

# IMAGE SCAN HOLDINGS PLC

Report and Financial Statements  
for the year ended 30 September 2004

# IMAGE SCAN HOLDINGS PLC

Officers and professional advisers	1
Chairman's statement	2
Directors' report	3
Independent Auditors' report	6
Group profit and loss account	7
Consolidated balance sheet	8
Company balance sheet	9
Consolidated cash flow statement	10
Notes to the cash flow statement	11
Notes to the accounts	12
Notice of meeting	19

## CONTENTS

# IMAGE SCAN HOLDINGS PLC

## OFFICERS AND PROFESSIONAL ADVISERS

### NON-EXECUTIVE CHAIRMAN

Ian S S Johnson

### EXECUTIVE DIRECTORS

Nicholas D Fox, MSc

*Chief Executive Officer*

Raymond J Gibbs, BA, FCA

*Chief Financial and Operating Officer* (resigned 28 January 2005)

Simon X Godber, PhD

*Technical Director*

### NON-EXECUTIVE DIRECTORS

Peter J Woods, BA, OBE

*(appointed 17 March 2005)*

Peter J Hughes, MBA, FCA

*(appointed 17 March 2005)*

### COMPANY SECRETARY

Louise J George, BSc, ACA, ACIS

### REGISTERED OFFICE

Pera Innovation Park

Nottingham Road

Melton Mowbray

Leicestershire LE13 0PB

### PRINCIPAL BANKERS

Royal Bank of Scotland plc

8 South Parade

Nottingham NG1 2JS

### SOLICITORS

DMH Stallard

Centurion House

37 Jewry Street

London EC3N 2ER

Browne Jacobson

44 Castle Gate

Nottingham NG1 7BJ

### REGISTRARS

Capita Registrars

Northern House

Woodsome Park

Fenay Bridge

Huddersfield HD8 0LA

### AUDITORS

Deloitte & Touche LLP

Nottingham

# IMAGE SCAN HOLDINGS PLC

## CHAIRMAN'S STATEMENT

### INTRODUCTION

I am pleased to present the results of Image Scan Holdings plc for the year ended 30 September 2004 and the Board's view of the Company's progress and prospects.

### FINANCIAL RESULTS AND ACCOUNTING POLICY

Commercial sales in the year were £425,000 (2003: £351,000). In 2003 there were additional sales of £159,000 relating to one-off funded research projects. The change in emphasis from a mixture of commercial and research contracts to entirely commercial sales has resulted in the recovery of the profit margin to 44% (2003: 24%). This gave an improvement in gross profit from £121,000 to £186,000.

The overheads of £1,448,000 (2003: £961,000) included £162,000 written off the value of the patents licensed from The Nottingham Trent University. The Directors felt that the Company's technology had progressed beyond those original patents such that significant future sales arising from their use was not anticipated. Other 'one-off' costs included £60,000 spent on a cost benefit analysis and £60,000 incurred in professional fees relating to aborted negotiations for a strategic partner to take a stake in the Company. Since the year-end the Directors have taken action to reduce overheads.

Overheads included research and development expenditure of £118,000 (2003: £150,000), which is expensed as incurred in accordance with the group's accounting policy. The lower expenditure in 2004 reflects the move towards commercial sales, whilst still maintaining a research focus on the next generation of imaging techniques.

The loss for the year after R&D tax credits amounts to £1,210,000 (2003: £788,000), being a loss per share of 6.3p (2003: 4.9p). In accordance with the current policy there is no dividend.

During the year the Company invested £20,000 in a licence for a castellated detector patent which represents a key component of the current product range. Other capital expenditure included £65,000 for two demonstration units; one for use at exhibitions and the other a prototype for a large area detector for explosives and ordnance detection.

### OUTLOOK

Although the launch and subsequent sales of the Rapiscan 3D20 have been slower than anticipated, we are now beginning to see the first significant sales resulting from the Sales and Marketing Agreement with Rapiscan Security Products Limited (Rapiscan) with the latest order of £90,000 for 6 cameras being received in October 2004. This order brings the total number of camera units sold to Rapiscan to 16 out of the agreed 150 units to be ordered by February 2006 under the Sales and Marketing Agreement.

Following the launch of the industrial products into the market in October 2003, we have been delighted to have met our target of establishing two key reference sites during 2004. These sites, at GE Healthcare Amersham and Johnson Matthey, both resulted from an intense evaluation of our technology by the customer and add significantly to the credibility of our systems.

The calendar year ended on a high note, with turnover in the first quarter showing a significant improvement at £102,000 compared to £13,000 for the same period last year. Furthermore the Company's largest single order to date of £600,000 was received in December 2004 as a follow-on order from our first system delivered to Johnson Matthey.

Against this background the Board is seeking to raise additional capital by way of a placing and open offer to provide sufficient resources to take advantage of these emerging commercial opportunities and to continue operations for the foreseeable future. For further details, refer to note 1 to the accounts. A circular setting out these proposals will be sent to shareholders shortly.

Ian Johnson  
*Chairman*

23 March 2005

# DIRECTORS' REPORT

## THE DIRECTORS PRESENT THEIR ANNUAL REPORT AND THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2004

### BUSINESS ACTIVITY, REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

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

### RESULTS AND DIVIDENDS

The results for the year ended 30 September 2004 show a loss of £1,210,483 (2003: £788,299). The directors do not recommend the payment of a dividend.

### DIRECTORS AND THEIR INTERESTS

The present directors are listed on page 1. The directors' interests, all of which were beneficial, in the shares of the Company at the year end were as follows:

	30 SEPTEMBER 2004 ORDINARY SHARES OF 1p EACH	30 SEPTEMBER 2003 ORDINARY SHARES OF 1p EACH
I S S Johnson	-	-
N D Fox	2,270,835	2,270,835
S X Godber	-	-
R J Gibbs	345,000	60,000
P J Hughes	-	-
P J Woods	-	-

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

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

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

**I S S Johnson** On 22 January 2002, 45,455 ordinary shares of 1p each at a price of 55p per share exercisable no later than 3 years from date of grant. These options lapsed on 22 January 2005.

**R J Gibbs** 76,923 ordinary shares of 1p each at a price of 65p per share exercisable at any time up to 25 April 2005. These options lapsed on 28 January 2005 following Mr Gibbs' departure from the Company.

The following share options were granted during the year:

**R J Gibbs** Under the Image Scan Enterprise Management Incentives Share Option Plan, on 30 January 2004 298,507 ordinary shares of 1p at a price of 50p per share. The options were exercisable at any time after three years but no later than ten years from the date of grant. These options lapsed on 28 January 2005 following Mr Gibbs' departure from the Company.

No directors exercised share options during the year.

The share price high and low during the year were 48½p and 13½p per share respectively. The closing mid-market price was 13½p per share.

## DIRECTORS' REPORT (CONTINUED)

## SUBSTANTIAL SHAREHOLDINGS

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

	%	ORDINARY SHARES OF 1p EACH
Gresham House plc	10.44	2,018,964
3PC Investment Trust plc	8.33	1,610,394
AiM VCT 2 plc	8.33	1,610,394
Welsh Industrial Investment Trust plc	6.05	1,169,000
A P Stirling	4.51	871,666
Newinnhall Trust Limited	4.28	826,666
Gresham House No 1 Pension Scheme	4.01	775,000

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

## RESEARCH AND DEVELOPMENT

The Group was focused in the year on research and development, with considerable technical staff effort applied to completing key product offerings ready for commercial launch in 2004. Costs of this in the year amounted to £118,438 (2003: £150,211).

## FIXED ASSETS

The intangible assets as detailed in note 10 are included at a net book value of £19,594 (2003: £178,310). The directors believe the intellectual property rights are worth considerably in excess of this amount.

The movement in investments during the year is detailed in note 11 to the accounts.

## PAYMENT POLICY

The Company's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction and then to abide by these terms. At 30 September 2004, trade creditors represented 107 days purchases (2003: 88 days).

## FINANCIAL INSTRUMENTS

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

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

## Interest rate risk

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

## Liquidity risk

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

## Foreign currency risk

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

## DIRECTORS' REPORT (CONTINUED)

### DIRECTORS' STATEMENT OF RESPONSIBILITIES

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

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

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

### Going concern

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

### AUDITORS

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors of the company. A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

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

L J George  
*Company Secretary*

23 March 2005

# INDEPENDENT AUDITORS' REPORT

## TO THE SHAREHOLDERS OF IMAGE SCAN HOLDINGS PLC

We have audited the financial statements of Image Scan Holdings plc for the year ended 30 September 2004 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cashflow statement (and notes i-iii thereto) and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

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

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

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

### BASIS OF OPINION

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

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

### Going Concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the accounts, concerning the uncertainty surrounding the group's financial resources. In view of the significance of this uncertainty, we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

### OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 September 2004 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP  
Chartered Accountants and  
Registered Auditors, Nottingham

23 March 2005

# GROUP PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 SEPTEMBER 2004

	Note	2004 £	2003 £
TURNOVER	2	424,620	509,750
Cost of sales		(239,100)	(389,016)
Gross profit		185,520	120,734
Administrative expenses (including exceptional charge of £161,995 (2003: £nil))	3	(1,448,125)	(960,507)
OPERATING LOSS	4	(1,262,605)	(839,773)
Interest receivable		12,513	8,219
Interest payable	6	(4,877)	(7,164)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,254,969)	(838,718)
Taxation	7	44,486	50,419
LOSS ON ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(1,210,483)	(788,299)
Dividends		-	-
RETAINED LOSS FOR THE FINANCIAL YEAR	18, 19	(1,210,483)	(788,299)
Retained reserves brought forward		(2,790,643)	(2,002,344)
Revenue reserves carried forward		(4,001,126)	(2,790,643)
		Pence	Pence
Earnings per share			
Basic and diluted loss per share	8	6.3	4.9

There are no recognised gains or losses other than the loss for the year and the prior year. All amounts relate to continuing operations during each year.

The reconciliation of movement in shareholders' funds can be found in note 19.

# CONSOLIDATED BALANCE SHEET

30 SEPTEMBER 2004

Annual Report and Accounts 2004

	Note	2004 £	2003 £
<b>FIXED ASSETS</b>			
Tangible fixed assets	9	191,579	222,259
Intangible fixed assets	10	19,594	178,310
		211,173	400,569
<b>CURRENT ASSETS</b>			
Stock and work in progress	12	44,449	26,957
Debtors	13	146,189	127,717
Cash at bank and in hand		50,027	209,655
		240,665	364,329
CREDITORS: amounts falling due within one year	14	(343,722)	(427,251)
<b>NET CURRENT LIABILITIES</b>		<b>(103,057)</b>	<b>(62,922)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>108,116</b>	<b>337,647</b>
CREDITORS: amounts falling due after more than one year	14	(17,307)	(54,670)
Provisions for liabilities and charges	15	(15,700)	-
		75,109	282,977
<b>CAPITAL AND RESERVES</b>			
Called up share capital	17	193,356	162,502
Share premium account	18	3,882,879	2,911,118
Profit and loss account	18	(4,001,126)	(2,790,643)
<b>EQUITY SHAREHOLDERS' FUNDS</b>	19	<b>75,109</b>	<b>282,977</b>

These financial statements were approved by the Board of Directors on 23 March 2005

Signed on behalf of the Board of Directors

N D FOX  
Director

# COMPANY BALANCE SHEET

30 SEPTEMBER 2004

	Note	2004 £	2003 £
<hr/>			
FIXED ASSETS			
Investments	11	52,004	52,004
CURRENT ASSETS			
Debtors	13	2,697,290	3,163,585
Cash at bank and in hand		2,272	39,884
		2,699,562	3,203,469
CREDITORS: amounts falling due within one year	14	(195,697)	(165,754)
NET CURRENT ASSETS		2,503,865	3,037,715
		2,555,869	3,089,719
<hr/>			
CAPITAL AND RESERVES			
Called up share capital	17	193,356	162,502
Share premium account	18	3,882,879	2,911,118
Profit and loss account	18	(1,520,366)	16,099
EQUITY SHAREHOLDERS' FUNDS		2,555,869	3,089,719
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These financial statements were approved by the Board of Directors on 23 March 2005  
Signed on behalf of the Board of Directors

N D FOX  
Director

# CONSOLIDATED CASH FLOW STATEMENT

YEAR ENDED 30 SEPTEMBER 2004

Annual Report and Accounts 2004

	Note	2004 £	2003 £
<b>Net cash outflow from operating activities</b>	(i)	(1,060,615)	(237,723)
<b>Returns on investments and servicing of finance</b>			
Interest received		12,513	8,219
Interest payable	6	(4,877)	(7,164)
		7,636	1,055
<b>Taxation</b>			
Corporation tax recovered		54,431	97,389
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets	9	(90,421)	(189,360)
Purchase of intangible fixed assets	10	(20,182)	(3,655)
		(110,603)	(193,015)
<b>Net cash outflow before management of liquid resources</b>		(1,109,151)	(332,294)
<b>Management of liquid resources</b>			
Withdrawal of short term deposits		-	42,924
<b>Financing</b>			
Issue of ordinary share capital		986,885	-
Bank loans repaid	14	(37,362)	(36,172)
		949,523	(36,172)
<b>Decrease in cash in the year</b>	(ii), (iii)	(159,628)	(325,542)

# NOTES TO THE CASH FLOW STATEMENT

YEAR ENDED 30 SEPTEMBER 2004

i) RECONCILIATION OF OPERATING CASH FLOWS	2004 £	2003 £
Operating loss	(1,262,605)	(839,773)
Depreciation	121,101	76,151
Amounts written off intangible fixed assets	178,898	17,805
(Increase)/decrease in stock	(17,492)	42,974
(Increase)/decrease in debtors (excluding corporation tax recoverable)	(12,686)	195,533
(Decrease)/increase in creditors	(67,831)	269,587
<b>Net cash outflow from operating activities</b>	<b>(1,060,615)</b>	<b>(237,723)</b>

ii) ANALYSIS OF NET FUNDS	2003 £	2004 Cash flow £	Other non-cash charges £	2004 £
Cash at bank and in hand	209,655	(159,628)		50,027
Debt due within one year	(37,363)	37,362	(37,362)	(37,363)
Debt due after one year	(54,669)		37,362	(17,307)
	117,623	(122,266)	-	(4,643)

iii) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN THE (DEBT)/FUNDS	2004 £	2003 £
Decrease in cash in the period	(159,628)	(325,542)
Cash outflow from decrease in debt	37,362	36,172
Cash outflow from decrease in liquid resources	-	(42,924)
<b>Change in net debt resulting from cash flows</b>	<b>(122,266)</b>	<b>(332,294)</b>
Net debt at 1 October	117,623	449,917
<b>Net (debt)/funds at 30 September</b>	<b>(4,643)</b>	<b>117,623</b>

# NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2004

## 1. ACCOUNTING POLICIES

### Basis of accounting

The consolidated accounts, which have been prepared in accordance with applicable Accounting Standards and under the historical cost convention, comprise the audited accounts of Image Scan Holdings plc and its subsidiary undertakings (see note 11) made up to 30 September in each case.

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

### Going concern

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

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

In the light of the above the Directors believe the Company will have sufficient resources to continue in operational existence for the foreseeable future and that no adjustment is required to the carrying value of assets reported. Therefore they have prepared the financial statements on a going-concern basis. The financial statements do not include any adjustments that might result if the above placing and open offer was unsuccessful.

### Goodwill

All goodwill arose prior to the implementation of FRS10. The amount of £50,949 (2003: £50,949) remains eliminated against reserves and will be charged or credited to the profit and loss account as appropriate on the subsequent disposal of the business to which it relates.

### Depreciation

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

Computer equipment	-	33⅓% of cost
Demonstration equipment	-	between 25% and 33⅓% of cost
Plant & office equipment	-	between 20% and 25% of cost

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

### Leases

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

### Pension costs

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

### Investments

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

### Deferred taxation

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

### Stock

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

### Development costs

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

### Patent costs

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

During the year the company entered into an agreement with GE Medical Systems Global Technology Company for a non-exclusive, royalty-bearing licence to use their castellated detector patent at a cost of £20,182.

## 2. TURNOVER

Turnover, which excludes value added tax and intra-group trading, represents the value, net of discount, of goods sold and services provided.

Turnover is recognised at the point of despatch to the customer. Where stage payments are made, turnover is recognised at the point when all conditions of the contract are met. The Group's main activity is the continuing development of multi-view X-ray imaging techniques with applications in the security, industrial and medical sectors. All turnover is derived from operations in the United Kingdom and is analysed as follows:

	UK 2004	USA 2004	Total 2004	UK 2003	USA 2003	Total 2003
	£	£	£	£	£	£
<b>Group turnover by destination</b>						
Security	187,163	43,377	230,540	316,526	50,770	367,296
Industrial	194,080	-	194,080	124,548	-	124,548
Medical	-	-	-	17,906	-	17,906
	<b>381,243</b>	<b>43,377</b>	<b>424,620</b>	<b>458,980</b>	<b>50,770</b>	<b>509,750</b>

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

## NOTES TO THE ACCOUNTS (CONTINUED)

### 3. ADMINISTRATIVE EXPENSES

Following an impairment review of intangible assets it was decided to write down the carrying value of the Nottingham Trent University patents to nil. The company's technology has now progressed beyond the original patents and no significant sales are anticipated in the near future that use the original patent. The amount written off and charged to administrative expenses was £161,995 (2003: £nil).

### 4. OPERATING LOSS

	2004	2003
	£	£
<b>Operating loss is stated after charging:</b>		
Depreciation – owned assets	121,101	76,151
Amortisation – intangible assets	16,903	17,805
Impairment – intangible assets	161,995	-
Amounts written off development costs	118,438	150,211
Amounts charged under operating leases – equipment	5,400	5,400
Auditors' remuneration		
Audit – Group	14,000	14,000
Audit – Company	1,000	1,000
Other services	8,146	8,550

### 5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2004	2003
	£	£
<b>Directors' emoluments</b>		
Management remuneration	237,848	141,833
Fees as directors	27,333	28,949
	<b>265,181</b>	<b>170,782</b>

	£	£
<b>The amounts paid in respect of the highest paid director are as follows:</b>		
Emoluments	113,001	64,974
Pension	-	3,000
	<b>113,001</b>	<b>67,974</b>

	No	No
<b>Average number of persons employed (including directors)</b>		
Accounts and administration	3	2
Technical	10	10
Directors	4	6
	<b>17</b>	<b>18</b>

	£	£
<b>Staff costs during the year (including directors)</b>		
Wages and salaries	609,089	506,422
Social security costs	65,329	50,757
Pension costs	5,400	5,400
	<b>679,818</b>	<b>562,579</b>

The Group contributes to a defined contribution pension scheme for the benefit of N D Fox and S X Godber. For the year ended 30 September 2004, contributions amounted to £3,000 and £2,400 respectively (2003: £3,000 and £2,400).

The remuneration of I M Robertson amounting to £nil (2003: £4,000) was paid to Struan Associates, a business in which he has a material interest, and R Savage amounting to £nil (2003: £5,225) was paid to Ratae Management Services, a business in which he has a material interest.

During the year the Group made sales of £nil (2003: £17,906) to Cell-ID Limited, a company of which N D Fox is also a director. An amount of £nil (2003: £5,177) is included in debtors at the year end.

Ian Johnson Associates Limited, a company in which I S S Johnson has a material interest and of which he is a director, provided consultancy services amounting to £13,258 (2003: £9,026) in the year ended 30 September 2004. An amount of £2,640 (2003: £2,837) is included in creditors at the year end.

### 6. INTEREST PAYABLE AND SIMILAR CHARGES

	2004	2003
	£	£
Interest payable on loans and overdrafts		
- repayable within five years	4,877	7,164

## NOTES TO THE ACCOUNTS (CONTINUED)

7. TAX ON PROFIT ON ORDINARY ACTIVITIES	2004	2003
<b>a) Analysis of credit in the year</b>	<b>£</b>	<b>£</b>
<b>Current tax</b>		
UK corporation tax at 19% (2003: 19%) based on the profit for the year (note 7b)	20,564	14,778
Adjustments in respect of previous years – R&D tax credits recoverable	23,922	35,641
<b>Total current tax</b>	<b>44,486</b>	<b>50,419</b>
<b>Deferred tax</b>		
Current year charge	-	-
Adjustments in respect of prior years	-	-
<b>Total deferred tax (note 15)</b>	<b>-</b>	<b>-</b>

	2004	2003
<b>b) Factors affecting the tax charge for the year</b>	<b>£</b>	<b>£</b>
Loss on ordinary activities before tax	(1,254,969)	(838,718)
Tax on loss on ordinary activities at standard rate	(238,444)	(159,356)
<b>Being the effects of:</b>		
Permanent differences	39,299	2,784
Depreciation in excess of capital allowances	23,009	17,716
Current year loss not utilised	159,856	127,156
Loss surrendered to Inland Revenue in exchange for R&D tax credits	16,280	11,700
Tax credit receivable from Inland Revenue	(20,564)	(14,778)
Adjustment in respect of prior period	(23,922)	(35,641)
<b>Actual tax charge for the year (note 7a)</b>	<b>(44,486)</b>	<b>(50,419)</b>

8. EARNINGS PER SHARE	2004	2003
	<b>£</b>	<b>£</b>
Loss for the year	1,210,483	788,299
Weighted average number of ordinary shares in issue	19,073,580	16,250,203
Basic and diluted earnings per share	(6.3)	(4.9)

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

## 9. TANGIBLE FIXED ASSETS

Group	Assets under construction £	Computer equipment £	Demonstration equipment £	Plant & office equipment £	Total £
<b>Cost</b>					
At 1 October 2003	-	70,343	244,057	49,207	363,607
Additions	11,423	12,277	56,290	10,431	90,421
<b>At 30 September 2004</b>	<b>11,423</b>	<b>82,620</b>	<b>300,347</b>	<b>59,638</b>	<b>454,028</b>
<b>Depreciation</b>					
At 1 October 2003	-	38,942	86,842	15,564	141,348
Provided during the year	-	22,652	84,473	13,976	121,101
<b>At 30 September 2004</b>	<b>-</b>	<b>61,594</b>	<b>171,315</b>	<b>29,540</b>	<b>262,449</b>
<b>Net book value</b>					
At 30 September 2004	11,423	21,026	129,032	30,098	191,579
At 30 September 2003	-	31,401	157,215	33,643	222,259

## NOTES TO THE ACCOUNTS (CONTINUED)

10. INTANGIBLE FIXED ASSETS	Total £
<b>Cost</b>	
At 1 October 2003	213,615
Additions	20,182
<b>At 30 September 2004</b>	<b>233,797</b>
<b>Amortisation</b>	
At 1 October 2003	35,305
Provided during the year	16,903
Impairment	161,995
<b>At 30 September 2004</b>	<b>214,203</b>
<b>Net book value</b>	
<b>At 30 September 2004</b>	<b>19,594</b>
At 30 September 2003	178,310

At 30 September 2003 an impairment review was performed and concluded that assets were not impaired. During the year the directors revisited this conclusion and have subsequently written off the patents held prior to the year end.

### 11. INVESTMENTS

Subsidiary undertakings - Company	£
<b>Cost and net book value</b>	
<b>At 1 October 2003 and 30 September 2004</b>	<b>52,004</b>

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

Company	Principle activities	Country of incorporation and operations	Ordinary share capital %	Investment shares at cost 2004 £	2003 £
Stereo Scan Systems Limited	Development of advanced imaging technology	England	100%	51,000	51,000
3DX-Ray Limited	Exploitation of advanced imaging technology	England	100%	1	1
Industrial Scanning Inspection Systems Limited	Exploitation of advanced imaging technology as applied to industrial inspection	England	100%	1,000	1,000
Baggage Scan Limited	Dormant	England	100%	1	1
Mediscan Limited	Exploitation of advanced imaging technology for medical applications	England	100%	2	2

12. STOCK	Group		Company	
	2004 £	2003 £	2004 £	2003 £
Stock	44,449	19,271	-	-
Work in progress	-	7,686	-	-
	<b>44,449</b>	<b>26,957</b>	<b>-</b>	<b>-</b>

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

13. DEBTORS	Group		Company	
	2004 £	2003 £	2004 £	2003 £
Trade debtors	102,136	50,098	-	-
VAT recoverable	15,324	20,443	15,122	14,375
Other debtors and prepayments	8,165	42,398	8,168	42,401
Corporation tax recoverable	20,564	14,778	-	-
Amounts due from subsidiary undertakings	-	-	2,674,000	3,106,809
	<b>146,189</b>	<b>127,717</b>	<b>2,697,290</b>	<b>3,163,585</b>

## NOTES TO THE ACCOUNTS (CONTINUED)

14. CREDITORS	Group		Company	
	2004	2003	2004	2003
Amounts falling due within one year	£	£	£	£
Bank loan	37,363	37,363	-	-
Trade creditors	185,752	263,084	142,181	112,288
Taxation and social security	45,065	18,910	-	-
Accruals and deferred income	75,542	107,894	53,516	49,618
Amounts due to subsidiary undertakings	-	-	-	3,848
	<b>343,722</b>	<b>427,251</b>	<b>195,697</b>	<b>165,754</b>

Amounts falling due after more than one year	2004	2003	2004	2003
	£	£	£	£
Bank loan	17,307	54,670	-	-

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

Loan or instalments thereof are repayable over the following periods:

	2004	2003
	£	£
Within one year or less or on demand	37,363	37,363
More than one year but not more than two years	17,307	37,363
More than two years but not more than five years	-	17,307
	<b>54,670</b>	<b>92,033</b>

## 15. PROVISIONS FOR LIABILITIES AND CHARGES

	2004	2003
	Group	Group
	£	£
Deferred tax		
At 1 October	-	-
Charge for the year	-	-
Adjustment in respect of prior periods	-	-

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

	Provided	Not provided	Provided	Not provided
Group	2004	2004	2003	2003
	£	£	£	£
Accelerated capital allowances	-	(86,165)	7,863	(37,797)
Losses	-	(592,251)	(7,863)	(440,087)
	-	<b>(678,416)</b>	-	<b>(477,884)</b>

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

There are losses of £9,223 (2003: £nil) unprovided in the Company.

Warranty provision	£
At 1 October	-
Charge for the year	15,700
<b>At 30 September 2004</b>	<b>15,700</b>

The warranty provision is made in respect of costs expected to be incurred for sales made during the 2003-04 financial year. Realisation is expected within 12 months.

## NOTES TO THE ACCOUNTS (CONTINUED)

### 16. COMMITMENTS

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

	2004 £	2003 £
Leases which expire:		
Within one year	5,600	5,600

At 30 September 2004, there were no capital commitments (2003: £Nil).

### 17. CALLED UP SHARE CAPITAL

	2004 £	2003 £
<b>Authorised:</b>		
24,500,000 ordinary shares of 1p each	245,000	200,000
<b>Called up, allotted and fully paid:</b>		
19,335,630 ordinary shares of 1p each	193,356	162,502

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

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

At 30 September 2004, the following options were outstanding:

- Options granted on 4 May 2000 over 80,000 ordinary shares of 1p each under the Image Scan 1999 Approved Share Option Scheme. These options are exercisable after three years, but not later than ten years, at 25p per share.
- Options granted on 30 April 2001 over 40,000 ordinary shares of 1p each under the Image Scan 1999 Approved Share Option Scheme. These options are exercisable after three years, but not later than ten years, at 50p per share.
- Options granted on 22 January 2002 over 45,455 ordinary shares of 1p each, exercisable at any time up to 22 January 2005 at 55p per share.
- Options granted on 25 April 2002 over 100,000 ordinary shares of 1p each, exercisable at any time up to 30 March 2005 at 65p per share.
- Options granted on 25 April 2002 over 76,923 ordinary shares of 1p each, exercisable at any time up to 25 April 2005 at 65p per share.
- Options granted on 21 May 2002 over 7,000 ordinary shares of 1p each under the Image Scan 1999 Approved Share Option Scheme. These options are exercisable after three years, but not later than ten years, at 74.5p per share.
- Options granted on 14th March 2003 over 139,000 ordinary shares of 1p each under the Image Scan Enterprise Management Incentives Share Option Plan. These options are exercisable after three years, but not later than ten years, at 51.5p per share.
- Options granted on 30th January 2004 over 298,507 ordinary shares of 1p each under the Image Scan Enterprise Management Incentives Share Option Plan. These options are exercisable after three years, but not later than ten years, at 50p per share.

### 18. RESERVES

	Share premium account £	Profit and loss account £	Total £
<b>Group</b>			
Balance at 1 October 2003	2,911,118	(2,790,643)	120,475
Loss attributable to members of the Group	-	(1,210,483)	(1,210,483)
Premium on share issue during the year	971,761	-	971,761
<b>Balance at 30 September 2004</b>	<b>3,882,879</b>	<b>(4,001,126)</b>	<b>(118,247)</b>
<b>Company</b>			
Balance at 1 October 2003	2,911,118	16,099	2,927,217
Loss attributable to members of the Company	-	(1,536,465)	(1,536,465)
Premium on share issue during the year	971,761	-	971,761
<b>Balance at 30 September 2004</b>	<b>3,882,879</b>	<b>(1,520,366)</b>	<b>2,362,513</b>

As permitted by section 230 of the Companies Act 1985, a separate profit and loss account for the Company has not been included. The loss for the financial year dealt with in the accounts of the Company was £1,536,465 (2003: Profit £2,957).

## NOTES TO THE ACCOUNTS (CONTINUED)

## 19. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Group		Company	
	2004 £	2003 £	2004 £	2003 £
Opening shareholders' funds	282,977	1,071,276	3,089,719	3,086,762
Issue of share – par	30,854	-	30,854	-
Issue of share - share premium	971,761	-	971,761	-
(Loss)/profit attributable to members	(1,210,483)	(788,299)	(1,536,465)	2,957
<b>Closing shareholders' funds</b>	<b>75,109</b>	<b>282,977</b>	<b>2,555,869</b>	<b>3,089,719</b>

## 20. TRANSACTIONS WITH RELATED PARTIES

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

## 21. FINANCIAL INSTRUMENTS

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

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

The Group had no undrawn committed borrowing facilities at 30 September 2004 (2003: £nil).

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

Fair values of gross financial assets (cash and short term investments) and gross financial liabilities (bank loans and overdrafts) are considered to be the same as book values at both 30 September 2004 and 30 September 2003.

**Currency profile**

At the year end trade debtors included US\$55,000 (2003: US\$nil) and trade creditors included US\$400 (2003: US\$nil). All other financial assets and liabilities are denominated in Sterling.

# NOTICE OF MEETING

## NOTICE AND AGENDA OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the shareholders will be held at 2pm on 25 April 2005 at the offices of DMH Stallard, Centurion House, 37 Jewry Street, London, EC3N 2ER for the purpose of considering and, if thought fit, passing the following resolutions as to resolutions 1-5 as Ordinary Resolutions and as to resolution 6 as a Special Resolution.

### ORDINARY RESOLUTIONS

1. To receive and adopt the financial statements for the year ended 30 September 2004 together with the reports of the directors and auditors thereon.
2. To re-elect as a director P J Hughes who retires in accordance with the Company's Articles of Association.
3. To re-elect as a director P J Woods who retires in accordance with the Company's Articles of Association.
4. To re-elect as a director I S S Johnson who retires by rotation and offers himself for re-election.
5. To re-appoint Deloitte & Touche LLP 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 ('the Act'), to allot equity securities (as defined in Section 94(2) of the Act) pursuant to the authority conferred by the Extraordinary General Meeting held on 22nd April 2002 as if Section 89(1) of the Act did not apply to any such allotment, provided that such power shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount being five percent of the Company's issued share capital as shown by the latest published annual accounts of the Company and shall expire on the date which is fifteen months after the date on which this resolution is passed or, if earlier, at the conclusion of the next annual general meeting of the Company, save that the directors be entitled to make at any time prior to the expiry of the power hereby conferred any offer or agreement which would or might require securities to be allotted after expiry.

By order of the board

L J George  
Company Secretary

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

### Notes:

1. A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote on his or her behalf. A proxy need not be a member of the Company.
2. Completion and return of a form of proxy does not preclude a member from attending and voting at the meeting in person should he or she so wish.
3. A form of proxy is enclosed and to be valid must be completed and returned so as to reach the Registrar of the Company, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, together with a letter or power of attorney or other written authority, if any, under which it is signed or a notarially certified or office copy of such power (written authority) not less than forty eight hours before the time fixed for holding the meeting or any adjournment thereof.
4. Copies of the directors' service contracts will be available for inspection at the Registered Office of the Company during normal business hours.

# IMAGE SCAN HOLDINGS PLC

Annual Report and Accounts 2004

