

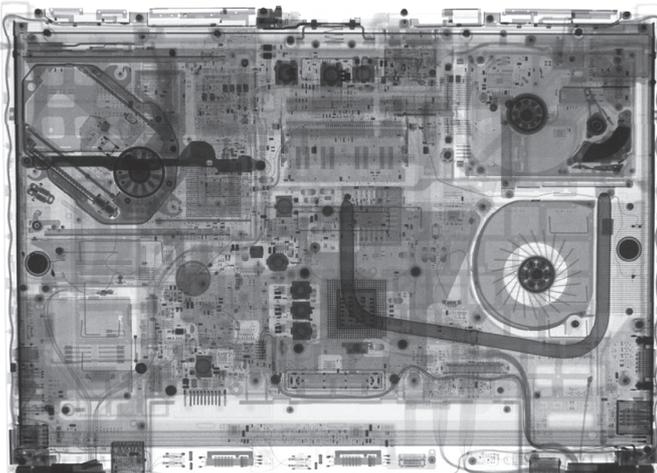
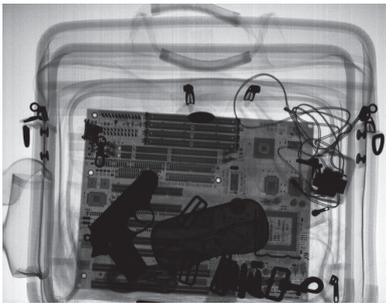
REAL-TIME X-RAY SYSTEMS

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 4



HIGHLIGHTS

2016 represented a year focused on taking new products to market

OPERATIONAL HIGHLIGHTS

- Large orders for portable X-ray systems from international security and defence customers
- Manufacturing and supply chain improvements allow on-time delivery of increased volumes
- Continued growth in orders for industrial inspection systems used for inspection of automotive emission control systems
- Prototype of new generation portable X-ray systems has been produced under the grant project

FINANCIAL HIGHLIGHTS

- Total order intake for the year of £4.3m (2015: £1.9m)
- Sales of £3.3m (2015: £1.7m) at an improved gross margin of 42% (2015: 38%)
- Pre-tax trading profit of £105k (2015: loss of £550k)
- Closing order book of £1.7m (2015: £0.7m) and cash of £1.1m (2015: £0.5m)

IN THIS REPORT

Strategic report

- 1 Highlights
- 2 Chairman’s statement
- 4 Strategic report

Governance

- 7 Directors’ report
- 9 Statement of corporate governance
- 10 Remuneration report

Financial statements

- 13 Independent auditor’s report
- 14 Consolidated statement of comprehensive income
- 15 Consolidated statement of financial position
- 16 Company statement of financial position
- 17 Statement of changes in equity
- 18 Consolidated cash flow statement
- 19 Company cash flow statement
- 20 Notes to the financial statements
- 34 Notice and agenda of Annual General Meeting
- 36 Officers and professional advisers

DISCOVER MORE ONLINE

Stay up to date with the latest news and announcements on our investor website:

www.ish.co.uk



CHAIRMAN'S STATEMENT

WILLIAM MAWER, CHAIRMAN

Our short-term focus for the security activity is to continue the development of the portable X-ray product range, together with the associated accessories and software functions, aspiring to be a leader in this market. In the industrial product range, we look to extend the deployment of systems by our existing and new customers

Overview

I am pleased to report on the results for Image Scan Holdings plc for the year ended 30 September 2016. The year saw substantial increases in both orders and sales, and the business recorded a profit for the first time since FY 2012/13.

Order intake during 2016 totalled £4.3m (2015: £1.9m) and was particularly strong in portable X-ray systems. Sales for the year were £3.3m (2015: £1.7m) and the business made a pre-tax profit of £105k (2015: loss of £550k). The Company closed the year with an order book of £1.7m (2015: £0.7m) and a positive cash balance of £1.1m (2015: £0.5m).

The pace of new product development continued into 2016. However the primary focus of the Company has been to take the newly developed products to market, particularly the new portable X-ray systems. Orders started to build early in the year with large contracts being awarded in the second half. The business also focused on restructuring its supply chain and manufacturing processes to better meet the demands of volume manufacturing. The results of this effort were demonstrated by on-time deliveries of high volumes of portable X-ray systems late in the year. That performance has continued into the first half of FY 2016/17.

Sales of industrial inspection systems to customers in the automotive sector increased and several new service contracts were signed. The large nuclear project, which adversely impacted Company performance for several years, has completed; the system is out of warranty and a service contract has been put in place.

Innovation has continued and the business has developed a first working prototype of its new generation of portable X-ray systems. The Company works with Ibex Innovations on this project from whom it has an exclusive license to innovative X-ray detection and processing technology. In the industrial product range, substantial customer funded software development projects were delivered and new and potentially valuable techniques were developed for the inspection of large diesel particulate filters.

Our strategy

Our short-term focus is to continue the development of the portable X-ray product range, together with the associated accessories and software functions, aspiring to be a leader in this market. While we no longer plan to develop a new conveyor X-ray system, we will look to continue to serve our existing customers while seeking a lower cost replacement.

We look to extend the deployment of industrial inspection systems by our existing customers, enhancing the product range through internally funded and customer funded research and development. We will also seek new customers, though we will continue to focus on the automotive emissions control area.

Having enhanced our security product range through a distribution agreement with Todd Research Limited we will continue to seek opportunities, either through similar arrangements, through licensing or by acquisition to expand the range of products we take to market.

Outlook

The Company starts 2017 strongly with a substantial order book, including in excess of 50 portable X-ray machines which will be delivered during the first half. The sales pipeline remains strong and support contracts for the large installed base of industrial machines provide valuable recurring revenue.

The sales team will continue their extensive programme of demonstrations and trials of the ThreatScan®-LS1 and FlatScan-Lite portable X-ray systems and both systems are expected to continue to be popular with customers. New product launches planned for 2017 should keep the Company's products competitive and allow it to further extend its customer base.

In the industrial product range, the Company will continue its focus on the principal manufacturers of automotive emissions control systems, seeking expanded global deployment by current customers and the acquisition of new customers in this active market. Recent developments in the inspection of larger diesel particulate filters will be extended and the potential market for systems incorporating these techniques will be further explored.

The outlook for the Company remains strong in all its major markets and opportunities for further expansion continue to be explored.

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
5 December 2016

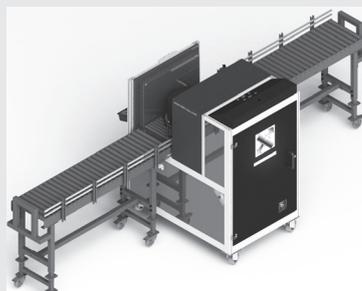
ADDING VALUE TO SYSTEMS

PORTABLE X-RAY PRODUCT RANGE



An extensive range of accessories have been developed for Image Scan's range of portable X-ray systems. Some of them are shown here in a rapid deployment case. These significantly increase the range of scenarios where users can deploy the systems and add up to 25% to the value of each contract.

INDUSTRIAL PRODUCT RANGE



Customer funded development projects have added both hardware and software features to Image Scan's industrial X-ray systems. These include mechanical handling systems for loading and accurately positioning large diesel particulate filters in the X-ray machine. The development projects both provide valuable income and increase the value of future system sales.

STRATEGIC REPORT

WILLIAM MAWER, CHIEF EXECUTIVE OFFICER

Business activity

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 terrorist incident and are consequently designed to be rugged and reliable. Image Scan has been a strong player in the market for many years. Following a round of fundraising in late 2014, research and development spend in this area was increased in support of a product strategy developed by the incoming CEO. The first products were launched late in 2015 and 2016 has seen volume orders for these new products. The Company also manufactures the Axis range of 2D and 3D checkpoint X-ray machines and the SVXi vehicle scanner.

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 an installed base of many such machines, most of which are under long term service contracts. Emissions control, particularly of diesel cars and trucks, is an area of market growth driven by tighter emissions legislation, particularly in China. 2016 has seen both increased sales of these systems and customer funded development projects.

Business review

Portable X-ray systems

The number of portable X-ray units sold trebled in comparison to the prior year, and the year-end order book included in excess of 50 units for sale in the first half of FY 2017. The majority of units sold were the ThreatScan®-LSI, which was launched in 2015. This system, which offers exceptional imaging performance in a rugged and highly portable package, was successfully demonstrated at major global gatherings of bomb disposal experts including the International Association of Bomb Technicians and Investigators conference, held in Halifax, Nova Scotia. Experts who used the system liked its speed of deployment, ease of use and the quality of the image produced. During the year, potentially valuable new customers were acquired and several large multi-unit orders were received.

Key performance indicators

Order intake

£4.3m

2015: £1.9m
2014: £1.5m
2013: £3.3m

Turnover

£3.3m

2015: £1.7m
2014: £2.2m
2013: £2.5m

Gross margin

42%

2015: 38%
2014: 31%
2013: 37%

Number of staff

19

2015: 18
2014: 17
2013: 20

A new lower cost system, the FlatScan-Lite, which teams an upgraded version of the Company's smaller detector panel with a new low cost generator, was introduced and orders started to build, particularly in Central Asia. The approach makes the Company's superior Linescan X-ray technology available to new markets.

Mail Scan systems

An extensive range of portable X-ray accessories were introduced. These include extended range communications, radiation protection devices and a dedicated trolley for under vehicle inspection, systems which give customers new deployment options and add value to individual sales.

For markets where even higher performance is required, the Company is developing a Precision Linescan Detector using unique detection and image processing technology licensed exclusively to Image Scan from Ibx Innovations, a Durham University spinoff. The project is supported by a grant from Innovate UK, and this is the first time the Company has had such a grant. A prototype has been produced and is demonstrating both exceptionally clear images and excellent materials discrimination. The grant completes in February 2017 and the system will be launched later in the year.

An agreement was signed with Todd Research Limited for Image Scan to market that company's Mail Scan X-ray systems and orders were received in Africa and Asia. Campaigns to sell further systems are underway.

Industrial inspection systems

Sales of MDXi industrial inspection systems increased to seven systems (2015: two systems) as the Company's major customers continued to roll out the technology into their manufacturing plants. MDXi systems are primarily used to inspect catalytic converters and diesel particulate filters in the manufacturing process.

The Company also carried out several substantial customer development projects, providing additional features and enhancements to these machines. A new technique was developed for inspecting large diesel particulate filters and it is hoped these techniques will be deployed during 2017.

The inspection system provided under a longstanding nuclear industry contract, which adversely impacted the Company's performance for several years, reached the end of its warranty period and a support contract was put in place.

Financial results

The Company started the year with an order book of £0.7m (2015: £0.5m), won new orders worth £4.3m (2015: £1.9m) and made sales of £3.3m (2015: £1.7m), finishing the year with an order book of £1.7m (2015: £0.7m).

Gross margin on sales made a further improvement to 42% (2015: 38%). Gross margin has increased by over 10 percentage points from the 2014 level of 31%. This improving gross margin, which has been driven by sales of higher margin, newly developed products and supply chain and manufacturing efficiencies, allowed the business to record a profit of £105k (2015: loss of £550k), its first profit since FY 2012.

Overheads were managed carefully with an increase of just £0.1m to £1.4m (2015: £1.3m), which is largely due to increased marketing expenses as the new products were taken to market.

The business finished the year with a positive cash balance of £1.1m (2015: £0.5m).

Operational improvements

The process of operational improvement, which had been started under our new Operations Manager in 2015, gathered pace in 2016. In particular, it became necessary to gear up the manufacturing and supply chain processes to handle the increasing volume of security system orders in the later part of the year. In manufacturing, temporary staff were recruited and trained and an efficient resource planning system was put in place. An upgraded Sage business system led to improvements to ordering and stock control. Key strategic suppliers were identified and improvements were made in supplier communications and management. The success of this process was a key component in the Company's considerably improved on-time delivery performance and customer satisfaction ratings. The improvement process will continue in 2017.

The success of our process improvement was a key component in the Company's considerably improved on-time delivery performance

STRATEGIC REPORT CONTINUED

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 Group 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 Group to significant foreign exchange risk, such transactions will continue to be settled at the spot rate.
CREDIT RISK	The Group's principal financial assets are cash and trade debtors. The credit risk associated with cash is limited as the Group'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 Group'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 Group 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
5 December 2016

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 30 September 2016.

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	12.49	15,688,805
Reyker Securities plc	7.15	8,984,036
Old Mutual plc	5.48	6,880,000
Directors' shareholdings		
W R Mawer	3.80	4,771,303
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 £317,841 (2015: £366,095).

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 in the Strategic Report 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 Strategic Report, the annual 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 Group and Company financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

DIRECTORS' REPORT CONTINUED

Directors' statement of responsibilities continued

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 Group and Company and of the profit or loss of the Group and Company for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market ('AIM').

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 requirements of 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 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. 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 the auditor

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 auditor is 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 auditor is aware of that information.

Auditor

The auditor, BDO LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

On behalf of the Board



William Mawer
Chief Executive Officer
5 December 2016

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 2016, 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 committee is under Tim Jackson. The Audit Committee met four times 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 page 9 to 10.

The Nominations Committee comprises Bill Mawer, 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 2016. 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:

Directors	Basic salary £	Fees £	Benefits £	Bonus £	Pension contributions £	Total emoluments	
						2016 £	2015 £
Executive							
V J Deery	89,600	—	727	7,555	8,210	106,092	98,525
W R Mawer	88,300	—	—	7,445	—	95,745	82,775
Non-executive							
R A Leaver	—	15,000	—	—	—	15,000	15,000
T D Jackson	—	15,000	—	—	—	15,000	15,000
Total 2016	177,900	30,000	727	15,000	8,210	231,837	211,300
Total 2015	172,375	30,000	715	—	8,210	211,300	

This table excludes any share-based payments.

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	EMI	300,000	4.0p	01/03/2010	3 years	01/03/2020
V J Deery	EMI	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	EMI	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
W R Mawer	EMI	1,000,000	2.25p	22/12/2015	3 years	22/12/2025
V J Deery	EMI	1,000,000	2.25p	22/12/2015	3 years	22/12/2025
R A Leaver	Unapproved Scheme	200,000	2.25p	22/12/2015	3 years	22/12/2025
T D Jackson	Unapproved Scheme	200,000	2.25p	22/12/2015	3 years	22/12/2025

Share price performance

The highest and lowest share prices during the year were 6.75 pence and 1.38 pence per share respectively. The closing mid-market price was 6.25 pence per share.

On behalf of the Board



William Mawer
Chairman
5 December 2016

FINANCIAL STATEMENTS

13	Independent auditor's report
14	Consolidated statement of comprehensive income
15	Consolidated statement of financial position
16	Company statement of financial position
17	Statement of changes in equity
18	Consolidated cash flow statement
19	Company cash flow statement
20	Notes to the financial statements
34	Notice and agenda of Annual General Meeting
36	Officers and professional advisers

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 2016 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. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by 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 an 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 statement of Directors' responsibilities, 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 opinion 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 Financial Reporting Council's (FRC'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 FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 30 September 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by 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 matters prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and 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.



Gareth Singleton (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor
Nottingham
United Kingdom
5 December 2016

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2016

	Note	2016 £	2015 £
Continuing operations			
Revenue	3	3,314,806	1,707,768
Cost of sales		(1,911,046)	(1,058,935)
Gross profit		1,403,760	648,833
Other operating income	4	77,790	90,201
Operating expenses		(1,058,927)	(924,152)
Research and development expenses		(317,841)	(366,095)
Total administrative expenses		(1,376,768)	(1,290,247)
Operating profit/(loss)	5	104,782	(551,213)
Finance income		671	984
Profit/(loss) before taxation		105,453	(550,229)
Taxation	7	—	—
Profit/(loss) and total comprehensive income for the year from continuing operations attributable to the equity owners of the parent company		105,453	(550,229)
		Pence	Pence
Earnings/(loss) per share	8		
Basic		0.08	(0.44)
Diluted		0.08	—

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2016

	Note	2016 £	2015 £
Non-current assets			
Property, plant and equipment	9	16,796	4,069
		16,796	4,069
Current assets			
Inventories	11	504,584	570,501
Trade and other receivables	12	842,376	383,681
Cash and cash equivalents	13	1,054,588	469,458
		2,401,548	1,423,640
Total assets		2,418,344	1,427,709
Current liabilities			
Trade and other payables	14	1,627,061	777,893
Warranty provision	15	51,232	33,180
		1,678,293	811,073
Net assets		740,051	616,636
Equity			
Share capital	17	1,256,046	1,256,046
Share premium account		7,934,528	7,934,528
Retained earnings		(8,450,523)	(8,573,938)
Total equity attributable to shareholders		740,051	616,636

These financial statements were approved by the Board of Directors on 5 December 2016.

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 2016

	Note	2016 £	2015 £
Non-current assets			
Investments in Group undertakings	9	1	1
Current assets			
Trade and other receivables	12	767,062	637,830
Cash and cash equivalents	13	1,032	3,002
		768,094	640,832
Total assets		768,095	640,833
Current liabilities			
Trade and other payables	14	28,044	24,197
Net assets		740,051	616,636
Equity			
Share capital	17	1,256,046	1,256,046
Share premium account		7,934,528	7,934,528
Retained earnings		(8,450,523)	(8,573,938)
Total equity		740,051	616,636

These financial statements were approved by the Board of Directors on 5 December 2016.

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 2016

Consolidated	Share capital £	Share premium £	Retained earnings £	Total £
As at 1 October 2014	1,256,046	7,934,528	(8,034,398)	1,156,176
Profit/(loss) for the year and total comprehensive income/(expenditure) 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
Profit/(loss) for the year and total comprehensive income/(expenditure) for the year	—	—	105,453	105,453
Share-based transactions	—	—	17,962	17,962
As at 30 September 2016	1,256,046	7,934,528	(8,450,523)	740,051

Company	Share capital £	Share premium £	Retained earnings £	Total £
As at 1 October 2014	1,256,046	7,934,528	(8,034,398)	1,156,176
Profit/(loss) for the year and total comprehensive income/(expenditure) 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
Profit/(loss) for the year and total comprehensive income/(expenditure) for the year	—	—	105,453	105,453
Share-based transactions	—	—	17,962	17,962
As at 30 September 2016	1,256,046	7,934,528	(8,450,523)	740,051

As permitted by the Companies Act 2006, a separate income statement for the Company has not been included. The profit for the financial year dealt with in the financial statements of the Company was £105,453 (2015: loss of £550,229).

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

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2016

	Note	2016 £	2015 £
Cash flows from operating activities			
Operating profit/(loss) before research and development expenditure		422,623	(185,118)
Research and development expenditure		(317,841)	(366,095)
Operating profit/(loss)		104,782	(551,213)
Adjustments for:			
Depreciation		6,215	5,292
Impairment of inventories		13,335	17,847
Decrease/(increase) in inventories		52,582	(257,522)
Increase in trade and other receivables		(458,695)	(129,666)
Increase in trade and other payables		849,168	414,072
Increase in warranty provisions		18,052	11,673
Share-based payments		17,962	10,689
Cash generated from/(used in) operating activities		603,401	(478,828)
Corporation tax recovered		—	—
Net cash flows generated from/(used in) operating activities		603,401	(478,828)
Cash flows from investing activities			
Interest received		671	984
Purchase of property, plant and equipment	9	(18,942)	(979)
Net cash (used in)/generated from investing activities		(18,271)	5
Cash flows from financing activities			
Proceeds from issue of share capital		—	—
Financial costs of fundraising		—	—
Net cash generated from financing activities		—	—
Net increase/(decrease) in cash and cash equivalents		585,130	(478,823)
Cash and cash equivalents at beginning of year		469,458	948,281
Cash and cash equivalents at end of year	13	1,054,588	469,458

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

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2016

	Note	2016 £	2015 £
Cash flows from operating activities			
Operating profit/(loss)		105,453	(550,229)
Adjustments for:			
(Decrease)/increase in intercompany bad debt provision		118,040	550,102
Movements in intercompany balances		(225,041)	3,609
(Increase)/decrease in trade and other receivables		(22,231)	6,863
Increase/(decrease) in trade and other payables		3,847	(28,964)
Share-based payments		17,962	10,689
Net cash used in operating activities		(1,970)	(7,930)
Net cash flow generated from financing activities		—	—
Net decrease in cash and cash equivalents		(1,970)	(7,930)
Cash and cash equivalents at beginning of year		3,002	10,932
Cash and cash equivalents at end of year	13	1,032	3,002

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2016

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 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. An assessment of the extent of the impact has not yet been concluded. 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.

2. Significant accounting policies continued

New accounting standards, amendments and interpretations continued

IFRS 15 Revenue from Contracts with Customers

IFRS 15 sets out to clarify the principles of revenue recognition 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.

IFRS 16 Leases

IFRS 16 sets out the principles for recognition, measurement, presentation and disclosure of leases and will replace IAS 17 Leases. The standard is effective for accounting periods beginning on or after 1 January 2019, subject to adoption by the European Union.

IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions

This amendment provides clarification on accounting for share-based payments. The standard is effective for accounting periods beginning on or after 1 January 2018, 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 and has the ability to use its power to affect its returns so as to obtain benefits from its activities.

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 recognition is determined as follows and excludes value-added taxes and is shown net of discounts allowed.

- Revenue on contract for product sales is recognised when the risks and rewards of ownership are transferred to the customer. The terms of each contract are agreed on an individual basis.
- Revenue on contracts for support and maintenance are charged evenly over the period of the contract.
- 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2016

2. Significant accounting policies continued

Property, plant and equipment

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

Computer equipment	-	three years
Demonstration equipment	-	three years
Plant and equipment	-	three 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.

No costs have been capitalised in this year as R&D expenditure has not reached a point where future profitability can be accessed.

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.

2. Significant accounting policies continued

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.

The critical accounting estimates, assumptions and judgements underpinning the valuation of the options are disclosed in note 25.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2016

2. Significant accounting policies continued

Accounting judgements and key sources of estimation uncertainty continued

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 its holdings 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.

3. Revenue

The Group has only one business sector, being the continuing development of advanced X-ray imaging techniques.

For the financial years ended 30 September 2016 and 2015, the Board considers that the Group represented only one reportable segment as defined by IFRS 8 being the Group results. Due to the scale of the business, the Board received information on financial performance on a Group wide basis and the performance of individual contracts were appraised on a case-by-case basis and monitored accordingly as part of the Company internal reporting process. The individual contracts reported on during this period are not considered to represent individual reportable operating segments.

In previous years the Group has reported segments relating to security and industrial based on the allocation of certain contracts into relevant captions but this is inconsistent with how the business operated and was managed and therefore the relevant segmental analysis has been removed.

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

	2016 £	2015 £
Group revenue by destination		
UK	325,481	349,984
Europe, the Middle East and Africa	1,485,624	723,893
Asia	1,235,504	552,942
Americas	268,197	80,949
	3,314,806	1,707,768
Gross profit by destination	1,403,760	648,833

During the year to 30 September 2016, sales of £1,582,335 were made to two customers (Customer A - £968,791 and Customer B - £613,544) accounting for 48% of total revenue (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).

4. Other operating income

	2016 £	2015 £
R&D tax credit	12,328	90,201
Government grant income	65,462	—
	77,790	90,201

R&D tax credits have been reclassified from taxation to other operating income as the Board has decided that this reflects its true nature as revenue against the ongoing R&D costs which form a part of the standard operations of the business rather than a corporation tax refund.

The R&D tax credits in the year have been decreased due to part of the spending being met by an Innovate UK grant and also due to the limits on the amount credits which can be claimed.

5. Operating loss

	2016 £	2015 £
Operating profit/(loss) is stated after charging		
Depreciation of property, plant and equipment	6,215	5,292
Impairment of inventories	13,355	17,847
Operating leases	38,720	37,851
Auditor's remuneration		
Audit – Subsidiary	12,426	18,308
Audit – Company	4,074	4,867
Other services	5,227	3,750
Cost of inventories recognised as an expense (included in cost of sales)	1,541,746	877,752
Exchange rate loss	6,424	1,540

6. Information regarding directors and employees

	2016 £	2015 £
Directors' emoluments		
Management remuneration	193,627	173,090
Fees as Directors	30,000	30,000
Pension contributions	8,210	8,210
Share-based payments (option scheme)	17,962	10,689
	249,799	221,989

	Number	Number
Number of Directors accruing benefits under:		
Defined contribution pension scheme	1	1

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2016

6. Information regarding directors and employees continued

	2016 £	2015 £
The amounts paid in respect of the highest paid Director are as follows:		
Emoluments	97,882	90,315
Pension contributions	8,210	8,210
	106,092	98,525

	Number	Number
Average number of persons employed (including Directors)		
Accounts and administration	2	2
Technical	13	12
Directors	4	4
	19	18

	£	£
Wages and salaries	864,600	752,677
Social security costs	102,756	84,063
Pension costs	25,197	20,889
Share-based payments (option scheme)	17,962	10,689
	1,010,515	868,318

Directors' remuneration is detailed within the Remuneration Report set out on pages 10 and 11.

Related party transactions are disclosed in note 18.

7. Tax on results on ordinary activities

a) Analysis of credit in the year

	2016 £	2015 £
Current tax		
UK corporation tax at 20% (2015: 20%) based on the result for the year (note 7b)	—	—
Total current tax credit	—	—

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:

7. Tax on results on ordinary activities continued

b) Reconciliation of tax credit

	2016 £	2015 £
Profit/(loss) on ordinary activities before tax	105,453	(550,229)
Tax on profit/(loss) on ordinary activities at standard rate	21,091	(110,046)
Being the effects of		
Accelerated capital allowances	(4,891)	(1,997)
Current year result carried forward/(used)	—	58,229
Loss surrendered to HM Revenue & Customs in exchange for R&D tax relief	17,005	124,414
Enhanced R&D relief	(35,049)	(69,551)
Other timing differences	1,844	(1,049)
Actual tax credit for the year (note 7a)	—	—

The provision for deferred tax is calculated based on the tax rates enacted or substantially enacted at the balance sheet date. The Finance (No.2) Act 2015 enacted the corporation tax rate to reduce from the current rate of 20% to 19% from 1 April 2017 with a further reduction to 18% from April 2020. On 24 March 2016, the Chancellor of the Exchequer announced that legislation would be introduced in Finance Act 2016 to reduce the main rate of corporation tax to 17% from 1 April 2020, superseding the 18% rate effective from that date introduced in Finance (No.2) Act 2015. These changes to the future tax rate were substantively enacted at the balance sheet date. The provision for deferred tax in the financial statements has been based upon the relevant rate to the timing differences are expected to reverse.

8. Earnings per share

	2016 £	2015 £
Profit/(loss) for the year	105,453	(550,229)
Weighted average number of ordinary shares in issue	125,604,577	125,604,577
Basic profit/(loss) per share	0.08p	(0.44p)
Diluted profit per share	0.08p	—

Diluted profit/(loss) per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of dilutive potential ordinary shares, based on an average two month share price over the year end. 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2016

9. Property, plant and equipment

Group	Computer equipment £	Demonstration equipment £	Plant and equipment £	Total £
Cost				
At 1 October 2014	70,128	76,044	96,425	242,597
Additions	979	—	—	979
At 30 September 2015	71,107	76,044	96,425	243,576
Additions	14,265	—	4,677	18,942
At 30 September 2016	85,372	76,044	101,102	262,518
Depreciation				
At 1 October 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
Provided during the year	5,384	—	831	6,215
At 30 September 2016	72,733	76,044	96,945	245,722
Net book value				
At 30 September 2016	12,639	—	4,157	16,796
At 30 September 2015	3,758	—	311	4,069

10. Investments

Subsidiary undertakings - Company

	£
Cost	
At 1 October 2014, 2015 and at 30 September 2016	51,001
Impairment	
At 1 October 2014, 2015 and at 30 September 2016	(51,000)
Balance at 30 September 2015 and 2016	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 2016 £	Investment shares at cost 2015 £
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

11. Inventories

	Group		Company	
	2016 £	2015 £	2016 £	2015 £
Raw materials	313,456	294,939	—	—
Work in progress	54,148	102,224	—	—
Finished goods	136,980	173,338	—	—
	504,584	570,501	—	—

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 £13,355 (2015: £17,847) in the Group accounts.

12. Trade and other receivables

	Group		Company	
	2016 £	2015 £	2016 £	2015 £
Trade receivables	248,150	200,786	—	—
Accrued income on contracts	287,032	12,836	—	—
Other receivables and prepayments	155,148	143,618	27,227	5,520
VAT recoverable	152,046	26,441	3,185	2,661
Amounts due from subsidiary undertakings	—	—	736,650	629,649
	842,376	383,681	767,062	637,830

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.

13. Cash and cash equivalents

	Group		Company	
	2016 £	2015 £	2016 £	2015 £
Cash and cash equivalents	1,054,588	469,458	1,032	3,002

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 2016

14. Trade and other payables

Amounts falling due within one year

	Group		Company	
	2016 £	2015 £	2016 £	2015 £
Trade payables	788,746	291,852	5,213	1,566
Deferred income	691,001	403,682	—	—
Other tax and social security	25,832	25,631	—	—
Accruals	121,482	56,728	22,831	22,631
	1,627,061	777,893	28,044	24,197

At 30 September 2016 accruals included pension contributions amounting to £4,383 (2015: £2,164).

15. Provisions for liabilities and charges

Deferred tax

The Group has unused tax losses of £5.75m (2015: £5.75m) and other temporary timing differences amounting to £nil (2015: £1k). 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 (2015: £nil).

Group warranty provision

	2016 £	2015 £
At 1 October 2015	33,180	21,507
Provision in year	61,958	35,229
Used in year	(23,903)	(16,634)
Released during the year	(20,003)	(6,922)
At 30 September 2016	51,232	33,180

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.

16. Commitments

At 30 September 2016 the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2016 £	2015 £
Land and buildings		
Within one year	38,000	38,000
Between two and five years	149,000	152,000
Over five years	—	35,000
	187,000	225,000

17. Share capital

	2016 £	2015 £
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 2016:

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
Enterprise Management Incentive	22/12/2015	3,550,000	2.25p	15,823	3 years	22/12/2025
Unapproved Scheme	22/12/2015	400,000	2.25p	1,783	3 years	22/12/2025

Share option movement

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

	2016 £	2016 WAEP	2015 £	2015 WAEP
At 1 October 2015	6,165,000	2.73	6,634,000	2.85
Options issued in year	3,950,000	2.25	—	—
Options lapsed in year	—	—	(469,000)	4.45
At 30 September 2016	10,115,000	2.54	6,165,000	2.73

The weighted average remaining contractual life of share options outstanding at the year end was 13.65 years (2015: 8.4 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:

	2016 £	2015 £
Employee benefits (note 6)	17,962	10,689

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2016

18. Transactions with related parties

During the year, Image Scan Holdings plc provided management services to the value of £596,665 to its subsidiary company 3DX-Ray Limited (2015: £155,000).

At the year end the Company was owed the following amounts by subsidiary companies against which a bad debt provision of £8,688,860 (2015: £8,570,820) is held:

	2016 £	2015 £
3DX-Ray Ltd	8,431,291	8,313,251
Image Scan Ltd	887,217	887,217

The bad debt charged to 3DX-Ray Ltd's debtor balance during the period is £118,040 (2015: £550,102).

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 (2015: £4,500). An amount of £1,350 (2015: £1,350) 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 £68,304 (2015: £211,145) and £nil (2015: £6,658) respectively. An amount of £nil (2015: £95,810) is due to IXO Machinery Equipment (Shanghai) Co Ltd and an amount of £49,585 (2015: £4,263) 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 £1,028 (2015: £655). An amount of £nil (2015: £nil) is included in trade payables at the year end.

19. 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. Given the short-term nature of these assets and liabilities the carrying value is considered to be an approximation to fair value.

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

	2016 £	2015 £
Cash and cash equivalents	1,054,588	469,458
Trade and other receivables	687,228	240,063
	1,741,816	709,521

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.

19. 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

	2016	2015
	£	£
Due in less than one month	283,615	143,942
Due between one and three months	1,342,389	363,920
Due between three months and one year	1,058	270,031
Due after one year	—	—
	1,627,062	777,893

Currency profile

At 30 September 2016 amounts owed included US\$30,000 (2015:US\$nil) and amounts payable included US\$255,431, EUR 1,900, and ZAR 31,984 (2015: US\$50,846, EUR 8,316, and ZAR 15,585). 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.

20. 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 21 February 2017 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 Resolution 7 as Special Resolution.

Ordinary Resolutions

1. To receive and adopt the financial statements for the year ended 30 September 2016 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 2016.
3. To re-elect as a Director W Mawer.
4. To re-elect as a Director T Jackson.
5. To re-appoint BDO 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 Resolution

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 6 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.

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 17 February 2017 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

Chairman and Chief Executive Officer

Vincent Deery

Sales and Marketing Director

Richard Leaver

Non-Executive Director

Timothy Jackson

Non-Executive Director

Company Secretary

Sarah Atwell King

Registered office

16-18 Hayhill Industrial Estate
Sileby Road
Barrow-upon-Soar
Leicestershire LE12 8LD

Company number

03062983

Nominated adviser & broker

Cantor Fitzgerald Europe

One Churchill Place
Canary Wharf
London E14 5RB

Principal bankers

Royal Bank of Scotland plc

8 South Parade
Nottingham NG1 2JS

Solicitors

Browne Jacobson

44 Castle Gate
Nottingham NG1 7BJ

Registrars

Neville Registrars Ltd

Neville House
18 Laurel Lane
Halesowen B63 3DA

Auditor

BDO LLP

Statutory Auditor
Chartered Accountants
Regent House
Clinton Avenue
Nottingham NG5 1AZ

Image Scan Holdings plc

16-18 Hayhill Industrial Estate
Sileby Road
Barrow-upon-Soar
Leicestershire LE12 8LD

Tel: +44 (0) 1509 817 400

Fax: +44 (0) 1509 817 401

ir@ish.co.uk

www.ish.co.uk