



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

A copy of this document, which comprises a prospectus drawn up in accordance with the Public Offers of Securities Regulations 1995 (“the Regulations”), has been delivered to the Registrar of Companies in England and Wales for registration as a prospectus in accordance with Regulation 4(2) of the Regulations. The Directors of Image Scan Holdings plc, whose names appear on page [7] of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The latest time and date for acceptance and payment in respect of the Open Offer is 3.00 p.m. on 22nd April, 2002. Full details relating to acceptance and payment are set out in Part II of this document and in the Application Form accompanying this document.

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

Application will be made for the entire issued ordinary share capital of Image Scan Holdings plc to be admitted to trading on the Alternative Investment Market (“AIM”) of the London Stock Exchange. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk than that associated with established companies attaches. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after careful consideration and consultation with a suitably qualified and regulated independent financial adviser. In particular, prospective investors’ attention is drawn to the section headed “Risk Factors” set out on page 20 of this document.

The rules of AIM are less demanding than those of the Official List of the United Kingdom Listing Authority (“UKLA”). It is emphasised that no application is being made for admission of the Ordinary Shares of Image Scan Holdings plc to the Official List of the UKLA. Furthermore, neither the UKLA nor the London Stock Exchange has examined or approved the contents of this document.

The issue of New Ordinary Shares is conditional upon the passing of the Resolutions and the admission of the entire issued ordinary share capital of Image Scan Holdings plc to AIM. Astaire & Partners Limited have conditionally placed all of the New Ordinary Shares.

# IMAGE SCAN HOLDINGS PLC

*(incorporated in England and Wales under the Companies Act 1985 with registered number 3062983)*

**Placing and Open Offer by Astaire & Partners Limited on behalf of Image Scan Holdings plc  
of 1,150,000 New Ordinary Shares  
at a price of 65p per share payable in full on application  
and**

**Application for Admission to trading on the Alternative Investment Market**

**Nominated Adviser  
ARM Corporate Finance Limited**

**Broker  
Astaire & Partners Limited**

<i>Authorised</i>		<b>Share Capital</b>	<i>Issued and to be issued following the Placing and Open Offer</i>	
<i>Amount</i>	<i>Number</i>		<i>Amount</i>	<i>Number</i>
£200,000	20,000,000	Ordinary Shares of 1p each	£162,502	16,250,203

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

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



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### EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Record date for the Open Offer		21st March, 2002
Latest time and date for splitting Application Forms (to satisfy bona fide claims only)	3.00 p.m. on	17th April, 2002
Latest time and date for receipt of Application Forms and payment in full under the Open Offer	3.00 p.m. on	22nd April, 2002
Expected time and date of commencement of dealings on AIM in the Ordinary Shares/CREST accounts credited by	8.00 a.m. on	25th April, 2002
Expected date of despatch of definitive share certificates		3rd May, 2002

### PLACING AND OPEN OFFER STATISTICS

Issue Price		65p
Number of fully paid Ordinary Shares currently in issue		15,100,203
Number of New Ordinary Shares subject to the Open Offer		503,340
Number of New Ordinary Shares subject to the Placing		1,150,000
Number of Ordinary Shares in issue following the Placing and Open Offer		16,250,203
Market capitalisation at the Issue Price following the Placing and Open Offer		£10,562,631
Estimated net proceeds of the Placing and Open Offer		£592,500
Percentage of the enlarged issued share capital of the Company represented by New Ordinary Shares issued pursuant to the Placing and Open Offer		7.07



## DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

“Act”	the Companies Act 1985 (as amended).
“Admission”	admission of the entire issued ordinary share capital of the Company to trading on AIM pursuant to the AIM Rules.
“AIM”	the Alternative Investment Market of the London Stock Exchange.
“AIM Rules”	the AIM Rules for Companies.
“Application Form”	the application form relating to the Open Offer sent to Qualifying Shareholders with this document.
“Approved Option Scheme”	the Image Scan 1999 Approved Share Option Scheme.
“ARMCF”	ARM Corporate Finance Limited, a registered AIM Nominated Adviser and regulated by the FSA.
“Astaire”	Astaire & Partners Limited, a member of the London Stock Exchange and International Securities Market Association, and regulated by the FSA.
“BSL”	Baggage Scan Limited, a wholly owned subsidiary of the Company.
“Circular”	the circular issued by the Company to the Shareholders incorporating notice of the EGM.
“CRAFT Programme”	A co-operative research programme funded under the EU’s small to medium sized enterprise specific measures programme.
“Company” or “Image Scan”	Image Scan Holdings plc.
“CREST”	the computerised registration and electronic stock transfer system (as defined in the Uncertificated Securities Regulations 2001 (SI 2001 No. 10/3755)) for the paperless settlement of share transfers and the holding of shares in uncertificated form which is administered by CRESTCo Limited.
“CSL”	Cargo Scan Limited, a wholly owned subsidiary of the Company.
“DTLR”	Department for Transport, Local Government and the Regions.
“the Directors” or “Board”	the Board of Directors of the Company.
“DoH”	Department of Health.
“EGM”	Extraordinary General Meeting of the Company to be held on 22nd April, 2002.
“EIS”	Enterprise Investment Scheme.
“EU”	the European Union.
“EPSRC”	Engineering and Physical Sciences Research Council.



“Existing Shares”	the 15,100,203 Ordinary Shares currently in issue.
“FAA”	the Federal Aviation Administration.
“FSMA”	the Financial Services and Markets Act 2000.
“FSA”	the Financial Services Authority.
“Group”	the Company, BSL, CSL, ISIS, MSL and SSS.
“IP”	Intellectual property including, but not limited to, patents, know-how, trade marks, registered designs, copyrights or design rights.
“ISIS”	Industrial Scanning Inspection Systems Limited, a wholly owned subsidiary of the Company.
“Issue Price”	65p per New Ordinary Share.
“London Stock Exchange”	London Stock Exchange plc.
“MSL”	MediScan Limited.
“Model Code”	the Model Code on directors’ dealings in securities as set out in the appendix to Chapter 16 of the Listing Rules of the UK Listing Authority.
“New Ordinary Shares”	the Ordinary Shares to be issued pursuant to the Placing and Open Offer.
“Northern”	Northern Registrars Limited.
“OFEX”	a facility managed by J.P.Jenkins Limited to allow trading in the shares of unquoted companies.
“Official List”	the official list of the UK Listing Authority
“Open Offer Shares”	the 503,340 New Ordinary Shares offered for subscription pursuant to the Open Offer.
“Open Offer”	the conditional invitation by the Company to Qualifying Shareholders to subscribe for the Open Offer Shares on the terms and subject to the conditions set out in this document and in the Application Form.
“Overseas Shareholders”	Shareholders on the register of members of the Company on the Record Date other than those with a registered address in the United Kingdom.
“Ordinary Shares”	Ordinary Shares of 1p each in the capital of the Company.
“Participating Options”	those options that entitle the option holder to participate in any pre-emptive offer to shareholders as if the option had been exercised.
“Placees”	the subscribers under the Placing.
“Placing and Open Offer Agreement”	the placing and open offer agreement dated 27th March, 2002 between the Company, the Directors, ARMCF and Astaire in respect, inter alia, of the Placing and Open Offer.



“Placing Shares”	the 1,150,000 New Ordinary Shares to be issued pursuant to the Placing and Open Offer all of which are being placed, subject to recall to satisfy valid applications under the Open Offer.
“Placing”	the conditional placing by Astaire of the Placing Shares as described in this document.
“PSDB”	the Police Scientific Development Branch of the Home Office.
Qualifying Shareholders”	holders of Ordinary Shares on the register of members of the Company at the Record Date together with holders of Participating Options excluding certain Overseas Shareholders who are not entitled to participate as described in Part II of this document.
“Record Date”	close of business on 21st March, 2002.
“Resolutions	the Resolutions to be proposed at the EGM
“Secretaries” or Company Secretaries”	Watlington Securities Limited, (authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business).
“Shareholders”	holders of Ordinary Shares.
“Share Options”	the options granted or conditionally granted by the Company to subscribe for Ordinary Shares.
“SMART Award”	Small Firms Merit Award for Research and Technology, a competitive award scheme run by the Department of Trade and Industry.
“SSS”	Stereo Scan Systems Limited, a wholly owned subsidiary of the Company.
“Taxes Act”	the Income and Corporation Taxes Act 1988.
“UK Listing Authority”	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the FSMA.
“the University or TNTU”	The Nottingham Trent University.
“VCT”	Venture Capital Trust, a form of collective investment scheme.



## GLOSSARY OF TECHNICAL TERMS

“2D”	two-dimensional
“2½D model”	a two-dimensional representation of a three-dimensional object containing visual cues to the relative depth of objects, but not containing binocular parallax
“3D”	three-dimensional
“CAD”	computer aided design
“CCD”	charge coupled device
“Firmware”	a programme that is inserted into programmable read-only memory to become a permanent part of a computing device
“MedLINK”	a co-operative research programme funded by the DoH, EPSRC, MRC, Scottish Executive and Northern Ireland Executive
“MRC”	Medical Research Council
“NDA”	non-disclosure agreement
“NDT”	non-destructive testing
“OEM”	original equipment manufacturer
“Stereoscopic image”	an image comprising of two views of an object, each taken from a slightly different perspective.



## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors</b>	Nigel John Tipple, B.A.(Oxon) ( <i>Non-Executive Chairman</i> ) Nicholas Darryl Fox, BSc (Hons), MSc, CEng, MIEE ( <i>Managing</i> ) Simon Xerxes Godber, BEng (Hons), PhD, CEng, MIEE ( <i>Technical</i> ) Ian Stuart Southwell Johnson F.SyI ( <i>Non-Executive</i> ) Iain Malcolm Robertson, M.A. ( <i>Non-Executive</i> ) Robert Savage, BSc (Hons), CEng, FIEE ( <i>Non-Executive</i> )
<b>Registered Office</b>	Office 3, 235 Hunts Pond Road, Fareham, Hampshire PO14 4PJ.
<b>Head Office and Directors' business address</b>	Pera Innovation Park, Nottingham Road, Melton Mowbray, Leicestershire LE13 0PB.
<b>Company Secretaries</b>	Watlington Securities Limited 36 Elder Street, London, E1 6BT
<b>Nominated Adviser</b>	ARM Corporate Finance Limited 12 Pepper Street, London E14 9RP.
<b>Broker</b>	Astaire & Partners Limited 40 Queen Street, London EC4R 1HN
<b>Auditors and Reporting Accountants</b>	PKF, Chartered Accountants and Registered Auditors New Garden House, 78 Hatton Garden, London EC1N 8JA.
<b>Solicitors to the Company</b>	Hardwick Stallards Centurion House, 37 Jewry Street, London EC3N 2EX
<b>Solicitors to the Placing and Open Offer</b>	Moore & Blatch 11 The Avenue, Southampton, Hampshire SO17 1XF
<b>Patent Agents</b>	Murgitroyd & Company plc Scotland House, 165-169 Scotland Street, Glasgow G5 8PL
<b>Bankers</b>	Lloyds TSB Bank Plc 24 High Street, Wells, Somerset BA5 2SJ.
<b>Registrars</b>	Northern Registrars Limited Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA



## PART 1

### CHAIRMAN'S LETTER

#### ***IMAGE SCAN HOLDINGS plc*** (Registered in England and Wales No.3062983)

*Directors*

N J Tipple  
N D Fox  
S X Godber  
I S S Johnson  
I M Robertson  
R Savage

*Registered Office*

Office 3  
235 Hunts Pond Road  
Fareham  
Hampshire  
PO14 4PJ

28th March, 2002

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

Dear Shareholders,

The Directors believe that the Group has now developed to a stage where it will benefit from a wider shareholder base and from the visibility it will gain as a Company whose shares are traded on a public market. The Directors therefore intend to seek the Admission of the Company's ordinary share capital to AIM and, conditional upon the passing of the Resolutions, to raise a further £747,500 (before expenses) by way of a Placing and Open Offer. The purpose of this letter is to set out details of the Admission, the Placing and Open Offer.

#### **1. Introduction**

The Group's core technologies relate to innovative imaging techniques and the interpretation and understanding of the images and data generated by those techniques. In particular the Group has developed an expertise in multi-view X-ray imaging where it is possible to extract three-dimensional information concerning the object under inspection.

The world is a three-dimensional environment in which physical characteristics of objects are not only visualised in terms of height, width and depth, but also in terms of their relative positions, where one object may be to one side, above, below, in front of or behind another. This three-dimensional information helps to explain more about the object, its physical form, and how each object relates to, or whether it is connected to, others.

When objects are viewed through a conventional camera however, this three-dimensional information is significantly reduced, and in the case of transmission X-ray cameras, all depth cues are lost entirely. This is because an X-ray image is formed through a transmission process which produces only a shadow of the object and its contents. From such images it is possible to guess at how objects relate to or are connected to one another, but it is not possible to make a quantifiable measurement of their relative depth. The Directors believe that this lack of three-dimensional information can be a major hindrance when trying to interpret or analyse the contents of an X-ray image.

#### *Applications and Benefits*

Where X-ray techniques are used as a general method of interrogation, in applications such as airport baggage screening, industrial non-destructive testing or medical investigations, the Directors believe that inspection tasks can be simplified, and the data gained made more meaningful, by the ability of the viewer to understand and analyse the shape, size and relative position of an object through the introduction of a three-dimensional data set.

Following five years of intensive technology development the Group can now offer a range of products which provide multi-view, three-dimensional X-ray imaging capability in real-time. These systems are



now commercially available, primarily as OEM subsystems for incorporation into third party units but also as complete stand-alone systems.

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

- real-time, three-dimensional information about the contents or concealed features within an object;
- the ability to identify latent faults in safety critical components;
- the ability to reduce the mis-identification of potential threats within baggage;
- the potential to speed-up the inspection process; and
- in some cases, actually to make the identification of faults and threats feasible where other techniques may fail.

### *Business Model*

It is the core business of the Group to apply and to develop the know-how, patents and other IP, either produced by itself over the last five years, or exclusively licensed to it by third parties, in particular the University, in the field of imaging. The Group does not propose to be a manufacturing concern but intends to continue to develop innovative, image-based, inspection systems which it will licence to manufacturers, OEM suppliers or end users. Internal manufacture is limited to prototypes, systems for evaluation by prospective partners and small volumes of OEM product.

In the short to medium term the Group intends to generate revenue from the security and industrial sectors, and in the longer term the Directors believe that the technology will also be applicable to the medical sector. The Company acts as a holding company, with the market sector for each principal application being addressed by a separate, wholly owned, subsidiary company as follows:

- Security – **Baggage Scan Limited**
- Industrial Inspection – **Industrial Scanning Inspection Systems Limited**
- Medical – **Mediscan Limited**

## **2. The Technology**

Although the following sections will focus on X-ray imaging systems, the Group's imaging expertise is not limited to the X-ray field, and many of the techniques described below are equally applicable to visible light, infrared and other imaging methods.

To understand the general concepts of the Group's technology, it is easier to consider an imaging system consisting of three key elements:-

- ***Image capture*** – the process by which a component (the “camera”) obtains the picture.
- ***Image analysis*** – understanding what is in the picture and taking some action based on that understanding such as automatically identifying a fault in a component, or enhancing an image to make it easier for an observer to see a potential threat.
- ***Image presentation*** – the method or methods by which the original data set is presented to the decision-making process, either human or machine, such as the photograph taken by the camera.

Although to some extent these elements are all inter-related, the salient features of each can be considered independently.



### *Image Capture*

There are a number of X-ray imaging techniques and these can vary in complexity, image acquisition time and, significantly, in cost. The imaging approach most often applied by the Group employs a technique that relies on detecting transmission X-rays, that is those that have passed directly through the object without interacting with it. An image created by this technique is effectively the shadow of the object, where the intensity of the shadow is dependent on how many X-rays have been removed from the direct path of the beam through scattering or absorption.

To detect the intensity of the X-rays that have passed through an object, a number of methods can be employed. Probably the most familiar technique is the use of X-ray sensitive photographic film, as still used in many medical X-ray investigations. However, there is also a range of electronic detection systems now available that can employ a combination of devices which first convert the X-rays into visible light (a scintillating or phosphor material that glows in proportion to the incident X-rays) and then convert that visible light into an electrical signal (a photodiode or solid state camera). The electrical signal can then be digitised and the resultant data passed to a computer for analysis.

An X-ray image formed by viewing an object from a single perspective does not provide any of the normal depth cues which enable human observers to determine the relative depth of objects in an image. However, by acquiring the image from more than one perspective or location, it is possible to process the resulting data and provide a three-dimensional interpretation of the inspected object. This information can then be used automatically to analyse an assembled product for specific features or, if more appropriate, processed so that images can be presented to an observer for manual inspection. One of the more dramatic image presentation techniques which can then be employed utilises a powerful physiological depth cue known as binocular parallax which, when viewing a stereoscopic image on a monitor, gives the impression that objects extend out through the front of the screen or lie deep in the body of the monitor. The presentation of information in this way is a powerful method which enables the viewer to interpret the three-dimensional position of objects in the image relative to one another. It is this ability to acquire, interpret and, if necessary, present images from multiple-views in real-time which represents the key IP and technology base of the Group.

NDT systems in industrial applications which use X-ray imaging typically generate images by placing an object in an X-ray beam and viewing the object's X-ray shadow as it is formed on a material which converts the X-rays to visible light. The conversion material can be viewed using mirrors or electronically through a CCD camera. The Group initiated a research programme, based on a concept licensed from the University, to develop a system for 3D inspection of assembled industrial products using X-rays. This innovative system employs similar components to a conventional CCD based NDT system with the exception of the camera, which is replaced by a device utilising a different acquisition technology. This enables the inspection system to acquire multiple views of an object in real-time as it passes through the inspection area. Multiple-views provide more information and hence usually enable a more accurate three-dimensional model of the object under inspection to be generated. This inspection system developed by the Group offers industry a real-time, in-line 3D X-ray inspection system.

### *Image Analysis*

The Group uses image analysis to extract sufficient information from an image data set to enable a decision to be taken as to its content. To support its products for both the security and industrial sectors, a comprehensive suite of software functions, algorithms and methodologies have been developed. This software, and the practical experience of applying it to real applications, forms the basis of many of the Group's products and represents a major part of its IP.

The processing of data may be targeted towards presenting an optimum image to an operator (typical of the security screening applications addressed by the Group), or focused on automatically identifying the presence or otherwise of a fault or feature within a component (typically required in industrial inspection applications). The techniques employed encompass not only pure software analysis but also hybrid solutions which require a combination of hardware, Firmware and software.

One example of a hybrid solution is seen in security screening applications. In this context it is often useful not only to understand the physical relationship between items, but also to understand, even if only in a limited sense, the materials from which the objects are made. Using X-ray detectors which



employ scintillator materials sensitive to differing X-ray energies, it is possible to analyse the resultant intensity information to broadly categorise the materials through which the X-ray beam has passed as organic or inorganic. The accepted techniques for obtaining broad materials' discrimination, combined with the Group's innovative three-dimensional images, can assist operators of screening equipment more readily to distinguish between benign and threat objects in security applications.

#### *Image Presentation*

The Directors recognise that there are a multitude of techniques currently available for the presentation of visual information to the human observer. However, in certain applications, and in particular those typified by the inspection of baggage, freight and cargo, the Directors believe that there are significant benefits to be gained by presenting to the operator stereoscopic X-ray images of the items being screened.

An alternative approach to using stereoscopic images is to process the data from multiple views to produce a computer generated model that can then be displayed on a conventional monitor. This presentation method, although still essentially a two-dimensional representation, utilises psychological depth cues to convey depth information. An accepted term for such an image is a 2½D representation.

The Directors believe that the innovative nature of the Group's products for specific markets will be judged on the quality and techniques of image presentation and, as such, the use of existing, and the development of new or innovative, presentation technologies will form a major part of the Group's future.

### **3. The Products**

The Group's technologies have been incorporated into a range of products that are now commercially available, these being:

- **AXIS-3D®** An innovative, stand-alone, conveyored, dual-energy, stereoscopic X-ray inspection system targeted at the screening of products, baggage, freight and cargo both in the security sector and the in-line inspection of bulky items for the industrial sector.
- **3DX-CAMERA** A medium resolution (better than 1mm) OEM line scan camera which contains the necessary components to acquire, analyse and present single- and dual- energy stereoscopic X-ray images. The technology incorporated within the **3DX-CAMERA** is scalable up to and beyond cargo (2m x 2m) sized systems. This product is incorporated in the **AXIS-3D®** product and has also been integrated into third party baggage and freight inspection equipment.
- **VIXION** A high resolution (better than 40µm), OEM imaging system for multiple applications. This system enables 2D, 3D and multi-view X-ray or visible light images to be acquired in real-time from common imaging hardware.
- **ENHANCE** Designed to integrate with both the **3DX-CAMERA** and the **VIXION** systems, **ENHANCE** offers an application-dependent suite of software tools that includes (along with the more conventional image processing algorithms) real-time functionality to zoom, contrast stretch, automatically optimise, invert, 3D Flip (an imaging function that can reverse the viewing point in 3D) and edge enhance the images.

The Directors believe that users of the Group's technology may gain one or more of the following benefits in each principal application:-

#### **Security – baggage, freight and cargo screening**

- Operator training time reduced;



- Inspection and evaluation time per item reduced, resulting in higher throughput and therefore reduced costs;
- Reduced false alarm rates;
- Reduced “hand-search” time through targeted examination;
- Potential increase in safety and security; and
- Increased operator effectiveness.

#### **Industrial – safety critical, high value-added or mission critical components**

- Increased in-service product reliability;
- Reduced threat from product liability or product recall claims;
- Enhanced manufacturing process and quality control;
- 100% end-of-line inspection for specific applications; and
- Software architecture compatible with flexible manufacturing systems.

#### **4. The Market**

Following the terrorist outrages of 11th September 2001, the Group continues to work closely with customers and regulators both in the UK and in the USA to introduce and promote the highest levels of security screening technology and procedures for use in all security related sectors. The long-term consequences of such attacks are difficult to quantify although it is likely that security applications will remain a key focus for the future. The Group will also maintain a focus on the development of the industrial sector which the Directors believe will represent an area of significant potential growth. Accordingly, the Directors believe that for the short to medium-term, these two market sectors represent the principal opportunities for the Group:

- (i) **Security** – the screening of freight, cargo, luggage and packages at a variety of locations including airports, border crossings, high security venues, prisons, embassies, postal sorting offices and corporate buildings.
- (ii) **Industrial** – the in-line and on-line 2D, 3D and multi-view X-ray inspection of assembled, high value, high quality and/or safety critical components.

##### **(i) Security**

The baggage and cargo security screening market sector consists of between 15 and 20 suppliers worldwide, of which the three largest are L-3 Communications Corporation (who recently agreed to acquire the Detection Systems business of PerkinElmer), Heimann Systems GmbH and Rapiscan Security Products Inc. It is not the Company’s intention to develop in this sector through direct competition with existing manufacturers, but to offer its technology on an OEM or licence basis to one or more of the current suppliers. However, to establish the Group’s credibility, three pre-production hand baggage **AXIS-3D®** units have been built for demonstration and evaluation purposes. An initial evaluation took place at Heathrow Airport in December 1998 using a “proof of principle” machine built by BSL under contract to the PSDB. A further evaluation took place at East Midlands Airport during the early part of 2001 and one unit was sold to the FAA. Further orders have now been received for two production hand baggage **AXIS-3D®** units for delivery by June 2002.

Following the signing of a memorandum of understanding with a major manufacturer of X-ray security equipment, the Group is now building a demonstration unit, to incorporate the **3DX-CAMERA** in one of that manufacturer’s conventional freight units. The Directors anticipate that this freight unit will be completed and demonstrated to prospective customers in the freight-forwarding sector during the second quarter of 2002. A second major manufacturer has also



agreed to supply freight and baggage units for conversion to a **3DX-CAMERA** based system, again with the intention of market testing these systems during 2002.

X-ray screening within the security sector is an established, substantial and growing market. It was estimated by an independent market research company in 1998 that the total market for all types of border control X-ray and scanning equipment was approximately \$800 million, with an anticipated average growth of approximately 25% per annum up to 2002. The terrorist attacks of 11th September 2001 have, once more, brought the security aspects of air travel sharply into focus. One consequence of this heightened focus in the USA will be the integration of the FAA's Civil Aviation Security organisation into the newly-formed Transportation Security Administration (TSA) of the Department of Transportation (DOT). A recent estimate, made by the USA's Deputy Secretary of Transportation, is that the costs of providing civil aviation security services, not already funded from other sources, will exceed \$1 billion in the fiscal year 2002.

The Directors believe that the increased awareness of security will also accelerate the adoption of the Group's technologies in areas other than airport baggage scanning. In particular the Directors expect **AXIS-3D**<sup>®</sup> and products incorporating the **3DX-CAMERA** to attract interest from companies engaged in screening for international freight forwarding, postal services, cargo transportation and high security buildings including government and corporate offices, secure industrial plant and high profile organisations.

(ii) **Industrial**

X-ray based industrial NDT is a relatively fragmented industry with a large number of companies providing solutions for a wide range of niche applications. The majority of these companies are suppliers of cabinet (off-line) or manually operated inspection systems, with only a minority of companies selling in-line systems.

The Directors believe that several of the major X-ray NDT equipment suppliers also manufacture X-ray generator sets, and compete on the excellence of their X-ray sources rather than on their image capture, analysis and presentation skills. The Group's technology is based on imaging knowledge, and the Directors believe that the Group's activities complement, rather than compete with, such NDT companies. It is therefore the Group's intention to collaborate with these companies by licensing solutions for specific applications, rather than manufacturing and supplying systems in its own right.

On 27th November, 2000 ISIS signed a collaboration agreement with one of the larger NDT manufacturers to incorporate the **VIXION** product technology into that manufacturer's existing range of products as a new generation of in-line inspection systems for evaluation and demonstration purposes. The first of these systems is now operational and has been used to demonstrate the viability of the technology to prospective customers. The Group is currently in negotiation with an end-user for the supply and joint development of a full production **VIXION** system by the end of 2002.

The Directors believe that the market for real-time, in-line industrial X-ray systems, beyond the simple foreign body detectors used in the food industry, is relatively new and, as such, its potential size is difficult to quantify. They also believe that technology has only recently reached the stage where advanced, practical and cost effective in-line real-time 3D X-ray systems are feasible and that **VIXION** represents one of the first available products suitable for this type of application. A recent marketing report commissioned by the Company has estimated the conventional NDT X-ray market, which relates to cabinet and off-line inspection units, at US\$150 million. Industry experts also estimate that the total potential market for high speed, high resolution automatic X-ray inspection machines will be at least US\$1 billion within 10 years as customers change from 'off-line' inspection techniques. The Group's initial market development will focus on applications which require the inspection of safety-critical, high value-added or mission-critical components.



### *Medical*

In the longer term the Directors believe that the medical market will present opportunities for the Group to exploit its skills in both innovative X-ray and more conventional image processing and analysis. It is envisaged that a range of software and instrumentation products will be developed based on the IP and core skills within the Group. Once the current research has reached an appropriate point, and adequate IP protection is in place, the Group will seek a commercial partner to develop these opportunities.

## **5. Business Model**

The Group intends to generate revenue from three primary sources:

- licensing of technology and software to companies already established in the market;
- supply of specialised OEM and re-badged components (manufactured under licence for the Group) to companies already established in the market; and
- supply of contract services to third parties.

The products developed by the Group are, or will be integrated into, items that are likely to be considered as capital equipment purchases by the end user. The Directors consequently believe that the purchase decision and timing for such products can be significantly affected by a number of factors including:

- the customer's fiscal year;
- the underlying management decision structure - purchase of capital equipment often requires senior management, if not Board, approval thus extending the purchase cycle; and
- the financing of capital equipment which may often, in itself, be prohibitive for smaller companies.

To overcome these potential hurdles the Group is investigating the option of its customers paying for the products on a "cost per item scanned" basis. This may modify the purchase decision from one associated with capital equipment to one of acquiring a service where the purchaser pays for the screening of the items and not for the equipment which screens them. Here, the purchaser may pass the cost of screening onto the final customer, as a quantifiable quality or security surcharge. To enhance the benefits of the "cost per item scanned" model, the maintenance and system upgrades will be included, thus providing a complete package to the end user.

Although the Directors believe that "cost per item scanned" purchase model may be attractive to a number of end users, it is accepted that certain customers will prefer a more conventional purchase scheme. In the case of a capital purchase, the Group's business model is based on the following assumptions:-

### *Licensing Arrangements*

The Group's products can be software, hardware or hybrid systems, the latter consisting of software, hardware and Firmware.

In licences for software products, e.g. **ENHANCE**, the licence fee will be set at a level which is intended to ensure recovery of the development and technology transfer costs within a pre-determined period and thereafter provide a continuing revenue stream.

In licences for hardware products, e.g. **3DX-CAMERA**, a royalty fee will be charged by the Group in respect of the IP licensed to the licensee. The value of the royalty will either be calculated as a percentage of the final sales price or as a fixed sum per item sold. Again, the value of the royalty fee will be set at a level which is intended to ensure recovery of the development and technology transfer costs within a pre-determined period.



Where an exclusive licence agreement is negotiated, this will be for a finite period, for a single application and confined to a specific geographical region. Such licences will be subject to an initial payment or to an enhanced on-going licence fee from the licensee. Any exclusivity will be subject to the licensee achieving pre-agreed guaranteed minimum sales volumes over a stated period.

#### *Supply of OEM Components*

When developing a relationship with a potential new licensee, the Group may initially wish to supply a complete OEM component to the third party rather than grant a licence immediately. In these instances the manufacture of the OEM components will be sub-contracted to approved suppliers.

#### *Contract Services*

Contract services cover those activities of the Group related to sales of **VIXION** or **AXIS-3D®** products sold for automated inspection and include any software maintenance and upgrades.

In each application the Group is likely to be required to design and commission a dedicated software application package to conduct the inspection task automatically. Such application-specific software will be built employing modules from the Group's standard image processing library and custom linked to suit specific applications. The costs of the software development will be charged in addition to the value of the OEM equipment, based on an agreed daily fee.

## **6. Intellectual Property**

A summary of the Group's IP, including the exclusive licence granted by the University, is contained in the report by the Group's Patent Agents, which forms Part III of this document.

The importance of IP within a high technology company is well understood by the Directors, who believe that the Group's IP should be protected through a series of measures, combining formal methods such as patents, registered designs, non-disclosure agreements and trade mark registration along with informal methods including the protection of industrial secrets and know-how, by the continued motivation and retention of key technical personnel. The scope and geographic spread of each patent application is considered on a case-by-case basis having regard to the Group's likely markets and the potential sources of competition. In general, Europe and North America represent the main base for competition in the security sector. For industrial inspection and healthcare applications, potential competitors extend to the Pacific Rim.

Although providing valuable IP protection under many circumstances, patents and patent applications do not offer complete assurance that the Group's IP will not be infringed, or that existing patents, granted or applied for, will not be subject to objection, opposition or invalidity proceedings, or be revoked. Moreover, the Directors believe that not all of the Group's IP is suitable for patent protection. An important element of the Group's competitive advantage arises from its software and associated IP. Software developments are difficult to protect under the existing rules governing the grant of patents. The Group has accordingly decided not to seek patent protection for those elements of its technology where the outcome of a patent application would be in material doubt, and where the application process could actually provide potential competitors with sight of the underlying technology.

Key discussions with third parties, subcontractors and associates are conducted under company-specific, or individual-specific, NDA's. All employees of the Group are also bound by secrecy clauses within their contracts of employment.

The Directors believe that the retention of staff, and hence their accumulated experience, know-how and expertise is vital to protect and build the Group's IP.



## 7. Future Technology Development

In addition to continuing product development, the Group also maintains a portfolio of research activities, both internally and in collaboration with external research, technology and academic centres, including the University (3D Imaging Group), University College London (Medical Physics), the University of Bristol (Division of Obstetrics & Gynaecology), the University of Bath (Mechanical Engineering) and Pera Innovation Limited.

Where possible the Company seeks external support for these research activities both to share the technical and commercial risk associated with high technology research and to obtain an independent assessment of the project, where appropriate, from the relevant Government body concerned and its technical experts. The Group has been awarded funding from a number of public sources including the DoH, the Department of Trade and Industry (via the Government Office for the East Midlands), the DTLR (indirectly through the PSDB), the European Commission (CRAFT Feasibility programme), the EPSRC and, in the USA, the FAA.

## 8. Directors and Employees

### Directors

*Nigel John Tipple, B.A. (Oxon) (Non-Executive Chairman) aged 45*

Mr Tipple is an experienced managing director and chief executive of manufacturing businesses with significant expertise of corporate finance matters gained whilst working in the City of London. From 1978 to 1989 he worked in a number of financial institutions where he was involved in both shipbroking and banking.

In 1989 he led a management buy-in of a manufacturing business in the leisure sector B. K. Bluebird Limited, which was subsequently sold in 1995. In 1996 he joined Scott Closures International, a packaging company, at the request of its then owners, a private equity fund. That company was in financial difficulty and his brief was to return it to profitability. This was successfully achieved and in 1998 he purchased the company with the backing of new private equity. Later in 1998 the company made an acquisition and now trades as V R Scott Group Limited. Mr Tipple was appointed Chairman of Image Scan in September, 2001 and is Chairman of both the Audit and Remuneration Committees.

*Nicholas Fox BSc (Hons), MSc, CEng, MIEE (Managing) aged 45*

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

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

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

*Simon Xerxes Godber B Eng (Hons), PhD, CEng, MIEE (Technical) aged 36*

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



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

*Ian Stuart Southwell Johnson F.Syl. (Non-executive) aged 59*

Mr Johnson is one of the UK's leading independent security and risk management consultants. In addition to being group managing director of Ian Johnson Associates Limited, he is a member of the Risk and Security Management Forum, British Security Industry Association and American Society for Industrial Security. Among the many appointments held, he was adviser to British Airways for ten years and Associated British Ports and has been a serving member of the National Maritime Security Committee. He also serves as a judge on the Security Industry Awards Panel and is a founder member and fellow of The Security Institute and a Law Society accredited expert witness on security and crime prevention. Mr Johnson is a member of both the Audit and Remuneration Committees.

*Iain Malcolm Robertson M.A. (Non-executive) aged 60*

Mr Robertson is an experienced chairman, chief executive and non-executive director of technology businesses in both the private and public sectors with extensive international expertise gained over 35 years in the electronics and photonics industries. He is also currently Chairman of Indigo Photonics Limited and a non-executive director of Ibsen Photonics A/S. Mr Robertson is a member of the Remuneration Committee.

*Robert Savage BSc (Hons), C Eng, FIEE (Non-executive) aged 60*

Mr Savage is a Chartered Engineer with extensive experience at senior levels in managing change and transition in a variety of international and UK private and quoted companies such as York Sensors Limited, United Texon plc, STC plc, Beacon Group plc, United Technologies Corp., Quest Group plc and Plessey Company Limited. Mr Savage is concentrating on developing and expanding the licence and OEM arrangements throughout the Group, and is a member of the Audit Committee.

### **Proposed Finance Director**

*Mr Raymond John Gibbs BA, FCA* will join the Board, on a part time basis, immediately upon Admission. Mr Gibbs is a Chartered Accountant with over 20 years experience in both practice and industry. He was Audit and Corporate Finance partner at Deloitte & Touche for 9 years advising clients ranging from public companies to small fast growing entrepreneurial businesses. In 1996 he decided to move into industry and has held a number of senior positions including Group Finance Director of Chemring Group Plc, Chief Financial Officer of Microsulis Plc and currently Chief Executive Officer of Western Antennas Limited. It is intended that Mr Gibbs will join the Audit Committee.

### **Senior Members of Staff**

*Paul Lowery, BSc, PhD, Applications Systems Manager, aged 33*

On leaving H.M. Forces Dr Lowery entered full time education at the University of Derby where he attained a BSc in Modern Technology. On completion of his first degree, he took up a formal research post working in the field of multi-sensor systems applied to gas / odour sensing.

Dr Lowery's research included pattern recognition techniques, signal conditioning, array optimisation and research into intelligent expert systems. Successful implementation of these techniques into real time systems has been proven through close links with industry. In recognition of his research, he was awarded his PhD and during his time with the University acted as a consultant to a number of leading UK companies. Dr Lowery joined the Company in June 1999 and has been responsible for the development of much of the technology behind the VIXION products.



*Melvyn May, Principal Software Engineer, aged 32*

Mr May has gained extensive training and experience through his previous management role with British Rail where he was responsible for IT and WAN support for various sites including Chester, Duddeston, Birmingham, Toton and Derby. After leaving British Rail, Mr May became a director of a computer consultancy company where he gained essential experience in the management of software development, from design to implementation, with an emphasis on customer requirements. A professional programmer of many years standing Mr May has also acquired an in-depth knowledge of state-of-the-art programming techniques for both image presentation and image analysis.

*Paul Stevens, BSc, PhD, Senior Mechanical Engineer, aged 49*

After graduating in mechanical engineering, Dr Stevens completed a research programme in the factors that influence the tensile performance of composite polymers. This research resulted in the award of his PhD. Since then Dr Stevens has focused his career on the design, development and manufacture of niche products for high performance and instrumentation systems in a wide variety of sectors.

In January 1999 Dr Stevens accepted the post as senior mechanical design engineer with the Group and has since been involved in all the mechanical design aspects of the **AXIS-3D**<sup>®</sup> and **VIXION** products, and the research activities in the fields of 3D mammography and cervical smear instrumentation.

### **Other Staff**

In addition to the above-named, the Group currently employs a further 7 staff members. The finance function for the Group is carried out by Watlington Securities Limited, Chartered Accountants, who are also the Company Secretaries. Following his appointment, which is conditional solely upon Admission, Mr J Gibbs will assume responsibility for overall financial reporting and controls.

Further details of Directors' Service Agreements and Remuneration can be found in paragraph 6 of Part VI of this document.

### **9. Dealing restrictions / Lock-In arrangements**

The Directors have undertaken to the Company, ARMCF and Astaire that neither they, nor any person connected to them, will dispose of any Ordinary Shares held by them (in the case of Mr Fox and Mr Godber) for a period of one year from the date of Admission and (in the case of the other Directors) for a period of 6 months from the date of Admission, in each case, save in the event of an intervening court order, a takeover offer relating to the Ordinary Shares, execution of an irrevocable commitment to accept a general offer relating to the Ordinary Shares or on the death of that person, and that in any event, for a period of two years from the date of Admission, they may only dispose of the Ordinary Shares held by them through the Company's broker in accordance with the provisions of the Model Code and with the permission in writing of ARMCF or Astaire, such permission not unreasonably to be withheld.

### **10. Share Options**

The Directors believe that equity incentives are a means of attracting, motivating and retaining key employees. In 1999 the Company established the Approved Option Scheme in respect of Ordinary Shares under which the maximum number of Ordinary Shares that can be issued is 400,000. Senior executives and certain eligible employees are entitled to participate in the Approved Option Scheme at the discretion of the Board, which in the future will be advised on such matters by the Remuneration Committee.

In addition the Company has granted unapproved options to Non-executive Directors over 235,910 Ordinary Shares and to former Non-executive Directors over 300,000 Ordinary Shares. In aggregate Share Options have been granted over 535,910 Ordinary Shares representing 3.29 per cent of the issued ordinary share capital as enlarged by the Placing and Open Offer.

Further details of the Option Scheme and other options granted can be found in paragraphs 4 and 5 of Part VI of this document.



It is the intention of the Company to establish an Enterprise Management Incentive option scheme in the near future for the benefit of senior executives and eligible employees.

## 11. Financial Information

The following is a summary of the financial information of the Company for the last three financial years ended 30th September, 2001. This summary has been extracted from the Accountants' Report set out in Part IV of this document, which should be read in full.

	<i>Years ended 30th September</i>		
	<i>1999</i>	<i>2000</i>	<i>2001</i>
Turnover	31,315	100,509	62,447
Operating loss	(190,346)	(410,739)	(436,456)
Loss on Ordinary Activities before taxation	(198,372)	(446,017)	(523,592)

Significant progress has been made since 30th September, 2001 with the Group receiving orders for its range of products to a value of approximately £315,000, although in the short term the Group continues to absorb working capital.

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

## 12. Principal Terms of the Placing and Open Offer

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

1 Open Offer Share for every 30 Ordinary Shares held on the Record Date.

conditional on the passing of the Resolutions at the EGM.

To be valid, completed Application Forms and payment in full must be received by 3.00 p.m. on 22nd April, 2002.

The Placing Shares have been placed conditionally by Astaire subject to claw back to satisfy valid applications under the Open Offer,

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

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. Application will be made for the Ordinary Shares to be admitted to CREST. It is expected that the Ordinary Shares will be enabled for settlement in, and be admitted to, CREST on the date of Admission.

## 13. Dividend Policy

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



#### **14. Corporate Governance**

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

The Board has appointed an Audit Committee, consisting of N.J. Tipple and R. Savage. Upon Admission they will be joined by R.J. Gibbs. The Audit Committee will meet at least twice annually and is responsible for ensuring that the financial performance of the Group is properly reported and monitored and for meeting the auditors and reviewing their reports in relation to the accounts and internal control systems.

The Board has appointed a Remuneration Committee, which consists of N.J. Tipple, I.S.S. Johnson and I.M. Robertson. The Remuneration Committee is responsible for reviewing the performance of the Executive Directors and for setting the scale and structure of their remuneration and the basis of their service contracts bearing in mind the interests of shareholders. The Remuneration Committee will also determine the allocation of share options to employees. Given the size of the Company, the Remuneration Committee will also act as the Nomination Committee responsible for considering and recommending to the Board changes in the Board's composition and membership.

#### **15. Tax Reliefs available to Investors**

**To be read in conjunction with section 13(c) of Part VI of this document.**

Application has been made to the Inland Revenue and, on the basis of information provided, (which included a draft of this document) the Inland Revenue has indicated that the Company continues to comply with the qualifying requirements for the Enterprise Investment Scheme and see no reason why qualifying shareholders should not be able to claim the appropriate EIS Relief on the New Ordinary Shares proposed to be issued. EIS relief only applies to original subscribers and not to subsequent purchases.

Accordingly, provided that the investor and the Company comply with EIS legislation, which includes a requirement that the Ordinary Shares are held by tax paying individuals for three years, both higher and basic rate United Kingdom taxpayers should qualify for EIS tax relief on their investment in the Company, although the Company cannot give any assurance in this regard. It is the current intention of the Board that the Company should continue to operate as a qualifying company but the Directors cannot undertake that the Company will always conduct its activities in a way designed to preserve any EIS relief claimed by investors.

A general guide to the UK taxation position of the Company and Shareholders, including tax reliefs available, is set out in paragraph 13 of Part VI of this document

**If any potential investor is in any doubt about the taxation consequences of acquiring, holding or disposing of Ordinary Shares, he should seek advice from his own professional adviser.**

#### **16. Risk factors**

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

##### *Operating Losses*

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



### *Timing and Level of Demand*

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

### *Product Risk*

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

### *Intellectual Property*

The Directors consider that a proportion of the Group's business is dependent upon (i) the continuing maintenance of the original patent and the ongoing prosecution of the filed applications and (ii) the continuing right to use the patents in accordance with the terms of the licence with the University.

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

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

### *Retention of Key Employees*

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

### *Capacity to Meet Demand*

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

### *Competition*

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



### *AIM-Quoted Investment*

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

### **17. Directors' intentions**

**The Directors currently beneficially own (or have a beneficial interest in) an aggregate of 2,282,135 Ordinary Shares (representing 15.11% of the Existing Shares). Both Mr Robertson and Mr Savage intend to take up their entitlement under the Open Offer. Mr Fox has given an irrevocable undertaking in favour of Astaire not to take up his entitlement under the Open Offer.**

### **18. Action to be taken**

If you wish to apply for New Ordinary Shares under the Open Offer, you should complete the enclosed Application Form in accordance with the instructions set out in this document and the Application Form. You should then return the Application Form in the enclosed reply-paid envelope, with the appropriate remittance for the full amount payable on application, to be received no later than 3.00 p.m. on 22nd April, 2002, at the offices of the Company's registrars and receiving agents, Northern Registrars Limited, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA.

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

Your attention is also drawn to Parts III to VI of this document.

Yours faithfully,

Nigel Tipple  
*Chairman*



## PART II

### OPEN OFFER LETTER FROM ASTAIRE & PARTNERS LIMITED

40 Queen Street  
London  
EC4R 1HN

28th March, 2002

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

Dear Shareholders,

#### **Proposed Placing and Open Offer of 1,150,000 New Ordinary Shares at 65p per share**

##### **1. Introduction**

Image Scan is proposing to raise up to £747,500 (before expenses) by way of a Placing and Open Offer of 1,150,000 New Ordinary Shares at 65p per share conditional upon the passing of the Resolutions. Shareholders' attention is drawn to the letter from the Chairman in Part I of this document which sets out the background to and reasons for the proposals and the Circular incorporating notice of the EGM at which the Resolutions will be proposed.

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

##### **2. Details of the Open Offer**

Astaire, as agent for and on behalf of the Company, hereby offers Qualifying Shareholders the opportunity to apply for Open Offer Shares at a price of 65p per Open Offer Share payable in full on application (free of expenses). The Open Offer is made on the terms and subject to the conditions set out in this letter and in the Application Form enclosed with this document.

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

1 Open Offer Share for every 30 Ordinary Shares

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

Valid applications for up to the maximum pro-rata entitlement will be met in full. Any monies paid in excess of the amount due will be returned to the applicant without interest.

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

Under the Placing and Open Offer Agreement, Astaire has conditionally agreed to procure places for all the Placing Shares subject to recall to satisfy valid applications from Qualifying Shareholders under the Open Offer and if to the extent that it fails to procure subscribers, to subscribe itself as principal for any of the Placing Shares not taken up in the Open Offer. Details of the Placing and Open Offer Agreement are set out in paragraph 11 of Part VI of this document.

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



admitted to trading on AIM. The Placing Shares are not being made available in whole or in part to the public except under the terms of the Open Offer.

### **3. Conditions of the Open Offer**

The Open Offer is conditional on the Placing and Open Offer Agreement becoming or being declared unconditional in all respects by not later than 8.00 a.m. on 25th April, 2002 (or such later time and date, being not later than 3rd May, 2002, as Astaire, ARMCF and the Company may agree). The principal conditions to the Placing and Open Offer Agreement are:

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

### **4. Procedure for Application**

Applications may only be made for the Open Offer Shares on the enclosed Application Form which is personal to the Qualifying Shareholder named on it and may not be assigned or transferred except in the circumstances described below. The Application Form represents a right to apply for Open Offer Shares. The Application Form is not a document of title and it may not be sold, assigned or transferred except to satisfy bona fide claims in relation to purchases of Ordinary Shares prior to 17th April 2002. Application Forms may be split but only to satisfy such bona fide claims up to 3.00 p.m. on 17th April 2002. Persons who have, prior to 17th April 2002, sold or otherwise transferred some or all of their Existing Shares should contact their stockbroker, bank or other agent authorised under the FSMA through whom the sale or transfer was effected and refer to the instructions regarding split applications set out in the Application Form.

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

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

The Application Form shows the number of Ordinary Shares on which the relevant Qualifying Shareholder's pro rata entitlement has been based and the maximum number of Open Offer Shares for which such Qualifying Shareholder may apply, calculated on the basis described above.

Qualifying Shareholders wishing to apply for all or any of the Open Offer Shares to which they are entitled should complete and sign the enclosed Application Form in accordance with the instructions thereon and send or deliver it during normal business hours, in the reply paid envelope provided, together with a remittance for the full amount payable to Northern Registrars Limited, a/c Image Scan Holdings plc, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA so as to arrive as soon as possible and in any event not later than 3.00 p.m. on 22nd April, 2002 at which time the Open Offer will close. Application Forms received after this time will not be accepted.

Applications once made will be irrevocable and will not be acknowledged. Astaire and the Company reserve the right (but shall not be obliged) to treat an Application Form as valid and binding on the person(s) by whom or for whose benefit it is lodged even if such Application Form is not completed in accordance with the relevant instructions. Astaire and the Company further reserve the right (but shall not be obliged) to accept either Application Forms received after 3.00 p.m. on 22nd April, 2002 with the envelope bearing a legible postmark not later than 3.00 p.m. on 18th April, 2002 or from authorised persons (as defined in the FSMA) specifying the Offer Shares applied for and undertaking to lodge the Application Form in due course. If an Application Form is sent by post, Qualifying Shareholders are recommended to allow at least 4 working days for delivery. The instructions and other terms set out in the Application Form are part of the Open Offer.

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



## 5. Money Laundering

The verification of identity requirements of the Money Laundering Regulations 1993 will apply to the Open Offer and verification of the identity of the applicant(s) for Offer Shares may be required. If the value at the issue price of the Open Offer Shares for which you are applying does not exceed the sterling equivalent of 15,000 € (currently approximately £9,000) you are not likely to be required to satisfy the verification of identity requirements described below. However, the Registrars may at their absolute discretion require verification of identity from any person lodging an Application Form and, without prejudice to the generality of the foregoing, in particular, any person who either (i) tenders payment by way of cheque or banker's draft drawn on an account name of a person other than the applicant; or (ii) appears to the Registrars to be acting on behalf of some other person. In the former case, verification of the identity of the applicant may be required. In the latter case, verification of the identity of any person on whose behalf the applicant appears to be acting may be required. In order to avoid this, if the value at the issue price of the Open Offer Shares for which you are applying does exceed the sterling equivalent of 15,000 € (currently approximately £9,000), payment should be made by means of a cheque drawn by the person named in the Application Form (or one of such persons). If this is not practicable and you use a cheque drawn by a third party (for example, a building society cheque or banker's draft) you should:

- (a) write the name, address and date of birth of the person named on the Application Form (or one of such persons) on the back of the cheque, building society cheque or banker's draft and ensure that a copy of the Applicant's passport or driving licence certified by a solicitor or a recent original bank or building society statement or utility bill in the Applicant's name and showing his current address (which originals will be returned by post at the Applicant's risk) is enclosed with your application;
- (b) if a building society cheque or banker's draft is used, ask the building society or bank to endorse the name and account number of the person whose building society or bank account is being debited by the cheque or bankers draft; and
- (c) if you are making the application as agent for one or more persons indicate on the Application Form whether you are a UK or EU regulated person or institution (e.g. a bank or broker) and specify your status. If you are not a UK or EU regulated person or institution, you should contact Northern Registrars Limited, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA on 01484 600900

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

By lodging an Application Form, each Qualifying Shareholder undertakes to provide such evidence of identity at the time of lodging the Application Form or, at the absolute discretion of the Company and Astaire, at such specified time thereafter as may be requested to ensure compliance with the Money Laundering Regulations 1993.

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

If evidence of identity satisfactory to the Company and Astaire and their agents is not provided to any of them on or before 3.00 p.m. on 24th April, 2002 (or such later date as the Company and Astaire may agree), Astaire or the Company may terminate the agreement constituted by the acceptance in whole or in part of the application without liability and, in such case, the New Ordinary Shares which are the subject of such agreement will be reallocated or sold as soon as reasonably practicable (and for such purpose the Qualifying Shareholder irrevocably authorises the Company, or any person appointed by it for the purpose to execute on his or her behalf any instrument, transfer or other document which may be necessary or desirable in order to effect such reallocation or sale). In such an event, the money payable or paid in respect of the application will be returned (at the applicant's risk and without



interest) to the bank or other account on which the cheque or other remittance accompanying the application was drawn.

## **6. Payment**

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

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

The Company reserves the right to have cheques presented on receipt and to instruct the Registrars to seek special clearance of cheques to allow the Company to obtain value for remittances at the earliest opportunity. Any person returning an Application Form with a remittance in the form of a cheque thereby warrants that the cheque will be honoured on first presentation. If cheques or banker's drafts are presented for payment before the conditions of the Open Offer are fulfilled the monies will be kept in a separate bank account until the conditions are fully met. In the event that the Open Offer does not become unconditional by 8.00 a.m. on 25th April, 2002 (or such later time and date being not later than 3rd May, 2002 as Astaire and the Company may agree), all application monies will be returned to applicants as soon as is practicable thereafter. The interest earned on monies held in the separate bank account will be retained for the benefit of the Company. If any cheque is not honoured on first presentation the relevant application may be deemed to be invalid.

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

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

## **7. Settlement or Dealings**

The result of the Open Offer is expected to be announced on 22nd April, 2002. Application will be made to the London Stock Exchange for the new Ordinary Shares to be admitted to AIM. It is expected that Admission will become effective and that dealings in the Existing Shares and the New Ordinary Shares will commence on 25th April, 2002.

Subject to the conditions of the Open Offer being satisfied or waived, all New Ordinary Shares to be issued in uncertificated form are expected to be credited to the appropriate CREST Stock Accounts on 25th April, 2002 unless the Company exercises the right to issue such shares in certificated form in which case definitive certificates are expected to be despatched by post on or before 3rd May, 2002. No temporary documents of title will be issued. Pending despatch of definitive share certificates, transfers by non-CREST Qualifying Shareholders will be certified against the share register. All documents or remittances sent by or to an applicant (or his agent as appropriate) will (in the latter case) be sent through the post and will (in both cases) be at the risk of the applicant. Qualifying Shareholders in CREST should note that they will be sent no confirmation of the credit of the shares to their CREST stock account nor any other written communication by the Company in respect of the issue of Open Offer Shares. Notwithstanding any other provision in this document, the Company reserves the right to issue any New Ordinary Shares in certificated form.



## 8. Overseas Shareholders

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

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

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

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

In particular Overseas Shareholders should note the following:

### *United States and Canada*

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

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

### *Australia*

Neither this document nor the Application Form nor the Open Offer Shares will be lodged or registered with the Australian Securities Commission under Australia’s Corporations Law and Open Offer Shares are not being offered for subscription or sale and may not be offered, sold or delivered in or into Australia or for the benefit of any person or corporation in Australia. No Application Form will be sent to any person or corporation in Australia, including any shareholder with a registered address in



Australia. Payment under an Application Form will constitute a representation or warranty that the person entitled to the same has not received, sent or forwarded the Application Form in or into Australia or to any person or corporation in Australia, and is not subscribing for any of the Open Offer Shares for the account or benefit of any person or corporation in Australia or with a view to their offer, sale or delivery directly or indirectly in or into Australia or to or for the account of any person or corporation in Australia. As used here and in the Application Form “Australia” means the Commonwealth of Australia, its states and possessions.

#### *Japan*

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

#### *Republic of Ireland*

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

### **9. Taxation**

Shareholders’ attention is drawn to the section headed “United Kingdom taxation” set out in paragraph 13 of Part VI of this document. Any Qualifying Shareholder who is in any doubt as to his or her taxation position should consult a professional adviser without delay.

### **10. Further Information**

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

### **11. Miscellaneous**

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

Astaire reserves the right to delay the closing time of the Open Offer from 3.00 p.m. on 22nd April, 2002 by giving notice to the London Stock Exchange. In this event, the revised closing time will be published in such manner as Astaire (following consultation with the Company) determines subject to, and having regard to, the AIM Rules.

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



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

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

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

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

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

Yours faithfully

For and on behalf of  
Astaire & Partners Limited

Desmond G Chapman



**PART III**  
**PATENT AGENT'S REPORT**

**MURGITROYD  
& COMPANY**

[Logo to come]

The Directors  
Image Scan Holdings plc  
Office 3, 235 Hunts Pond Road  
Fareham  
Hants. PO14 4PJ

26 March, 2002

Dear Sirs

**Review of Intellectual Property Owned and Licensed by Image Scan Holdings plc and subsidiaries**

You have instructed us to provide an overview of intellectual property assets and licence arrangements relating to the business of Image Scan Holdings plc and its subsidiaries.

We report as follows:-

**1. Patents and patent Applications**

**1.1 Patents and Patent Applications Licensed to Stereo Scan Systems Limited from the Nottingham Trent University**

Stereo Scan Systems Ltd (SSS) is a wholly owned subsidiary of Image Scan Holdings plc (the "Company"). Under an Intellectual Property Agreement dated 10th October, 1996, between The Nottingham Trent University (TNTU) and SSS, and Heads of Agreement dated 28 March, 2001 concerning variations to that Agreement, SSS have a worldwide, non-transferable exclusive licence (with a right to sub-licence) to use all intellectual property developed and/or owned and/or acquired by TNTU relating to three-dimensional imaging as defined in the Intellectual Property Agreement and qualified by a proposed Variation Agreement pursuant to the Heads of Agreement, in the field of security ("the inspection of luggage, freight, personnel and other objects at airports, ports, points of crossing and high security buildings including prisons or any other building or venue where the screening of objects or personnel is deemed necessary to reduce the threat of breach of security or the passage of weapons, explosives, dangerous substances or materials or contraband") and industrial inspection ("the scanning of products prior to, or in the course of and after completion of processing or manufacturing in order to assure the quality or consistency or compliance of such products being manufactured or processed, or for the assessment or investigation of a process or to improve, vary evaluate or monitor a process"). The licence is in perpetuity, unless terminated in accordance with the above Agreements.

Royalties are payable by SSS to TNTU during the period of ten years from the date of the Intellectual Property Agreement. Thus no royalties are payable after 10th October, 2006.

With effect from 28th February, 2001, the royalty payable is 3% (plus VAT if applicable) of total turnover which is fairly attributable to the licensed intellectual property and any relevant improvements.

The intellectual property licensed under the Agreements consists of the following Patents and Patent Applications:-

**European Patent No. 610084**

Title: The visual presentation of Information derived from a 3D Image System  
Proprietor The Nottingham Trent University  
Filing Date 4th February, 1994  
Priority Date 5th February, 1993  
Status Granted 15th April, 1998

This European Patent has been validated in the following countries.

Country	Status
UK	In force
Germany	In force
Italy	In force
France	In force

**US Patent Application No. 08/192105**

Title: The visual presentation of Information derived from a 3D Image System  
Proprietor The Nottingham Trent University  
Filing Date 4th February, 1994  
Priority Date 5th February, 1993  
Status Pending. This application has not yet been officially assigned from the inventor to TNTU.

*Comments*

This European and the corresponding US Patent Application relate to methods of creating 2D solid representations of objects from stereoscopic pairs of X-ray images

**European Patent Application No. 1048175 (98945392.3)**

Title: 3D Imaging with Line Scanning  
Proprietor The Nottingham Trent University  
Filing Date 29th September, 1998  
Priority Date 1st October, 1997  
Status Pending (awaiting examination)  
Designated Sates AT, BE, CH, DE, DK, ES, FR, GB, GR, IE, IT, LI, LU, MC, NL, PT, SE, FI, CY

**US Patent Application No 09/541139**

Title: 3D Imaging with Line Scanning  
Proprietor The Nottingham Trent University  
Filing Date 29th September, 1998  
Priority Date 1st October, 1997  
Status Pending. This application has been officially assigned from the inventor to TNTU.

*Comments*

These corresponding European and US Patent Applications relate to methods and apparatus for producing stereoscopic line scan images of objects by relative movements of objects and cameras.

**European Patent Application No. 1063538**

Title: Linear Array Scintillator System  
Proprietor The Nottingham Trent University  
Status LAPSED (non-payment of Examination and Designation Fees)  
Filing Date 22nd June, 2000 claiming priority from GB9914705.0

This TNTU Patent Application, relating to TNTU's "castellated detector" technology, was licensed to SSS under the Intellectual Property Agreement but was abandoned because of lack of novelty.

The Company is presently negotiating a licence from another party having prior US Patent rights in this technology.



## 1.2 Patent Application owned by the Company.

### UK Patent Application No. 0122775.0

Title	X-Ray Inspection System
Applicant	Image Scan Holdings plc
Filing Date	21st September, 2001
Status	Pending

#### *Comments*

The application relates to apparatus and methods for producing stereoscopic x-ray images of objects for use in security systems and industrial inspection systems. International and/or other foreign Patent Applications may be filed in most other territories up to 21st September, 2002 claiming the benefit of the UK filing date. We have advised ISH that the subject matter of this Application constitutes a “severable Improvement” as defined under the TNTU Agreement, so that TNTU have an exclusive, royalty-free licence to use for any non-commercial purposes.

## 2. Software

The Group has developed computer software for operating its X-ray Scanning equipment including the software suite known as “ENHANCE”. Computer programs are protected internationally by Copyright as “works of literature” for the duration of the life of the author plus 70 years. The Copyright in these works is the property of the Group.

The Group’s “ENHANCE” software suite provides underlying functional control of hardware firmware and software sub-systems and, through a configurable, graphical user interface between the system and the system operator, presents application-specific information in an optimised format, e.g. stereoscopic, multiple view, measurement or simple 2D images. ENHANCE is modular, providing options to include artifacts for advanced image capture, enhancement and processing and to provide streamed, real-time, linkage between low-level hardware and system operator control. ENHANCE has been designed from two perspectives, the first being optimised presentation to the system operator and the second being a platform for rapid analysis and development of new solutions by in-house engineers. The latter design criteria will be continuously developed and, when considered suitable, will provide an opportunity to licence specific versions of ENHANCE to qualified and trained end-users for customer in-house development.

As a matter of policy, the Company has not sought patent protection for their software products on the basis that the required public disclosure of the underlying operating principles and algorithms of the software would be counterproductive.

Yours faithfully,

**for Murgitroyd & Company**

John Cooper



**PART IV**  
**ACCOUNTANTS' REPORT ON THE GROUP**



New Garden House, 78 Hatton Garden, London, EC1N 8JA

The Directors  
Image Scan Holdings plc  
Office 3, 235 Hunts Pond Road  
Fareham  
Hants PO14 4PJ

and

The Directors  
ARM Corporate Finance Limited  
12 Pepper Street,  
London E14 9RP

27th March, 2002

Dear Sirs,

**Image Scan Holdings plc**

We report on the financial information set out below. This financial information has been prepared for inclusion in the prospectus to be dated 28th March, 2002 of Image Scan Holdings plc (“the Company”).

**Basis of preparation**

The financial information set out in pages 33 to 45 is based on the audited consolidated financial statements of the Company and its subsidiaries Stereo Scan Systems Limited, Baggage Scan Limited, Cargo Scan Limited, Mediscan Limited and Industrial Scanning Inspection Systems Limited (together “the Group”) for the three years ended 30 September 2001 and has been prepared on the basis set out below after making such adjustments as we considered necessary.

**Responsibility**

Such financial statements are the responsibility of the directors of the Company who approved their issue.

The directors of the Company are responsible for the contents of the prospectus to be dated 28th March, 2002 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

PKF of New Garden House, 78 Hatton Garden, London EC1N 8JA were the auditors of the Group for each of the three years ended 30 September 1999, 2000 and 2001.



### **Basis of opinion**

We conducted our work in accordance with the Statement of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

### **Opinion**

In our opinion, the financial information gives, for the purposes of the prospectus to be dated 28th March, 2002 a true and fair view of the state of affairs of the Group as at the dates stated and of its losses for the periods then ended.

### **Consent**

We consent to the inclusion in the prospectus of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

## **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, made up to 30 September in each case.

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

### **Basis of preparation - Going Concern**

The Group had net current liabilities of £216,908 at 30 September 2001. The accounts have been drawn up on a going concern basis which assumes that continuing support will be provided by shareholders and loan creditors. Since 30 September, 2001 the Company has issued a further 1,818,182 Ordinary Shares at 55p per share and 80,856 Ordinary Shares at 60p per share for working capital purposes.

### **Goodwill**

Goodwill on consolidation arising prior to 1 October 1998 has been written off against reserves as permitted by the transitional provisions of FRS10. This goodwill will be charged to the profit and loss account on any subsequent disposal of the businesses to which it relates.

### **Depreciation**

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

Computer equipment	–	33⅓% of cost
Demonstration and office equipment	–	25% of cost



Additional depreciation is provided, where appropriate, to reduce the carrying value of tangible fixed assets to their value to the business.

### Deferred taxation

Provision is made for deferred taxation on all material timing differences.

### Government grants

Capital based government grants are capitalised as deferred credits on the balance sheet and are accordingly written off against profits over the estimated useful lives of the assets concerned. Revenue based government grants are credited to the profit and loss account in the same year as the expenditure is charged.

### Work in progress

Work in progress is valued at the lower of cost and net realisable value. Cost relates to direct expenditure only and does not include an appropriate proportion of fixed and variable overheads.

### Development costs

Expenditure on development costs and patents in respect of the three dimensional imaging technology is capitalised and treated as an intangible fixed asset. This expenditure has been deferred to future periods. It is stated at cost. Amortisation will commence when commercial income is being generated from the sale of the technology involved other than for demonstration or evaluation purposes.

## 2. Consolidated profit and loss accounts

	<i>Notes</i>	<i>Year ended 30 September 1999 £</i>	<i>Year ended 30 September 2000 £</i>	<i>Year ended 30 September 2001 £</i>
Turnover	(i)	31,315	100,509	62,447
Cost of sales		(12,150)	(135,174)	(8,982)
Gross profit		19,165	(34,665)	53,465
Administrative expenses		(209,511)	(376,074)	(489,921)
Operating loss	(ii)	(190,346)	(410,739)	(436,456)
Other income:				
Grants received		15,271	20,250	250
Bank interest received		2,230	1,325	8,041
Interest payable	(v)	(25,527)	(56,853)	(95,427)
Loss on ordinary activities before tax		(198,372)	(446,017)	(523,592)
Taxation	(vi)	–	–	–
Retained loss for the year	(xii)	<u>(198,372)</u>	<u>(446,017)</u>	<u>(523,592)</u>

All amounts relate to continuing operations.

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



### 3. Consolidated balance sheets

		<i>Year ended</i> 30 September 1999	<i>Year ended</i> 30 September 2000	<i>Year ended</i> 30 September 2001
	<i>Notes</i>	£	£	£
<b>Fixed assets</b>				
Tangible assets	(vii)	708	45,450	104,276
Intangible assets	(vii)	552,735	686,705	679,242
		<u>553,443</u>	<u>732,155</u>	<u>783,518</u>
<b>Current assets</b>				
Work in progress		121,180	32,394	5,012
Debtors	(viii)	54,843	58,450	29,210
Cash at bank and in hand		161,386	10,451	435,980
		<u>337,409</u>	<u>101,295</u>	<u>470,202</u>
<b>Creditors: amounts falling due within one year</b>	(ix)	<u>(406,763)</u>	<u>(742,576)</u>	<u>(687,110)</u>
<b>Net current liabilities</b>		<u>(69,354)</u>	<u>(641,281)</u>	<u>(216,908)</u>
Total assets less current liabilities		484,089	90,874	566,610
<b>Creditors: amounts falling due after more than one year</b>				
Deferred income	(ix)	(202,931)	(165,567)	(128,204)
	(x)	(283,549)	(373,715)	(414,228)
<b>Net assets</b>		<u>(2,391)</u>	<u>(448,408)</u>	<u>24,178</u>
<b>Capital and reserves</b>				
Called up share capital	(xi)	111,208	111,208	132,011
Share premium account	(xii)	316,277	316,277	1,291,652
Profit and loss account	(xii)	(429,876)	(875,893)	(1,399,485)
<b>Equity shareholders funds</b>		<u>(2,391)</u>	<u>(448,408)</u>	<u>24,178</u>



#### 4. Cash flow

		<i>Year ended</i> <i>30 September</i> <i>1999</i>	<i>Year ended</i> <i>30 September</i> <i>2000</i>	<i>Year ended</i> <i>30 September</i> <i>2001</i>
	<i>Notes</i>	£	£	£
<b>Net cash outflow from operating activities</b>	(xiv)	(299,812)	(259,939)	(456,821)
<b>Returns on investments and service:</b>				
Interest received		2,230	1,325	8,041
Interest payable		(25,527)	(56,853)	(95,427)
		<u>(23,297)</u>	<u>(55,528)</u>	<u>(87,386)</u>
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets		(885)	(60,714)	(100,890)
Purchase of intangible fixed assets		(46,240)	(43,804)	47,976
		<u>(47,125)</u>	<u>(104,518)</u>	<u>(52,914)</u>
<b>Net cash flow before management of liquid resources and financing</b>		<u>(370,234)</u>	<u>(419,985)</u>	<u>(597,121)</u>
<b>Financing:</b>				
Issue of ordinary share capital		152,074	–	996,178
Increase in debt – secured loan		88,313	300,644	97,280
		<u>240,387</u>	<u>300,644</u>	<u>1,093,458</u>
<b>Increase/(decrease) in cash in the year</b>	(xv)	<u><u>(129,847)</u></u>	<u><u>(119,341)</u></u>	<u><u>496,337</u></u>

#### 5. Reconciliation of movement in shareholders' funds

		<i>Year ended</i> <i>30 September</i> <i>1999</i>	<i>Year ended</i> <i>30 September</i> <i>2000</i>	<i>Year ended</i> <i>30 September</i> <i>2001</i>
		£	£	£
<b>Opening shareholders' funds</b>		43,907	(2,391)	(448,408)
Issue of shares at par		6,541	–	20,803
Issue of shares – share premium		145,533	–	975,375
Loss attributable to the members		(198,372)	(446,017)	(523,592)
		<u>(2,391)</u>	<u>(448,408)</u>	<u>24,178</u>



## 6. Notes to the financial statements

### (i) Turnover

Turnover, which excludes value added tax and intra group trading, represents the value, net of discount, of goods sold and services provided. The turnover is attributable to one market and one activity which is continuing.

### (ii) Operating loss

Operating loss is stated after charging:

	<i>Year ended</i> <i>30 September</i> <i>1999</i> £	<i>Year ended</i> <i>30 September</i> <i>2000</i> £	<i>Year ended</i> <i>30 September</i> <i>2001</i> £
Auditors' remuneration – audit	5,425	6,500	11,100
– other services	–	–	4,112
Research and development expenditure			
– current year	–	129,323	–
– prior years	–	–	23,280
Depreciation	177	15,972	42,064
Staff costs (note iii)	47,361	102,371	114,027
Directors' remuneration (note iv)	24,000	131,300	154,987
	<u>24,000</u>	<u>131,300</u>	<u>154,987</u>

### (iii) Staff costs

	<i>Year ended</i> <i>30 September</i> <i>1999</i> £	<i>Year ended</i> <i>30 September</i> <i>2000</i> £	<i>Year ended</i> <i>30 September</i> <i>2001</i> £
Wages and salaries	43,125	82,398	92,501
Social security costs	4,236	19,973	21,526
	<u>47,361</u>	<u>102,371</u>	<u>114,027</u>

The average number of persons, including directors, employed by the Group during the period is analysed below:

	<i>Year ended</i> <i>30 September</i> <i>1999</i> £ <i>Number</i>	<i>Year ended</i> <i>30 September</i> <i>2000</i> £ <i>Number</i>	<i>Year ended</i> <i>30 September</i> <i>2001</i> £ <i>Number</i>
Accounts and administration	–	1	1
Sales and marketing	2	–	–
Technical	–	4	5
Directors	5	4	4
	<u>7</u>	<u>9</u>	<u>10</u>



**(iv) Directors' remuneration**

	<i>Year ended 30 September 1999</i>	<i>Year ended 30 September 2000</i>	<i>Year ended 30 September 2001</i>
	£	£	£
Management remuneration	24,000	90,300	146,987
Fees as directors	–	15,000	8,000
Compensation for loss of office paid to former Chairman	–	26,000	–
	<u>24,000</u>	<u>131,300</u>	<u>154,987</u>

The Group contributes to a defined contribution pension scheme for the benefit of Mr Fox. For the years ended 30 September 2000 and 2001 contributions amounted to £1,800 and £2,400 respectively (1999: £nil).

For the years ended 30 September 2000 and 2001 the remuneration of I M Robertson amounting to £9,000 and £22,000 respectively was paid to Struan Associates, a business in which he has a material interest.

For the year ended 30 September 2001 the remuneration of R Savage amounting to £11,900 was paid to Ratae Management Services, a business in which he has a material interest.

For the year ended 30 September 1999 a total of £52,000 was waived by three directors and the remuneration of the Managing Director amounting to £46,250 was paid to Omnitech Consultants Limited, a company which invoiced the group a total of £78,365 during that year for services rendered.

**(v) Interest payable and similar charges**

	<i>Year ended 30 September 1999</i>	<i>Year ended 30 September 2000</i>	<i>Year ended 30 September 2001</i>
	£	£	£
Interest payable on loans and overdrafts			
– repayable within five years	23,638	55,090	94,907
– repayable wholly or partly in more than five years	1,889	1,763	520
	<u>25,527</u>	<u>56,853</u>	<u>95,427</u>

**(vi) Taxation**

	<i>Year ended 30 September 1999</i>	<i>Year ended 30 September 2000</i>	<i>Year ended 30 September 2001</i>
	£	£	£
Corporation tax at 21%	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>

The Group has accumulated capital and trading tax losses to be carried forward of approximately £1,400,000 at 30 September, 2001 (2000: £846,000; 1999: £412,000).



(vii) Fixed assets

a) Tangible fixed assets

	<i>Computer Equipment</i> £	<i>Demonstration Equipment</i> £	<i>Office Equipment</i> £	<i>Total</i> £
<b>Cost</b>				
At 1 October 1998	–	–	–	–
Additions	–	–	885	885
At 30 September 1999	–	–	885	885
Additions	7,405	46,231	7,078	60,714
At 30 September 2000	7,405	46,231	7,963	61,599
Additions	10,943	89,582	365	100,890
At 30 September 2001	18,348	135,813	8,328	162,489
<b>Depreciation</b>				
At 1 October 1998	–	–	–	–
Provided during the year	–	–	177	177
At 30 September 1999	–	–	177	177
Provided during the year	2,468	11,557	1,947	15,972
At 30 September 2000	2,468	11,557	2,124	16,149
Provided during the year	6,116	33,954	1,994	42,064
At 30 September 2001	8,584	45,511	4,118	58,213
<b>Net book values</b>				
At 30 September 2001	9,764	90,302	4,210	104,276
At 30 September 2000	4,937	34,674	5,839	45,450
At 30 September 1999	–	–	708	708

b) Intangible fixed assets

	<i>Patent rights</i> £	<i>Research and development</i> £	<i>Total</i> £
<b>Cost</b>			
At 1 October 1998	120,836	102,110	222,946
Additions	56,729	273,060	329,789
At 30 September 1999	177,565	375,170	552,735
Additions	17,711	116,259	133,970
At 30 September 2000	195,276	491,429	686,705
Additions	1,675	14,142	15,817
Overprovision	–	(23,280)	(23,280)
At 30 September 2001	196,951	482,291	679,242

At 30 September 2001 there were no capital commitments (2000: £Nil; 1999: £Nil)



**(viii) Debtors**

	<i>Year ended 30 September 1999</i>	<i>Year ended 30 September 2000</i>	<i>Year ended 30 September 2001</i>
	£	£	£
Trade debtors	6,071	15,532	17,625
VAT recoverable	12,714	26,434	4,076
Other debtors and prepayments	36,058	16,484	7,509
	<u>54,843</u>	<u>58,450</u>	<u>29,210</u>

**(ix) Creditors: amounts falling due within one year**

	<i>Year ended 30 September 1999</i>	<i>Year ended 30 September 2000</i>	<i>Year ended 30 September 2001</i>
	£	£	£
Trade creditors	142,748	175,319	66,087
Bank overdraft	–	–	36,555
Bank loan	31,593	37,363	37,363
Other creditors	118,916	419,560	516,840
Taxation and social security	3,842	8,608	6,993
Accruals	39,664	31,726	23,272
Loan stock	70,000	70,000	–
	<u>406,763</u>	<u>742,576</u>	<u>687,110</u>

**Creditors: amounts falling after more than one year**

	<i>Year ended 30 September 1999</i>	<i>Year ended 30 September 2000</i>	<i>Year ended 30 September 2001</i>
	£	£	£
Bank loan	<u>202,931</u>	<u>165,567</u>	<u>128,204</u>

A Bank Loan of £100,000 was advanced in March 1998 under the Small Firms Loan Guarantee Scheme. The loan term is 7.5 years with repayments being made in 84 monthly instalments commencing six months after drawdown. Interest is payable at 3 per cent. per annum over the Lloyds Bank plc base rate.

A further loan of £150,000 was advanced in July 1999 also under the Small Firms Loan Guarantee Scheme. The loan term is 7 years with repayments being made in 26 quarterly instalments commencing six months after drawdown. Interest is payable at 3 per cent. p.a. over Lloyds Bank plc base rate.

These loans are secured by debentures from the Company and a legal charge over the life policies of two directors.

The Loan Stock was issued on 6 November 1997, and was repaid, at par, on 30th September 2001. Interest was paid at the rate of 12 per cent. p.a. quarterly in arrears.

Loans or instalments thereof are repayable over the following periods:

	<i>Year ended 30 September 1999</i>	<i>Year ended 30 September 2000</i>	<i>Year ended 30 September 2001</i>
	£	£	£
Within one year	101,593	107,363	37,363
Between one and two years	37,362	37,363	37,363
Between two and five years	112,087	112,087	90,841
Over five years	53,482	16,117	–
	<u>304,524</u>	<u>272,930</u>	<u>165,567</u>

**(x) Deferred income**

	<i>Year ended 30 September 1999</i>	<i>Year ended 30 September 2000</i>	<i>Year ended 30 September 2001</i>
	£	£	£
Deferred credits	<u>283,549</u>	<u>373,715</u>	<u>414,228</u>

The deferred credits relate to government grants that will be credited to the profit and loss account on a basis consistent with the depreciation of the assets to which they relate.



**(xi) Called up share capital**

	<i>Year ended 30 September 1999</i>	<i>Year ended 30 September 2000</i>	<i>Year ended 30 September 2001</i>
	£	£	£
<b>Authorised:</b>			
20,000,000 Ordinary Shares of 1p each	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>
<b>Allotted, called up and fully paid</b>			
13,201,165 Ordinary Shares of 1p each	–	–	132,011
11,120,855 Ordinary Shares of 1p each	<u>111,208</u>	<u>111,208</u>	<u>–</u>

By special resolution passed on 28 April 1998 each of the 10p Ordinary Shares were sub-divided into 10 Ordinary Shares of 1p each.

During the year ended 30 September 1998 the company issued 1,466,680 Ordinary Shares of 1p each, for cash, at a premium of 9p per share for working capital purposes.

During the year ending 30 September 1998 the company granted to two directors options for five years to subscribe for 300,000 Ordinary Shares of 1p each at a price of 150p per share.

During the year ended 30 September 1999 the Company issued, by way of a Rights Issue, 654,175 Ordinary Shares of 1p each which raised a sum of £163,544 for working capital purposes.

During the year ended 30 September 2001 the Company issued 2,080,310 Ordinary Shares at 50p per share for working capital purposes and granted three directors options for three years to subscribe for 145,000 Ordinary Shares of 1p each at 50p per share.

Since the year end the Company has issued a further 1,818,182 Ordinary Shares of 1p each at 55p per share and 80,856 Ordinary Shares of 1p each at 60p per share also for working capital purposes and have granted options for three years over 90,910 Ordinary Shares of 1p each at 55p per share.

As at 30 September 2001 the following options were outstanding:

- (i) Options granted on 3 July 1998 over 300,000 Ordinary Shares of 1p each exercisable at any time up to 30 June 2003 at 150p per share.
- (ii) Options granted on 4 May 2000 over 80,000 Ordinary Shares of 1p each under the Image Scan 1999 Approved Share Option Scheme, exercisable after 3 years but not later than 10 years, at 25p per share.
- (iii) Options granted on 30 April 2001 over 40,000 Ordinary Shares of 1p each under the Image Scan 1999 Approved Share Option Scheme, exercisable after 3 years but not later than 10 years, at 25p per share.
- (iv) Options granted on 1 August 2001 over 25,000 Ordinary Shares of 1p each, exercisable at any time up to 1 August 2004 at 50p per share.
- (v) Options granted on 20 September 2001 over 120,000 Ordinary Shares of 1p each, exercisable at any time up to 20 September 2004 at 50p per share.
- (vi) Options granted on 22 January 2002 over 90,910 Ordinary Shares of 1p each, exercisable at any time up to 22 January 2005 at 55p per share.



## (xii) Reserves

	<i>Share Premium Account</i> £	<i>Profit and loss account</i> £	<i>Total</i> £
Balance at 1 October 1998	170,744	(231,504)*	(60,760)
Issue of shares	145,533	–	145,533
Loss for the year	–	(198,372)	(198,372)
Balance at 30 September 1999	316,277	(429,876)	(113,599)
Loss for the year	–	(446,017)	(446,017)
Balance at 30 September 2000	316,277	(875,893)	(559,616)
Issue of shares	975,375	–	975,375
Loss for the year	–	(523,592)	(523,592)
Balance at 30 September 2001	<u>1,291,652</u>	<u>(1,399,485)</u>	<u>(107,833)</u>

\* After debiting goodwill amounting to £50,949

## (xiii) Subsidiary undertakings

<i>Company</i>	<i>Principal activities</i>	<i>Country of incorporation and operation</i>	<i>% Ordinary share capital</i>
Stereo Scan Systems Limited	Development of three dimensional imaging technology	England	100
Baggage Scan Limited	Exploitation of three dimensional imaging technology	England	100
Cargo Scan Limited	Exploitation of three dimensional imaging technology	England	100
Mediscan Limited	Exploitation of three dimensional imaging technology	England	100
Industrial Scanning Inspection Systems Limited	Exploitation of three dimensional imaging technology	England	100

## (xiv) Reconciliation of operating profit to operating cash flows

	<i>Year ended 30 September 1999</i> £	<i>Year ended 30 September 2000</i> £	<i>Year ended 30 September 2001</i> £
Operating loss	(190,346)	(410,739)	(436,456)
Depreciation	177	15,972	42,064
Grants received	15,271	20,250	250
Decrease/(increase) in work in progress	(41,568)	88,786	27,382
Decrease/(increase) in debtors	(29,725)	(3,607)	29,240
(Decrease)/increase in creditors	(53,621)	29,399	(119,301)
Net cash outflow from operating activities	<u>(299,812)</u>	<u>(259,939)</u>	<u>(456,821)</u>



**(xv) Analysis of net debt**

	1998	<i>Cash flow</i>	1999	<i>Cash flow</i>	2000	<i>Cash flow</i>	2001
Cash at bank and in hand	155,519	5,867	161,386	(150,935)	10,451	425,529	435,980
Bank overdraft	–	–	–	–	–	(36,555)	(36,555)
Debt due within one year	(84,286)	(17,307)	(101,593)	(5,770)	(107,363)	70,000	(37,363)
Debt due after one year	(84,524)	(118,407)	(202,931)	37,364	(165,567)	37,363	(128,204)
	<u>(13,291)</u>	<u>(129,847)</u>	<u>(143,138)</u>	<u>(119,341)</u>	<u>(262,479)</u>	<u>496,337</u>	<u>233,858</u>

**(xvi) Contingent liabilities**

The Company has received invoices in the sum of £25,000 from Mr S R Smith, a former director of the Company, in respect of Directors fees for the period October 1997 to March 2000, the date of his resignation. The Company does not consider that the Group has any obligation to pay any fees to Mr Smith and will resist any claims made by him.

In addition Professor M Robinson, a shareholder and former director of the Company, has indicated that he considers himself to be entitled to consultancy fees of an undisclosed sum from the Company, which the Company will resist, but in any event such fees should not exceed £25,000.

Yours faithfully,  
**PKF**



## PART V

### UNAUDITED PRO-FORMA CONSOLIDATED BALANCE SHEET



New Garden House, 78 Hatton Garden, London, EC1N 8JA

The Directors  
Image Scan Holdings plc  
Office 3, 235 Hunts Pond Road  
Fareham  
Hants PO14 4PJ

and

The Directors  
ARM Corporate Finance Limited  
12 Pepper Street,  
London E14 9RP

27th March, 2002

Dear Sirs,

#### **Image Scan Holdings plc (“the Company”)**

We report on the pro forma statement of net assets set out in Part V of the Prospectus to be dated 28th March, 2002 relating to the Company and its subsidiary undertakings (“the Group”). This has been prepared, for illustrative purposes only, to show the effects of the equity issues by the Company in January and February 2002, the repayment of the loan from Security Change Limited and the proposed Placing and Open Offer.

#### **Responsibilities**

It is the responsibility solely of the Directors of the Company to prepare the pro forma financial information.

It is our responsibility to form an opinion on the pro forma financial information and to report our opinion to you.

#### **Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board. Our work, which involved no independent examination of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the Directors of the Company.

**Opinion**

In our opinion:

- The pro forma net assets statement has been properly compiled on the basis stated;
- Such basis is consistent with the accounting policies of the Group; and
- The adjustments are appropriate for the purposes of the pro forma net assets statement as at 28th March, 2002 as disclosed.

Yours faithfully

**PKF**



## PRO FORMA BALANCE SHEET

The pro forma financial information set out below has been prepared to illustrate the effect of the equity issues by the Company in January and February 2002, the repayment of the loan from Security Change Limited and the proposed Placing and Open Offer on the balance sheet of the Group as if these transactions had taken place at 30th September, 2001.

The pro forma financial information has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position of the Group. **No account has been taken of the continuing losses of the Group since 30 September, 2001.**

	<i>The Group</i> <i>(Note 1)</i> £000	<i>Adjustment</i> <i>(Note 2)</i> £000	<i>Adjustment</i> <i>(Note 3)</i> £000	<i>Placing and</i> <i>open offer</i> <i>(Note 4)</i> £000	<i>Pro forma</i> <i>balance sheet</i> £000
<b>Fixed assets</b>					
Tangible assets	104	–	–	–	104
Intangible assets	679	–	–	–	679
	783	–	–	–	783
	783	–	–	–	783
<b>Current assets</b>					
Work in progress	5	–	–	–	5
Debtors	29	–	–	–	29
Cash at bank and in hand	436	1,006	(517)	592	1,517
	470	1,006	(517)	592	1,551
	470	1,006	(517)	592	1,551
<b>Creditors: amounts falling due within one year</b>	(687)	–	517	–	(170)
<b>Net current (liabilities)/assets</b>	(217)	1,006	–	592	1,381
<b>Total assets less current liabilities</b>	566	1,006	–	592	2,164
<b>Creditors: amounts falling due after more than one year</b>	(128)	–	–	–	(128)
Deferred income	(414)	–	–	–	(414)
	(414)	–	–	–	(414)
	(414)	–	–	–	(414)
<b>Net assets</b>	24	1,006	–	592	1,622
<b>Capital and reserves</b>					
Called up share capital	132	19	–	11	162
Share premium account	1,292	987	–	581	2,860
Profit and loss account	(1,400)	–	–	–	(1,400)
	(1,400)	–	–	–	(1,400)
	(1,400)	–	–	–	(1,400)
<b>Shareholders' funds</b>	24	1,006	–	592	1,622

*Notes:*

1. The balance sheet for the Group at 30 September 2001 has been extracted from the Accountants' Report in Part IV of this document.
2. The Group issued 1,818,182 Ordinary Shares of 1p each at 55 pence per share and 80,856 Ordinary Shares of 1p each at 60 pence per share on 11 January and 20 February 2002 respectively, raising a total of £1,006,154 net of expenses of £42,360.
3. On 25th March, 2002 the Group repaid the £516,840 loan from Security Change Limited.
4. This reflects that 1,150,000 Placing and Open Offer Shares were issued at the Issue Price for cash.

	<i>Value £000</i>
Share capital issued	11
Share premium on shares issued net of expenses of £155,000	581
	592
Cash received	592



## PART VI

### GENERAL INFORMATION

#### 1. Incorporation

- (a) The Company was incorporated in England on 31st May, 1995 as a private limited company under the Act in the name Rapidgrade Limited with registered number 3062983. It changed its name on 10th October, 1996 to Image Scan Holdings Limited and again on 30th July, 1998 to Image Scan Holdings plc. The liability of members of the Company is limited.
- (b) The registered office of the Company is Office 3, 235 Hunts Pond Road, Fareham, Hampshire PO14 4PJ.

#### 2. Details of Subsidiaries

On 3rd October, 1996 the Company acquired the entire issued share capital of SSS being 102 ordinary shares of 50p each, by way of the issue of 5,100,000 Ordinary Shares of 1p each at par credited as fully paid. SSS was incorporated on 24th May, 1995 under the Act under the name Displaytest Limited. On 17th April, 1996 it changed its name to Stereo Scan Systems Limited. Its registered number is 3060726.

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

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

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

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

#### 3. Share Capital

- (a) The Company's present authorised share capital is £200,000 divided into 20,000,000 Ordinary Shares of 1p each. On 18th May, 1999 the Directors were empowered pursuant to Section 80 of the Act to allot relevant securities up to an aggregate nominal amount of £92,333 (being the remaining authorised but unissued share capital on 31st March, 1999) to expire on 17th May, 2004.
- (b) By a special resolution passed on 25th February, 2002, the Directors were generally authorised and empowered pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94(2) of the Act) pursuant to the authority conferred by the Annual General Meeting held on 18th May, 1999 as if Section 89(1) of the Act did not apply to any such allotment, provided that such power shall be limited to:
- (i) the allotment of equity securities for cash up to an aggregate nominal value of £2,000 in connection with an increase of 200,000 Ordinary Shares of 1p each in the maximum number of shares that can be granted under the Option Scheme ; and
  - (ii) the allotment of equity securities for cash up to an aggregate nominal value of £7,509 (representing five per cent of the Company's issued ordinary share capital)



and shall expire at the conclusion of the next annual general meeting of the Company or on 25th May, 2003 (if earlier), 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 equity securities to be allotted after the expiry.

- (c) The Resolutions to be proposed at the EGM, notice of which is incorporated in the Circular will, if passed:
- (i) empower the Directors, pursuant to Section 80 of the Act to allot relevant securities up to an aggregate nominal amount of £50,000 to expire on the fifth anniversary of the date such Resolution is passed; and
  - (ii) authorise and empower the Directors, pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94(2) of the Act) for cash pursuant to the authority conferred by the Resolution referred to in sub-paragraph (c) (i) above 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 up to 1,150,000 Ordinary Shares pursuant to the Placing and Open Offer and to the allotment otherwise than in connection with the Placing and the Open Offer of 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 at the conclusion of the next annual general meeting of the Company save that the Directors may allot equity securities after the date of such expiry pursuant to an offer or agreement made by the Company prior to that date.
- (d) The following table shows the authorised and issued share capital of the Company as at the date of this document and, conditional upon the passing of the Resolutions, as it will be immediately following the Placing and Open Offer:-

	<i>As at 28th March, 2002</i>		<i>Following the Placing and Open Offer</i>	
	<i>Number</i>	<i>Amount</i>	<i>Number</i>	<i>Amount</i>
Authorised	20,000,000	£200,000	20,000,000	£200,000
Issued and fully paid	15,100,203	£151,002	16,250,203	£162,502

- (e) Save as provided in this paragraph 3, the provisions of Section 89(1) of the Act (which, to the extent not disapplied pursuant to Section 95 of the Act, confers on the shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) apply to the authorised but unissued share capital of the Company.
- (f) Save as disclosed in this document and save for the issue of the New Ordinary Shares pursuant to the Placing and Open Offer and any shares to be issued pursuant to the Share Options and Warrants referred to in paragraphs 4 and 5 below:-
- (i) no share or loan capital of the Company or any of its subsidiaries has been issued or is now proposed to be issued fully or partly paid either for cash or for consideration other than in cash;
  - (ii) except pursuant to the Placing and Open Offer Agreement referred to in paragraph 11 below no commission brokerage discount or other special term has been granted by the Company or any of its subsidiaries or is now proposed in connection with the issue or sale of any of its share or loan capital.
  - (iii) save as set out in this document, no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.



- (g) Following the Placing and Open Offer 3,749,797 Ordinary Shares will remain unissued and save as provided for in this document no material issue of Ordinary Shares will be made (other than to shareholders pro rata to existing holdings) and no issue of Ordinary Shares will be made which would effectively alter the control of the Company and no change will be made to the nature of its business without in each case the prior approval of the shareholders in General Meeting.

#### 4. Directors' and Other Interests

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

<i>Name</i>	<i>Number of shares</i>	<i>Percentage of Existing Shares</i>	<i>Percentage of Ordinary Shares following the Placing and Open Offer</i>	<i>Options</i>	<i>Option Price</i>	<i>Final Exercise Date</i>
N J Tipple	–	–	–	100,000	50p	20.09.2004
N D Fox*	2,275,135	15.06	14.00	–	–	–
S X Godber	–	–	–	50,000	25p	**
				10,000	50p	**
I S S Johnson	–	–	–	45,455	55p	22.01.2005
I M Robertson	5,000	0.03	0.03	20,000	50p	20.09.2004
				45,455	55p	22.01.2005
R Savage	2,000	0.01	0.01	25,000	50p	01.08.2004
<i>Proposed Director</i>						
R J Gibbs***	–	–	–	76,923	65p	25.04.2005

\* As explained in paragraph 17 of Part 1 of this document N D Fox has undertaken not to take up his entitlement under the Open Offer. These percentages assume that he has not taken up his entitlement. All other percentages assume that entitlements, on the basis of 1 Open Offer Share for every 30 Existing Shares, have been taken up in full.

\*\* These options were granted to S X Godber under the Option Scheme. Further information regarding the Option Scheme can be found in paragraph 5(a) below .

\*\*\* To be granted upon Admission.

- (b) Save as disclosed in this document and as shareholders of the Company, none of the Directors has or has had any direct or indirect interest in any assets which during the period from incorporation of the Company to the date of this document, have been acquired, disposed of or leased to the Company or are proposed to be acquired, disposed of or leased to the Company.



- (c) At the date of this document the Directors are aware of the following shareholders who are beneficially interested in Ordinary Shares amounting to 3 per. cent. or more of the issued share capital of the Company in addition to those set out in paragraph 4(a) above:

<i>Name</i>	<i>Number of shares</i>	<i>Percentage of Existing Shares</i>	<i>Percentage of Ordinary Shares following the Placing and Open Offer*</i>
Professor M Robinson	2,600,000	17.21	16.53
Gresham House plc Welsh Industrial	1,750,000	11.58	11.12
Investment Trust plc	1,000,000	6.62	6.35
3PC Investment Trust plc	909,091	6.02	5.78
AiM VCT2 plc	909,091	6.02	5.78
Newinnhall Trust Limited	800,000	5.29	5.08
Gresham House No 1 Pension Scheme	750,000	4.96	4.76
A P Stirling	725,000	4.80	4.61

\* assuming entitlement, on the basis of 1 Open Offer Share for every 30 Existing Shares, taken in full

- (d) Save as set out in sub-paragraphs (a), (b) and (c) above, the Directors are not aware of any person who is, or will be, entitled to control the exercise of 10 per cent or more of the total votes available to be cast on all matters at general meetings of the Company.
- (e) The aggregate remuneration and benefits in kind (including pension contributions) paid or granted to the Directors for the year ended 30th September, 2001 was £154,987. For the current financial year to 30th September, 2002, the estimated aggregate of such payments is £151,020.
- (f) No loans are outstanding from the Company to any of the Directors nor has any guarantee been provided by the Company for the benefit of the Directors.
- (g) Set out below is information relating to each Director in respect of partnerships or directorships (apart from the Company) which they have held over the previous five years and brief details of companies in receivership or liquidation where they were directors at the time or within twelve months preceding such events. Save as disclosed in this paragraph, no Director has any unspent convictions nor has any Director been the subject of any public criticisms by statutory or regulatory authorities or bankruptcy proceedings or individual voluntary arrangements.

<i>Director</i>	<i>Current Directorships</i>	<i>Past Directorships</i>
N J Tipple	V.R. Scott Group Limited Scott Closures International Ltd Scott Research Limited V.R. Plastics Limited Tech VR Scott Partners Ltd	Harbour Island Marketing Services Limited
N D Fox	Baggage Scan Ltd Cargo Scan Ltd Industrial Scanning Inspection Systems Ltd Mediscan Ltd Omnitech Consultants Ltd Stereo Scan Systems Ltd Cell-ID Ltd	None



<i>Director</i>	<i>Current Directorships</i>	<i>Past Directorships</i>
S X Godber	Baggage Scan Ltd Cargo Scan Ltd Industrial Scanning Inspection Systems Ltd Mediscan Ltd Stereo Scan Systems Ltd	None
I S S Johnson	Ian Johnson Associates Ltd I.J.A. International Ltd IJA Group Ltd Privacy Management Ltd Argent Associates Training & Consultancy Ltd Data Genetics Global Ltd	IJA Research Ltd
I M Robertson	Indigo Photonics Ltd Ibsen Photonics A/S Aston Photonic Technologies Ltd Aston Photonic Technologies Trustees Ltd	PK Technology Ltd Photo Kinetics Inc IFR Systems Ltd IFR Systems Inc Sensor Highway Ltd York Sensors Ltd W. H. Sanders (Electronics) Ltd Sanders Instruments Ltd IFR Ltd IFR International Ltd
R Savage	None	None

N J Tipple was a non-executive director of Autohomes (UK) Ltd which was placed in administrative receivership in 1992 from which it was purchased as a going concern.

R Savage was an executive director of David Worthington Limited which went into receivership in 1993 following the collapse of its major customer, Leyland Daf .The position regarding third party creditors is unknown but no criticism was made in respect of Mr Savage in regard to the company's failure.

I M Robertson was an executive director of Quest CAE Limited which was placed in receivership and liquidation in 1983. The position regarding third party creditors is unknown but no criticism was made in respect of Mr Robertson in regard to the company's failure.

## **5. Options and Warrants**

(a) The principal features of the Approved Option Scheme are as follows:-

### *Introduction*

The Approved Option Scheme was adopted by the Company on 23rd September, 1999 and was approved by the Inland Revenue pursuant to Schedule 9 of the Taxes Act on 22nd February, 2000. It provides for eligible employees to be granted options to acquire Ordinary Shares at the discretion of the Directors. By special resolution on 25th February, 2002 the maximum number of shares that can be issued under the Approved Option Scheme was increased to 400,000.

On 4th May, 2000 options were granted to four members of staff over 80,000 Ordinary Shares under the Approved Option Scheme which includes 50,000 options granted to S X Godber as detailed in paragraph 4(a) above. These options may be exercised at a price of 25p per share within a period from 5th May, 2003 to 4th May, 2010 on which date they expire.

On 30th April, 2001 the Directors granted options to the same four members of staff over a further 40,000 Ordinary shares under the Approved Option Scheme, including a further 10,000 options to S X Godber, at an exercise price of 50p.



### *Eligibility*

Executive Directors who work at least 25 hours a week and employees of the Company or any subsidiary will be eligible. Participation will be at the discretion of the Directors. Options cannot be granted to, nor exercised by, any person who has, or within the preceding 12 months had, a material interest in a close company being the Company or a company which has control of the Company, or is a member of a consortium which owns the Company.

### *Individual Limit on Participation*

Options cannot be granted where to do so would cause the aggregate market value of shares which can be acquired by any individual under the Approved Option Scheme, or any other share option plan approved under Schedule 9 which has been established by the Company, at the date of grant to exceed £30,000.

### *Grant periods*

Options may only be granted before 22nd September, 2009.

### *Performance Targets*

The Directors may grant options on the basis that they will normally only be exercisable if pre-set performance targets are satisfied. No such targets have been set in relation to options granted to date.

### *Exercise*

Participants will be able to exercise their options and acquire shares at a price which will be fixed by the Directors when the option is granted, and which may not be less than the greater of (i) the market value of an Ordinary Share on the date of grant, or (ii) their nominal value.

An option under the Approved Option Scheme may not normally be exercised earlier than 3 years nor later than 10 years after its grant. Special provisions will apply in the exceptional circumstances of a takeover, demerger, reconstruction or winding up of the Company or if the Ordinary Shares are admitted to trading or are dealt in on a Relevant EEA Market or an Approved Securities Market ("an Admission"). In the event of a takeover, an option may be exercised within 28 days from the date on which the person making the offer obtains control. If the Company is acquired by another company, option holders may also, with the consent of the acquiring company, release their options in consideration of the grant to them of equivalent options over shares in the acquiring company. In the event of an Admission, options may be exercised within 12 months from the date of Admission or, if later, 42 months after the date of grant; or such shorter period (being not less than 6 months) as the Directors may determine.

Options will normally lapse if an option holder ceases to be employed by the Group. Special provisions will apply if an option holder dies, retires or leaves by reason of injury, ill health or disability. Options will then be exercisable within the following 6 months (12 months in the case of death, when the option would be exercised by the option holders' personal representative). This may result in the early exercise of options. Special provisions also apply where employment ceases as a result of the transfer of a business or a company is no longer a member of the Group. Again, options will be exercisable within the following 6 months.

### *Non-transferability of options*

All options will be non-transferable.

### *Variation of Capital*

In the event of any alteration of the ordinary share capital of the Company, the Directors will be able to make such adjustments as they consider appropriate to the aggregate number or amount of shares subject to any option and to the exercise price payable for each share under such option. Any such adjustment will need to be confirmed in writing by the auditors of the Company to be in their opinion fair and reasonable, and be approved in advance by the Inland Revenue.



### *Alterations*

After approval of the Approved Option Scheme, the Directors may amend the Approved Option Scheme at any time subject to Inland Revenue approval of the amendment, save that no amendment to the advantage of existing or future option holders (except minor amendments to benefit the administration of the Approved Option Scheme or take account of a change in legislation) will be made without the prior consent of the Company in general meeting.

- (b) On 10th January, 2002 AIM VCT 2 plc and 3PC Investment Trust plc were each granted assignable warrants to subscribe for 185,344 New Ordinary Shares at 1p per Ordinary Share pursuant to the terms of a warrant instrument dated 10th January, 2002, which will lapse on Admission.
- (c) On 26th March, 2002, Astaire and Antrim Inland Investments Limited (a company controlled by an associate of Astaire) were each granted assignable options in respect of 50,000 Ordinary Shares at 65p per Ordinary Share, conditional upon Admission, exercisable at any time up to and including the third anniversary of Admission.
- (d) In addition to the options detailed in this paragraph 5, options granted to employees under the Approved Option Scheme and options granted to the Directors, the Company has the following warrants issued to former directors outstanding in respect of the following numbers of Ordinary Shares:-

<i>Number of Options</i>	<i>Exercise Price</i>	<i>Expiry Date</i>
300,000	150p	17th June, 2003

In addition to the Approved Option Scheme and the other options detailed in sub-paragraphs (b), (c) and (d) above, it is the Directors intention to establish an Enterprise Management Incentive share option scheme. The nature and terms of such scheme have yet to be agreed upon other than the maximum number of Ordinary Shares over which options may be granted pursuant to all option schemes adopted by the Company which will not exceed 10 per cent of the issued share capital of the Company.

## **6. Directors' Service Contracts and Emoluments**

The following service contracts have been entered into by the Directors and the Company:

A Service Agreement 26th March, 2002 between the Company (1) and N D Fox (2) whereunder Mr Fox is employed as Chief Executive Officer for the period to 31st March, 2004 and thereafter until terminated by either party upon 6 months notice. Mr Fox's current annual salary amounts to £54,600, a bonus of 15% of annual salary, a car allowance of £7,000 and pension contributions of £3,000 all reviewable annually.

A Service Agreement dated 26th March, 2002 between the Company (1) and S X Godber (2) whereunder Mr Godber is employed as Technical Director for the period to 31st March, 2004 and thereafter until terminated by either party upon 6 months notice. Dr Godber's current annual salary amounts to £43,520, a bonus of 10% of annual salary with pension contributions of £2,400, all reviewable annually.

Each of the Non-executive Directors has entered into a letter of appointment with the Company for the period until each of them come up for re-election as a director in accordance with the Articles of Association of the Company.

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



## 7. Memorandum and Articles of Association

- (a) The Company's Memorandum of Association includes within its objects clause the carrying on business as an investment holding company. The objects of the Company are set out fully in clause 3 of the Memorandum of Association. The liability of members is limited.
- (b) The Articles of Association, as adopted by the Company on 28th April, 1998, and on the basis that the amendments to be proposed at the EGM are duly passed, may be summarised as follows :-

### *(i) Shares*

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

### *(ii) Dividends*

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

### *(iii) Return of Capital*

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

### *(iv) Voting*

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

### *(v) Restrictions on Voting*

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

### *(vi) Record Dates and Unclaimed Dividends*

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



*(vii) Modification of Class Rights*

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

*(viii) Transfer*

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

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

*(ix) Alteration of Capital*

The Company may alter its share capital as follows:

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

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

*(x) Directors*

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



*(xi) Directors' interests*

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

*(xii) Borrowing Powers*

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

**8. Financial Information**

The financial information contained in this document with regard to the Company does not constitute full accounts within the meaning of Section 240 of the Act. Audited accounts of the Company for the three years ended 30th September, 2001 have been delivered to Companies House. In each case the auditors have made reports under Section 235 of the Act in respect of each set of accounts. In each case the audit report was unqualified and did not include any comment under Section 237(2) of the Act.

**9. Working Capital**

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

**10. Licence Agreement with the University**

By an Intellectual Property Agreement ("the Agreement") dated 10th October, 1996 made between SSS (1) and the University (2):

- (a) the University granted, subject to certain conditions, a worldwide non-transferable exclusive licence ("the Licence"), with a right to sub-licence, to SSS to use the intellectual property developed and/or owned and/or acquired by the University relating to the methods of generation, preservation, presentation and use of 2½ to 3-D and higher dimension imaging ("the Intellectual property") in perpetuity;
- (b) SSS granted to the University an exclusive licence to use the Intellectual property for any non-commercial purpose (subject to certain conditions) including but not limited to education and research purposes;
- (c) SSS agreed for a period of ten years from the date of the Agreement, unless terminated earlier, to pay the University a royalty based on turnover as defined in the Agreement.

During last year the clauses in the Agreement relating to the conduct of further research work and fields of interest for the IP rights were questioned by both parties and Heads of Agreement dated 28th March, 2001 were entered into between the Company and the University. In particular certain IP rights relating to ballistics and medical applications have been returned to the University, SSS is required to show a reasonable level of sales during the period to 28th February, 2002 which identifies tangible evidence of progress (which has been achieved) and a new procedure for the authorising and review of future research work between SSS and the University is currently under review.

At the same time a small increase in the royalty payments in respect of products in the Security and Industrial fields was agreed.



## 11 The Placing and Open Offer

By an agreement dated 27th March, 2002 between the Company (1), ARMCF (2), Astaire (3) and the Directors (4) (the “Placing and Open Offer Agreement”) Astaire has agreed, subject to the conditions referred to below, as agent for and on behalf of the Company:

- (a) to invite Qualifying Shareholders to subscribe for the Open Offer Shares at 65p per share, up to their maximum pro-rata entitlement on the basis of 1 Open Offer Share for every 30 Ordinary Shares held at the close of business on the Record Date and so in proportion for any greater or lesser number of Ordinary Shares then held. Valid applications for up to the maximum pro-rata entitlement will be met in full. Excess applications may be rejected or scaled down at the absolute discretion of the Directors, ARMCF and Astaire; and
- (b) to procure persons to subscribe for all of the Placing Shares at 65p per share subject to recall to satisfy valid applications from Qualifying Shareholders under the Open Offer and, if and to the extent that it fails to procure subscribers, to subscribe itself as principal for any of the Placing Shares not taken up under the Open Offer.

The obligations of Astaire and ARMCF under the Placing and Open Offer Agreement are conditional, *inter alia*, upon Admission occurring on or before 25th April, 2002 or such later time or date as the Company, ARMCF and Astaire may agree but in any event not later than 3rd May, 2002.

The Placing and Open Offer Agreement provides for the Company to pay to Astaire a fee of £5,000 plus value added tax together with a commission based equal to 3 per. cent. on the value of the Placing Shares allotted to Placees (before taking into account any claw-back under the Open Offer) and options over 100,000 Ordinary Shares at the Issue Price (including the options granted to Antrim Inland Investments Limited), details of which can be found in paragraph 5(c) above.

The Placing and Open Offer Agreement also contains certain warranties and indemnities given by the Company and the Directors in favour of ARMCF and Astaire as to the accuracy of the information contained in this document and other matters relating to the Company and its business under which the liability of the Company is unrestricted but the liability of the Directors is restricted to an aggregate of £675,000.

The obligations of ARMCF and Astaire under the Placing and Open Offer Agreement may be terminated in certain circumstances if there occurs either a material breach of any of the warranties or a change in the national or international, financial, economic, market or political conditions and/or any financial position or prospects of the Company. Such rights exist in the event that such circumstances arise prior to Admission.

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

## 12. Material Contracts

During the course of the last two years the following contracts have been entered into which are or may be material and which are outside the ordinary course of business of the Group:-

- (a) An indemnity agreement dated 29th March 2001 between certain of the Directors, the Company and Security Change Limited, a wholly owned subsidiary of Gresham House plc, under which Security Change Limited agreed to underwrite the whole of the rights issue of 556,042 Ordinary Shares referred to in the prospectus issued by the Company on 29th March 2001 (“the Prior Prospectus”) which, underwriting agreement contains warranties and indemnities by certain of the Directors and the Company in favour of Security Change Limited, for itself and on behalf of sub-underwriters;
- (b) A placing agreement dated 29th March 2001 between the Company, Astaire and certain of the Directors under which Astaire agreed to use best endeavours to procure placees for up to



2,600,000 Ordinary Shares referred to in the Prior Prospectus, which placing agreement contains (i) warranties and indemnities by certain of the Directors and the Company in favour of Astaire, for itself and on behalf of sub-places; (ii) undertakings on the part of certain of the Directors not, during and for a period of one year following the termination of their employment with the Company, be engaged in any business in competition with the Company, nor will they solicit clients, suppliers or employees of the Company; and (iii) provisions entitling Astaire to elect to receive all or any part of fees due to them for the period ending 31 March 2002 in new Ordinary Shares of the Company at a price of 50p per share;

- (c) The warrant instrument dated 10th January, 2002 in respect of the issue of the warrants referred to in paragraph 5(b) above;
- (d) The Placing and Open Offer Agreement referred to in paragraph 11 above;
- (e) The share option deeds each dated 27th March, 2002 in respect of the grant of share options referred to in paragraph 5(c) above;
- (f) An Agreement dated 26th March, 2002 between the Company and ARMCF whereby ARMCF has agreed to act as Nominated Adviser to the Company on and following Admission; and
- (g) An Agreement dated 27th March, 2002 between the Company and Astaire whereby Astaire has agreed to act as broker to the Company on and following Admission.
- (h) Placing letter agreements between Astaire, the Directors, the Company and each of AIM VCT 2 plc and 3PC Investment Trust plc under which Astaire agreed to place with and each of AIM VCT 2 plc and 3PC Investment Trust plc agreed to subscribe for 909,091 Ordinary Shares at 55p per share, which placing letter agreements contain indemnities by the Directors and the Company in favour of Astaire.

### **13. United Kingdom Taxation**

#### *(a) Dividends and Other Distributions*

Dividends paid will carry an associated tax credit currently at the rate of one-ninth of the cash dividend or 10 per cent. of the aggregate of the cash dividend and the associated tax credit. Individual shareholders resident in the UK receiving such dividends will be liable to income tax (if at all) on the aggregate of the dividend and the tax credit at the Schedule F ordinary rate (currently 10 per cent.) or the Schedule F upper rate (currently 32.5 per cent.).

The effect will be that, taxpayers who are otherwise liable to tax at only the lower rate or basic rate of income tax will have no further liability to income tax in respect of such a dividend. Higher rate taxpayers will have an additional tax liability (after taking into account the tax credit) of an amount currently equivalent to 25% of the amount of the dividend. Individual shareholders whose income tax liability is less than the tax credit will not be entitled to claim a repayment of all or part of the tax credit associated with such dividends.

A United Kingdom resident corporate shareholder is not liable to corporation tax or income tax in respect of dividends received from the Company.

Trustees of discretionary trusts liable to account for income tax at the rate applicable to trusts on the trust's income are required to account for tax at the Schedule F trust rate of currently 25 per cent.

Persons who are not resident in the United Kingdom should consult their own tax advisers on the possible application of such provisions and on what relief or credit may be claimed for any such tax credit in the jurisdiction in which they are resident.



(b) *Taxation of Capital Gains*

Depending on their personal circumstances, UK resident Ordinary Shareholders may be subject to capital gains tax or, in the case of corporate Shareholders, corporation tax on capital gains in respect of any gain arising on a transfer or disposal of their Ordinary Shares unless the Shareholder is taxed as a dealer in securities, in which case any gain will be treated as income and taxed as such. For UK resident individual Shareholders taper relief may be available to reduce the amount of the gain chargeable to tax. The availability and rate of taper relief will depend on the period of ownership and on whether the Ordinary Shares are held as business assets or non-business assets.

Under current legislation Ordinary Shares will normally be held as business assets for the period from 6th April, 2000. Business assets held for less than one whole year will not qualify for taper relief. The maximum taper relief (75 per cent) on business assets is achieved after four whole years for disposals after 5th April, 2000 and before 6th April, 2002 and after two whole years for disposals from 6th April, 2002. Where shares were acquired before 6th April, 2002 it may be necessary to time apportion the chargeable gain to arrive at the correct amount of taper relief.

Gains on disposals of Ordinary Shares, together with other gains less allowable losses in a fiscal year, are subject to tax at the individual's marginal rate to the extent that they exceed the annual exempt amount, being £7,500 for the tax year 2001/2002.

For corporate Shareholders, indexation allowance may be available to reduce the amount of any chargeable gain.

Non-UK resident Ordinary Shareholders (other than those carrying on a trade in the UK through a branch or agency and holding the Offer Shares in connection with a UK trade) will not normally be liable to UK taxation of capital gains in respect of any such disposals.

(c) *Enterprise Investment Scheme ("EIS")*

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

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

- income tax relief equal to 20% of the amount subscribed for the qualifying EIS investment (up to a maximum aggregate amount for all qualifying EIS investments made in any one year of £30,000, i.e. 20% of £150,000 or the actual income tax liability of the investor for the year if this is lower) may be set off, on a pound for pound basis, against the Investor's income tax liability for the tax year in which those shares are issued to him, thus potentially reducing the effective initial cost of investment to 80% of the sum invested;
- provided a qualifying EIS investment is held for at least three years and income tax relief is not withdrawn or reduced, it is exempt from capital gains tax on its first disposal;
- a subscription for EIS shares may also entitle the individual Investor to Capital Gains Tax Deferral Relief (see below), in which case an individual investor paying tax at the higher rate may qualify for income tax relief of 20% and capital gains deferment of 40%, totaling 60% of the investment up to the maximum subscription for which income tax relief is available, currently £150,000. Any excess invested over this sum will qualify for capital gains tax deferment if applicable: and
- if the qualifying EIS investment fails or is sold at less than cost, Loss Relief (see below) should be available on the net loss against the Investor's taxable income or capital gains. For the purposes of such Loss Relief, the loss incurred will be reduced by the amount of EIS income tax relief given, which has not been withdrawn.



(ii) *Availability of Tax Certificates*

Application has been made to the Inland Revenue and, on the basis of information provided, (which included a draft of this document) the Inland Revenue has indicated that the Company continues to comply with the qualifying requirements for the Enterprise Investment Scheme and they see no reason why qualifying shareholders should not be able to claim the appropriate EIS relief on the New Ordinary Shares proposed to be issued.

A formal application for EIS qualifications will be made once the New Ordinary Shares have been issued. Provided such application is successful an EIS 2 form will then be issued by the Inland Revenue to the Company and an EIS 3 form will be issued by the Company to relevant investors to enable them to claim their tax relief. It is the Company's intention to remain a qualifying company, as defined, for the three year period, to ensure that any EIS relief given to shareholders is not put at risk. Subject to the above, the Directors consider that qualifying individuals subscribing for New Ordinary Shares should be able to obtain EIS income tax relief within the EIS limits in respect of the year ended 5th April 2002 on the amounts subscribed for the New Ordinary Shares provided they continue to satisfy the statutory conditions and the Company continues to be a qualifying company. Eligibility for relief will depend on individual investors' circumstances.

(iii) *CGT Deferral Relief*

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

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

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

(iv) *Loss Relief*

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

(d) *Inheritance Tax – Business Property Relief*

Unquoted ordinary shares representing minority interests in trading companies such as the Company potentially qualify for 100% business property relief which gives up 100% exemption from Inheritance Tax. Therefore where an investor makes a lifetime gift of shares or dies while still the owner of the shares, no inheritance tax will be payable in respect of the value of the shares, provided certain conditions are met. The main condition is that the investor held the shares for two years before the date of transfer or death. Investors should note that a gift of shares within three years of their issue could lead to a clawback or denial of EIS tax reliefs.

(e) *Stamp Duty and Stamp Duty Reserve Tax*

No stamp duty or stamp duty reserve tax will be payable on the issue of shares unless the subscriber is a person to whom the depository receipt or clearance service charges to stamp duty



or stamp duty reserve tax may apply (in which case a rate of 1.5 per cent of the value of the consideration will be applicable). The transfer of shares of any class in the Company will, subject to any applicable exceptions, be liable to ad valorem stamp duty at the rate of 50p for every £100 (or part thereof) of the consideration paid. An agreement to transfer such shares, if not completed by a duly stamped transfer upon the date of such an agreement becomes unconditional, will be subject to stamp duty reserve tax generally at the rate of 0.5 per cent of the consideration paid. Liability to pay any stamp duty or stamp duty reserve tax is that of the transferee or purchaser.

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

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

#### **14. Minimum Amount**

In the opinion of the Directors the minimum amount that must be raised for the purposes set out in paragraph 21 of Schedule 1 to the Public Offer of Securities Regulations 1995 is £747,500 which will be applied as follows:-

(a) Purchase of property	£ Nil
(b) Preliminary expenses and expenses of the Offer and Admission	£155,000
(c) Repayment of any money borrowed by the Company in respect of any of the foregoing matters	£nil
(d) The balance, after payment of the sums described above, in respect of working capital	£592,500

#### **15. Litigation**

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

The Company has received invoices dated 25th July, 2000 in the sum of £25,000 from Mr S R Smith, a former director of the Company who resigned on 14th March, 2000, in respect of directors fees for the period from 2nd October, 1997 to the date of his resignation. The Company does not consider that the Group has any obligation to pay any fees to Mr Smith and will vigorously resist any claims made by him.

Professor Max Robinson, a shareholder and former director of the Company, who resigned on 24th May, 2000, has indicated that he considers himself to be entitled to consultancy fees of an undisclosed sum from the Company. The Company does not consider that the Group has any obligation to Professor Robinson for consultancy fees and will vigorously resist any claims made by him.

#### **16. General**

- (a) Save as disclosed in this document there has been no significant change in the financial or trading position of the Company nor any significant recent trends concerning the Company's business since 30th September, 2001 the date to which the latest published audited accounts of the Company were prepared.
- (b) The Company's accounting reference date is 30th September.



- (c) A copy of this document together with the Application Form has been delivered for registration to the Registrar of Companies in England and Wales in accordance with Regulation 4(2) of the Public Offers of Securities Regulations 1995.
- (d) Save as disclosed in this document no person (excluding the professional advisers mentioned in this document and trade suppliers) has received, directly or indirectly, from the Company within twelve months preceding the date of this document or entered into contractual arrangements to receive, directly or indirectly, from the Company on or after the date of this document fees totalling £10,000 or more or securities in the Company with a value of £10,000 or more calculated by reference to the Offer Price, or any other benefit with a value of £10,000 or more at the date of this document .
- (e) The auditors of the Company are PKF of New Garden House, 78 Hatton Garden, London EC1N 8JA.
- (f) The Company maintains insurance cover for directors and officers against liabilities which may attach to them by reason of their office.
- (g) PKF accepts responsibility for their reports set out in Part IV and Part V of this document and have given and not withdrawn their written consent to the inclusion of their reports in the form and context in which they appear.
- (h) Astaire has given and not withdrawn its written consent to the issue of this document with the references to its name in the form and context in which they appear.
- (i) ARMCF has given and not withdrawn its written consent to the issue of this document with the references to its name in the form and context in which they appear.
- (j) Murgitroyd & Company plc accepts responsibility for their report set out in Part III of this document and have given and not withdrawn their consent to the inclusion of their report in the form and context in which it appears.
- (k) The total expenses of or incidental to Admission and the Placing and Open Offer (assuming all the Placing and Open Offer Shares are issued) which are payable by the Company (including professional fees, printing, advertising costs and amounts payable under the Placing and Open Offer) are estimated to amount to approximately £155,000 exclusive of VAT).
- (l) The Issue Price represents a premium of 64p over the nominal value of 1p for each New Ordinary Share. The premium on the Placing and Open Offer as a whole amounts to £736,000.
- (m) Copies of the document are available free of charge from the date of the Placing, up to and including the date being one month from the date of Admission, from the offices of Watlington Securities Limited, 36 Elder Street, London E1 6BT.

Date 28th March, 2002

