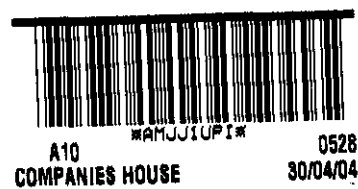


3DX-RAY LIMITED
(formerly Baggage Scan Limited)

Report and Financial Statements

30 September 2003

Deloitte & Touche LLP
Nottingham



REPORT AND FINANCIAL STATEMENTS

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REPORT AND FINANCIAL STATEMENTS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

N D Fox, MSc	Managing Director
S X Godber, PhD	Technical Director
R J Gibbs, BA, FCA	Finance Director

COMPANY SECRETARY

L J George, BSc, ACA

REGISTERED OFFICE

Pera Innovation Park
Nottingham Road
Melton Mowbray
Leicestershire LE13 0PB

PRINCIPAL BANKERS

Royal Bank of Scotland plc
8 South Parade
Nottingham NG1 2JS

SOLICITORS

Stallard Solicitors
Centurion House
37 Jewry Street
London EC3N 2ER

Browne Jacobson
44 Castle Gate
Nottingham NG1 7BJ

AUDITORS

Deloitte & Touche LLP
Nottingham

DIRECTORS' REPORT

The directors present their annual report with the accounts of the company for the year ended 30 September 2003.

PRINCIPAL ACTIVITY AND REVIEW OF BUSINESS

The principal activity of the company for the year under review, was the exploitation of three dimensional and advanced imaging technology in the field of baggage handling.

The results for the year under review show a loss of £682,415 (2002: £485,448). The directors do not recommend the payment of a dividend.

The company has continued the development of its AXIS-3D product for which a manufacturing and non-exclusive sales agreement was signed with Rapiscan Security Products Ltd during the year.

POST BALANCE SHEET EVENT

On 27 January 2004, the company changed its name to 3DX-ray Limited. The company will continue to exploit x-ray imaging technology in the security sector, but will extend its application to non-destructive testing within the field of industrial inspection.

DIRECTORS

The directors are listed on page 1.

None of the directors had any interest in the shares of the company during the period.

The directors' interests, all of which were beneficial, in the shares of Image Scan Holdings plc, the ultimate holding company were:

	1 October 2002 ordinary shares of 1p each	30 September 2003 ordinary shares of 1p each
N D Fox	2,270,835	2,270,835
Dr S X Godber	-	-
R J Gibbs	-	60,000

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

S X Godber	Under the Image Scan 1999 Approved Share Option Scheme, on 4 May 2000 50,000 ordinary shares of 1p at a price of 25p per share; and on 30 April 2001 10,000 ordinary shares of 1p each at a price of 50p per share. In both cases the options are exercisable at any time after three years but no later than ten years from the date of grant.
R J Gibbs	76,923 ordinary shares of 1p each at a price of 65p per share exercisable at any time up to 25 April 2005.

The following share options were granted during the year:

S X Godber	Under the Image Scan Enterprise Management Incentives Share Option Plan, on 14 th March 2003 20,000 ordinary shares of 1p at a price of 51.5p per share. The options are exercisable at any time after three years but no later than ten years from the date of grant.
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On 29 October 2003 R J Gibbs purchased 285,000 ordinary shares in Image Scan Holdings plc. There have been no other changes in directors shareholdings since the year end. No directors exercised share options, nor had any options lapse, during the year.

DIRECTORS' REPORT

DIRECTORS' STATEMENT OF RESPONSIBILITIES

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

AUDITORS

On 1 August 2003, Deloitte & Touche, the company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting.

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



L J George
Company Secretary

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF 3DX-RAY LIMITED (formerly Baggage Scan Limited)

We have audited the financial statements of 3DX-ray Limited (formerly Baggage Scan Limited) for the year ended 30 September 2003 which comprise the profit and loss account, the balance sheet and the related notes 1 to 16. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the company as at 30 September 2003 and of the loss of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP

Chartered Accountants and
Registered Auditors

Nottingham

13th April 2004

PROFIT AND LOSS ACCOUNT
Year ended 30 September 2003

	Note	2003 £	2002 £
TURNOVER	2	367,296	333,533
Cost of sales		(295,668)	(175,619)
Gross profit		71,628	157,914
Other operating costs		-	(19,267)
Administrative expenses		(801,342)	(673,511)
OPERATING LOSS	3	(729,714)	(534,864)
Bank interest received		4,044	324
Interest payable	5	(7,164)	(12,656)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(732,834)	(547,196)
Taxation	6	50,419	61,748
RETAINED LOSS FOR THE FINANCIAL YEAR	13	(682,415)	(485,448)
Retained reserves brought forward		(1,541,096)	(1,055,648)
Revenue reserves carried forward		<u>(2,223,511)</u>	<u>(1,541,096)</u>

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

BALANCE SHEET
30 September 2003

	Note	2003 £	2002 £
FIXED ASSETS			
Tangible fixed assets	7	222,259	95,638
		<u>222,259</u>	<u>95,638</u>
CURRENT ASSETS			
Stock and work in progress	8	26,957	69,931
Debtors	9	174,341	467,601
Cash at bank and in hand		153,602	70,461
		<u>354,900</u>	<u>607,993</u>
CREDITORS: amounts falling due within one year	10	<u>(2,745,999)</u>	<u>(2,153,884)</u>
NET CURRENT LIABILITIES		<u>(2,391,099)</u>	<u>(1,545,891)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(2,168,840)</u>	<u>(1,450,253)</u>
CREDITORS: amounts falling due after more than one year	10	<u>(54,670)</u>	<u>(90,842)</u>
		<u>(2,223,510)</u>	<u>(1,541,095)</u>
CAPITAL AND RESERVES			
Called up share capital	12	1	1
Profit and loss account		<u>(2,223,511)</u>	<u>(1,541,096)</u>
SHAREHOLDERS' DEFICIT	13	<u>(2,223,510)</u>	<u>(1,541,095)</u>

These financial statements were approved by the Board of Directors on 7 April 2004.

Signed on behalf of the Board of Directors



N D FOX

Director

NOTES TO THE ACCOUNTS

Year ended 30 September 2003

1. ACCOUNTING POLICIES

Basis of accounting

The accounts have been prepared in accordance with applicable Accounting Standards and under the historical cost convention.

The balance sheet shows that there are net current liabilities of £2,391,099 (2002: £1,545,891) at 30 September 2003. The accounts are drawn up on a going concern basis which assumes that continuing support will be provided by the parent undertaking, Image Scan Holdings plc.

Cash flow

The accounts do not include a cash flow statement because the company, as a wholly owned subsidiary undertaking of Image Scan Holdings plc, is exempt from the requirement to prepare such a statement under Financial Reporting Statement 1 "Cash flow statements".

Depreciation

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

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

Assets under construction are not depreciated until bought into use.

Leases

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

Pension costs

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

Deferred taxation

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

Stock

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

NOTES TO THE ACCOUNTS**Year ended 30 September 2003****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.

2. TURNOVER

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

An analysis of turnover by geographical market is given below:

	2003 £	2002 £
United Kingdom	316,526	163,702
United States of America	50,770	169,831
	<u>367,296</u>	<u>333,533</u>

3. OPERATING LOSS

	2003 £	2002 £
Operating loss is stated after charging:		
Depreciation of tangible fixed assets	72,608	50,089
Amounts written off development costs	-	13,871
Research and development	150,199	117,654
Auditors' remuneration - audit	-	-
	<u>-</u>	<u>-</u>

The audit fee is borne by the parent company and no recharge is made for this.

NOTES TO THE ACCOUNTS
Year ended 30 September 2003

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2003 £	2002 £
Directors emoluments		
Management remuneration	141,833	119,252
Fees as directors	8,417	-
	<u>150,250</u>	<u>119,252</u>
	No	No
Average number of persons employed (including directors):		
Accounts and administration	2	1
Technical	10	7
Directors	3	3
	<u>15</u>	<u>11</u>
	£	£
Staff costs during the year (including directors)		
Wages and salaries	485,890	381,860
Social security costs	50,757	36,741
	<u>536,647</u>	<u>418,601</u>

In addition to the above, the company contributes to a defined contribution pension scheme for the benefit of Mr Fox and Mr Godber. For the year ended 30 September 2003, contributions amounted to £1,000 and £2,400 respectively (2002: £3,450 and £1,650).

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £	2002 £
Borrowings:		
- repayable within five years	7,164	12,656
- repayable in more than five years	-	-
	<u>7,164</u>	<u>12,656</u>

NOTES TO THE ACCOUNTS**Year ended 30 September 2003****6. TAX ON LOSS ON ORDINARY ACTIVITIES**

a) Analysis of credit in the year	2003 £	2002 £
Current tax		
UK corporation tax at 19% (2002: 19%) based on the profit for the year (note 6b)	14,778	-
Adjustments in respect of previous years – R&D tax credits recoverable	35,641	61,748
	<u>50,419</u>	<u>61,748</u>
Deferred tax		
Current year charge	-	-
Adjustments in respect of prior years	-	-
	<u>-</u>	<u>-</u>
Total deferred tax (note 11)	<u>-</u>	<u>-</u>
b) Factors affecting the tax credit for the year		
Loss on ordinary activities before tax	(732,834)	(547,196)
Tax on loss on ordinary activities at standard rate	(139,238)	(103,967)
Being the effects of:		
Permanent differences	229	3,104
Capital allowances in excess of depreciation	13,816	(244)
Current year loss not utilised	113,495	98,497
Loss surrendered to Inland Revenue in exchange for R&D tax credits	11,698	-
Tax credit receivable from Inland Revenue	(14,778)	-
Adjustment in respect of prior periods	(35,641)	(61,748)
Group relief surrendered	-	2,610
	<u>(50,419)</u>	<u>(61,748)</u>
Actual tax credit for the year (note 6a)	<u>(50,419)</u>	<u>(61,748)</u>

NOTES TO THE ACCOUNTS
Year ended 30 September 2003

7. TANGIBLE FIXED ASSETS

	Assets under Construction £	Computer equipment £	Demonstration equipment £	Plant & equipment £	Total £
Cost					
At 1 October 2002	21,425	56,176	73,858	15,035	166,494
Additions	86,880	22,351	57,032	23,097	189,360
Disposals	-	(8,184)	-	(5,978)	(14,162)
Transfer from associated company	4,909	-	17,005	-	21,914
Transfer of assets	(113,214)	-	96,162	17,052	-
At 30 September 2003	-	70,343	244,057	49,206	363,606
Depreciation					
At 1 October 2002	-	27,309	35,984	7,563	70,856
Provided during the year	-	19,816	38,813	13,979	72,608
Disposals	-	(8,184)	-	(5,978)	(14,162)
Transfer from associated company	-	-	12,045	-	12,045
At 30 September 2003	-	38,941	86,842	15,564	141,347
Net book value					
At 30 September 2003	-	31,402	157,215	33,642	222,259
At 30 September 2002	21,425	28,867	37,874	7,472	95,638

NOTES TO THE ACCOUNTS
Year ended 30 September 2003

8. STOCK

	2003	2002
	£	£
Stock	19,271	64,998
Work in progress	7,686	4,933
	<u>26,957</u>	<u>69,931</u>

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

9. DEBTORS

	2003	2002
	£	£
Trade debtors	44,922	109,765
Prepayments	1	21,010
Amounts due from fellow subsidiary undertakings	105,475	225,729
VAT recoverable	9,165	49,349
Corporation tax recoverable	14,778	61,748
	<u>174,341</u>	<u>467,601</u>

10. CREDITORS

Amounts falling due within one year	2003	2002
	£	£
Bank loan	37,363	37,363
Trade creditors	150,533	14,871
Other creditors	12,775	1,410
Taxation and social security	18,910	13,906
Amount owed to parent company	2,411,781	1,996,144
Amount owed to fellow subsidiary undertakings	82,137	84,437
Accruals and deferred income	32,500	5,753
	<u>2,745,999</u>	<u>2,153,884</u>

NOTES TO THE ACCOUNTS
Year ended 30 September 2003

10. CREDITORS (Continued)

Amounts falling due after one year	2003 £	2002 £
Bank loan	54,670	90,842

A bank loan of £100,000 was advanced in March 1998 under the Small Firms Loan Guarantee Scheme. The loan is being repaid by 84 monthly instalments commencing six months after drawdown. Interest is payable at 3% p.a. over Lloyds TSB Bank plc base rate.

A further loan of £150,000 was advanced in July 1999 also under the Small Firms Loan Guarantee Scheme. The loan is being repaid by 26 quarterly instalments commencing six months after drawdown. Interest is payable at 2½% p.a. over Lloyds TSB Bank plc base rate.

These loans are secured by debentures from the Company and by a legal charge over the life policies of two directors dated 4 November 1998. Loans or instalments thereof are repayable over the following periods:

	2003 £	2002 £
Within one year or less or on demand	37,363	37,363
More than one year but not more than two years	37,363	37,363
More than two years but not more than five years	17,307	53,479
	92,033	128,205

11. PROVISIONS FOR LIABILITIES AND CHARGES

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

	Provided 2003 £	Not provided 2003 £	Provided 2002 £	Not provided 2002 £
Accelerated capital allowances	-	(33,366)	-	(10,120)
Losses	-	(318,843)	-	(242,832)
	-	(352,209)	-	(252,952)

NOTES TO THE ACCOUNTS
Year ended 30 September 2003

12. CALLED UP SHARE CAPITAL

	2003 £	2002 £
Authorised:		
1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Called up, allotted and fully paid		
1 ordinary shares of £1	<u>1</u>	<u>1</u>

13. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' DEFICIT

	2003 £	2002 £
Loss for the financial year	(682,415)	(485,448)
Opening shareholders' deficit	<u>(1,541,095)</u>	<u>(1,055,647)</u>
Closing shareholders' deficit	<u>(2,223,510)</u>	<u>(1,541,095)</u>

14. COMMITMENTS

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

	2003 £	2002 £
Leases which expire:		
Within one year	<u>5,600</u>	<u>5,600</u>

At 30 September 2003 there were no capital commitments (2002: £nil).

15. ULIMATE PARENT UNDERTAKING

The ultimate parent, for which group accounts are prepared, is Image Scan Holdings plc, which is incorporated in Great Britain and registered in England and Wales. The accounts of Image Scan Holdings plc, are available for The registrar of Companies, Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.

16. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption conferred by Financial Reporting Standard 8, paragraph 3(c), and does not disclose transactions with other group companies.