Image Scan Holdings plc
annual report and accounts 2014

Advanced x-ray systems

Corporate statement

Image Scan Holdings plc is a specialist in innovative real-time x-ray technology operating globally in the security and industrial inspection sectors.

The Group's principal activity is the design, manufacture and supply of both portable and fixed x-ray security screening systems to governments, security organisations and law enforcement agencies. The Group also supplies high-quality image acquisition systems for non-destructive testing to commercial organisations worldwide.

Highlights

Key points

- Revenue in the year ended 30 September 2014 of £2.2m (2013: £2.5m)
- Annual order intake £1.5m (2013: £3.3m)
- 51% increase in spend on internal research and development
- Gross margin at 31% (2013: 37%)
- Award in September 2014 of contract for multiple Axis checkpoint x-ray systems for Saudi Arabia
- End of year positive cash balance of £948k (2013: £12k)
- Labour cost decreased by 17% to £245k (2013: £162k)

Chairman's statement

WILLIAM MAWER
CHAIRMAN

"A Successful fund raising and subscription in September 2014 gave the Group a gross cash injection of £945k"

Introduction
I am pleased to report on the results for Image Scan Group for the year ended 30 September 2014.

Order intake during 2014 totalled £1.5m (2013: £3.3m). Orders for portable x-ray systems were strong in the first half of the year but fell away in the second half of the year as the Company exhausted its remaining supply of the old style portable x-ray generators. The first half of the year also included the delivery of a Small Vehicle Inspection System ('SVXI'), the second of two systems for which orders were received in the prior year. Because of their high unit value, and the niche nature of the market, the presence or absence of sales of these systems exacerbates an already uneven business performance in Image Scan. No new SVXI orders were received during the year. Revenue was £2.2m (2013: £2.5m), with 76% of sales being generated in the first half of the year.

In response to the decrease in activity in the prior year, operating costs were reduced in the year under review, with labour costs decreasing by 17% to £820k (2013: £990k). Within this reduced labour cost, internal research and development expenditure increased from £162k to £245k as resources released from the nuclear project were focused on new product development. The business made a loss in the year of £451k (2013: loss of £297k).

The Company's performance has for some years been depressed by a large one-off contract in the nuclear industry. During the year this project generated revenue of £93k and a net loss of £85k. However, during the year the system was delivered and accepted by the customer, an engineering company acting as system integrator. It is now installed at the final end user's site and the remaining tasks are limited to training and final setting to work. These are due for final completion by the end of January 2015. Only minimal involvement of the research and development team is expected to be required to achieve these final tasks.

A Successful fund raising and subscription in September 2014 gave the Group a gross cash injection of £945k. This funding is being used to accelerate new product development in the portable x-ray and checkpoint x-ray areas and to expand the sales and marketing activity. At the year end the Group had a positive cash balance of £948k (2013: £12k).

William Mawer
Chairman
8 December 2014

Chief Executive's report

WILLIAM MAWER
CHIEF EXECUTIVE OFFICER

"The Company was able to increase the focus on internal research and development with spend increasing to £245k"

Financial results

Revenue in the year ended 30 September 2014 of £2.2m (2013: £2.5m) was derived 70% from the security sector and 30% from the industrial sector. Security revenue of £1.4m was generated in the first half (£0.1m in the second half) reflecting the loss of portable x-ray system sales from mid-year. In addition to the sale of over 40 portable x-ray systems, the first half year's performance was underpinned by the sale of a SVXi.

Gross margin was 31% (2013: 37%). Margin on security products at 29% was depressed by a large portable x-ray contract taken at lower than normal margin. Margin on portable x-ray systems is expected to return to more normal levels (typically 35–40%) with the launch of the new portable products. Gross margin on industrial products was 34%. A further contributor to low gross margin was the additional and unforeseen cost experienced in the late stages of the nuclear contract, where sales of £93k yielded a net loss of £85k. However, significant milestones were achieved, notably the acceptance of the system by the customer and delivery to the end user's site.

Downward pressure was exerted on costs with overheads being reduced to £1.2m, following a reduction of £300k to £1.3m in 2013. Despite the need to operate within this lower overhead, the Company was able to increase the focus on internal research and development with spend increasing to £245k (2013: £162k). This 51% increase was facilitated by the release of resources from the nuclear contract.

The Group traded at close to break-even in the first half of the year with a loss of £36k on sales of £1.7m. The decline in security sales in the second half of the year led to a full year loss of £451k (2013: loss of £297k). The loss per share was 0.57p (2013: loss per share 0.39p).

The closing order book was £482k (2013: £1.1m), supported by the award in September 2014 of a contract for £250k for multiple Axis checkpoint x-ray systems for Saudi Arabia.

The year-end cash balance was £948k (2013: £12k).

Outlook

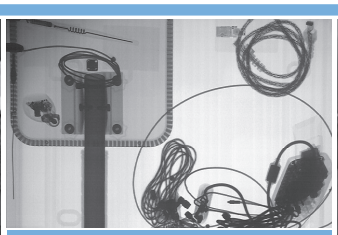
The new US-sourced portable x-ray generator will be initially offered with the Company's current detector panel and software, to be replaced during the first half of the year by a new higher performance panel and new image processing software. This will be supplemented by a bought in medical-type detector panel for customers demanding the very highest image quality. A separate programme will lead to a lower cost system allowing the Company to address, for the first time, a group of customers with lower budgets. The development of the replacement Axis checkpoint x-ray systems is in project definition phase and will continue through the year with product launch not expected until financial year 2015/16. Customer demonstrations of the new portable products have started and will continue through the year, both in established markets and in support of the planned geographical expansion of the Company's activity.

Staff

The Company intends to adopt a performance-related reward strategy with the introduction of a profit-based staff bonus scheme and the issue of share options to incentivise staff and to promote good staff retention.

The Board values greatly the considerable efforts made by our staff and I would like to take this opportunity to personally thank staff and shareholders for their continued commitment to the Company.

William Mawer
Chief Executive Officer
8 December 2014



Strategic report

WILLIAM MAWER
CHIEF EXECUTIVE OFFICER

Business review

The sale of more than 40 portable x-ray systems in the first half of the year points to the buoyant nature of the portable x-ray market. This is supported, in our view, by a continued and visible terrorist threat. In order to take advantage of this market strength the Company is driving forward a product strategy that will give it a competitive system in each of the three price/technology sub-segments. Only one competitor has as broad a product range. The first element of this strategy is the development of a replacement generator by our US partner. While it was frustrating not to have this before the year end, first production units have now been received and volume deliveries will start in January 2015. This will be the first of a series of new product releases within the portable x-ray range.

The Company is currently in the project definition phase of a programme aimed at replacing the Axis check point x-ray system with a new range of highly competitive systems built around a core x-ray architecture that already exists in prototype form. Formal launch of the development programme is due in January 2015.

In recent years, the Company has created good access to markets in the Middle East and parts of Asia. The first step has now been taken in the expansion of this route to market and the Company now has a very experienced partner in the important markets of Canada, the Caribbean and South America. New initiatives are underway to strengthen the Company's ability to reach European customers.

The Board will continue to focus investment and resources on new product development and the expansion of the route to market while maintaining a tight focus on overhead cost and operational performance. Management of cash will be particularly important in order to ensure the recently raised funds are focused on growth projects rather than operational expenses.

Principal risks and uncertainties

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

- how the loss of key personnel would affect the Group;
- its ability to develop and market its products successfully before existing products become obsolete or competitor products emerge; and
- ensuring sufficient working capital to support both ongoing production and product development.

The Group implements a performance-related reward strategy for staff and manages the development of its products to ensure the Group retains its competitive advantage. The Directors regularly review the risks facing the Group and seek to exploit, avoid or mitigate those risks as appropriate.

Approved and signed by order of the Board

William Mawer
Chief Executive Officer
8 December 2014

Key performance indicators

The key financial and non-financial performance indicators include:

	2014	2013	2012	2011
Order intake	**£1.5m**	£3.3m	£2.5m	£4.3m
Turnover	**£2.2m**	£2.5m	£4.3m	£2.2m
Gross margin	**31%**	37%	38%	41%
No. of staff	**17**	20	19	18

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 30 September 2014.

Business activity, review of developments and future prospects
The principal activities of the Group have been the continuing development and commercialisation of x-ray imaging technology. The Group continues its focus on the development of the new generation FlatScan-TPXi portable x-ray screening system, and extending this range with higher resolution systems as required by the top end of the market. The Group has also embarked upon the renewal of its conveyor screening product offering. Further details can be found in the Chairman's statement, the Chief Executive's report and the Strategic report set out on pages 1 to 3. The Company acts as a holding company.

Dividends
The Directors are unable to recommend the payment of a dividend.

Directors
The Directors who served during the year were as follows:

L J George	resigned 3 March 2014, re-appointed 11 April 2014, resigned 16 May 2014
V J Deery	
B S Emslie	resigned 17 April 2014
N D Fox	resigned 17 April 2014
W R Mawer	appointed 17 April 2014
R A Leaver	appointed 17 April 2014
T D Jackson	appointed 22 September 2014

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

	%	Ordinary shares of 1p each
Rise Step International Development Ltd	24.58	30,873,331
D Allenby	7.18	9,021,067
Reyker Securities plc	7.15	8,984,036
Quilter Cheviot Investment Management	5.17	6,500,000
Investec Wealth & Investment	4.91	6,168,300
Calculus Capital	4.43	5,569,812
A P Stirling	3.76	4,718,246
Directors' shareholdings:		
William Mawer	2.66	3,336,645
Richard Leaver	0.40	500,000
Vincent Deery	0.07	83,077

Research and development
Research and development was mainly focused on developing incremental improvements to the portable x-ray inspection system. Costs in the year amounted to £245,762 (2013: £162,349).

Company number
03062983 (England and Wales)

Directors' and officers' liability insurance
The Company had in force during the year, and has in force at the date of this report, a qualifying indemnity in favour of its Directors and officers against the financial exposure that they may incur in the course of their professional duties as Directors and officers of the Company and/or its subsidiaries.

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

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

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

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

Directors' statement of responsibilities
The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern
The Directors have acknowledged the latest guidance on going concern. The Directors regularly review the performance of the Company against forecasts to ensure that they are able to react on a timely basis to opportunities and issues as they arise. The Group plans to secure a number of sales contracts over the course of the coming year in order to fund the working capital requirements and achieve a profitable position in the future. After making appropriate enquiries, and given the prudent level of net assets retained in the Group, the Directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

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

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

On behalf of the Board

William Mawer
Chief Executive Officer
8 December 2014

Statement of corporate governance

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

Set out below is a summary of how, at 30 September 2014, the Company was dealing with the key requirements of the Code.

The Board

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

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

The posts of Chairman and Chief Executive Officer are held by the same individual as this suits the Company's strategic plans.

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

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

Board committees

The current Audit Committee comprises Tim Jackson, who has recent and relevant financial experience, Richard Leaver and Bill Mawer. The chairmanship of this meeting is under Tim Jackson. The Audit Committee met twice during the year, once with the audit partner and once as part of the main Board.

The Remuneration Committee comprises Richard Leaver, Tim Jackson and Bill Mawer. The chairmanship of this committee is under Richard Leaver. The Remuneration Committee met once during the year. The committee is responsible for determining the contractual terms, remuneration and other benefits of the executive Directors. The report of the Remuneration Committee is set out on pages 7 and 8

The Nominations Committee comprises Bill Mawer, Vince Deery, Richard Leaver and Tim Jackson. The chairmanship of this committee is under Bill Mawer. The Nominations Committee met once during the year.

Internal controls and risk management

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

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

Relations with shareholders

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

Remuneration report

The Directors present the Directors' remuneration report for the year ended 30 September 2014. This report has not been prepared in accordance with the Directors' report regulations because, as an AIM company, Image Scan Holdings plc does not fall within the scope of these regulations.

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

The shareholders will be given the opportunity to question the Chairman, Richard Leaver, on any aspect of the Company's remuneration policy and to vote on the remuneration report at the Annual General Meeting.

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

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

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

Directors emoluments
Information about Directors' emoluments is as follows:

Directors	Basic salary £	Fees £	Benefits £	Pension contributions £	Total emoluments **2014 £**	Total emoluments 2013 £
Executive						
L J George[1]	43,208	–	589	5,201	**48,998**	90,016
V J Deery	80,258	–	830	7,276	**88,364**	62,260
W R Mawer	30,673	–	–	–	**30,673**	–
N D Fox	–	–	–	–	**–**	57,022
Non-executive						
B S Emslie	–	13,997	–	–	**13,997**	20,000
I S S Johnson	–	–	–	–	**–**	14,583
N D Fox	–	10,058	–	–	**10,058**	4,500
R A Leaver	–	7,058	–	–	**7,058**	–
T D Jackson	–	625	–	–	**625**	–
Total 2014	**154,139**	**31,738**	**1,419**	**12,477**	**199,773**	**248,381**
Total 2013	191,213	39,083	1,927	16,158	**248,381**	

1. These figures only cover the period for which Mrs George was employed as a Director of Image Scan Holdings plc.

This table excludes any share-based payments.

Remuneration report continued

Share option schemes

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

The Remuneration Committee believes that the potential for share ownership and participation in the growing value of the Company increases the commitment and loyalty of Directors and staff.

The following existing options have been granted:

Holder	Image Scan share option scheme	Number	Exercise price	Date of grant	Vesting period	Expire
V J Deery	Enterprise Management Incentive	300,000	4p	01/03/2010	3 years	01/03/2020
V J Deery	Enterprise Management Incentive	1,000,000	2p	17/09/2014	3 years	17/09/2024
W R Mawer	Unapproved Scheme	1,500,000	3p	11/04/2014	3 years	11/04/2024
W R Mawer	Enterprise Management Incentive	1,000,000	2p	17/09/2014	3 years	17/09/2024
R A Leaver	Unapproved Scheme	400,000	3p	11/04/2014	3 years	11/04/2024
T D Jackson	Unapproved Scheme	400,000	3p	22/09/2014	3 years	22/09/2024

Share price performance

The highest and lowest share prices during the year were 3.88p and 1.88p per share respectively. The closing mid-market price was 2.125p per share.

On behalf of the Board

William Mawer
Chairman
8 December 2014

Independent auditors' report

TO THE SHAREHOLDERS OF IMAGE SCAN HOLDINGS PLC

We have audited the financial statements of Image Scan Holdings plc for the year ended 30 September 2014 which comprise the consolidated statement of comprehensive income, the consolidated and parent company statements of financial position, the consolidated and parent company statements of changes in equity, the consolidated and parent company cash flow statements and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRS') as adopted for use in the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in a report of the Auditors and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and parent company's affairs as at 30 September 2014 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted for use in the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

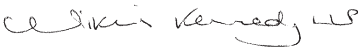
Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



Daniel Graves (Senior Statutory Auditor)
for and on behalf of Wilkins Kennedy LLP, Statutory Auditor and Chartered Accountants
Bridge House, London Bridge, London SE1 9QR
8 December 2014

The maintenance and integrity of the Image Scan Holdings Plc web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 30 SEPTEMBER 2014

	Note	**2014 £**	2013 £
Continuing operations			
Revenue	3	**2,194,735**	2,537,786
Cost of sales		**(1,521,574)**	(1,586,820)
Gross profit		**673,161**	950,966
Administrative expenses		**(1,196,969)**	(1,292,856)
Operating loss	4	**(523,808)**	(341,890)
Finance income		**450**	80
Loss before taxation		**(523,358)**	(341,810)
Taxation	6	**71,894**	45,155
Loss and total comprehensive income for the year from continuing operations attributable to the equity owners of the parent company		**(451,464)**	(296,655)
		Pence	Pence
Earnings per share			
Basic and diluted loss per share	7	**(0.57)**	(0.39)

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

Consolidated statement of financial position

AS AT 30 SEPTEMBER 2014

	Note	2014 £	2013 £
Non-current assets			
Property, plant and equipment	8	**8,382**	21,987
		8,382	21,987
Current assets			
Inventories	10	**330,826**	458,898
Trade and other receivables	11	**182,121**	1,119,944
Cash and cash equivalents	12	**948,281**	11,573
Current tax asset		**71,894**	36,064
		1,533,122	1,626,479
Total assets		**1,541,504**	1,648,466
Current liabilities			
Trade and other payables	13	**363,821**	927,795
Warranty provision	14	**21,507**	43,151
		385,328	970,946
Net assets		**1,156,176**	677,520
Equity			
Share capital	16	**1,256,046**	762,679
Share premium account		**7,934,528**	7,501,105
Retained earnings		**(8,034,398)**	(7,586,264)
Total equity attributable to shareholders		**1,156,176**	677,520

These financial statements were approved by the Board of Directors on 8 December 2014.

Signed on behalf of the Board of Directors.

William Mawer
Chief Executive Officer

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

Company statement of financial position

AS AT 30 SEPTEMBER 2014

	Note	**2014 £**	2013 £
Non-current assets			
Investments in group undertakings	9	**1**	1
		1	1
Current assets			
Trade and other receivables	11	**1,198,404**	725,441
Cash and cash equivalents	12	**10,932**	4,904
		1,209,336	730,345
Total assets		**1,209,337**	730,346
Current liabilities			
Trade and other payables	13	**53,161**	52,826
Net assets		**1,156,176**	677,520
Equity			
Share capital	16	**1,256,046**	762,679
Share premium account		**7,934,528**	7,501,105
Retained earnings		**(8,034,398)**	(7,586,264)
Total equity		**1,156,176**	677,520

These financial statements were approved by the Board of Directors on 8 December 2014.

Signed on behalf of the Board of Directors.

William Mawer
Chief Executive Officer

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

Statement of changes in equity

FOR THE YEAR ENDED 30 SEPTEMBER 2014

Group	Share capital £	Share premium £	Retained earnings £	Total £
As at 1 October 2012	762,679	7,501,105	(7,287,045)	976,739
Loss for the year	–	–	(296,655)	(296,655)
Share-based transactions	–	–	(2,564)	(2,564)
As at 30 September 2013	762,679	7,501,105	(7,586,264)	677,520
Shares issued during the year	479,908	490,093	–	970,001
Shares issued during the year in payment of creditors	13,459	21,291	–	34,750
Share issue costs	–	(77,961)	–	(77,961)
Loss for the year	–	–	(451,464)	(451,464)
Share-based transactions	–	–	3,330	3,330
As at 30 September 2014	**1,256,046**	**7,934,528**	**(8,034,398)**	**1,156,176**

Company	Share capital £	Share premium £	Retained earnings £	Total £
As at 1 October 2012	762,679	7,501,105	(7,287,045)	976,739
Loss for the year	–	–	(296,655)	(296,655)
Share-based transactions	–	–	(2,564)	(2,564)
As at 30 September 2013	762,679	7,501,105	(7,586,264)	677,520
Shares issued during the year	479,908	490,093	–	970,001
Shares issued during the year in payment of creditors	13,459	21,291	–	34,750
Share issue costs	–	(77,961)	–	(77,961)
Loss for the year	–	–	(451,464)	(451,464)
Share-based transactions	–	–	3,330	3,330
As at 30 September 2014	**1,256,046**	**7,934,528**	**(8,034,398)**	**1,156,176**

As permitted by the Companies Act 2006, a separate income statement for the Company has not been included. The loss for the financial year dealt with in the financial statements of the Company was £451,464 (2013: loss of £296,655).

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

Consolidated cash flow statement

FOR THE YEAR ENDED 30 SEPTEMBER 2014

	Note	**2014 £**	2013 £
Cash flows from operating activities			
Operating loss		**(523,808)**	(341,890)
Adjustments for:			
Depreciation		**13,348**	21,472
Impairment of inventories		**44,631**	–
Transfer of fixed assets to inventories		**5,681**	4,293
Loss on disposal of fixed assets		**799**	–
Decrease/(increase) in inventories		**83,441**	(45,948)
Decrease in trade and other receivables		**937,823**	1,546
(Decrease)/increase in trade and other payables		**(585,618)**	224,252
Share-based payments		**38,080**	(2,564)
Net cash from/(used in) operating activities		**14,377**	(138,839)
Corporation tax recovered		**36,064**	85,068
Net cash flows from operating activities		**50,441**	(53,771)
Cash flows from investing activities			
Interest received		**450**	80
Purchase of property, plant and equipment	8	**(6,223)**	(8,518)
Net cash used in investing activities		**(5,773)**	(8,438)
Cash flows from financing activities			
Proceeds from issue of share capital		**970,001**	–
Financial costs of fundraising		**(77,961)**	–
Net cash from financing activities		**892,040**	–
Net increase/(decrease) in cash and cash equivalents		**936,708**	(62,209)
Cash and cash equivalents at beginning of year		**11,573**	73,782
Cash and cash equivalents at end of year	12	**948,281**	11,573

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

Company cash flow statement

FOR THE YEAR ENDED 30 SEPTEMBER 2014

	Note	2014 £	2013 £
Cash flows from operating activities			
Operating loss		**(451,464)**	(296,729)
Adjustments for:			
Increase in intercompany bad debt provision		**472,764**	308,518
Increase in trade and other receivables		**(12,810)**	(118)
Increase in trade and other payables		**335**	34,430
Share-based payments		**38,080**	(2,564)
Net cash generated from operating activities		**46,905**	43,537
Cash flows from investing activities			
Interest received		**–**	74
Net cash from investing activities		**–**	74
Cash flows from financing activities			
Movement in intercompany balances		**(932,917)**	(44,765)
Proceeds from issue of share capital		**970,001**	–
Finance costs of fundraising		**(77,961)**	–
Net cash flow from financing activities		**(40,877)**	(44,765)
Net increase/(decrease) in cash and cash equivalents		**6,028**	(1,154)
Cash and cash equivalents at beginning of year		**4,904**	6,058
Cash and cash equivalents at end of year	12	**10,932**	4,904

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

Notes to the financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2014

1. General information

Image Scan Holdings plc is a public limited company incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given in the officers and professional advisers section. The nature of the group's operations and its principal activities are set out in the strategic report, the Directors' report and in the segment reporting note in the financial statements.

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

2. Significant accounting policies

Basis of preparation

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

Taxation

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

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

Going concern

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

New accounting standards and interpretations

Effective during the year

During the year the Group has adopted the following standards:

- amendments to IFRS 7 'Financial Instruments: Disclosures' – offsetting financial assets and financial liabilities (effective for accounting periods beginning on or after 1 January 2013);
- IFRS 13 'Fair Value Measurement' (effective for accounting periods beginning on or after 1 January 2013); and
- annual improvements to IFRSs 2009–2011 Cycle (effective for accounting periods beginning on or after 1 January 2013).

The adoption of these standards did not have any impact on the financial position or performance of the Group.

Not yet effective

At the date of authorisation of these group financial statements and the parent company financial statements, the following standards, amendments and interpretations were endorsed by the EU but not yet effective:

- IFRS 10 'Consolidated Financial Statements'*;
- IFRS 12 'Disclosure of Interests In Other Entities'*;
- IAS 27 (Revised) 'Separate Financial Statements'*;
- Amendments to IRFS 10, IFRS 12 and IAS 27 'Investment Entities';
- Amendments to IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets'; and
- Amendment to IAS 39 'Financial Instruments: Recognition and Measurement' (relates to hedge accounting and novation of derivatives).

* Effective from 1 January 2013 but EU entities may apply these standards and amendments at the latest from the commencement date of their first financial year starting on or after 1 January 2014.

In addition to the above, there are also the following standards and amendments that have not yet been endorsed by the EU:

- annual Improvements to IFRSs 2010–2012 Cycle (published 12 December 2013);
- annual Improvements to IFRSs 2011–2013 Cycle (published 12 December 2013);
- amendments to IAS 27;
- IFRS 9 'Financial Instruments' (published July 2014); and
- IFRS 15 'Revenue from Contracts with Customers' (issued May 2014).

The Group intends to adopt these standards when they become effective. The introduction of these new standards and amendments is not expected to have a material impact on the Group or Company.

2. Significant accounting policies continued

Basis of consolidation

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

Leases

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

Revenue recognition

Revenue is recognised at the point of despatch to the customer.

- Where stage payments are made, revenue is recognised at the point when all conditions of the contract are met.
- Where the outcome of a long-term contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date compared to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.
- Where the outcome of a long-term contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. Where it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Property, plant and equipment

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

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

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

Pension costs

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

Investments

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

Inventories

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

Development costs

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

Patent costs

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

Foreign currencies

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

Equity

Equity comprises the following:

- "share capital" represents the nominal value of equity shares, both ordinary and deferred;
- "share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issues; and
- "retained earnings" include all current and prior year results, as disclosed in the consolidated statement of comprehensive income, plus the equity component of share options issued.

Notes to the financial statements continued

FOR THE YEAR ENDED 30 SEPTEMBER 2014

2. Significant accounting policies continued

Share-based payments

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

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

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

Accounting judgements and key sources of estimation uncertainty

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

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

Allowance for doubtful debts

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

Inventories

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

Warranty provision

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

Long-term contracts

Where long-term contracts fall into two financial years, a proportion of the revenue and profit arising on the contract is recognised based on contract progress at the year end and anticipated costs to completion.

3. Revenue

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

The group has only one business sector, being the continuing development of advanced x-ray imaging techniques with applications in the security and industrial sectors.

All revenue is derived from operations in the UK and is analysed as follows:

	2014			2013		
	Security £	**Industrial £**	**Total £**	Security £	Industrial £	Total £
Group revenue by destination and sector						
UK	**23,675**	**476,834**	**500,509**	18,963	278,718	297,681
Europe, Middle East and Africa	**694,578**	**46,622**	**741,200**	1,020,589	325,280	1,345,869
Asia	**816,274**	**96,358**	**912,632**	624,677	39,535	664,212
Americas	**2,000**	**38,394**	**40,394**	88,963	141,061	230,024
	1,536,527	**658,208**	**2,194,735**	1,753,192	784,594	2,537,786
Gross profit by sector	**446,008**	**227,153**	**673,161**	629,827	321,139	950,966

During the year to 30 September 2014, sales of £1,128,557 were made to three customers (Customer A £370,000, Customer B £350,000 and Customer C £408,557) accounting for 51% of total revenue (2013: sales of £870,214 were made to two customers (Customer A £411,000 and Customer B £459,214) accounting for 34% of total revenue).

4. Operating loss

	2014 £	2013 £
Operating loss is stated after charging/(crediting):		
Depreciation of property, plant and equipment	**13,348**	21,472
Impairment of inventories	**44,631**	–
Disposal of fixed assets	**799**	–
Research and development costs	**245,762**	162,349
Operating leases	**39,859**	39,314
Auditors' remuneration		
Audit – subsidiary	**14,220**	14,150
Audit – Company	**3,780**	3,750
Other services	**3,068**	4,485
Cost of inventories recognised as an expense (included in cost of sales)	**1,193,481**	1,256,973
Exchange rate loss	**20,504**	20,522
Exceptional cost on nuclear contract	**84,836**	153,000
Exceptional reorganisation costs	**–**	25,000

5. Information regarding Directors and employees

	2014 £	2013 £
Directors' emoluments		
Management remuneration	**155,558**	193,139
Fees as Directors	**31,738**	39,083
Pension contributions	**12,477**	16,157
	199,773	248,379

	2014 Number	2013 Number
Number of Directors accruing benefits under:		
Defined contribution pension scheme	**2**	2

	2014 £	2013 £
The amounts paid in respect of the highest paid Director are as follows:		
Emoluments	**81,088**	82,707
Pension contributions	**7,276**	7,309
	88,364	90,016

	2014 Number	2013 Number
Average number of persons employed (including Directors)		
Accounts and administration	**1**	3
Technical	**12**	12
Directors	**4**	5
	17	20

	2014 £	2013 £
Staff costs during the year (including Directors)		
Wages and salaries	**715,940**	869,899
Social security costs	**77,041**	93,681
Pension costs	**26,811**	27,932
Share-based payments (option scheme)	**3,330**	(2,564)
	823,122	988,948

Notes to the financial statements continued

FOR THE YEAR ENDED 30 SEPTEMBER 2014

5. Information regarding Directors and employees continued

Ian Johnson Associates Limited, a company in which Ian Johnson has a material interest and of which he is a director, provided consultancy services amounting to £nil (2013: £1,311). I-see Associates Ltd, a company in which Brian Emslie has a material interest and of which he is a director, provided consultancy services amounting to £796 (2013: £1,148). Axi-Tek Ltd, a company in which Nick Fox has a material interest and of which he is a director, provided consultancy services amounting to £9,038 (2013: £2,874). AVS Partners Ltd, a company in which Bill Mawer has a material interest and of which he is a director, provided consultancy services amounting to £46,080 (2013: £nil). Of this £34,750 was paid in shares which on the date of issue would have realised £45,424 at closing market price. An amount of £nil (2013: £194) due to Ian Johnson Associates Limited, an amount of £nil (2013: £387) due to I-see Associates Ltd, an amount of £nil (2013: £1,020) due to Axi-Tek Ltd and an amount of £nil (2013: £nil) due to AVS Partners Ltd are included in trade payables at the year end.

Directors' remuneration is detailed within the remuneration report set out on pages 7 and 8.

6. Tax on results on ordinary activities

a) Analysis of credit in the year

	2014 £	2013 £
Current tax		
UK corporation tax at 20% (2013: 20%) based on the result for the year (note 6b)	**71,894**	35,472
Underprovision in prior year	**–**	9,683
Total current tax credit	**71,894**	45,155
Deferred tax	**–**	–
Tax credit	**71,894**	45,155

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

b) Reconciliation of tax credit

	2014 £	2013 £
Loss on ordinary activities before tax	**(523,358)**	(341,810)
Tax on loss on ordinary activities at standard rate	**(104,672)**	(68,362)
Being the effects of:		
Permanent differences	**1,029**	(375)
Accelerated capital allowances	**(2,267)**	(2,771)
Current year result carried forward/(used)	**57,971**	42,241
Loss surrendered to HM Revenue & Customs in exchange for R&D tax relief	**47,939**	29,267
Under provision in prior year	**–**	(9,683)
Tax credit receivable from HM Revenue & Customs	**(71,894)**	(35,472)
Actual tax credit for the year (note 6a)	**(71,894)**	(45,155)

7. Earnings per share

	2014 £	2013 £
Loss for the year	**(451,464)**	(296,655)
Weighted average number of ordinary shares in issue	**79,554,598**	76,267,932
Basic and diluted loss per share	**(0.57p)**	(0.39p)

IAS 33 requires presentation of diluted earnings per share ('EPS') when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. Earnings or loss per share would not be affected by the exercise of out-of-the-money options since it is inappropriate to assume that option holders would act irrationally. Accordingly, as there are no other diluting future share issues, diluted EPS equals basic EPS.

8. Property, plant and equipment

Group	Computer equipment £	Demonstration equipment £	Plant and equipment £	Total £
Cost				
At 1 October 2012	66,738	89,353	93,630	249,721
Additions	453	5,270	2,795	8,518
Disposals	(2,180)	(8,133)	–	(10,313)
At 30 September 2013	65,011	86,490	96,425	247,926
Additions	6,223	–	–	6,223
Disposals	(1,106)	(10,446)	–	(11,552)
At 30 September 2014	**70,128**	**76,044**	**96,425**	**242,597**
Depreciation				
At 1 October 2012	50,084	72,419	87,984	210,487
Provided during the year	9,635	7,504	4,333	21,472
Disposals	(2,180)	(3,840)	–	(6,020)
At 30 September 2013	57,539	76,083	92,317	225,939
Provided during the year	6,012	4,725	2,611	13,348
Disposals	(307)	(4,765)	–	(5,072)
At 30 September 2014	**63,244**	**76,043**	**94,928**	**234,215**
Net book value				
At 30 September 2014	**6,884**	**1**	**1,497**	**8,382**
At 30 September 2013	7,472	10,407	4,108	21,987

9. Investments

Subsidiary undertakings – Company

	£
Cost	
At 1 October 2012, 2013 and at 30 September 2014	51,001
Impairment	
At 1 October 2012, 2013 and 30 September 2014	(51,000)
Balance at 30 September 2013 and 2014	**1**

The impairment provision relates solely to Image Scan Limited (formerly Stereo Scan Limited).

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

Company	Principal activities	Country of incorporation and operations	Ordinary share capital %	Investment shares at cost **2014 £**	2013 £
Image Scan Ltd (previously Stereo Scan Ltd)	Development of advanced imaging technology	England	100%	**51,000**	51,000
3DX-Ray Limited	Exploitation of advanced imaging technology	England	100%	**1**	1

10. Inventories

	Group **2014 £**	Group 2013 £	Company **2014 £**	Company 2013 £
Raw materials	**116,797**	240,878	**–**	–
Work in progress	**75,919**	85,367	**–**	–
Finished goods	**138,110**	132,653	**–**	–
	330,826	458,898	**–**	–

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

Notes to the financial statements continued

FOR THE YEAR ENDED 30 SEPTEMBER 2014

11. Trade and other receivables

	Group		Company	
	2014 £	2013 £	**2014 £**	2013 £
Trade receivables	**135,490**	696,565	**–**	–
Amounts recoverable on contracts	**7,000**	82,398	**–**	–
Other receivables and prepayments	**39,631**	305,746	**7,075**	–
VAT recoverable	**–**	35,235	**7,969**	2,234
Amounts due from subsidiary undertakings	**–**	–	**1,183,360**	723,207
	182,121	1,119,944	**1,198,404**	725,441

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

12. Cash and cash equivalents

	Group		Company	
	2014 £	2013 £	**2014 £**	2013 £
Cash and cash equivalents	**948,281**	11,573	**10,932**	4,904

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying value of these assets approximates their fair value. Cash at bank earns interest at floating rates based on daily bank deposit rates.

13. Trade and other payables

Amounts falling due within one year

	Group		Company	
	2014 £	2013 £	**2014 £**	2013 £
Trade payables	**182,044**	364,469	**33,081**	33,326
Deferred income	**123,236**	336,486	**–**	–
Other tax and social security	**24,895**	102,337	**–**	–
Accruals	**33,646**	124,503	**20,080**	19,500
	363,821	927,795	**53,161**	52,826

At 30 September 2014 accruals included pension contributions amounting to £3,439 (2013: £6,416).

14. Provisions for liabilities and charges

Deferred tax

The Group has unused tax losses of £6.3m (2013: £6m) and other temporary timing differences amounting to £203k (2013: £191k). The related deferred tax asset has not been recognised in respect of these losses as there is no certainty in regards to the level and timing of future profits. The Company's tax losses not provided amount to £nil (2013: £nil).

Group warranty provision

	2014 £	2013 £
At 1 October 2013	**43,151**	46,140
Provision in year	**14,876**	52,744
Used in year	**(34,406)**	–
Released during the year	**(2,114)**	(55,733)
At 30 September 2014	**21,507**	43,151

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

15. Commitments

At 30 September 2014 the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

Land and buildings	**2014 £**	2013 £
Within one year	**36,000**	36,000
Between one and three years	**–**	36,000
	36,000	72,000

16. Share capital

	2014 £	2013 £
Authorised		
200,000,000 ordinary shares of 1p each (2013: 100,000,000 ordinary shares of 1p each)	**2,000,000**	1,000,000
Called up, allotted and fully paid		
125,604,577 ordinary shares of 1p each (2013: 76,267,932 ordinary shares of 1p each)	**1,256,046**	762,679

During the year, the Company made the following issues of shares:

	Nominal value £	Consideration £
On Placement		
On 17/04/14 740,741 ordinary shares of 1p each	7,408	25,000
On 08/08/14 1,850,000 ordinary shares of 1p each	18,500	37,000
On 09/09/14 34,400,000 ordinary shares of 1p each	344,000	688,000
On 22/09/14 11,000,000 ordinary shares of 1p each	110,000	220,000
In settlement of creditors		
On 17/04/14 1,345,904 ordinary shares of 1p each	13,459	34,750

The following share options are outstanding at 30 September 2014:

Image Scan share option scheme	Date of issue	Quantity	Exercise price	Fair value	Vesting period	Expiry date
Enterprise Management Incentive	30/09/2005	44,000	15p	138	3 years	30/09/2015
Enterprise Management Incentive	02/10/2006	60,000	18.25p	131	3 years	02/10/2016
Enterprise Management Incentive	23/11/2007	20,000	10p	120	3 years	23/11/2017
Enterprise Management Incentive	01/03/2010	560,000	4p	5,600	3 years	02/03/2020
Enterprise Management Incentive	17/09/2014	3,650,000	2p	31,005	3 years	17/09/2024
Unapproved Scheme	11/04/2014	1,900,000	3p	10,707	3 years	11/04/2024
Unapproved Scheme	22/09/2014	400,000	3p	2,153	3 years	22/09/2024

Share option movement	**2014 £**	2013 £
At 1 October 2013	**2,264,000**	3,752,000
Options issued in year	**5,950,000**	–
Options exercised in year	**–**	–
Options lapsed in year	**(1,580,000)**	(1,488,000)
At 30 September 2014	**6,634,000**	2,264,000

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

Expected volatility (based on closing prices in the year prior to issue)	50%
Expected life	3.5 years
Risk-free rate	2.2%
Expected dividends	Zero

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

	2014 £	2013 £
Employee benefits (note 5)	**3,330**	(2,564)

Notes to the financial statements continued

FOR THE YEAR ENDED 30 SEPTEMBER 2014

17. Transactions with related parties

During the year Image Scan Holdings plc provided management services to the value of £140,000 to its subsidiary company 3DX-Ray Limited (2013: £140,000).

At the year end the Company was owed the following amounts by subsidiary companies against which a bad debt provision of £8,020,717 (2013: £7,547,953) is held:

	2014 £	2013 £
3DX-Ray Limited	**8,316,860**	7,383,943
Image Scan Ltd	**887,217**	887,217

The bad debt charged against 3DX-Ray Limited's debtor balance during the period is £472,764 (2013: £308,518).

During the year, IXO Machinery Equipment (Shanghai) Co Ltd, a company related to Rise Step International Ltd, which is itself a substantial shareholder of the Group as disclosed in the Directors' report, provided goods to the value of £69,050 (2013: £30,805).

Other transactions with related parties are disclosed in note 5.

18. Financial instruments

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

The Group had undrawn committed borrowing facilities at 30 September 2014 of £100,000 (2013: £100,000).

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

Fair values of gross financial assets (cash and short-term investments) are considered to be the same as book values at both 30 September 2014 and 30 September 2013.

Financial liability profile

	2014 £	2013 £
Due in less than one month	**74,052**	315,282
Due between one and three months	**264,976**	415,437
Due between three months and one year	**24,793**	197,076
Due after one year	**–**	–
	363,821	927,795

Currency profile

At 30 September 2014 amounts payable included US$12,920, EUR 2,650, SFr 4,867 and ZAR 14,428 (2013: US$1,547, EUR 2,225, SFr 97,369 and ZAR 47,640). All other financial assets and liabilities are denominated in Sterling.

At 30 September 2014 amounts receivable included US$nil (2013: US$nil).

Capital management

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

Credit risk

The Company's policy is to operate contracts on a cash-positive basis. Payment terms typically require a substantial deposit on placement of the order and a majority of the invoice paid prior to shipment.

19. Post balance sheet events

Subsequent to the balance sheet date and prior to approval of the financial statements, the Group entered into a new distribution agreement with Sectus Technologies Inc. to extend market reach in North and South America.

Notice and agenda of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the shareholders will be held at 2.00pm on 10 March 2015 at the offices of Cantor Fitzgerald Europe, One Churchill Place, Canary Wharf, London EC14 5RB for the purpose of considering and, if thought fit, passing the following resolutions as to resolutions 1–7 as Ordinary Resolutions and as to Resolutions 8 and 9 as Special Resolutions.

Ordinary Resolutions

1. To receive and adopt the financial statements for the year ended 30 September 2014 together with the reports of the Directors (including the strategic report) and auditors thereon.
2. To receive and adopt the remuneration report contained within the annual report for the year ended 30 September 2014.
3. To re-elect as a Director William Mawer.
4. To re-elect as a Director Richard Leaver.
5. To elect as a Director Timothy Jackson.
6. To re-appoint Wilkins Kennedy LLP as auditors and to authorise the Directors to fix their remuneration.
7. That in accordance with Section 551 of the Companies Act 2006 (the 'Act') the Directors be hereby generally and unconditionally authorised to allot new ordinary shares or grant rights to subscribe for or to convert any securities into new ordinary shares ('Rights'):
   a. up to an aggregate nominal amount of £36,500 in connection with the grant of options over a total of 3,650,000 ordinary shares issued under the Image Scan Holdings Enterprise Management Incentive Scheme of which 1,000,000 have been be awarded to Vincent Deery and 1,000,000 have been awarded to William Mawer as set out in the circular dated 14 August 2014 setting out details of a placing of a subscription; and
   b. otherwise than pursuant to resolution 7a above, up to an aggregate nominal amount of £188,407 for a period expiring (unless previously renewed, varied or revoked by the Company in a general meeting) at the conclusion of the next Annual General Meeting of the Company or 15 months after the passing of this resolution (whichever is earlier) save that the Directors may, before the expiry of such period, make an offer or agreement which would or might require new ordinary shares to be allotted or Rights to be granted after the expiry of such a period, and the Directors of the Company may allot new ordinary shares or grant Rights in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

Special Resolutions

8. That subject to, and conditional upon, the passing of resolution 7 above, the Directors be and are generally empowered (in substitution for all subsisting authorities to the extent unused) in accordance with section 570 of the Act to allot equity securities (within the meaning of Section 560 of the Act) pursuant to the authority conferred upon them by resolution 7 for cash as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
   a. in connection with an offer of such securities by way of a Rights Issue; and
   b. otherwise than pursuant to resolution 8a above, up to an aggregate nominal amount of £188,407, and (unless previously revoked, varied or renewed) this power shall expire at the conclusion of the next Annual General Meeting of the Company or 15 months after the passing of this resolution (whichever is earlier) save that the Directors may, before the expiry of such period, make an offer or agreement which would or might require new ordinary shares to be allotted or Rights to be granted after the expiry of such period, and the Directors of the Company may allot new ordinary shares or grant Rights in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

   In this resolution 8, 'Rights Issue' means an offer of equity securities open for acceptance for a period fixed by the Directors to shareholders on the register of the Company on a fixed record date in proportion as nearly as may be to their respective holdings, but subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient to deal with any fractional entitlements or legal or practical difficulties under the laws of, or the requirements of, any recognised regulatory body or any stock exchange, in any territory.
9. That the amended articles of association of the Company in the form produced to the meeting (and signed by the Chairman of the meeting for identification purposes), a summary of the principal amendments being set out in the explanatory note below, be and are hereby adopted as the new articles of association of the Company in substitution for the existing articles of association of the Company.

By order of the Board

Sarah Atwell-King
Company Secretary

Notice and agenda of Annual General Meeting continued

Explanatory note:

Resolution 9: principal changes to the Company's articles of association

1. The Company's objects

The provisions regulating the operations of the Company are currently set out in the Company's memorandum and articles of association. The Company's memorandum contains, among other things, the objects clause which sets out the scope of the activities the Company is authorised to undertake. This is drafted to give a wide scope.

The Companies Act 2006 (the 'Act') significantly reduces the constitutional significance of a company's memorandum and provides that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the Company. Under the Act, the objects clause and all other provisions which are contained in a company's memorandum, for existing companies at 1 October 2009, are deemed to be contained in the Company's articles of association but the Company can remove these provisions by Special Resolution.

Further, the Act states that unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason, the Company is proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the Act, are treated as forming part of the Company's articles of association as of 1 October 2009. Resolution 9 confirms the removal of these provisions for the Company. As the effect of this resolution will be to remove the statement currently in the Company's memorandum of association regarding limited liability, the Company's articles of association with all the proposed amendments (the 'New Articles') also contain an express statement regarding the limited liability of shareholders.

2. Articles which duplicate statutory provisions

Provisions in the existing articles of association of the Company (the 'Current Articles') which replicate provisions contained in the Act are in the main amended to bring them in line with the Act.

3. Change of name

Under the Companies Act 1985, a company could only change its name by Special Resolution. Under the Act, a company can change its name by other means provided for by its articles of association. To take advantage of this provision, the New Articles enable the Directors to pass a resolution to change the Company's name.

4. Authorised share capital and unissued shares

The Act abolished the requirement for a company to have an authorised share capital and the New Articles reflect this. The Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Act, save in respect of 'employee share schemes'.

5. Redeemable shares

Under the Companies Act 1985, if a company wished to issue redeemable shares, it had to include in its articles of association the terms and manner of redemption. The Act enables directors to determine such matters instead provided they are so authorised by the articles. The New Articles contain such an authorisation. The Company has no plans to issue redeemable shares, but if it did so, the Directors would need shareholders' authority to issue new shares in the usual way.

6. Authority to purchase own shares, consolidate and subdivide shares, and reduce share capital

Under the Companies Act 1985, a company required specific enabling provisions in its articles of association to purchase its own shares, to consolidate or sub-divide its shares and to reduce its share capital or other undistributable reserves, as well as shareholder authority to undertake the relevant action. The Current Articles include these enabling provisions. Under the Act, a company will only require shareholder authority to do any of these things and it will no longer be necessary for articles of association to contain enabling provisions. Accordingly, the relevant enabling provisions have been removed in the New Articles.

7. Provision for employees on cessation of business

The Act provides that the powers of the Directors of a company to make provision for a person employed or formerly employed by the Company or any of its subsidiaries in connection with the cessation or transfer to any person of the whole or part of the undertaking of the company or that subsidiary, may only be exercised by the Directors if they are so authorised by the Company's articles of association or by the Company in general meeting. The New Articles provide that the Directors may exercise this power.

8. Use of seals

Under the Companies Act 1985, a company required authority in its articles of association to have an official seal for use abroad. Under the Act, such authority will no longer be required. Accordingly, the relevant authorisation has been removed in the New Articles.

The New Articles provide an alternative option for execution of documents (other than share certificates). Under the New Articles, when the seal is affixed to a document it may be signed by one authorised person in the presence of a witness, whereas previously the requirement was for signature by either a director and the secretary or two directors or such other person or persons as the Directors may approve.

9. Suspension of registration of share transfers
The Current Articles permit the Directors to suspend the registration of transfers. Under the Act share transfers must be registered as soon as practicable. The power in the Current Articles to suspend the registration of transfers is inconsistent with this requirement. Accordingly, this power has been removed in the New Articles.

10. Vacation of office by Directors
The Current Articles specify the circumstances in which a Director must vacate office. The New Articles update these provisions to reflect the approach taken on mental and physical incapacity in the model articles of association for public companies produced by the Department for Business, Innovation and Skills.

11. Directors' fees
The New Articles have increased the aggregate maximum amount payable for Directors' fees to £75,000.

12. Electronic conduct of meetings
Amendments made to the Act by the Shareholders' Rights Regulations specifically provide for the holding and conducting of electronic meetings. The Current Articles have been amended to reflect more closely the relevant provisions.

13. General
Generally, the opportunity has been taken to bring clearer language into the New Articles and in some areas to conform the language of the New Articles with that used in the model articles of association for public companies produced by the Department for Business, Innovation and Skills.

A full copy of the New Articles is available for inspection on request at the registered office of the Company.

Notice and agenda of Annual General Meeting continued

Notes:

1. Due to security arrangements in accessing the venue, please arrive at the building at least 15 minutes prior to the start of the meeting.
2. A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote on his or her behalf.
3. A proxy need not be a member of the Company.
4. Completion and return of a form of proxy does not preclude a member from attending and voting at the meeting in person should he or she so wish.
5. A form of proxy is available on the Company's website, **www.ish.co.uk**, or by request from the Company Secretary and to be valid must be completed and returned so as to reach the Registrar of the Company, Neville Registrars Ltd, Neville House, 18 Laurel Lane, Halesowen B6 3DA, together with a letter or power of attorney or other written authority, if any, under which it is signed or a notarially certified or office copy of such power (written authority) not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof.
6. As permitted by Regulation 41 of the Uncertificated Securities Regulations 2001, members who hold shares in uncertificated form must be entered on the Company's register of members at 2.00pm on 6 March 2015 in order to be entitled to attend and/or vote at the meeting in respect of the number of shares registered in their name at such time. Changes to entries on the register of members after that time will be disregarded in determining the rights of any person to attend and/or vote at the meeting.
7. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

Officers and professional advisers

Directors
William Mawer
Executive Chairman/Chief Executive Officer

Vincent Deery
Sales and Marketing Director

Richard Leaver
non-executive Director

Timothy Jackson
non-executive Director

Company Secretary
Sarah Atwell-King

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consultancy, design and production by
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Design Portfolio plants ten trees for each of its corporate report projects, in association with Trees for Cities.

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