Image Scan Holdings plc
annual report and accounts 2010

Advanced x-ray systems

Corporate statement

Image Scan Holdings plc has developed innovative 2D and 3D x-ray technology which has been incorporated into a range of portable, rapid deployment and static advanced x-ray systems for the security sector, and high quality image acquisition systems for the non-destructive industrial inspection market.

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

Highlights

Key points

- Revenue at £1,472,000 (2009: £1,444,000)
- Gross margin of 55% (2009: 48%)
- Reduced overheads of £1,218,000 (2009: £1,283,000)
- Loss on ordinary activities after taxation of £382,000 (2009: £537,000)
- Year-end cash of £348,000 (2009: £850,000)
- ISO:9000 accreditation
- Launch of new website
- Appointment of UK sales manager

Post year end events

- Order intake in year to date exceeds £1.3million and includes:
  - Award of material nuclear contract worth £750,000
  - New industrial contracts worth £335,000 for both systems and software
  - Orders for FlatScan-TPXi from the Middle East, Southeast Asia and China
- Introduction of a smaller FlatScan system to complement the product range driven by market demand
- Project focused on improving market competitiveness of our Axis baggage screening systems through substantial sub system cost reductions

Chairman's statement

BRIAN EMSLIE
CHAIRMAN

"The Company now has a balanced organisational structure capable of delivering growth"

Introduction
In reporting the Final Results for Image Scan for the year ended 30 September 2010, I would like to comment on the Board's view of the Company's prospects for the future. 2010 has been a year of further transition for the Company with the implementation of the agreed strategy and the Board is confident that significant progress has been made in changing the historical culture of the Company to becoming a far more proactive sales and marketing-led organisation.

The Company has a long history of underperformance which has continued, albeit to a lesser extent, in 2010. The Board believes that the Company has sufficient funds to meet its obligations in 2011 but clearly during the year ahead it is vital to demonstrate improved operating performance primarily through securing additional revenues. Company performance is being closely monitored by the Board and whilst the recent encouraging level of order intake significantly reduces the risk for the year, the Board will continue to assess potential strategic options.

Strategy update
The repositioning of the Company from an R&D and custom solutions provider into a more commercial and customer focused organisation has been achieved. The sales and marketing strategy has been refined during 2010 in light of additional market feedback gathered by the sales team, with the primary objective for the Company to achieve breakeven as soon as possible through securing additional sales revenues from a wider customer base with a broader range of standard products, and to move beyond breakeven into a sustainable and profitable business.

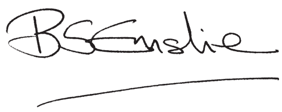
Implementing the strategy worldwide without a substantial customer base or reference list in our home territory was identified as a critical gap during the year. As a result an experienced UK sales manager was appointed in May, the cost of whom has been absorbed from savings elsewhere without an increase in overall overheads. Working closely with government and corporate bodies in the UK has provided the opportunity to evaluate potential new products and to gain first-hand end-user feedback.

The security strategy is to sell standard products into emerging and niche applications rather than to focus on high volume sales for baggage screening where the probability of success against the well-established industry leaders in that segment is remote and the margins achieved are low. Greater customer contact during the year has clarified the security product strategy, firstly in identifying the need to enhance and expand the range of FlatScan products, and secondly in challenging the cost base of the AXIS systems and in expanding the range of the tunnel sizes being offered.

The combination of the increased sales team, established distributor activity and new products being proactively marketed and quoted should result in the conversion of additional security revenues compared to last year towards the second half of 2011.

The industrial strategy is more medium to long term as it will take longer to develop sustainable and repeatable business due to the initial one-off nature of the applications. The industrial marketing strategy is to target segments where the Company has a proven track record and to commit resources to pursue enquiries for new applications only where the probability of repeat business has been assessed as being high. Close contact has been maintained with our historical industrial customers and it is encouraging to have received such material contracts from existing nuclear and industrial relationships in the first few months of the current financial year. Clearly the industrial revenue in 2011 will be substantially greater than has been achieved from industrial sales for several years and the Company will continue to pursue future nuclear and other proven industrial business.

The Board believes that the correct strategy for the development of the Company has been established, although this will continue to be monitored and refined, and that significant progress in its implementation has been achieved. The Company now has a balanced organisational structure capable of delivering the strategy with operating overheads reduced to a level beyond which this capability would be impaired. Translating strategy into measureable results and improved performance is taking time but with the strong current order book of over £1.3 million the Board is confident that progress is being made, whilst remaining mindful of the risks to the business and current cash limitations available to the Company.



Brian Emslie
Non-executive Chairman
24 January 2011

Chief Executive's report

LOUISE GEORGE
CHIEF EXECUTIVE OFFICER

"As a result of successes in both markets, the current order book exceeds £1.3 million"

Financial results
Revenue in the year ended 30 September 2010 was £1,472,000 (2009: £1,444,000). Sales of security equipment continued to grow based on a more than two-fold increase in demand for the FlatScan portable x-ray scanning system emerging from a wide range of end users. Whilst this demand more than compensated for the lower level of AXIS and industrial sales, it was insufficient to make a significant step change in the overall revenue reported in the period. Industrial sales represented 16% of total revenue and resulted from software development, consultancy, spares and support activities. During the year the Company undertook a contract to deliver a new software platform for the MDXi systems, installed across an existing customer's manufacturing facilities worldwide.

The gross margin of 55% (2009: 48%) was strengthened as a result of the cost reduction exercise carried out in 2009 and a shift in sales mix towards standard security products.

Reduced overheads of £1,218,000 (2009: £1,283,000) reflected the personnel changes made in 2009 and the reduction in professional services in relation to the corporate website and financial PR. It is the Board's aim to contain overheads at this level.

The actions taken to both reduce standard build costs and overheads have resulted in an operating loss of £412,000 (2009: £590,000), the lowest level for over eight years. The net loss was £382,000 (2009: £537,000) and the loss per share was 0.65p (2009: 0.96p).

The cash balance of £348,000 (2009: £850,000) reflected the loss for the year, investment in demonstration stock and increased working capital requirements. The Company has an agreed £100,000 overdraft facility with the Royal Bank of Scotland.

Commercial development
Commercial progress during 2010 has been focused on two main areas, marketing and product development, with the intention being to create the platform from which sales opportunities can be increased.

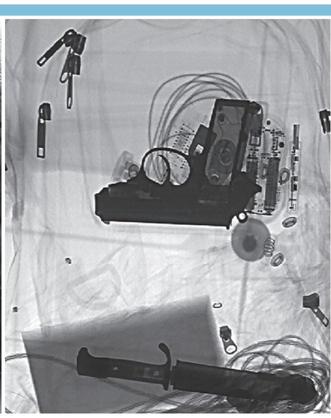
Marketing
In May 2010 the Company launched its new trading company website, www.3dx-ray.com, into which the Image Scan investor web pages have been incorporated. As part of this process, all other marketing materials have been updated to the same look and feel and for each new marketing medium the Company now has the flexibility to make changes directly without the need to resort to a third party. This has resulted in greater control and ease of production and is more cost effective.

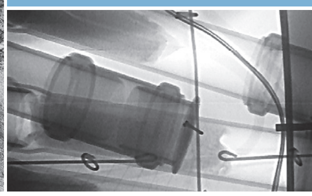
Also in May, the Company appointed a UK sales executive with a remit to achieve additional sales and references in the UK and also to increase the Company's profile within both Government and corporate organisations in the home territory. Coupled with the attendance at five UK security exhibitions and the placement of articles in high quality trade journals, the awareness of 3DX-RAY Limited has increased substantially.

In terms of our international presence, the remit of our regional sales manager for the Middle East has been extended to include Southeast Asia, with good representation being established throughout these territories.

Product development
During the year the Company developed the second generation FlatScan-POD, a mobile battery-powered screening system which has been sold into the British Transport Police and a US Government agency.

Taking advantage of the recent significant reduction in component costs for 3D computing, the Company has invested in the redesign of the AXIS baggage screening system resulting in more competitively priced 3D and 2D versions of the AXIS system. A sale into the Middle East has already been secured on the back of this revised costing and pricing model.





The increased market feedback via the sales team has been instrumental in driving the product development to meet end user requirements. This is resulting in plans for the introduction of new products to the Company's portfolio, including a range of AXIS tunnel sizes and an alternative smaller FlatScan system, which are expected to address wider market requirements and support sales growth in 2011 and beyond.

Outlook

Building on the experience acquired from a significant nuclear project delivered in 2008, the Company's Chief Technical Officer, Nick Fox, has been working closely with a key contractor to the nuclear sector to offer an innovative x-ray solution for the management of nuclear waste. As a result the Company has secured a £750,000 contract for the supply of an x-ray inspection system for use within a large UK nuclear facility. The image quality and the analysis thereof offered by the Company were critical to the client in meeting their requirements. The contract provides for a number of milestones such that the Board expects approximately 50% of the revenue to fall in the financial year 2011.

Although in recent years demand for new industrial equipment sales has been at a very low level, the Company has continued to pursue strategic high value industrial opportunities where a tailored x-ray solution to complex industrial inspection is required. This strategy is beginning to show early signs of success as, in addition to the substantial nuclear sector contract win, the Company has recently secured orders totalling £335,000 from another key industrial customer.

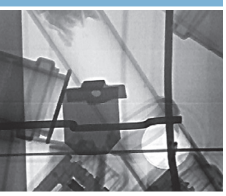
Within the security sector, the Company's strategy is to focus on expanding its range of standard x-ray systems to meet market demands, which recognise image quality as the key to improved threat detection. The activity of the increased sales team is generating a greater quantity of enquiries and the Company is participating in more tender processes than before, with a considerable number of these tender specifications reflecting the technical capabilities of the FlatScan-TPXi system. Recent contract wins include sales of the FlatScan-TPXi portable x-ray system to the Middle East, Southeast Asia and China.

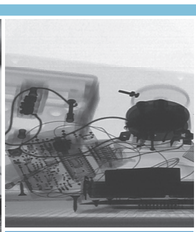
As a result of these successes in both markets, the current order book exceeds £1.3 million. The cash at the bank as of today stands at £339,000.

Staff

Our staff have remained loyal and committed to the Company. All disciplines have worked well together, in particular with the engineering team responding to the demands of end users, as reported back to them by the sales team, into the product development. I would like to take this opportunity to personally thank everyone at the Company for their continuing support.

Louise George
Chief Executive Officer
24 January 2011





1 2 3 4 5 6

1 UK EOD deployment
2 X-ray of rucksack containing knife, gun and semtex
3 First responder screens suspect bag
4 X-ray of drugs in plastic pipes found in a fuel tank
5 FlatScan-POD mobile x-ray screening system
6 X-ray of bomb found on underground

The FlatScan-TPXi system has been sold to bomb disposal teams, police forces, customs and other first responders throughout the world for screening suspect bags and packages. The system produces high quality, real-time x-ray images for rapid and accurate decision-making.

During the year the FlatScan-POD system has been sold to the British Transport Police and to a US government agency.

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 30 September 2010.

Business activity, review of developments and future prospects
The principal activities of the Group have been the continuing development and commercialisation of 2D and 3D imaging technology. Further details can be found in the Chairman's statement and the Chief Executive's report set out on pages 1 to 3. The Company acts as a holding company.

Results and dividends
The results for the year ended 30 September 2010 show a loss after tax of £381,576 (2009: £536,664). 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, EBITDA and trade and other receivables figures.

Directors
The Directors who held office on 30 September 2010 were as follows:

L J George
N D Fox
B S Emslie
I S S Johnson

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

	%	Ordinary shares of 1 pence each
Calculus Capital	12.05	7,380,457
D Allenby	9.04	5,542,047
Gresham House plc	7.95	4,873,331
A P Stirling	6.15	3,770,826
Directors shareholdings:		
N D Fox	4.13	2,531,788
B S Emslie	0.49	300,000
L J George	0.24	148,000
I S S Johnson	0.23	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 2010, trade payables represented 58 days' purchases (2009: 41 days').

Research and development
Research and development was focused on developing the next generation FlatScan-TPXi system and the development of a smaller FlatScan system to complement the product range. Costs in the year amounted to £130,733 (2009: £130,850).

Fixed assets
The intangible assets as detailed in note 9 have been fully written down in a previous period.

The movement in fixed asset investments during the year relates to impairment and provision against the subsidiary companies as detailed in note 10 to the financial statements.

Company number
03062983

Financial instruments
The Group's financial instruments during the year comprised trade debtors, bank 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.

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

Financial instruments continued

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 Directors' report and 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. Under company law the Directors must not approve the financial statements unless they are satisfied that they 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 accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the European Union, 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal risks and uncertainties

The Directors consider that the main business risks and uncertainties of the Group are:

- how the loss of key personnel would affect the Group; and
- its ability to develop and market its products successfully before competitors emerge and erode the Group's competitive advantage.

The Directors continue to monitor the development of its products to ensure the Group retains the competitive advantage. The Directors regularly review the risks facing the Group and seek to exploit, avoid or mitigate those risks as appropriate.

Going concern

The Directors have acknowledged the latest guidance on going concern. The Directors regularly review the performance of the Company against forecasts to ensure that they are able to react on a timely basis to opportunities and issues as they arise. The Group plans to secure a number of sales contracts over the course of the coming year in order to fund the working capital requirements and achieve a profitable position in the future. After making appropriate enquiries and given the prudent level of net assets retained in the Group, the Directors 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

So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditors are unaware, and each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

The auditors, Wilkins Kennedy, will be proposed for re-appointment at the forthcoming Annual General Meeting.

On behalf of the Board

L George

Louise George
Chief Executive Officer
24 January 2011

Statement of corporate governance

The Company is quoted on 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 2010, the Company was dealing with the key requirements of the Combined Code.

The Board

The Board, which presently consists of two Executive and two 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 Brian Emslie, who has recent and relevant financial experience, and Ian Johnson. 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 Brian Emslie and Ian Johnson. 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 to 8.

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

All three committees are currently under the chairmanship of Brian Emslie.

Internal controls and risk management

The Board is responsible for the Company's system of internal control including financial, operational and compliance controls and 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 no 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' investments 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 Annual General Meeting 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 2010. 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, Brian Emslie, on any aspect of the Company's remuneration policy and to vote on the Remuneration report at the Annual General Meeting.

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:

						Total emoluments	
Directors	Basic salary £	Fees £	Benefits £	Pension contributions £	Loss of office £	**2010 £**	2009 £
Executive							
N D Fox	73,416	–	900	6,850	–	**81,166**	85,311
L J George	80,917	–	693	7,250	–	**88,860**	85,986
Non-executive							
B S Emslie	–	20,000	–	–	–	**20,000**	6,250
I S S Johnson	–	15,000	–	–	–	**15,000**	15,000
G J Chalk	–	–	–	–	–	**–**	20,000
J A Horwood	–	–	–	–	–	**–**	6,250
Total 2010	**154,333**	**35,000**	**1,593**	**14,100**	**–**	**205,026**	218,797
Total 2009	155,833	42,500	1,314	14,150	5,000		

Remuneration report continued

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 (EMI) scheme 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	Date of grant	Vesting period	Expiry date
L J George	Enterprise Management Incentive	10,000	51.5p	14/03/2003	3 years	14/03/2013
	Enterprise Management Incentive	80,000	15p	30/09/2005	3 years	30/09/2015
	Enterprise Management Incentive	100,000	18.25p	02/10/2006	3 years	02/10/2016
	Enterprise Management Incentive	750,000	15p	28/01/2008	Over 5 years[1]	30/11/2017
N D Fox	Enterprise Management Incentive	80,000	15p	30/09/2005	3 years	30/09/2015
	Enterprise Management Incentive	100,000	18.25p	02/10/2006	3 years	02/10/2016
	Enterprise Management Incentive	750,000	15p	28/01/2008	Over 5 years[1]	30/11/2017
I S S Johnson	Unapproved	80,000	15p	31/07/2005	None	31/07/2010
I S S Johnson	Unapproved	250,000	10p	28/01/2008	3 years	30/11/2017
J A Horwood	Unapproved	750,000	10p	14/11/2007	3 years	12/05/2011
G J Chalk	Unapproved	500,000	10p	28/01/2008	Over 3 years[2]	30/06/2011

During the year the following options were issued:

Holder	Image Scan Share Option Scheme	Number	Exercise price	Date of grant	Vesting period	Expiry date
L J George	Enterprise Management Incentive	150,000	4p	01/03/2010	3 years	01/03/2020
N D Fox	Enterprise Management Incentive	150,000	4p	01/03/2010	3 years	01/03/2020
B S Emslie	Unapproved	500,000	4p	01/03/2010	3 years	01/03/2020
I S S Johnson	Unapproved	80,000	4p	01/03/2010	3 years	01/03/2020

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

2 Of the 500,000 shares under option, all had vested by 30 November 2010.

Share price performance

The highest and lowest share prices during the year were 3.875p and 1.224p per share respectively. The closing mid-market price was 1.75p per share.

On behalf of the Board

BS Emslie

Brian Emslie
Non-executive Chairman
24 January 2011

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 2010 which comprise the consolidated statement of comprehensive income, the consolidated and parent company statements of financial position, the consolidated and parent company cash flow statements, the consolidated and parent company statements of changes in equity and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRS') as adopted for use in the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 a report of the auditors and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' statement of responsibilties set out on page 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and parent company's affairs as at 30 September 2010 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted for use in the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Charles Baynes (Senior Statutory Auditor)
for and on behalf of Wilkins Kennedy
Statutory Auditor and Chartered Accountants
24 January 2011

Bridge House
London Bridge
London SE1 9QR

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 30 SEPTEMBER 2010

	Notes	2010 £	2009 £
Continuing operations			
Revenue	3	**1,472,311**	1,444,499
Cost of sales		**(665,828)**	(751,317)
Gross profit		**806,483**	693,182
Administrative expenses		**(1,218,190)**	(1,283,238)
Operating loss	4	**(411,707)**	(590,056)
Finance income		**1,565**	23,489
Loss before taxation		**(410,142)**	(566,567)
Taxation	6	**28,566**	29,903
Loss for the year from continuing operations to the equity owners of the parent company		**(381,576)**	(536,664)
		Pence	Pence
Earnings per share			
Basic and diluted loss per share	7	**0.65**	0.96

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 statement of financial position

AS AT 30 SEPTEMBER 2010

	Notes	**2010 £**	2009 £
Non-current assets			
Property, plant and equipment	8	**49,486**	73,334
Intangible assets	9	**–**	–
		49,486	73,334
Current assets			
Inventories	11	**273,007**	232,592
Trade and other receivables	12	**319,740**	216,461
Cash and cash equivalents	13	**347,637**	850,117
Current tax asset		**27,943**	29,903
		968,327	1,329,073
Total assets		**1,017,813**	1,402,407
Current liabilities			
Trade and other payables	14	**197,297**	300,305
Warranty provision	15	**6,490**	22,800
		203,787	323,105
Net assets		**814,026**	1,079,302
Equity			
Share capital	17	**612,679**	556,981
Share premium account		**7,361,105**	7,305,407
Retained earnings		**(7,159,758)**	(6,783,086)
Total equity attributable to shareholders		**814,026**	1,079,302

These financial statements were approved by the Board of Directors on 24 January 2011.

Signed on behalf of the Board of Directors

Louise George
Chief Executive Officer

Nick Fox
Chief Technical Officer

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

Company statement of financial position

AS AT 30 SEPTEMBER 2010

	Notes	2010 £	2009 £
Non-current assets			
Investments in Group undertakings	10	**1**	52,004
Current assets			
Trade and other receivables	12	**508,579**	750,145
Cash and cash equivalents	13	**335,166**	321,096
		843,745	1,071,241
Total assets		**843,746**	1,123,245
Current liabilities			
Trade and other payables	14	**29,720**	43,943
Net assets		**814,026**	1,079,302
Equity			
Share capital	17	**612,679**	556,981
Share premium account		**7,361,105**	7,305,407
Retained earnings		**(7,159,758)**	(6,783,086)
Total equity		**814,026**	1,079,302

These financial statements were approved by the Board of Directors on 24 January 2011.

Signed on behalf of the Board of Directors

Louise George
Chief Executive Officer

Nick 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 2010

Group	Share capital £	Share premium £	Retained earnings £	Total £
As at 1 October 2008	556,981	7,305,407	(6,251,489)	1,610,899
Share issue				
Loss for the year	–	–	(536,664)	(536,664)
Share-based transactions	–	–	5,067	5,067
As at 30 September 2009	556,981	7,305,407	(6,783,086)	1,079,302
Share issue	55,698	55,698	–	111,396
Loss for the year	–	–	(381,576)	(381,576)
Share-based transactions	–	–	4,904	4,904
As at 30 September 2010	**612,679**	**7,361,105**	**(7,159,758)**	**814,026**

Company	Share capital £	Share premium £	Retained earnings £	Total £
As at 1 October 2008	556,981	7,305,407	(1,501,859)	6,360,529
Share issue				
Loss for the year	–	–	(5,286,294)	(5,286,294)
Share-based transactions	–	–	5,067	5,067
As at 30 September 2009	556,981	7,305,407	(6,783,086)	1,079,302
Share issue	55,698	55,698	–	111,396
Loss for the year	–	–	(381,576)	(381,576)
Share-based transactions	–	–	4,904	4,904
As at 30 September 2010	**612,679**	**7,361,105**	**(7,159,758)**	**814,026**

As permitted by the Companies Act 2006, a separate income statement for the Company has not been included. The loss for the financial year dealt with in the financial statements of the Company was £381,576 (2009: loss £5,286,294).

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

Consolidated cash flow statement

FOR THE YEAR ENDED 30 SEPTEMBER 2010

	Note	2010 £	2009 £
Cash flows from operating activities			
Operating loss		**(411,707)**	(590,056)
Adjustments for:			
Depreciation		**71,101**	75,387
Loss on sale of property, plant and equipment		**2,751**	–
Increase in inventories		**(40,415)**	(78,565)
Increase in trade and other receivables		**(103,279)**	(63,056)
Decrease in trade and other payables		**(119,318)**	(94,414)
Share-based payments		**4,904**	5,067
Net cash used in operating activities		**(595,963)**	(745,637)
Corporation tax recovered		**30,526**	46,333
Net cash outflow from operating activities		**(565,437)**	(699,304)
Cash flows from investing activities			
Interest received		**1,565**	23,489
Purchase of property, plant and equipment	8	**(50,004)**	(8,572)
Net cash (outflow)/inflow from investing activities		**(48,439)**	14,917
Cash flows from financing activities			
Issue of ordinary share capital		**111,396**	–
Net cash inflow from financing activities		**111,396**	–
Net decrease in cash and cash equivalents		**(502,480)**	(684,387)
Cash and cash equivalents at beginning of year		**850,117**	1,534,504
Cash and cash equivalents at end of year		**347,637**	850,117

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

Company cash flow statement

FOR THE YEAR ENDED 30 SEPTEMBER 2010

	2010 £	2009 £
Cash flows from operating activities		
Operating loss	**(383,044)**	(5,308,815)
Adjustments for:		
Decrease in trade and other receivables	**293,569**	4,304,460
Decrease in trade and other payables	**(14,223)**	(58,806)
Share-based payments	**4,904**	5,067
Net cash outflow from operating activities	**(98,794)**	(1,058,094)
Cash flows from investing activities		
Interest received	**1,468**	22,521
Net cash inflow from investing activities	**1,468**	22,521
Cash flows from financing activities		
Issue of ordinary share capital	**111,396**	–
Net cash inflow from financing activities	**111,396**	–
Net increase/(decrease) in cash and cash equivalents	**14,070**	(1,035,573)
Cash and cash equivalents at beginning of year	**321,096**	1,356,669
Cash and cash equivalents at end of year	**335,166**	321,096

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

Notes to the financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2010

1. General information

Image Scan Holdings plc is a public limited company incorporated in England and Wales under the Companies Act 2006. 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 the segment reporting note in the financial statements.

These financial statements are presented in Pounds 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.

2. Significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and International Financial Reporting Interpretation Committee ('IFRIC') interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

Taxation

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantially enacted by the balance sheet date.

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.

New standards and interpretations

At the date of authorisation of these financial statements, the International Accounting Standards Board ('IASB') and IFRIC have issued the following standards and interpretations with an effective date falling after the date of these financial statements and 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 2	Share-based payments: amendments relating to Group cash-settled share-based payments transactions	1 January 2010
IFRS 7	Financial instruments: amendments resulting from improvements to IFRS	1 January 2011
	Amendments enhancing disclosures about transfers of financial assets	1 July 2011
IFRS 8	Operating segments: improvements to IFRS1	1 January 2010
IFRS 9	Financial instruments: classification and measurement	1 January 2013
IAS 1	Revised presentation of financial statements	1 January 2010 and 1 January 2011
IAS 24	Revised definitions of related parties	1 January 2011
IAS 27	Amendments to consolidated and separate financial statements	1 July 2010
IAS 32	Financial instruments: amendments relating to classification of rights issues	1 February 2010
IAS 36	Impairment of assets: amendments resulting from improvements to IFRS	1 January 2010
IAS 39	Financial instruments: amendments resulting from improvements to IFRS	1 January 2010

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.

Leases

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

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.

2. Significant accounting policies continued

Property, plant and equipment

Property, plant and equipment are 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	–	3 years
Demonstration equipment	–	3 years
Plant and office equipment	–	3 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.

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.

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.

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 the patent 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 fair value so determined 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 overleaf.

Notes to the financial statements continued

FOR THE YEAR ENDED 30 SEPTEMBER 2010

2. Significant accounting policies continued

Accounting judgements and key sources of estimation uncertainty continued

Allowance for doubtful debts

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

Inventories

The Company continually evaluates holding of inventories to ensure that it is carried at the lower of cost and net realisable value. Obsolescence is considered by comparing future sales and usage with current levels of inventory holding.

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 value added tax and intra-group trading, represents the value, net of discount, of goods sold and services provided. Revenue is recognised at the point 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 has only one business segment being the continuing development of advanced 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:

	2010			2009		
	Security £	**Industrial £**	**Total £**	Security £	Industrial £	Total £
Group revenue by destination and sector						
UK	**150,036**	**149,421**	**299,457**	57,124	120,552	177,676
US	**41,485**	**32,787**	**74,272**	73,217	28,519	101,736
Rest of World	**1,027,304**	**71,278**	**1,098,582**	1,016,199	148,888	1,165,087
	1,218,825	**253,486**	**1,472,311**	1,146,540	297,959	1,444,499
Gross profit by sector	**705,030**	**101,453**	**806,483**	560,660	132,522	693,182

4. Operating loss

	2010 £	2009 £
Operating loss is stated after charging/(crediting):		
Depreciation – owned assets	**71,101**	75,387
Loss on disposal of property, plant and equipment	**2,751**	–
Research and development costs	**130,733**	130,850
Operating leases	**47,044**	65,293
Auditors' remuneration:		
Audit – Group	**12,250**	12,000
Audit – Company	**1,000**	1,000
Other services	**11,436**	11,806
Cost of inventories recognised as an expense (included in cost of sales)	**507,645**	572,874
Amount of write down of inventories recognised as an expense in the period	**2,830**	2,970
Exchange rate loss/(profit)	**5,781**	(3,146)

5. Information regarding Directors and employees

	2010 £	2009 £
Directors' emoluments		
Management remuneration	**155,926**	157,147
Fees as Directors	**35,000**	42,500
Pension contributions	**14,100**	14,149
Compensation for loss of office	**–**	5,000
	205,026	218,796

	Number	Number
Number of Directors accruing benefits under:		
Defined contribution pension scheme	**2**	2

5. Information regarding Directors and employees continued

	2010 £	2009 £
The amounts paid in respect of the highest paid Director are as follows:		
Emoluments	**81,610**	78,903
Pension contributions	**7,250**	7,083
	88,860	85,986

	Number	Number
Average number of persons employed (including Directors)		
Sales and administration	**6**	5
Technical	**8**	8
Directors	**4**	5
	18	18

	2010 £	2009 £
Staff costs during the year (including Directors)		
Wages and salaries	**675,322**	729,089
Social security costs	**73,359**	72,532
Pension costs	**32,460**	31,792
Share-based payments (option scheme)	**4,904**	5,067
	786,045	838,480

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 £1,955 (2009: £2,732) and I-see Associates Ltd, a company in which Brian Emslie has a material interest and of which he is a director, provided consultancy services amounting to £2,711 (2009: £617).

6. Tax on results on ordinary activities

a) Analysis of credit in the year

	2010 £	2009 £
Current tax		
UK corporation tax at 21% (2009: 20%) based on the loss for the year (note 6b)	**(28,566)**	(29,903)
Deferred tax	**–**	–
Tax credit	**(28,566)**	(29,903)

The reasons for the difference between the actual tax credit for the year and the standard rate of corporation tax in the UK applied to losses for the year are as follows:

b) Reconciliation of tax credit

	2010 £	2009 £
Loss on ordinary activities before tax	**(410,142)**	(566,567)
Tax on loss on ordinary activities at standard rate	**(86,130)**	(113,313)
Being the effects of:		
Permanent differences	**1,735**	1,637
Accelerated capital allowances	**(5,810)**	1,245
Current year loss not utilised	**69,615**	85,511
Loss surrendered to HM Customs & Excise in exchange for R&D tax relief	**20,590**	24,920
Tax credit receivable from HM Customs & Excise	**(28,566)**	(29,903)
Actual tax credit for the year (note 6a)	**(28,566)**	(29,903)

Notes to the financial statements continued

FOR THE YEAR ENDED 30 SEPTEMBER 2010

7. Earnings per share

	2010 £	2009 £
Loss for the year	**381,576**	536,664
Weighted average number of ordinary shares in issue	**58,490,656**	55,620,038
Basic and diluted loss per share	**0.65**	0.96

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.

8. Property, plant and equipment

Group	Assets under construction £	Computer equipment £	Demonstration equipment £	Plant and equipment £	Total £
Cost					
At 1 October 2008	–	74,288	162,206	84,218	320,712
Additions	–	8,572	–	–	8,572
Disposals	–	(11,721)	(430)	(22,283)	(34,434)
At 30 September 2009	–	71,139	161,776	61,935	294,850
Additions	–	10,360	9,033	30,611	50,004
Disposals	–	(1,882)	(9,000)	–	(10,882)
At 30 September 2010	**–**	**79,617**	**161,809**	**92,546**	**333,972**
Depreciation					
At 1 October 2008	–	50,802	69,540	60,221	180,563
Provided during the year	–	15,466	44,853	15,068	75,387
Disposals	–	(11,721)	(430)	(22,283)	(34,434)
At 30 September 2009	–	54,547	113,963	53,006	221,516
Provided during the year	–	11,998	43,241	15,862	71,101
Disposals	–	(1,882)	(6,249)	–	(8,131)
At 30 September 2010	**–**	**64,663**	**150,955**	**68,868**	**284,486**
Net book value					
At 30 September 2010	**–**	**14,954**	**10,854**	**23,678**	**49,486**
At 30 September 2009	–	16,592	47,813	8,929	73,334

9. Intangible fixed assets

	Total £
Cost	
At 1 October 2008, 2009 and 2010	–
Amortisation	
At 1 October 2008, 2009 and 2010	–
Net book value	
At 30 September 2008, 2009 and 2010	**–**

10. Investments

Subsidiary undertakings – Company	£
Cost and net book value	
At 1 October 2009	52,004
Impairment and provision during year	52,003
At 30 September 2010	**1**

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 **2010 £**	Investment shares at cost 2009 £
Stereo Scan Systems Ltd	Development of advanced imaging technology	England	100%	**51,000**	51,000
3DX-Ray Ltd	Exploitation of advanced imaging technology	England	100%	**1**	1
Industrial Scanning Inspection Systems Ltd	Dormant	England	100%	**1,000**	1,000
Baggage Scan Ltd	Dormant	England	100%	**1**	1
Mediscan Ltd	Dormant	England	100%	**2**	2

The Company is in the process of dissolving Industrial Scanning Inspection Systems Ltd, Baggage Scan Ltd and Mediscan Ltd.

11. Inventories

	Group		Company	
	2010 £	2009 £	**2010 £**	2009 £
Raw materials	**139,698**	122,521	**–**	–
Work in progress	**30,039**	74,038	**–**	–
Finished goods	**103,270**	36,033	**–**	–
	273,007	232,592	**–**	–

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

12. Trade and other receivables

	Group		Company	
	2010 £	2009 £	**2010 £**	2009 £
Trade receivables	**274,083**	179,269	**–**	–
Other receivables and prepayments	**31,803**	28,154	**5,300**	8,622
VAT recoverable	**13,854**	9,038	**1,844**	6,496
Amounts due from subsidiary undertakings	**–**	–	**501,435**	735,027
	319,740	216,461	**508,579**	750,145

The above receivables are expected to be recovered within twelve months.

13. Cash and cash equivalents

	Group		Company	
	2010 £	2009 £	**2010 £**	2009 £
Cash and cash equivalents	**347,637**	850,117	**335,166**	321,096

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 approximates their fair value. Cash at bank earns interest at floating rates based on daily bank deposit rates.

Notes to the financial statements continued

FOR THE YEAR ENDED 30 SEPTEMBER 2010

14. Trade and other payables

	Group		Company	
	2010 £	2009 £	**2010 £**	2009 £
Amounts falling due within one year				
Trade payables	**124,666**	168,589	**12,970**	12,490
Deferred income	**28,541**	75,272	**–**	–
Other tax and social security	**22,753**	21,325	**–**	–
Accruals	**21,337**	35,119	**16,750**	31,453
	197,297	300,305	**29,720**	43,943

At 30 September 2010 accruals included pension contributions amounting to £3,870 (2009: £3,666).

15. Provisions for liabilities and charges

Group	**2010 £**	2009 £
Deferred tax		
At 1 October 2009 and 30 September 2010	**–**	–

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

Group	**Provided 2010 £**	**Not provided 2010 £**	Provided 2009 £	Not provided 2009 £
Accelerated capital allowances	**–**	**(44,656)**	–	(62,352)
Losses	**–**	**(1,142,634)**	–	(1,135,775)
	–	**(1,187,290)**	–	(1,198,127)

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 £61,634 (2009: £61,698).

	£
Warranty provision	
At 1 October 2009	22,800
Release for the year	(16,310)
At 30 September 2010	**6,490**

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 2010 the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2010 £	2009 £
Land and buildings		
Within one year	**36,000**	28,500
Between one and three years	**36,000**	70,500
	72,000	99,000

17. Share capital

	2010 £	2009 £
Called up, allotted and fully paid		
61,267,932 ordinary shares of 1p each	**612,679**	556,981

17. Share capital continued

	Nominal value £	Consideration £
On 1 April 2010, the Company made the following issue of shares:		
5,569,812 ordinary shares of 1p each	55,698	111,396

Of the options in place as at 30 September 2010, the following options are still outstanding:

Image Scan Share Option Scheme	Date of issue	Quantity	Exercise price	Vesting period	Expiry date
Image Scan 1999 Approved	21/05/2002	1,000	74.5p	3 years	21/05/2012
Enterprise Management Incentive	14/03/2003	15,000	51.5p	3 years	14/03/2013
Enterprise Management Incentive	30/09/2005	220,000	15p	3 years	30/09/2015
Enterprise Management Incentive	02/10/2006	280,000	18.25p	3 years	02/10/2016
Unapproved Scheme	12/11/2007	750,000	10p	3 years	12/05/2011
Enterprise Management Incentive	23/11/2007	110,000	10p	3 years	23/11/2017
Unapproved Scheme	28/01/2008	250,000	10p	3 years	30/11/2017
Unapproved Scheme	28/01/2008	500,000	10p	Over 3 years[1]	30/06/2011
Enterprise Management Incentive	28/01/2008	1,500,000	15p	Over 5 years[2]	30/11/2017
Enterprise Management Incentive	01/03/2010	1,010,000	4p	3 years	01/03/2020
Unapproved Scheme	01/03/2010	580,000	4p	3 years	01/03/2020

1 Of the 500,000 shares under option, all had vested by 30 November 2010.

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

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

	2010	2009
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:

	2010 £	2009 £
Employee benefits (note 5)	**4,904**	5,067

18. Transactions with related parties

During the year Image Scan Holdings plc provided management services to the value of £152,000 to subsidiary company 3DX-Ray Limited (2009: £200,000).

At the year end the Company was owed the following amounts by subsidiary companies against which a bad debt provision of £6,804,701 (2009: £6,479,216) is held:

	2010 £	2009 £
3DX-Ray Ltd	**6,418,919**	6,327,026
Stereo Scan Systems Ltd	**887,217**	887,217

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 2010 of £100,000 (2009: £100,000).

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

Fair values of gross financial assets (cash and short-term investments) are considered to be the same as book values at both 30 September 2010 and 30 September 2009.

Currency profile

At 30 September 2010 amounts payable included US Dollar 5,413, EUR 115 and South African Rand 13,660 (2009: South African Rand 19,950). 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, share capital and the management of working capital.

Notice and agenda of annual general meeting

Notice is hereby given that the Annual General Meeting of the shareholders will be held at 11.00am on 17 March 2011 at the offices of Seymour Pierce, 20 Old Bailey, London EC4M 7EN for the purpose of considering and, if thought fit, passing the following resolutions as to resolutions 1–4 as Ordinary Resolutions and as to resolution 5 as a Special Resolution.

Ordinary resolutions

1. To receive and adopt the financial statements for the year ended 30 September 2010 together with the reports of the Directors and auditors thereon.
2. To re-elect as a Director L J George who retires by rotation and offers herself for re-election.
3. To receive and adopt the Remuneration report contained within the annual report for the year ended 30 September 2010.
4. To re-appoint Wilkins Kennedy as auditors and to authorise the Directors to fix their remuneration.

Special resolution

5. To authorise and empower the Directors, pursuant to Section 570 and 573 of the Companies Act 2006 (the 'Act'), to allot equity securities (as defined in Section 560 of the Act) pursuant to the authority conferred by the Annual General Meeting held on 13 March 2008 as if Section 561(1) of the Act did not apply to any such allotment. The power shall be limited to the allotment of equity securities for cash up to the aggregate nominal amount being ten percent 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 Annual General Meeting of the Company, save that the Directors be entitled to make at any time prior to the expiry of the power hereby conferred any offer or agreement which would or might require securities to be allotted after expiry.

By order of the Board

Louise George
Company Secretary

Registered office:
16-18 Hayhill
Sileby Road
Barrow-upon-Soar
Leicestershire LE12 8LD

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, PXS, 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. 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

Brian Simpson Emslie BMet (Hons)
Non-Executive Chairman
Brian Emslie acts in an advisory or non-executive director capacity for a number of hightech companies, providing input on strategic review and business development. He spent 30 years working for BOC Group plc, his last role being Business Development Director of BOC Edwards. Brian has key strengths in strategic planning, analysis of customer and markets needs, contract negotiations and communications. His main responsibility is providing the lead in the sales and marketing strategy. Brian is the chairman of the Audit, Remuneration and Nominations Committees.

Louise Joan 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 as Chief Executive Officer in 2008. The Group finance and accounting functions remain under her direction. Louise is a member of the Nominations Committee.

Nick Darryl 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 and business development lead throughout the Company. Nick holds a BSc in Electronics and Material Engineering and an MSc in Information and Instrumentation Engineering.

Ian Stuart Southwell Johnson FSyI
Non-Executive Director
Ian Johnson is a highly respected security adviser, and Managing Director of Ian Johnson Associates Ltd a leading security and risk management consultancy company. He 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, the Remuneration and the Nominations Committees.

Company Secretary
Louise George, BSc, FCA, ACIS

Registered Office
16–18 Hayhill
Sileby Road
Barrow-upon-Soar
Leicestershire LE12 8LD

Company Number
03062983

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
Browne Jacobson
44 Castle Gate
Nottingham NG1 7BJ

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

Auditors
Wilkins Kennedy
Statutory Auditor
Chartered Accountants
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
16–18 Hayhill
Sileby Road
Barrow-upon-Soar
Leicestershire LE12 8LD

Tel: +44 (0)1509 817 400
Fax: +44 (0)1509 817 401

info@ish.co.uk
www.ish.co.uk