REAL-TIME X-RAY SYSTEMS

IMAGE SCAN HOLDINGS PLC

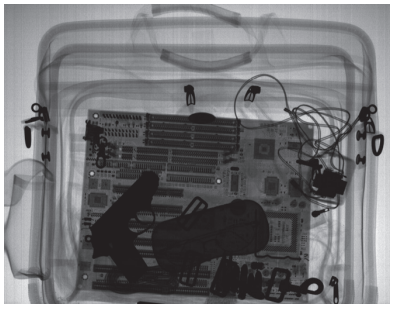
Annual report and accounts 2015

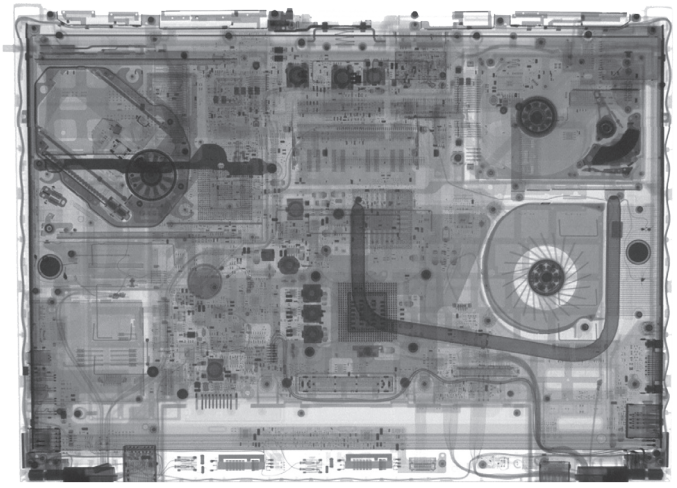
IMAGE SCAN HOLDINGS PLC IS AN INNOVATIVE X-RAY TECHNOLOGY SPECIALIST OPERATING GLOBALLY IN THE SECURITY AND INDUSTRIAL INSPECTION SECTORS.

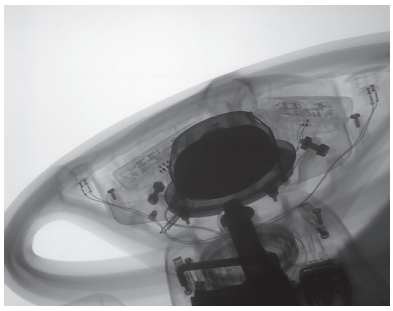
The Group's principal activity is the design, manufacture and supply of portable and fixed x-ray security screening systems to governments, security organisations and law enforcement agencies. The Group also supplies high-quality non destructive inspection systems used for quality assurance by global manufacturers of automotive emissions control systems.

STRATEGIC REPORT

Read about our progress to date from page 3







HIGHLIGHTS

OPERATIONAL HIGHLIGHTS

- New portable X-ray system launched during the year and achieved first customer sales
- Won UK Government grant of £104k to develop new generation portable detector using technology licensed from Ibex Innovations
- Upturn in orders for industrial inspection systems used for inspection of automotive emission control systems

2015 represented a year focused on new product development.

FINANCIAL HIGHLIGHTS

- Order intake for the year of £1.9m (2014: £1.5m) with 40% of orders received in the last quarter
- Sales of £1.7m (2014: £2.2m) at a gross margin of 38% (2014: 31%)
- £469k of cash at the end of the period (2014: £948k)
- Closing order book of £675k (2014: £482k)

IN THIS REPORT

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www.ish.co.uk

CHAIRMAN'S STATEMENT

WILLIAM MAWER, CHAIRMAN

> Our short-term focus is to drive international sales of the new portable X-ray system while completing the development of additional variants that are necessary for us to address particular markets. We have brought forward plans to upgrade and extend our range of industrial inspection systems.

Overview

I am pleased to report on the results for Image Scan Holdings plc for the year ended 30 September 2015. While the year saw good progress on a number of fronts, that progress was initially slow to feed into an improvement in financial performance.

Order intake during 2015 totalled £1.9m (2014: £1.5m) and strengthened towards the year end. The Company closed the year with an order book of £675k (2014: £482k). Sales for the year were £1.7m (2014: £2.2m) and the business made a pre-tax loss of £640k (2014: £523k).

The financial statements for 2014 followed soon after a successful fund raise and, as a result, the business finished that year with a cash balance of £948k. That position reduced to £455k at the 2015 mid-year report but improved to £469k at year end.

Having completed the 2014 fund raise, 2015 represented a year of focus on new product development. That commitment delivered the successful launch of a new portable x-ray generator in December 2014 and, later in the year, a new high performance detector panel with first delivery in August 2015. Early customer response to these new products has been highly promising. In July 2015, the Company was awarded a UK government grant worth £104k to support development of a Precision Linescan Detector for the security market, using new technology licensed from Ibex Innovations. This initiative reflects our vision to be a true leader in the security x-ray market.

A recent marked increase in order intake for the Company's industrial inspection systems, which have a higher unit value than security systems, is also a promising trend which we will further develop.

Our strategy

Security

Our short-term focus is to drive international sales of the new portable x-ray system while completing the development of additional variants that are necessary for us to address particular markets. A project definition exercise, focused on the development of a replacement for the Axis checkpoint x-ray system, was completed but the potential returns from this highly competitive market look relatively unattractive. As a result, development of this product is not currently progressing. Following the appointment of a European sales manager, the Company will continue to expand our routes to market.

Industrial

We have brought forward plans to upgrade and extend our range of industrial inspection systems. We believe we are well placed to benefit from expected industry investment in emissions control and are discussing future technology requirements with key customers.

Other initiatives

In addition to organic growth initiatives, we continue to look for opportunities for growth by acquisition.

Outlook

The Company's closing order book included orders for four industrial inspection systems and discussions are underway that could lead to orders for further systems. In the short term we will look to increase uptake of these machines by our existing customers. The start of the 2016 financial year has seen steady low volume orders for portable x-ray systems. It is recognised that larger orders, which typically involve more complex procurement processes, will take longer to achieve but market demand for portable security x-ray systems is strong and customer response to our new systems is promising. Sales volumes in security should therefore recover with the market offering good potential for further growth.

Management is also looking to lay the foundations, in terms of product range and market reach, for future growth in both its security and industrial businesses. Growth initiatives include the grant-funded Precision Linescan Detector programme, which, despite being in its early stages, is already demonstrating image quality enhancements over current technology. Work is currently underway with industrial customers to develop plans for enhancements to, and extensions of, our existing range of industrial x-ray inspection systems.

Staff

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 Image Scan.

William Mawer
Chairman
7 December 2015

STRATEGIC REPORT

WILLIAM MAWER, CHIEF EXECUTIVE OFFICER

Business activity

Security

The core activity of the Company is the manufacture of portable x-ray systems for security and counter-terrorism applications. These systems are often the first devices on the scene of a potential terrorism incident and are consequently designed to be rugged and reliable. Image Scan has been a strong player in the market for many years. In 2013, a relationship with a supplier of x-ray generators broke down, negatively impacting the business. The generator affected by the breakdown of the relationship has now been replaced with a higher performance, more rugged unit. The Company also manufactures the Axis range of 2D and 3D checkpoint x-ray machines and the SVXI vehicle scanner.

Industrial

For over ten years Image Scan has developed and manufactured industrial x-ray inspection systems. The primary market for these systems is in automotive emissions control where they are used for quality control inspection of catalytic converters and diesel particulate filters. The Company has a worldwide installed base of over thirty such machines, most of which are under long-term service contracts. Emissions control, particularly of diesel cars, is an area of global news focus, more so since the news stories affecting Volkswagen and other car makers.

Business review

Security

Security sales were £1.2m (2014: £1.5m) and were depressed by the delayed availability of new portable x-ray systems. However, first customer deliveries of this system were made late in the year and demand for checkpoint x-ray systems was strong. Prior initiatives to extend our global reach into the security market started to produce positive results with both our new partner for North and South America and our newly recruited European sales manager selling their first portable x-ray systems. Margins on security sales have improved slightly to 31% (2014: 29%).

The development programme for new portable x-ray systems took longer than planned as our focused R&D team addressed and prioritised additional demands, particularly from industrial customers. However, the new portable x-ray generator from our US partner was launched earlier in the year and the new ultra-thin detector panel and associated software control system were launched during the year. First customer sales were recently made and the order book for these products is growing.

Looking for further ways to differentiate and enhance our portable x-ray systems, we formed a relationship with Ibex Innovations, a Durham University spin-off with unique x-ray detection technology. This led to a successful bid for a SMART grant award from Innovate UK, a UK government body that supports innovative product development in small companies. The award is worth £104k. The project aims to incorporate the Ibex technology into a modified version of our new detector panel to produce a product we are calling the Precision Linescan Detector.

The sales team and our network of international partners are conducting presentations, demonstrations and field trials of our portable x-ray systems, using five demonstration systems built specifically for this purpose.

MARKETS IN THE PRESS

SECURITY

A recent report* calculated the number of people killed by terrorism in 2014 as over 32,000, 80% up on the previous year, and 2016 seems unlikely to reverse this trend of increasing quantity, spread and severity of terrorist threats. Portable x-ray is frequently the security force's first line of defence to investigate suspect packages without the dangers involved in moving them and we expect the deployment of these portable systems to continue to increase.

* Global Terrorism Index.

VEHICLE EMISSIONS CONTROL

While vehicle pollution has always been in and out of the news, interest is currently at an exceptionally high level. This started with a renewed attention on diesel engine emissions, long promoted for their CO_2 performance but potentially the cause of other pollution-related health issues. More recently, focus has been on various stories around the pollution performance of Volkswagen and other manufacturers. This focus seems likely to drive investment in emissions reduction technology such as catalytic converters. As a supply of quality control systems, particularly non-destructive inspection technology, in that industry, this trend should benefit Image Scan.

STRATEGIC REPORT

WILLIAM MAWER, CHIEF EXECUTIVE OFFICER

The new portable X-ray generator from our US partner was launched earlier in the year and the new ultra-thin detector panel and associated software control system were launched during the year. First customer sales were recently made and the order book for these products is growing.

Business review continued

Industrial

Industrial sales of £479k (2014: £658k) included two new-build units, spares and service contracts. Improved gross margin of 56% (2014: 35%) was driven by a higher percentage of service revenue compared to product revenue. We now have a wider customer base in the emissions control area, and our customers are all major global manufacturers. Our focus is to encourage wider deployment of these systems across the customers' manufacturing bases. Four systems were ordered late in the year for delivery in the 2016 financial year and the order pipeline remains strong. We have three machine configurations that allow online and offline inspection and are planning to develop further performance improvements for these machines in the coming year.

The longstanding nuclear industry contract was completed and we are currently negotiating a long-term support contract for this system.

Financial results

Orders for the year were £1.9m (2014: £1.5m). £755k of orders were received in the final quarter, for both new portable x-ray systems and industrial inspection systems. Company sales were £1.7m (2014: £2.2m), leaving a year-end order book of £675k (2014: £482k). Improved gross margin of 38% (2014: 31%) reflected increased margin on industrial sales. Overheads were £1.3m (2014: £1.2m), the increase being due to higher research and development spending as the business drove to complete the portable x-ray system developments. The business made a pre-tax loss in the year of £640k (2014: £523k) and finished the year with a positive cash balance of £469k (2014: £948k).

Operational improvements

In February 2015, the business recruited a new operations manager to drive further improvements to quality, on-time delivery and cost in both in-house manufacturing and in the supply chain. Quality processes and staff training have been significantly enhanced. As part of these initiatives, dedicated cellular manufacturing lines have been set up for the principal portable products. In November 2015, after independent examination, the Company successfully retained its ISO9001:2015 accreditation for the next three years.

Key performance indicators

The key financial and non-financial performance indicators include:

Order intake

£1.9m

2014: £1.5m
2013: £3.3m
2012: £2.5m

Turnover

£1.7m

2014: £2.2m
2013: £2.5m
2012: £4.3m

Gross margin

38%

2014: 31%
2013: 37%
2012: 38%

Number of staff

18

2014: 17
2013: 20
2012: 19

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.

RISK	DESCRIPTION
FINANCIAL INSTRUMENTS	The Group's financial instruments during the year comprised trade and other debtors, cash balances and various other items, such as trade and other creditors. The main purpose of these financial instruments is the financing of the Group's operations and development work. Following a review, the Board decided not to enter into any derivative transactions in the year to manage currency or liquidity risk. The main risks arising from the Group's financial instruments are therefore considered to be currency risk, credit risk and liquidity risk.
CURRENCY RISK	The Company does not make sufficient sales and purchases in foreign currency to justify the use of foreign currency hedging or similar instruments or the maintenance of foreign currency bank accounts. Management continues to monitor the level of transactions which are denominated in foreign currencies; however, until such time as the volume of transactions exposes the Company to significant foreign exchange risk, such transactions will continue to be settled at the spot rate.
CREDIT RISK	The Company's principal financial assets are cash and trade debtors. The credit risk associated with cash is limited as the Company's policy is to use banks with a high credit rating assigned by an international credit rating agency. With respect to trade debtors, payment terms typically require a substantial deposit on placement of the order and a majority of the invoice paid prior to shipment.
LIQUIDITY RISK	The Group policy to manage liquidity risk is to ensure sufficient cash balances are in place to meet its commitments. The Company's policy is to manage liquidity risk by ensuring sufficient cash balances are in place and to monitor risk on an ongoing basis by undertaking cash flow forecasting procedures. The Company has positive cash balances and has therefore been able to meet its working capital requirements throughout the year under review.

Approved and signed by order of the Board

William Mawer
Chief Executive Officer
7 December 2015

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 30 September 2015.

Directors

The Directors who served during the year were as follows:

W R Mawer
V J Deery
R A Leaver
T D Jackson

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.

Shareholdings

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

	%	Ordinary shares of 1 pence each
Rise Step International Development Ltd	24.58	30,873,331
D Allenby	8.03	10,084,417
Reyker Securities plc	7.15	8,984,036
Old Mutual plc	5.48	6,880,000
Calculus Capital Ltd	4.43	5,569,812
A P Stirling	3.76	4,718,246
Directors' shareholdings:		
W R Mawer	2.66	3,336,645
R A Leaver	0.40	500,000
V J Deery	0.07	83,077

Dividends

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

Research and development

Research and development was mainly focused on developing the portable x-ray inspection system as set out in the Strategic report. Costs in the year amounted to £366,095 (2014: £245,762).

Company number

03062983 (England and Wales).

Strategic report

The Group has chosen, in accordance with Section 414C of the Companies Act 2006, to set out the following information which would otherwise be required to be contained in the Directors' Report:

- financial risk management objectives;
- indication of exposure to currency risk, credit risk and liquidity risk; and
- likely future developments of the business.

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, as required by the AIM rules of the London Stock Exchange, 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.

Website publication

The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Going concern

The Directors have acknowledged the latest guidance on going concern. The Directors regularly review the performance of the Group 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
7 December 2015

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 2015, 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.

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 9 and 10.

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 did not meet 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 2015. This report has not been prepared in accordance with the Directors' report regulations because, as an AIM listed 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:

					Total emoluments	
Directors	Basic salary £	Fees £	Benefits £	Pension contributions £	**2015 £**	2014 £
Executive						
L J George[1]	–	–	–	–	**–**	48,998
V J Deery	89,600	–	715	8,210	**98,525**	88,364
W R Mawer	82,775	–	–	–	**82,775**	30,673
Non-executive						
B S Emslie	–	–	–	–	**–**	13,997
N D Fox	–	–	–	–	**–**	10,058
R A Leaver	–	15,000	–	–	**15,000**	7,058
T D Jackson	–	15,000	–	–	**15,000**	625
Total 2015	**172,375**	**30,000**	**715**	**8,210**	**211,300**	199,773
Total 2014	154,139	31,738	1,419	12,477	199,773	

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	4.0p	01/03/2010	3 years	01/03/2020
V J Deery	Enterprise Management Incentive	1,000,000	2.0p	17/09/2014	3 years	17/09/2024
W R Mawer	Unapproved Scheme	1,500,000	3.375p	11/04/2014	3 years	11/04/2024
W R Mawer	Enterprise Management Incentive	1,000,000	2.0p	17/09/2014	3 years	17/09/2024
R A Leaver	Unapproved Scheme	400,000	3.375p	11/04/2014	3 years	11/04/2024
T D Jackson	Unapproved Scheme	400,000	2.5p	22/09/2014	3 years	22/09/2024

Share Price Performance

The highest and lowest share prices during the year were 2.75 pence and 1.25 pence per share respectively. The closing mid-market price was 1.625 pence per share.

On behalf of the Board

William Mawer
Chairman
7 December 2015

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S 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 2015 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.

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 the Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' statement of responsibilities set out on page 7, 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 and express an option on 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 of the parent company's affairs as at 30 September 2015 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted for use in the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

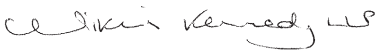
Opinion on other matter prescribed by the Companies Act 2006

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
7 December 2015

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2015

	Note	2015 £	2014 £
Continuing operations			
Revenue	3	**1,707,768**	2,194,735
Cost of sales		**(1,058,935)**	(1,521,574)
Gross profit		**648,833**	673,161
Operating expenses		**(924,152)**	(951,207)
Research and development expenses		**(366,095)**	(245,762)
Total administrative expenses		**(1,290,247)**	(1,196,969)
Operating loss	4	**(641,414)**	(523,808)
Finance income		**984**	450
Loss before taxation		**(640,430)**	(523,358)
Taxation	6	**90,201**	71,894
Loss and total comprehensive income for the year from continuing operations attributable to the equity owners of the parent company		**(550,229)**	(451,464)
		Pence	Pence
Earnings per share			
Basic and diluted loss per share	7	**(0.44)**	(0.57)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2015

	Note	2015 £	2014 £
Non-current assets			
Property, plant and equipment	8	**4,069**	8,382
		4,069	8,382
Current assets			
Inventories	10	**570,501**	330,826
Trade and other receivables	11	**293,480**	182,121
Cash and cash equivalents	12	**469,458**	948,281
Current tax asset		**90,201**	71,894
		1,423,640	1,533,122
Total assets		**1,427,709**	1,541,504
Current liabilities			
Trade and other payables	13	**777,893**	363,821
Warranty provision	14	**33,180**	21,507
		811,073	385,328
Net assets		**616,636**	1,156,176
Equity			
Share capital	16	**1,256,046**	1,256,046
Share premium account		**7,934,528**	7,934,528
Retained earnings		**(8,573,938)**	(8,034,398)
Total equity attributable to shareholders		**616,636**	1,156,176

These financial statements were approved by the Board of Directors on 7 December 2015.

Signed on behalf of the Board of Directors

William Mawer
Chief Executive Officer
7 December 2015

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2015

	Note	2015 £	2014 £
Non-current assets			
Investments in group undertakings	9	**1**	1
Current assets			
Trade and other receivables	11	**637,830**	1,198,404
Cash and cash equivalents	12	**3,002**	10,932
		640,832	1,209,336
Total assets		**640,833**	1,209,337
Current liabilities			
Trade and other payables	13	**24,197**	53,161
Net assets		**616,636**	1,156,176
Equity			
Share capital	16	**1,256,046**	1,256,046
Share premium account		**7,934,528**	7,934,528
Retained earnings		**(8,573,938)**	(8,034,398)
Total equity		**616,636**	1,156,176

These financial statements were approved by the Board of Directors on 7 December 2015.

Signed on behalf of the Board of Directors

William Mawer
Chief Executive Officer

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2015

Consolidated	Share capital £	Share premium £	Retained earnings £	Total £
As at 1 October 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
Loss for the year	–	–	(550,229)	(550,229)
Share-based transactions	–	–	10,689	10,689
As at 30 September 2015	**1,256,046**	**7,934,528**	**(8,573,938)**	**616,636**

Company	Share capital £	Share premium £	Retained earnings £	Total £
As at 1 October 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
Loss for the year	–	–	(550,229)	(550,229)
Share-based transactions	–	–	10,689	10,689
As at 30 September 2015	**1,256,046**	**7,934,528**	**(8,573,938)**	**616,636**

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 £550,229 (2014: loss of £451,464).

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2015

	Note	2015 £	2014 £
Cash flows from operating activities			
Operating loss before research and development expenditure		**(275,319)**	(278,046)
Research and development expenditure		**(366,095)**	(245,762)
Operating loss		**(641,414)**	(523,808)
Adjustments for:			
Depreciation		**5,292**	13,348
Impairment of inventories		**17,847**	44,631
Transfer of fixed assets to inventories		**–**	5,681
Loss on disposal of fixed assets		**–**	799
(Increase)/decrease in inventories		**(257,522)**	83,441
(Increase)/decrease in trade and other receivables		**(111,359)**	937,823
Increase/(decrease) in trade and other payables		**414,072**	(563,974)
Increase/(decrease) in warranty provisions		**11,673**	(21,644)
Share-based payments		**10,689**	38,080
Net cash (used in)/generated from operating activities		**(550,722)**	14,377
Corporation tax recovered		**71,894**	36,064
Net cash flows (used in)/generated from operating activities		**(478,828)**	50,441
Cash flows generated from investing activities			
Interest received		**984**	450
Purchase of property, plant and equipment	8	**(979)**	(6,223)
Net cash generated from/(used in) investing activities		**5**	(5,773)
Cash flows from financing activities			
Proceeds from issue of share capital		**–**	970,001
Financial costs of fundraising		**–**	(77,961)
Net cash generated from financing activities		**–**	892,040
Net (decrease)/increase in cash and cash equivalents		**(478,823)**	936,708
Cash and cash equivalents at beginning of year		**948,281**	11,573
Cash and cash equivalents at end of year	12	**469,458**	948,281

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2015

	Note	2015 £	2014 £
Cash flows from operating activities			
Operating loss		**(550,229)**	(451,464)
Adjustments for:			
Increase in intercompany bad debt provision		**550,102**	472,764
Decrease/(increase) in trade and other receivables		**6,863**	(12,810)
(Decrease)/increase in trade and other payables		**(28,964)**	335
Share-based payments		**10,689**	38,080
Net cash (used in)/generated from operating activities		**(11,539)**	46,905
Cash flows from financing activities			
Movement in intercompany balances		**3,609**	(932,917)
Proceeds from issue of share capital		**–**	970,001
Finance costs of fundraising		**–**	(77,961)
Net cash flow generated from/(used in) financing activities		**3,609**	(40,877)
Net (decrease)/increase in cash and cash equivalents		**(7,930)**	6,028
Cash and cash equivalents at beginning of year		**10,932**	4,904
Cash and cash equivalents at end of year	12	**3,002**	10,932

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2015

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 and in the revenue note in the financial statements.

These financial statements are presented in pounds sterling which is the currency of the primary economic environment in which the group operates.

2. Significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and the International Financial Reporting Interpretation Committee ('IFRIC') interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS as adopted by the EU. 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 substantively 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 have acknowledged the latest guidance on going concern. The directors regularly review the performance of the Group 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.

New accounting standards, amendments and interpretations

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective and have not been adopted early by the Group.

Management anticipates that all of the pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below. Certain other new standards, interpretations and amendments have been issued but are not expected to have a material impact on the group's financial statements.

IFRS 9 'Financial Instruments'

IFRS 9 addresses the classification and measurement of financial assets and will replace IAS 39. The standard is effective for accounting periods commencing on or after 1 January 2018, subject to adoption by the European Union.

IFRS 15 'Revenue from Contracts with Customers'

The standard sets out at what point and how revenue is recognised and also requires enhanced disclosures. Revenue contracts should be recognised in accordance with a single, principles-based five-step plan. The standard is effective for accounting periods beginning on or after 1 January 2018, subject to adoption by the European Union.

Amendments to IAS 16 'Property, Plant and Equipment'

The IASB has clarified that a depreciation method based on revenue is not an appropriate method in determining a pattern in which the asset's future economic benefits are consumed. The amendments are effective for accounting periods beginning on or after 1 January 2016.

Annual Improvements to IFRS '2010-2012 Cycle'

The issues addressed in this cycle cover IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 7, IAS 16, IAS 24 and IAS 38. The annual improvements are effective for accounting periods beginning on or after 1 February 2015. The Group is not expecting any of these issues to significantly impact on the Group's financial statements.

Further issues are addressed in the Annual Improvements 2012-2014 cycle, which are effective for accounting periods beginning on or after 1 July 2016, subject to adoption by the European Union.

There is also a disclosure initiative which incorporates amendments to IAS 1, which is effective for accounting periods beginning on or after 1 January 2016, subject to adoption by the European Union.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2015

2. Significant accounting policies continued

Leases

Leases where substantially all of the risks and rewards of ownership of the assets remain with the lessor are accounted for as operating leases and the expense is accounted for on a straight-line basis over the term of the lease.

Revenue recognition

Revenue is recognised at the point of despatch to the customer and excludes value added taxes and is shown net of discounts allowed.

- 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	– 3 years
Demonstration equipment	– 3 years
Plant and equipment	– 3 years

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. Costs are calculated as the cost of materials and direct labour costs incurred. Net realisable value is based on the estimated selling price less further costs of disposal.

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 and amortisation.

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.

Share-based payments

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.

2. Significant accounting policies continued

Accounting judgements and key sources of estimation uncertainty

As stated above, the preparation of financial statements under IFRS requires the Group 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 Group makes provision for debts, including intercompany debts, that management estimates may become impaired. The Group 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.

Financial Instruments

Financial assets and liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument. The Group's financial instruments comprise cash, trade receivables and trade and other payables.

Trade receivables

Trade receivables are initially stated at their fair value plus transaction costs, then subsequently at amortised cost using the effective interest method, if applicable, less impairment losses. Provisions against trade receivables are made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write down is determined as the difference between the assets' carrying amount and the present value of the estimated future cash flows.

Cash and cash equivalents

The Group manages short-term liquidity through the holding of cash and highly liquid interest-bearing deposits. Only deposits that are readily convertible into cash with maturities of three months or less from inception, with no penalty of lost interest, are shown as cash or cash equivalents.

Trade payables

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. All financial liabilities are recorded at amortised cost using the effective interest method, with interest related charges recognised as an expense in the finance cost in the statement of comprehensive income.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

3. Revenue

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 United Kingdom and is analysed as follows:

	2015			2014		
	Security £	**Industrial £**	**Total £**	Security £	Industrial £	Total £
Group revenue by destination and sector						
UK	**58,496**	**291,488**	**349,984**	23,675	476,834	500,509
Europe, Middle East and Africa	**673,804**	**50,089**	**723,893**	694,578	46,622	741,200
Asia	**450,838**	**102,104**	**552,942**	816,274	96,358	912,632
Americas	**45,500**	**35,449**	**80,949**	2,000	38,394	40,394
	1,228,638	**479,130**	**1,707,768**	1,536,527	658,208	2,194,735
Gross profit by sector	**378,713**	**270,120**	**648,833**	446,008	227,153	673,161

During the year to 30 September 2015, sales of £902,839 were made to three customers (customer A £428,489, customer B £288,000 and customer C £186,350), accounting for 53% of total revenue (2014: sales of £1,128,557 were made to three customers (customer A £370,000, customer B £350,000 and customer C £408,577), accounting for 51% of total revenue).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2015

4. Operating loss

	2015 £	2014 £
Operating loss is stated after charging		
Depreciation of property, plant and equipment	**5,292**	13,348
Impairment of inventories	**17,847**	44,631
Operating leases	**37,851**	39,859
Auditors' remuneration		
Audit – subsidiary	**18,308**	14,220
Audit – Company	**4,867**	3,780
Other services	**3,750**	3,068
Cost of inventories recognised as an expense (included in cost of sales)	**877,752**	1,193,481
Exchange rate loss	**1,540**	20,504
Loss on disposal of fixed asset	**–**	799
Exceptional cost on nuclear contract	**–**	84,836

5. Information regarding Directors and employees

	2015 £	2014 £
Directors' emoluments		
Management remuneration	**173,090**	155,558
Fees as directors	**30,000**	31,738
Pension contributions	**8,210**	12,477
	211,300	199,773

	Number	Number
Number of directors accruing benefits under:		
Defined contribution pension scheme	**1**	2

	£	£
The amounts paid in respect of the highest paid Director are as follows:		
Emoluments	**90,315**	81,088
Pension contributions	**8,210**	7,276
	98,525	88,364

	Number	Number
Average number of persons employed (including directors)		
Accounts and administration	**2**	1
Technical	**12**	12
Directors	**4**	4
	18	17

5. Information regarding Directors and employees continued

	2015 £	2014 £
Staff costs during the year (including directors)		
Wages and salaries	**752,677**	715,940
Social security costs	**84,063**	77,041
Pension costs	**20,889**	26,811
Share-based payments (option scheme)	**10,689**	3,330
	868,318	823,122

Directors' remuneration is detailed within the remuneration report set out on pages 9 and 10.

Related party transactions are disclosed in note 17.

6. Tax on results on ordinary activities

a) Analysis of credit in the year

	2015 £	2014 £
Current tax		
UK corporation tax at 20% (2014: 20%) based on the result for the year (note 6b)	**90,201**	71,894
Total current tax credit	**90,201**	71,894

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

	2015 £	2014 £
Loss on ordinary activities before tax	**(640,430)**	(523,358)
Tax on loss on ordinary activities at standard rate	**(128,086)**	(104,672)
Being the effects of:		
Permanent differences	**2,559**	1,029
Accelerated capital allowances	**(1,997)**	(2,267)
Current year result carried forward/(used)	**58,229**	57,971
Loss surrendered to HM Revenue & Customs in exchange for R&D tax relief	**69,551**	47,939
Other timing differences	**(256)**	—
Tax credit receivable from HM Revenue & Customs	**(90,201)**	(71,894)
Actual tax credit for the year (note 6a)	**(90,201)**	(71,894)

7. Earnings per share

	2015 £	2014 £
Loss for the year	**(550,229)**	(451,464)
Weighted average number of ordinary shares in issue	**125,604,577**	79,554,598
Basic and diluted loss per share	**(0.44p)**	(0.57p)

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares are shares issued under the Company's Enterprise Management Incentive ('EMI') scheme and options issued under the Company's Unapproved scheme.

When a loss is incurred, since the conversion of potential ordinary share options to ordinary shares would decrease the net loss per share, options are not dilutive and basic and diluted loss per share are the same.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2015

8. Property, plant and equipment

Group	Computer equipment £	Demonstration equipment £	Plant and equipment £	Total £
Cost				
At 1 October 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
Additions	979	–	–	979
At 30 September 2015	**71,107**	**76,044**	**96,425**	**243,576**
Depreciation				
At 1 October 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
Provided during the year	4,105	1	1,186	5,292
At 30 September 2015	**67,349**	**76,044**	**96,114**	**239,507**
Net book value				
At 30 September 2015	**3,758**	**–**	**311**	**4,069**
At 30 September 2014	6,884	1	1,497	8,382

9. Investments

Subsidiary undertakings – Company

	£
Cost	
At 1 October 2013, 2014 and at 30 September 2015	51,001
Impairment	
At 1 October 2013, 2014 and 30 September 2015	(51,000)
Balance at 30 September 2014 and 2015	**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 2015 £**	Investment shares at cost 2014 £
Image Scan Ltd (previously Stereo Scan Ltd)	Development of advanced imaging technology	England	100%	**51,000**	51,000
3DX-Ray Ltd	Exploitation of advanced imaging technology	England	100%	**1**	1

10. Inventories

	Group		Company	
	2015 £	2014 £	**2015 £**	2014 £
Raw materials	**294,939**	116,797	**–**	–
Work in progress	**102,224**	75,919	**–**	–
Finished goods	**173,338**	138,110	**–**	–
	570,501	330,826	**–**	–

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

During the year, an impairment charge was made against demonstration equipment of £17,847 (2014: £44,631).

11. Trade and other receivables

	Group		Company	
	2015 £	2014 £	**2015 £**	2014 £
Trade receivables	**200,786**	135,490	**–**	–
Amounts recoverable on contracts	**12,836**	7,000	**–**	–
Other receivables and prepayments	**53,417**	39,631	**5,520**	7,075
VAT recoverable	**26,441**	–	**2,661**	7,969
Amounts due from subsidiary undertakings	**–**	–	**629,649**	1,183,360
	293,480	182,121	**637,830**	1,198,404

The amounts due from the subsidiary undertakings are due on demand. However, in the opinion of the Directors, it is unlikely that these amounts will be repaid in full in the next financial year.

12. Cash and cash equivalents

	Group		Company	
	2015 £	2014 £	**2015 £**	2014 £
Cash and cash equivalents	**469,458**	948,281	**3,002**	10,932

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2015

13. Trade and other payables

Amounts falling due within one year

	Group		Company	
	2015 £	2014 £	**2015 £**	2014 £
Trade payables	**291,852**	182,044	**1,566**	33,081
Deferred income	**403,682**	123,236	**–**	–
Other tax and social security	**25,631**	24,895	**–**	–
Accruals	**56,728**	33,646	**22,631**	20,080
	777,893	363,821	**24,197**	53,161

At 30 September 2015 accruals included pension contributions amounting to £2,164 (2014: £3,439).

14. Provisions for liabilities and charges

Deferred tax

The Group has unused tax losses of £5.75m (2014: £5.4m) and other temporary timing differences amounting to £1k (2014: £203k). 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 parent's tax losses not provided amount to £nil (2014: £nil).

Group warranty provision

	2015 £	2014 £
At 1 October 2014	**21,507**	43,151
Provision in year	**35,229**	14,876
Used in year	**(16,634)**	(34,406)
Released during the year	**(6,922)**	(2,114)
At 30 September 2015	**33,180**	21,507

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 2015 the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

Land and buildings	**2015 £**	2014 £
Within one year	**38,000**	36,000
Between two and five years	**152,000**	–
Over five years	**35,000**	–
	225,000	36,000

16. Share capital

	£	£
Authorised		
200,000,000 ordinary shares of 1 pence each	**2,000,000**	2,000,000
Called up, allotted and fully paid		
125,604,577 ordinary shares of 1 pence each	**1,256,046**	1,256,046

The following share options are outstanding at 30 September 2015:

Image Scan Share Option Scheme	Date of issue	Quantity	Exercise Price	Fair Value	Vesting Period	Expiry Date
Enterprise Management Incentive	02/10/2006	30,000	18.25p	131	3 years	02/10/2016
Enterprise Management Incentive	23/11/2007	20,000	10.0p	120	3 years	23/11/2017
Enterprise Management Incentive	01/03/2010	515,000	4.0p	5,600	3 years	02/03/2020
Enterprise Management Incentive	17/09/2014	3,300,000	2.0p	31,005	3 years	17/09/2024
Unapproved Scheme	11/04/2014	1,900,000	3.375p	10,707	3 years	11/04/2024
Unapproved Scheme	22/09/2014	400,000	2.5p	2,153	3 years	22/09/2024

Share option movement

Details of the number of share options and the weighted average exercise price ('WAEP') outstanding during the year are as follows:

	2015 £	2015 WAEP	2014 £	2014 WAEP
At 1 October 2014	**6,634,000**	**2.85**	2,264,000	9.31
Options issued in year	**–**	**–**	5,950,000	2.47
Options exercised in year	**–**	**–**	–	–
Options lapsed in year	**(469,000)**	**4.45**	(1,580,000)	10.68
At 30 September 2015	**6,165,000**	**2.73**	6,634,000	2.85

The weighted average remaining contracted life of share options outstanding at the year end was 8.4 years (2014: 9.3 years).

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:

	2015 £	2014 £
Employee benefits (note 5)	**10,689**	3,330

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2015

17. Transactions with related parties

During the year, Image Scan Holdings plc provided management services to the value of £155,000 to its subsidiary company 3DX-Ray Limited (2014: £140,000).

At the year end the Company was owed the following amounts by subsidiary companies against which a bad debt provision of £8,570,820 (2014: £8,020,717) is held:

	2015 £	2014 £
3DX-Ray Ltd	**8,313,251**	8,316,860
Image Scan Ltd	**887,217**	887,217

The bad debt charged against 3DX-RAY Ltd's debtor balance during the period is £550,102 (2014: £472,764).

Boundary Capital Partners LLP is considered to be a related party by virtue of Richard Leaver having a material interest in, and being a partner in, the LLP. Boundary Capital Partners LLP provided consultancy services to the value of £4,500 (2014: £6,750). An amount of £1,350 (2014: £6,750) is due to Boundary Capital Partners LLP and is included in trade payables at the year end.

IXO Machinery Equipment (Shanghai) Co Ltd and Aerosino Corporation Inc, are considered to be related parties as they are related to Rise Step International Limited, which is itself a substantial shareholder of the Company. IXO Machinery Equipment (Shanghai) Co Ltd and Aerosino Corporation Inc, provided goods to the value of £211,145 (2014: £69,050) and £6,658 (2014: £11,590) respectively. An amount of £95,810 (2014: £nil) is due to IXO Machinery Equipment (Shanghai) Co Ltd and an amount of £4,263 (2014: £4,236) is due to Aerosino Corporation Inc, and is included in trade payables at the year end.

AVS Partners Limited is considered to be a related party by virtue of William Mawer having a material interest in, and being a director in, the company. AVS Partners Limited provided consultancy services to the value of £655 (2014: £46,080 – This was paid in shares which on the date of issue would have realised £45,424 at closing market price). An amount of £nil (2014: £nil) is included in trade payables at the year end.

I-See Associates Limited was considered to be a related party in the prior year due to Brian Emslie having a material interest in, and being a director in, the company. I-See Associates Limited provided consultancy services to the value of £nil (2014: £796). An amount of £nil (2014: £nil) is included in trade payables at the year end.

Axi-Tek Limited was considered to be a related party in the prior year due to Nick Fox having a material interest in, and being a director in, the company. Axi-Tek Limited provided consultancy services to the value of £nil (2014: £9,038). An amount of £nil (2014: £nil) is included in trade payables at the year end.

18. Financial instruments

The principal financial assets of the Group are bank balances, trade and other receivables. The main purpose of these financial instruments is to generate sufficient working capital for the Group to continue its operations. The Group's principal financial liabilities are trade and other payables.

Credit risk

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below. All classes relate to financial assets classified as loans and receivables.

Financial assets classified as loans and receivables – carrying amounts

	2014 £	2014 £
Cash and cash equivalents	**469,458**	948,281
Trade and other receivables	**240,063**	142,490
	709,521	1,090,771

The credit risk is primarily attributable to trade receivables. The Group'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.

18. Financial instruments continued

Liquidity risk

The Group's funding strategy is to generate sufficient working capital to settle liabilities as they fall due. There is no external debt. Liquidity risk is managed through cash flow forecasting to ensure working capital requirements are identified promptly.

The Group's financial liabilities have contractual maturities as follows:

Financial liability profile

	2015 £	2014 £
Due in less than one month	**143,942**	74,052
Due between one and three months	**363,920**	264,976
Due between three months and one year	**270,031**	24,793
Due after one year	**–**	–
	777,893	363,821

Currency profile

At 30 September 2015 amounts payable included US$50,846, EUR 8,316, and ZAR 15,585 (2014: US$12,290, EUR 2,650, SFr 4,867 and ZAR 14,428). All other financial assets and liabilities are denominated in Sterling.

Capital management

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

19. Post balance sheet events

There were no post balance sheet events.

NOTICE AND AGENDA OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the shareholders will be held at 1.30pm on 23 February 2016 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 1-6 as Ordinary Resolutions and as to Resolutions 7 as a Special Resolution.

Ordinary resolutions

1. To receive and adopt the financial statements for the year ended 30 September 2015 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 2015.
3. To re-elect as a Director V Deery.
4. To re-elect as a Director R Leaver.
5. To re-appoint Wilkins Kennedy LLP as auditors and to authorise the Directors to fix their remuneration.
6. 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'), up to an aggregate nominal amount of £125,605 for a period expiring (unless previously renewed, varied or revoked by the Company in 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 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

7. That subject to, and conditional upon, the passing of Resolution 6 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 7a above, up to an aggregate nominal amount of £125,605,

   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 7, '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.

By order of the Board

Sarah Atwell-King
Company Secretary

Notes:

1. If you plan to attend the AGM, please inform the Company Secretary in advance on ir@ish.co.uk to ensure that you gain admission to the meeting as quickly as possible. Please note that if you are not listed in advance, due to the security arrangements, you will need to 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 1.30pm on 19 February 2016 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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