905
Cash and cash equivalents	13	1,534,504	1,531,269
Current tax asset		46,333	66,079
		1,888,269	2,281,433
TOTAL ASSETS		2,028,418	2,392,084
CURRENT LIABILITIES			
Trade and other payables	14	381,624	485,810
Warranty provision	15	35,895	28,967
		417,519	514,777
NET ASSETS		1,610,899	1,877,307
EQUITY			
Share capital	17	556,981	549,481
Share premium account		7,305,407	7,252,907
Retained earnings		(6,251,489)	(5,925,081)
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS		1,610,899	1,877,307

These financial statements were approved by the Board of Directors on 22 December 2008.

Signed on behalf of the Board of Directors

L George

Louise J George
CHIEF EXECUTIVE OFFICER

Nick D Fox
CHIEF TECHNICAL OFFICER

The accompanying notes form an integral part of these financial statements.

COMPANY BALANCE SHEET

AS AT 30 SEPTEMBER 2008

	Note	2008 £	2007 £
NON-CURRENT ASSETS			
Investments in Group undertakings	11	**52,004**	52,004
CURRENT ASSETS			
Trade and other receivables	13	**5,054,605**	4,833,314
Cash and cash equivalents	13	**1,356,669**	1,484,231
		6,411,274	6,317,545
TOTAL ASSETS		**6,463,278**	6,369,549
CURRENT LIABILITIES			
Trade and other payables	14	**102,749**	74,915
NET ASSETS		**6,360,529**	6,294,634
EQUITY			
Share capital	17	**556,981**	549,481
Share premium account		**7,305,407**	7,252,907
Retained earnings		**(1,501,859)**	(1,507,754)
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS		**6,360,529**	6,294,634

These financial statements were approved by the Board of Directors on 22 December 2008.

Signed on behalf of the Board of Directors

L George

Louise J George
CHIEF EXECUTIVE OFFICER

Nick D Fox
CHIEF TECHNICAL OFFICER

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2008

Group	Share capital £	Share premium £	Retained earnings £	Total £
As at 1 October 2006	349,481	4,671,249	(5,163,686)	(142,956)
Share issue	200,000	2,581,658	—	2,781,658
Loss attributable to members of the Group	—	—	(761,395)	(761,395)
As at 30 September 2007	549,481	7,252,907	(5,925,081)	1,877,307
Share issue	7,500	52,500	—	60,000
Loss attributable to members of the Group	—	—	(330,936)	(330,936)
Share-based transactions	—	—	4,528	4,528
AS AT 30 SEPTEMBER 2008	**556,981**	**7,305,407**	**(6,251,489)**	**1,610,899**

Company	Share capital £	Share premium £	Retained earnings £	Total £
As at 1 October 2006	349,481	4,671,249	(1,513,782)	3,506,948
Share issue	200,000	2,581,658	—	2,781,658
Profit attributable to members of the Group	—	—	6,028	6,028
As at 30 September 2007	549,481	7,252,907	(1,507,754)	6,294,634
Share issue	7,500	52,500	—	60,000
Profit attributable to members of the Group	—	—	1,367	1,367
Share-based transactions	—	—	4,528	4,528
AS AT 30 SEPTEMBER 2008	**556,981**	**7,305,407**	**(1,501,859)**	**6,360,529**

As permitted by Section 230 of the Companies Act 1985, a separate income statement for the Company has not been included. The profit for the financial year, dealt within the financial statements of the Company, was £1,367 (2007: profit £6,028).

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2008

	Note	2008 £	2007 £
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating loss		**(452,337)**	(810,181)
ADJUSTMENTS FOR:			
Depreciation		**77,447**	56,581
Amounts written off intangible fixed assets		**—**	16,231
Profit/(loss) on sale of property, plant and equipment		**128**	(104)
Transfer of inventories to fixed assets		**(81,392)**	—
Decrease/(increase) in inventories		**135,153**	(123,094)
Decrease/(increase) in trade and other receivables		**241,500**	(47,983)
Decrease in trade and other payables		**(97,258)**	(249,932)
Share-based payment charge used in operating activities		**4,528**	—
NET CASH USED IN OPERATING ACTIVITIES		**(172,231)**	(1,158,482)
Interest paid	6	**—**	(45,236)
Corporation tax recovered		**66,079**	34,035
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		**(106,152)**	(1,169,683)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**75,068**	31,191
Purchase of property, plant and equipment	9	**(25,681)**	(76,692)
Proceeds on disposal of property, plant and equipment		**—**	749
NET CASH FROM/(USED IN) INVESTING ACTIVITIES		**49,387**	(44,752)
CASH FLOW FROM FINANCING ACTIVITIES			
Issue of ordinary share capital		**60,000**	2,781,658
Other loans advanced		**—**	400,000
Other loans repaid		**—**	(600,000)
NET CASH FROM FINANCING ACTIVITIES		**60,000**	2,581,658
NET INCREASE IN CASH AND CASH EQUIVALENTS		**3,235**	1,367,223
Cash and cash equivalents at beginning of year		**1,531,269**	164,046
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,534,504**	1,531,269

The accompanying notes form an integral part of these financial statements.

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2008

	Note	2008 £	2007 £
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating (loss)/profit		(69,804)	29,401
ADJUSTMENTS FOR:			
Increase in trade and other receivables		(221,291)	(1,130,065)
Increase in trade and other payables		27,834	22,951
Share-based payments		4,528	—
NET CASH USED IN OPERATING ACTIVITIES		(258,733)	(1,077,713)
Interest paid	6	—	(45,226)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(258,733)	(1,122,939)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		71,171	21,853
NET CASH FROM INVESTING ACTIVITIES		71,171	21,853
CASH FLOW FROM FINANCING ACTIVITIES			
Issue of ordinary share capital		60,000	2,781,658
Other loans advanced		—	400,000
Other loans repaid		—	(600,000)
NET CASH FROM FINANCING ACTIVITIES		60,000	2,581,658
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(127,562)	1,480,572
Cash and cash equivalents at beginning of year		1,484,231	3,659
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,356,669	1,484,231

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2008

1. GENERAL INFORMATION

Image Scan Holdings plc is a public limited company incorporated in England and Wales under the Companies Act 1985. The address of the registered office is given in the officers and professional advisers' section. The nature of the Group's operations and its principal activities are set out in the Directors' report and in note 3 of the financial statements.

These financial statements are presented in Sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.

The basis of preparation and accounting policies followed in this report differ from those set out in the annual report and financial statements for the year ended 30 September 2007, which were prepared in accordance with United Kingdom Generally Accepted Accounting Principles ('UK GAAP'). A summary of significant accounting policies used in the preparation of this report under IFRS is provided below.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared in accordance with IFRSs, as adopted by the European Union, and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis.

First time adoption of International Financial Reporting Standards

IFRS 1, 'First time adoption of International Financial Reporting Standards' sets out the procedures that the Company must follow when it adopts IFRS for the first time as the basis for preparing its financial statements. The Group is required to establish its IFRS accounting policies as at 30 September 2008 and 30 September 2007.

With the exception of presentational adjustments, there are no material differences between the balance sheets and the income statements presented under IFRS and the balance sheets and income statements presented under UK GAAP.

Under UK GAAP, cash flows are presented separately for operating activities, returns on investments and servicing of finance, taxation, capital expenditure and financial instruments, acquisitions and disposals, management of liquid resources and financing activities. IFRS, however, requires only three categories of cash flow activity to be reported: operating, investing and financing.

New standards and interpretations

At the date of authorisation of these financial statements, the International Accounting Standards Board ('IASB') and the International Financial Reporting Interpretation Committee ('IFRIC') have issued the following standards and interpretations with an effective date falling after the date of these financial statements which have not been applied in these financial statements. The Directors anticipate that the adoption of these standards and interpretations in future periods will not have a material impact on the financial statements of the Company.

		Effective for period ended
IFRS 8	Operating Segments	30 September 2010
IAS 23	Borrowing Costs	30 September 2010
IAS 1 Amendment	Amendment of IAS 1 – Presentation of Financial Statements	30 September 2010
IFRS 2 Amendment	Amendment of IFRS 2 – Share-based Payment	30 September 2010
IFRIC 12	Service Concession Arrangements	30 September 2009
IFRIC 13	Customer Loyalty Programmes	30 September 2010
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	30 September 2009

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (and its subsidiaries) made up to 30 September each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Revenue from long term contracts is recognised in accordance with the Group's accounting policy on construction contracts.

Long term contracts

Where the outcome of a long term contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date compared to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a long term contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. Where it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Leasing

All leases held by the Company are classified as operating leases. Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any provision for impairment. Depreciation is charged to the income statement on a straight-line basis over the expected useful life of each asset as follows:

Computer equipment	– three years
Demonstration equipment	– three years
Plant and office equipment	– three years

Additional depreciation is provided, where appropriate, to reduce the carrying value of property, plant and equipment to their value to the business. Assets under construction are not depreciated until brought into use.

Going concern

The Directors believe that the Company will have sufficient resources to continue in operational existence for the foreseeable future and that no adjustment is required to the carrying value of assets reported. Therefore they have prepared the financial statements on a going concern basis.

Pension costs

The Group operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the Group in an independently administered fund. Contributions are charged against profits as they arise.

Investments

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

Inventories

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

Development costs

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

Patent costs

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

Following an impairment review in September 2007, it was decided to write down the carrying value of all patents to nil as no significant sales, that use that patent, are anticipated in the near future.

Foreign currencies

Assets and liabilities in foreign currencies are translated into Sterling at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into Sterling at the rate of exchange ruling at the date of transaction. Exchange differences are accounted for in arriving at the operating result.

Share-based payments

In accordance with the transitional provisions, IFRS 2 has been applied to all grants of share options after 7 November 2002 that had not vested as at 1 October 2005.

The Company issues equity-settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant. The determined fair value is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. The level of vesting is reviewed annually, and the charge is adjusted to reflect actual and estimated levels of vesting.

The fair value of services received in return for share options granted is measured by reference to the fair value of share options. The estimate of the fair value of the services received is measured based on the Black-Scholes Option Pricing Model. This model takes into account the following variables: exercise price, share price at date of grant, expected term, expected share price volatility, risk-free interest rate and expected dividend yield. Expected volatility is estimated by considering historic average share price volatility.

Accounting judgements and key sources of estimation uncertainty

As stated above, the preparation of financial statements under IFRS requires the Company to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed on the following page.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for doubtful debts

The Company makes provision for debts, including intercompany debts, that the management estimate may become impaired. The Company makes assessments on the recoverability of all its accounts based on external factors such as the creditworthiness of the customer, market conditions and the age of the receivables. An assessment is also made of future cash flows arising from trading subsidiaries to ascertain any probable impairment of intercompany debtors.

Warranty provision

A warranty provision is recognised in respect of labour only costs estimated to be arising on product sales during the last financial year. It is expected that most of these costs will be incurred in the next financial year.

3. REVENUE

Revenue, which excludes VAT and intra-group trading, represents the value, net of discount, of goods sold and services provided. Revenue is recognised at the time of despatch to the customer. Where stage payments are made, revenue is recognised at the point when all conditions of the contract are met. The Group's main activity is the continuing development of multi-view x-ray imaging techniques with applications in the security and industrial sectors. All revenue is derived from operations in the UK and is analysed as follows:

	2008			2007		
	Security £	Industrial £	Total £	Security £	Industrial £	Total £
GROUP REVENUE BY DESTINATION AND SECTOR						
UK	315,160	526,283	841,443	59,803	1,030,494	1,090,297
US	41,947	280,119	322,066	44,603	23,868	68,471
Rest of World	813,612	27,398	841,010	186,301	196,793	383,094
	1,170,719	833,800	2,004,519	290,707	1,251,155	1,541,862
GROSS PROFIT BY SECTOR	533,375	374,732	908,107	135,829	575,598	711,427

4. OPERATING LOSS

	2008 £	2007 £
OPERATING LOSS IS STATED AFTER CHARGING:		
Depreciation – owned assets	77,447	56,581
Amortisation – intangible assets	—	16,231
R&D costs	211,216	266,813
Amounts charged under operating leases – equipment	—	5,400
AUDITORS' REMUNERATION:		
Audit – Group	12,000	12,000
Audit – Company	1,000	1,000
Other services	6,059	3,799

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2008 £	2007 £
DIRECTORS' EMOLUMENTS		
Management remuneration	153,972	255,753
Fees as Directors	32,817	40,600
Pension contributions	14,256	17,550
Compensation for loss of office	45,117	26,155
	246,162	340,058

	Number	Number
NUMBER OF DIRECTORS ACCRUING BENEFITS UNDER:		
Defined contribution pension scheme	2	3

	£	£
THE AMOUNTS PAID IN RESPECT OF THE HIGHEST PAID DIRECTOR ARE AS FOLLOWS:		
Emoluments	79,564	79,098
Pension contributions	7,744	6,750
	87,308	85,848

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (CONTINUED)

	2008 Number	2007 Number
AVERAGE NUMBER OF PERSONS EMPLOYED (INCLUDING DIRECTORS)		
Accounts and administration	**4**	4
Technical	**12**	15
Directors	**5**	6
	21	25

	£	£
STAFF COSTS DURING THE YEAR (INCLUDING DIRECTORS)		
Wages and salaries	**824,945**	1,000,251
Social security costs	**88,343**	107,246
Pension costs	**34,487**	42,623
Share-based payments (option scheme)	**4,528**	—
	952,303	1,150,120

Ian Johnson Associates Limited, a company in which Ian Johnson has a material interest and of which he is a Director, provided consultancy services amounting to £11,395 (2007: £11,821) in the year ended 30 September 2008. An amount of £1,583 (2007: £7,328) is included in trade payables at the year end.

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2008 £	2007 £
INTEREST PAYABLE ON LOANS AND OVERDRAFTS		
Repayable within five years	**—**	45,236

7. TAX ON RESULTS ON ORDINARY ACTIVITIES

a) Analysis of credit in the year

	2008 £	2007 £
CURRENT TAX		
UK corporation tax at 20% (2007: 19%) based on the loss for the year (note 7b)	**(46,333)**	(66,079)
Over provision in prior year	**—**	3,248
Total current tax credit	**(46,333)**	(62,831)
DEFERRED TAX	**—**	—
TAX CREDIT	**(46,333)**	(62,831)

The tax rate changed from 20% to 21% on 1 April 2008, and from 19% to 20% on the 1 April 2007.

b) Reconciliation of tax credit

	2008 £	2007 £
Loss on ordinary activities before tax	**(377,269)**	(824,226)
Tax on loss on ordinary activities at standard rate	**(75,454)**	(156,602)
BEING THE EFFECTS OF:		
Permanent differences	**900**	645
Accelerated capital allowances	**(6,527)**	(10,824)
Current year loss not utilised	**42,460**	114,468
Loss surrendered to HM Revenue and Customs in exchange for R&D tax relief	**38,621**	52,313
Tax credit receivable from HM Revenue and Customs	**(46,333)**	(66,079)
Over provision in prior year	**—**	3,248
ACTUAL TAX CREDIT FOR THE YEAR (note 7a)	**(46,333)**	(62,831)

8. EARNINGS PER SHARE

	2008	2007
Loss for the year (£)	**330,936**	761,395
Weighted average number of ordinary shares in issue (number)	**55,620,038**	40,865,928
Basic and diluted loss per share (pence)	**0.6**	1.9

IAS 33 requires presentation of diluted Earnings Per Share ('EPS') when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding share options, net loss per share would only be increased by the exercise of out-of-the-money options. Since it seems inappropriate to assume that option holders would act irrationally and there are no other diluting future share issues, diluted EPS equals basic EPS.

9. PROPERTY, PLANT AND EQUIPMENT

Group	Assets under construction £	Computer equipment £	Demonstration equipment £	Plant and office equipment £	Total £
COST					
At 1 October 2006	89,818	58,437	107,657	46,547	302,459
Additions	51,298	14,534	—	10,860	76,692
Disposals	—	(749)	—	—	(749)
Transfer of assets	(20,183)	—	—	20,183	—
Transfer to inventories	(83,013)	—	—	—	(83,013)
At 30 September 2007	37,920	72,222	107,657	77,590	295,389
Additions	1,698	14,983	9,000	—	25,681
Disposals	—	(12,917)	(39,079)	(1,651)	(53,647)
Transfer of assets	(39,618)	—	84,628	8,279	53,289
AT 30 SEPTEMBER 2008	—	74,288	162,206	84,218	320,712
DEPRECIATION					
At 1 October 2006	—	26,816	68,204	33,241	128,261
Provided during the year	—	18,248	24,993	13,340	56,581
Disposals	—	(104)	—	—	(104)
At 30 September 2007	—	44,960	93,197	46,581	184,738
Provided during the year	—	18,632	43,525	15,290	77,447
Disposals	—	(12,790)	(39,079)	(1,650)	(53,519)
Transfer to inventories	—	—	(28,103)	—	(28,103)
AT 30 SEPTEMBER 2008	—	50,802	69,540	60,221	180,563
NET BOOK VALUE					
AT 30 SEPTEMBER 2008	—	23,486	92,666	23,997	140,149
At 30 September 2007	37,920	27,262	14,460	31,009	110,651

10. INTANGIBLE FIXED ASSETS

	Total £
COST	
At 1 October 2006	233,797
Additions	—
Disposals	(213,615)
At 30 September 2007	20,182
AT 30 SEPTEMBER 2008	20,182
AMORTISATION	
At 1 October 2006	217,566
Provided during the year	16,231
Disposals	(213,615)
At 30 September 2007	20,182
AT 30 SEPTEMBER 2008	20,182
NET BOOK VALUE	
AT 30 SEPTEMBER 2008	—
At 30 September 2007	—

11. INVESTMENTS

Subsidiary undertakings – Company

	£
COST AND NET BOOK VALUE	
At 1 October 2007 and 30 September 2008	52,004

The subsidiary undertakings of Image Scan Holdings plc, all of which principally trade and are registered in England, are as follows:

Company	Principal activities	Country of incorporation and operations	Ordinary share capital %	Investment shares at cost 2008 £	Investment shares at cost 2007 £
Stereo Scan Systems Ltd	Development of advanced imaging technology	England	100%	51,000	51,000
3DX-RAY Limited	Exploitation of advanced imaging technology	England	100%	1	1
Industrial Scanning Inspection Systems Ltd	Exploitation of advanced imaging technology	England	100%	1,000	1,000
Baggage Scan Ltd	Dormant	England	100%	1	1
Mediscan Ltd	Exploitation of advanced imaging technology	England	100%	2	2

12. INVENTORIES

	Group		Company	
	2008 £	2007 £	2008 £	2007 £
Raw materials	103,363	50,530	—	—
Work in progress	14,631	132,878	—	—
Finished goods	36,033	105,772	—	—
	154,027	289,180	—	—

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

13. OTHER FINANCIAL ASSETS

Trade and other receivables

	Group		Company	
	2008 £	2007 £	2008 £	2007 £
Trade receivables	124,170	254,763	—	—
VAT recoverable	14,335	14,709	14,335	13,539
Other receivables and prepayments	14,900	125,433	8,334	23,502
Amounts due from subsidiary undertakings	—	—	5,031,936	4,796,273
	153,405	394,905	5,054,605	4,833,314

Cash and cash equivalents

	Group		Company	
	2008 £	2007 £	2008 £	2007 £
Cash and cash equivalents	1,534,504	1,531,269	1,356,669	1,484,231

Cash and cash equivalents comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The carrying value of these assets approximate their fair value.

14. TRADE AND OTHER PAYABLES

Amounts falling due within one year

	Group		Company	
	2008 £	2007 £	2008 £	2007 £
Trade payables	197,545	246,422	87,195	55,311
Deferred income	33,575	187,008	—	—
Other tax and social security	27,825	28,511	—	—
Accruals	122,679	23,869	15,554	19,604
	381,624	485,810	102,749	74,915

At 30 September 2008 accruals included pension contributions amounting to £4,401 (2007: £4,086).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 SEPTEMBER 2008

15. PROVISIONS FOR LIABILITIES AND CHARGES
Deferred tax

Group	2008 £	2007 £
At 1 October 2007 and 30 September 2008	—	—

The amount of deferred tax provided and not provided in the financial statements are as follows:

Group	Provided 2008 £	Not provided 2008 £	Provided 2007 £	Not provided 2007 £
Accelerated capital allowances	—	(69,621)	—	(57,859)
Losses	—	(996,796)	—	(897,915)
	—	(1,066,417)	—	(955,774)

The deferred tax asset is recoverable against profits generated in the Group in the future. No allowance has been made for the deferred tax asset as recoverability in the near future is uncertain. The Company's tax losses not provided amount to £8,630 (2007: £8,199).

Warranty provision

	£
At 1 October 2007	28,967
Charge for the year	6,928
AT 30 SEPTEMBER 2008	35,895

A warranty provision is recognised in respect of labour only costs estimated to be arising on product sales during the last financial year. It is expected that most of these costs will be incurred in the next financial year.

16. COMMITMENTS
At 30 September 2008 the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2008 £	2007 £
WITHIN ONE YEAR:		
Land and buildings	62,990	62,990

At 30 September 2008, there were no capital commitments (2007: £nil).

17. SHARE CAPITAL

	2008 £	2007 £
AUTHORISED:		
100,000,000 ordinary shares of 1 pence each	1,000,000	1,000,000
CALLED UP, ALLOTTED AND FULLY PAID:		
55,698,120 ordinary shares of 1 pence each	556,981	549,481

	Nominal value £	Consideration £
ON 9 NOVEMBER 2007, THE COMPANY MADE THE FOLLOWING ISSUE OF SHARES:		
750,000 ordinary shares of 1 pence each	7,500	60,000

Of the options in place as at 30 September 2008, the following options are still outstanding:

Image Scan Share Option Scheme	Date of issue	Quantity	Exercise price (pence)	Vesting period (years)	Expiry date
Image Scan 1999 Approved	04/05/2000	10,000	25	3	04/05/2010
Image Scan 1999 Approved	30/04/2001	10,000	50	3	30/04/2011
Image Scan 1999 Approved	21/05/2002	4,000	74.5	3	21/05/2012
EMI	14/03/2003	79,000	51.5	3	14/03/2013
Unapproved Scheme	31/07/2005	80,000	15	None	31/07/2010
EMI	30/09/2005	302,000	15	3	30/09/2015
EMI	02/10/2006	380,000	18.25	3	02/10/2016
Unapproved Scheme	14/11/2007	750,000	10	3	14/11/2017
EMI	23/11/2007	200,000	10	3	23/11/2017
Unapproved Scheme	28/01/2008	250,000	10	3	30/11/2017
Unapproved Scheme	28/01/2008	500,000	10	Over 5[2]	30/11/2017
EMI	28/01/2008	1,500,000	15	Over 5[2]	30/11/2017

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

17. SHARE CAPITAL (CONTINUED)

Options granted during the year have been valued using the following inputs to the Black-Scholes model:

	2008	2007
Expected volatility (based on closing prices in the year prior to issue)	**50%**	50%
Expected life	**3.5 years**	3.5 years
Risk-free rate	**4.3%**	4.3%
Expected dividends	**Zero**	Zero

The Group recognised the following expenses relating to equity settled share-based transactions:

	2008 £	2007 £
Employee benefits (note 5)	**4,528**	—

18. TRANSACTIONS WITH RELATED PARTIES

During the year Image Scan Holdings plc provided management services to the value of £215,000 and £50,000 to subsidiary companies 3DX-RAY Limited and Stereo Scan Systems Limited, respectively (2007: £300,000 and £80,000).

At the year end the Company was owed the following amounts by subsidiary companies:

	2008 £	2007 £
3DX-RAY Limited	**3,936,898**	3,751,222
Industrial Scanning Inspection Systems Limited	**939,746**	59,092
Mediscan Limited	**59,088**	94,750
Stereo Scan Systems Limited	**94,746**	889,750
Baggage Scan Limited	**1,458**	1,458

19. FINANCIAL INSTRUMENTS

The disclosures required in relation to the nature of any financial instruments used during the year to mitigate interest rate, liquidity and foreign currency risks, are shown in the Directors' report under the heading 'Financial Instruments'. Short term trade and other receivables and trade and other payables are excluded from all disclosures other than the currency profile. There are no non-equity shares.

The Group had undrawn committed borrowing facilities at 30 September 2008 of £100,000 (2007: £100,000).

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

Fair values of gross financial assets (cash and short term investments) and gross financial liabilities (bank loans and overdrafts) are considered to be the same as book values at both 30 September 2008 and 30 September 2007.

Currency profile

At the year end amounts receivable for the sale of goods included US$44,466 (2007: US$71,766) and trade and other payables included 19,950 South African Rand (2007: US$13,385, EUR 13,094 and ZAR21,000). All other financial assets and liabilities are denominated in Sterling.

Capital management

The Company's policy is to maintain a strong capital base in order to safeguard the future development of the business. The Company finances its operations through retained earnings and the management of working capital.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE AND AGENDA OF ANNUAL GENERAL MEETING ('AGM')
Notice is hereby given that the AGM of Image Scan Holdings plc will be held at 11.00am on 19 March 2009 at the offices of Seymour Pierce, 20 Old Bailey, London EC4M 7EN for the following purposes:

ORDINARY RESOLUTIONS

1. To receive and adopt the financial statements for the year ended 30 September 2008 together with the reports of the Directors and auditors thereon.
2. To re-elect as a Director Nick D Fox who retires by rotation and offers himself for re-election.
3. To re-elect as a Director Louise J George who retires by rotation and offers herself for re-election.
4. To receive and adopt the remuneration report contained within the annual report for the year ended 30 September 2008.
5. To reappoint Wilkins Kennedy as auditors and to authorise the Directors to fix their remuneration.

SPECIAL RESOLUTION

6. To authorise and empower the Directors, pursuant to Section 95 of the Companies Act 1985, to allot equity securities (as defined in Section 94(2) of the Act) pursuant to the authority conferred by the AGM held on 13 March 2008 as if Section 89(1) of the Act did not apply to any such allotment, provided that such power shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount being 10% of the Company's issued share capital as shown by the latest published annual financial statements of the Company and shall expire on the date which is fifteen months after the date on which this resolution is passed or, if earlier, at the conclusion of the next AGM of the Company, save that the Directors be entitled to make at any time prior to the expiry of the power hereby conferred any offer or agreement which would or might require securities to be allotted after expiry.

By order of the Board

L George

Louise J George
COMPANY SECRETARY
22 DECEMBER 2008

Registered office:
PERA INNOVATION PARK
NOTTINGHAM ROAD
MELTON MOWBRAY
LEICESTERSHIRE LE13 0PB

NOTES:

1. A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote on his or her behalf. A proxy need not be a member of the Company.
2. Completion and return of a form of proxy does not preclude a member from attending and voting at the meeting in person should he or she so wish.
3. A form of proxy is enclosed and to be valid must be completed and returned so as to reach the Registrar of the Company, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, together with a letter or power of attorney or other written authority, if any, under which it is signed or a notarially certified or office copy of such power (written authority) not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof.
4. To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent RA10 not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through the CREST should be communicated to the proxy by other means. CREST personal members or other CREST sponsored members, and those CREST members who have appointed voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST Manual. We may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertified Securities Regulations 2001. In any case, your proxy form must be received by the Company's registrar no later than 48 hours before the time fixed for holding the meeting or any adjournment thereof.
5. Copies of the Directors' service contracts will be available for inspection at the registered office of the Company during normal business hours.

OFFICERS AND PROFESSIONAL ADVISERS

GILBERT J CHALK MBA
Non-executive Chairman
Gilbert Chalk is a senior private equity manager and corporate finance adviser. He is chairman of two Private Equity funds and he has had previous directorships or held senior positions at Baring Private Equity Partners Limited, ABSA Bank and Hambros Group. Gilbert has wide sector knowledge and extensive Board experience in large and small, listed and unquoted companies. Gilbert is the Chairman of the Audit, Remuneration and Nominations Committees.

LOUISE J GEORGE BSc, FCA, ACIS
Chief Executive Officer
Louise George is a Chartered Accountant and Chartered Secretary. She qualified with Ernst & Young in 1991 and has considerable experience of retail and technology companies. Louise joined Image Scan Holdings plc in 2002 as Financial Controller and Company Secretary and was subsequently appointed Finance Director in 2005 and Chief Executive Officer in 2008. The finance and accounting functions remain under her direction. Louise is a member of the Nominations Committee.

NICK D FOX BSc, MSc, CENG, MIEE
Chief Technical Officer
Nick 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. Nick set up the Company in 1996 to exploit the stereoscopic 3D imaging technology developed by The Nottingham Trent University. He carried out the function of Chief Executive Officer until December 2008, at which point he stepped into the role of Chief Technical Officer, providing the technical lead throughout the Company. He holds a BSc in Electronics and Material Engineering and an MSc in Information and Instrumentation Engineering.

IAN S S JOHNSON FSyI
Non-executive Director
Ian Johnson is a highly respected security adviser, and managing director of Ian Johnson Associates Ltd ('IJA') a leading security and risk management consultancy company. Ian has held advisory appointments to many FTSE companies and to government authorities both in the UK and internationally. A founding director and fellow of The Security Institute, he is currently a director of the British Security Industry Association and chairman of its Consultancies Section. His other memberships include the UK's Risk and Security Management Forum, and the American Society for International Security. Ian is a member of the Audit, Remuneration and Nominations Committees.

JERRY A HORWOOD BSc
Non-executive Director
Jerry Horwood has over 30 years' experience of sales and marketing within the automotive industry. In 1991 he founded an internet publishing start-up, 2nd Byte Ltd, providing used car marketing systems and services to car manufacturers. This was sold in 2006 to the Guardian Media Group. Jerry is now working with a number of technology companies seeking to gain from his experience of marketing innovative businesses. His main responsibility will be in contributing to the sales and marketing strategy to support increased growth potential. Jerry is a member of the Audit and Remuneration Committees.

COMPANY SECRETARY
Louise J George,
BSc, FCA, ACIS

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

COMPANY NUMBER
3062983

NOMINATED ADVISER AND STOCKBROKER
Seymour Pierce
20 Old Bailey
London EC4M 7EN

PRINCIPAL BANKERS
Royal Bank of Scotland plc
8 South Parade
Nottingham NG1 2JS

SOLICITORS
Charles Russell
Clarendon House
Clarendon Road
Cambridge CB2 8FH

Browne Jacobson
44 Castle Gate
Nottingham NG1 7BJ

REGISTRARS
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

AUDITORS
Wilkins Kennedy
Bridge House
London Bridge
London SE1 9QR

designed and produced by
the design portfolio marketing services.
www.design-portfolio.co.uk

IMAGE SCAN HOLDINGS PLC
Pera Innovation Park
Nottingham Road
Melton Mowbray
Leicestershire LE13 0PB

Tel: +44 (0)1664 503 600
Fax: +44 (0)1664 503 601

Email: info@ish.co.uk
Web: www.ish.co.uk