

# CUSTOMVIS

CustomVis Plc

ANNUAL REPORT 2005

// FUTURE IN SIGHT //



**DIRECTORS**

**Executive Directors**

Paul van Saarloos  
Mukesh Jain  
John McEvoy

**Non-Executive Directors**

William Colvin  
Emanuel Rosen  
William Ardrey

**SECRETARY**

John McEvoy

**COMPANY NUMBER**

04609602

**REGISTERED OFFICE**

7 Devonshire Square  
Cutlers Gardens  
London  
EC2M 4YH

**AUDITORS**

PKF (UK) LLP  
78 Carlton Place  
Glasgow  
G5 9TH

**BANKERS**

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West End Branch  
158 Nethergate  
Dundee  
DD1 4DY

**SOLICITORS**

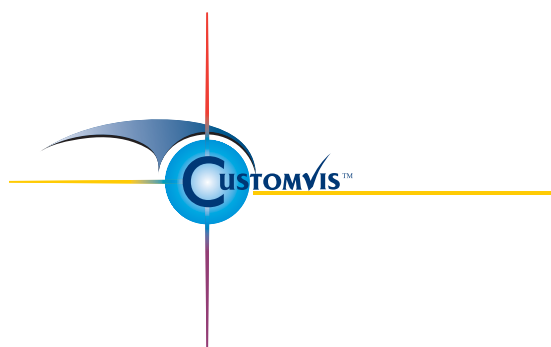
Hammonds  
7 Devonshire Square  
Cutlers Gardens  
London  
EC2M 4YH

**NOMINATED  
ADVISORS AND  
BROKERS**

Collins Stewart  
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London  
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## OPERATING & FINANCIAL REVIEW

### INTRODUCTION

CustomVis, which designs and markets surgical laser vision equipment for custom surgery, is pleased to announce its results for the year ended 30 June 2005.

The Group was admitted to the Alternative Investment Market in London on 8 July 2003, having raised £11.5m, before costs, through an institutional placing.

Delays resulting from forced Pulzar Z1 design changes and in completion of the Tracey wavefront interface have negatively impacted our ability to obtain the clinical data required to achieve the sales previously forecast. As a result cash reserves have been depleted and the group has been forced to dramatically reduce the cash burn rate. At 30 June 2005 the group had bank balances totalling £1.96 million in cash. The cash burn rate has been reduced from the 2004/5 average of £410,000 per month to approximately £150,000 per month post year end and the directors have taken significant pay cuts.

### FINANCIAL RESULTS

The Group recorded a loss after tax of £4,637,510 (2004: £4,010,932) for the year ended 30 June 2005 on sales of £150,743 (2004: £8,851). This reflects the write-off of goodwill of £1.2 million arising on consolidation but also the impact of cost cutting measures introduced during the year. This equated to a loss of 13.4p (2004: loss of 11.6p) per share.

Group net assets at 30 June 2005 were £3.1m (2004: £7.4m). This included intangible assets of £nil (2004: £1.2m) and net current assets of £2.7m (2004: £5.9m), which includes cash funds of £2.0m (2004: £6.9m). Net expenditure per month is at present approximately £0.15m.

In July 2004, the Convertible Loan of £1.34m was fully repaid.

Given that the current focus of all Group resources is the commercialisation of the CustomVis™ System the Board does not propose to pay a dividend.

### OVERVIEW OF BUSINESS

#### BUSINESS PROGRESS

Laser systems have now been installed in Columbia, Norway, Germany, Greece, Korea, Singapore, Australia & the Middle East with another laser, having been shipped to Holland, awaiting installation. Four systems have been sold (three after the year end) and the remaining systems are being used as trial sites with a view to generating future revenues either from the site concerned or from the clinical data.

In order to ensure the survival of the company, costs have been cut significantly. The cash burn rate associated with overheads was reduced to approximately £150,000 per month from August 2005.

The Company has raised £1.47M (net of expenses) during October through the issue of 30.1M new ordinary shares of 5p each at 5.75p per share. Expenses incurred for the issue are expected to be in the vicinity of £0.26M.

#### MARKET

One laser sale was confirmed during the year ended 30 June 2005. Subsequent to year end a further three Pulzar Z1 sales have been confirmed. Negotiations are being held with a number of other interested parties.

#### MANAGEMENT & STAFF

Staffing levels have been reduced from a peak of close to 70 to 27 as at July 31st 2005 but with the majority of key employees being retained.

COMMENTING ON THE OUTLOOK, BILL COLVIN,  
CHAIRMAN OF CUSTOMVIS SAID:

“As a result of sales delays and the depletion of cash reserves the group was forced to reduce the cash burn rate. Staffing levels and overheads have been reduced substantially.”

As a result of the completion of the interface with the Tracey wavefront device and encouraging clinical results sales have now started to flow.

The immediate future of the Company has been secured by the October 2005 capital raising; the group will now concentrate on the key issue being to reach cash flow break-even through further sales whilst continuing to closely monitor expenditure levels”.



## REPORT OF THE DIRECTORS

The directors submit their report and the financial statement for the year ended 30 June 2005.

### PRINCIPAL ACTIVITY

The principal activity of the Group is the manufacture and sale of laser optical equipment for use within the laser vision correction industry.

### REVIEW OF THE BUSINESS

The Company floated on the Alternative Investment Market on 8 July 2003. Subsequent to the raising of funds through the AIM listing the company experienced delays in achieving forecast sales and consequently the group has significantly reduced the cash burn rate. Subsequent to year end costs have been cut significantly, three additional laser sales achieved and additional funds have been raised. Further detail is given in the Operating and Financial Review on pages 2 and 3.

### GOING CONCERN

Having considered the guidance given in the document Going Concern and Financial Reporting: Guidance for Directors of Listed Companies issued in November 1994 by the Going Concern Working Group, the directors have formed a judgement that at the time of approving these financial statements there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore to adopt the going concern basis for the financial statements

### FUTURE DEVELOPMENTS

Over the coming twelve months the Group will undertake further clinical trials on the lasers, continue to refine and improve the laser system and actively market the product.

### RESEARCH AND DEVELOPMENT EXPENDITURE

During the financial year ended 30 June 2005 the Group has undertaken research & development work in terms of developing and improving the lasers for use in corrective eye surgery, as well as the development of additional services and products.

### RESULTS AND DIVIDENDS

The Groups results for the year are set out on page 10.

The directors do not recommend payment of a final dividend.

### POST BALANCE SHEET EVENTS

Since year end the company has further reduced its workforce; additional sales have been achieved and additional funds of £1.47M (net of expenses) have been raised. There are no additional post balance sheet events requiring disclosure.

### PAYMENT OF CREDITORS

It is the policy of the Company and the Group to settle creditors' accounts within the terms agreed with individual suppliers at the inception of a contract or order being made.

As at 30 June 2005 the creditor days for the group was calculated as 29 days (2004: 36 days).

## DIRECTORS AND THEIR INTERESTS

The directors who served during the year and their interests in the Company at the balance sheet date and at the start of the year (or date of appointment if later) are as stated below:

	ORDINARY SHARES OF 5P EACH	
	2005	2004
Paul van Saarloos	8,869,000	8,869,000
Simon Gordon (resigned 02/11/04)	-	210,020
William Ardrey	-	4,288,718
Hugh Grant (resigned 02/11/04)	-	20
William Colvin	45,000	45,000
Emanuel Rosen	32,718	32,718
Mukesh Jain	-	-
Harry Sykes (resigned 07/07/04)	-	-
John McEvoy (appointed 03/03/05)	30,000	-

Dr William Ardrey's 2004 shareholding included a non-beneficial interest in 4,288,718 shares as the appointed board nominee of two shareholders, Custom Lasers Inc. and Asian Lasers Inc.

Dr William Ardrey resigned as an executive director and was appointed as non-executive director on 14 July 2004. Mr Harry Sykes resigned on 7 July 2004.

## DIRECTORS' OPTIONS

In addition to the above shareholdings certain of the directors who served during the year also have the following share options over ordinary shares of 5p each:

NAME	DATE OF GRANT	NUMBER OF OPTION SHARES				EXERCISE PRICE (£)
		AT 1 JULY 04	GRANTED/ TRANSFERRED	LAPSED	AT 30 JUNE 05	
Simon Gordon	14 Jan 2003	1,007,231	(170,000)	-	837,231	0.05
William Ardrey	20 Jan 2003	350,000	-	-	350,000	0.62
Hugh Grant	20 Jan 2003	70,000	70,000	(70,000)	70,000	0.62
Mukesh Jain	10 Feb 2005	-	100,000	-	100,000	0.05
Mukesh Jain	10 Feb 2005	-	250,000	-	250,000	0.60

The market price of CustomVis shares at 30 June 2005 was £0.09. During the year the share price at its highest value was £0.33 and at its lowest was £0.06

The above options are exercisable within ten years of them being granted. Details of these options are given in note 26 to the financial statements.

## REPORT OF THE DIRECTORS (CONTINUED)

### DIRECTORS

#### NON EXECUTIVE DIRECTORS

At 30 June 2005 there were three non-executive directors of CustomVis plc. Mr Bill Colvin and Mr Emanuel Rosen were appointed on 2 July 2003. Dr William Ardrey relinquished his position as an executive director and was appointed as a non-executive on 14 July 2004.

**WILLIAM COLVIN** (Non-executive Chairman), aged 46, is currently Chief Executive of NHP plc, a quoted nursing home owner and operator, whose market capitalisation has significantly increased since he was appointed Chief Executive in November 2000. He is also currently a non-executive director of Sondex plc, a technology company in the oil and gas sector to the upstream oil and gas industry. Mr Colvin is a Chartered Accountant.

**EMANUEL ROSEN** (Non-executive Director), aged 68, is currently the medical director of Boots Opticians Eye Laser Service. He is also a past president of the International Implant Club, The European Society of Cataract and Refractive Surgeons and the UK and Ireland Society of Cataract and Refractive Surgeons. Mr Rosen has over 35 years of experience in the medical field and is also the author and editor of a number of publications, including being co-editor of the major international peer review in the field, The Journal of Cataract and Refractive Surgery.

**DR WILLIAM ARDREY** (Non-executive Director), aged 38, has served as president, CEO, CFO, and marketing director of a number of companies in the medical and technology fields. He has led 5 technology companies from start up to trade sales, and served as a president at Thomson Financial Services, a US\$2 billion publicly listed financial information provider. Dr Ardrey is also a widely published author on marketing and strategy, and a frequent visiting professor at such universities as Columbia University, George Washington University, University of Adelaide and University of Western Australia.

#### EXECUTIVE DIRECTORS

The following executive directors served for the whole of the financial year, unless otherwise stated, and were still executive directors at the date of signing of the financial statements. Mr Hugh Grant and Mr Simon Gordon served as executive directors until their resignations on 2 November 2004.

**DR PAUL VAN SAARLOOS** (Chief Executive Officer), aged 42, has significant experience managing medical technology companies and creating patented, commercially successful products in the field of refractive surgery. He holds over 100 patents, has co-authored over 30 published scientific papers in the area of ophthalmic technology, and has developed, patented and commercialised numerous technologies (e.g. Zeiss Humphrey Atlas topographer; Dishler laser; Q-Vis laser). Dr. Paul van Saarloos previously served as managing director of Q-Vis, as a researcher at the Lions Eye Institute, and as a laser physicist for numerous medical technology companies involved in ophthalmology. Dr van Saarloos also performs the role of Chief Scientist and Research and Development manager on the CLVR Operations Board.

**DR. MUKESH JAIN** (Director – COO and Marketing Director), aged 48, appointed 8 November 2003, has vast international business exposure with qualifications in science and engineering, which include PhD, M Eng Sc, M Sc, B Sc and Grad. Dip. Business. He has worked in well-renowned companies of the industry like NIDEK, Q-Vis and in Lions Eye Institute. He has a proven track record as a successful international sales and marketing executive. Complimented with a strong entrepreneurial streak, Dr. Jain is also a dedicated and innovative researcher.

**MR JOHN MCEVOY** (Finance Director & Company Secretary), aged 44, has extensive experience in senior finance roles in both the public and private sector. Previously employed as financial controller and company secretary by the RZM Cable Sands Group, a mineral sands mining group, with turnover of over A\$100 million per annum. John played a key role in the sale of the group to BeMaX Resources NL. Joined CustomVis plc in August 2004 and was appointed as executive finance director in March 2005.

## STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company complies so far as reasonable given the Group's size and the constitution of the Board, with the Combined Code.

The audit committee consists of William Colvin and Emanuel Rosen, although the finance director would normally attend audit committee meetings as an invitee. This committee plans to meet twice a year and is responsible for ensuring that the financial performance of the Group is properly reported on and monitored. The committee also meets with the auditors and reviews their reports relating to the accounts and internal control systems.

The remuneration committee consists of William Colvin and Emanuel Rosen although the Chief Executive Officer will normally attend as an invitee (except when his own remuneration is being considered). This committee makes recommendations to the Board of the Company on matters relating to the remuneration and terms of employment of the existing and proposed Executive Directors of the Company and on proposals for the granting of share options pursuant to any share option scheme in operation.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of the affairs of the Company and the Group and of the profit/loss of the Group for that year. In preparing these financial statements the directors are required to:

- select suitable accounting policies and 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 financial statements;
- 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 the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. It is also the responsibility of the directors to ensure that the annual report includes the information required by the AIM rules. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for ensuring that the Report of the Directors and other information included in the annual report is prepared in accordance with Company law in the United Kingdom.

## AUDITORS

On 23 May 2005, PKF transferred their business to PKF (UK) LLP, a limited liability partnership. Under section 26(5) of the Companies Act 1989, the Company consented to extend the audit appointment to PKF (UK) LLP from 23 May 2005. Accordingly, the audit report has been signed by PKF (UK) LLP and a resolution for the reappointment of PKF (UK) LLP will be proposed at the Annual General Meeting of the Company.

This report was approved by the Board on 20th October, 2005 and signed on its behalf by

**JOHN MCEVOY**  
Secretary



// FUTURE IN SIGHT //

CUSTOMVIS

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CUSTOMVIS PLC

We have audited the financial statements of CustomVis plc for the year ended 30 June 2005 which comprise the Group profit and loss account, the Group statement of total recognised gains and losses, the Group and Company balance sheets, the Group cash flow statement and the related notes. 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

The directors' responsibilities for the preparation of the Annual Report and financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom 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 to you if, in our opinion, the Report of the Directors 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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Operating and Financial Review and the Report of the Directors. We consider the implications for our Report if we become aware of any apparent mis-statement or material inconsistencies within the financial statements. Our responsibilities do not extend to any other information.

## BASIS OF AUDIT 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 the Group's and the Company's affairs as at 30 June 2005 and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**PKF**

**Registered auditors**

**Glasgow, UK. 20 October 2005**

## GROUP PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2005

	Notes	2005 £	2004 £
Turnover	2	150,743	8,851
Cost of sales		(88,492)	-
<b>Gross profit</b>		62,251	8,851
Administrative expenses		(4,911,309)	(4,420,528)
Other operating income		45,335	59,353
<b>Operating loss</b>	3	(4,803,723)	(4,352,324)
Interest receivable and similar income	4	166,213	341,392
<b>Loss on ordinary activities before taxation</b>		(4,637,510)	(4,010,932)
Tax on loss on ordinary activities	6	-	-
<b>Loss on ordinary activities after taxation transferred to reserves</b>	14	(4,637,510)	(4,010,932)
<b>Loss per Ordinary Share</b>			
Basic	7	(13.4p)	(11.6p)
Diluted	7	(13.4p)	(11.6p)

## GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 30 JUNE 2005

	2005 £	2004 £
Loss for the financial year	(4,637,510)	(4,010,932)
Currency translation differences on foreign currency net investments	276,112	(135,650)
Total recognised gains and losses relating to the year	(4,361,398)	(4,146,582)

All the above figures relate to continuing activities.

THE NOTES ON PAGES 14 TO 27 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.



## GROUP BALANCE SHEET AS AT 30 JUNE 2005

	Notes	2005		2004	
		£	£	£	£
<b>Fixed assets</b>					
Intangible assets	8		-		1,216,988
Tangible assets	9		322,371		298,303
			322,371		1,515,291
<b>Current assets</b>					
Stock	11	1,042,193		682,027	
Debtors	12	178,615		236,199	
Cash at bank and in hand		1,964,998		6,893,905	
		3,185,806		7,812,131	
<b>Creditors: amounts falling due within one year</b> (including convertible debt in 2004)	13	(457,968)		(1,915,815)	
<b>Net current assets</b>			2,727,838		5,896,316
<b>Net assets less current liabilities</b>			3,050,209		7,411,607
<b>Capital and reserves</b>					
Called up share capital	14		1,735,957		1,735,957
Share premium account	15		10,463,166		10,463,166
Foreign currency translation reserve	15		159,766		(116,346)
Profit & loss account	15		(9,308,680)		(4,671,170)
<b>Equity shareholders funds</b>	16		3,050,209		7,411,607

The financial statements were approved by the Board on 20 October, 2005 and signed on its behalf by

**Paul van Saarloos**  
Director

THE NOTES ON PAGES 14 TO 27 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

## COMPANY BALANCE SHEET AS AT 30 JUNE 2005

	Notes	2005		2004	
		£	£	£	£
<b>Fixed assets</b>					
Tangible assets	9		-		25,157
Investments	10		-		1,000,316
			-		1,025,473
<b>Current assets</b>					
Debtors (of which £999,691 is due after more than one year)	12	1,062,325		7,767,581	
Cash at bank and in hand		1,369,196		3,510,265	
		2,431,521		11,277,846	
<b>Creditors: amounts falling due within one year</b> (including convertible debt in 2004)	13	(43,535)		(1,391,463)	
<b>Net current assets</b>			2,387,986		9,886,383
<b>Net assets less current liabilities</b>			2,387,986		10,911,856
<b>Capital and reserves</b>					
Called up share capital	14		1,735,957		1,735,957
Share premium account	15		10,463,166		10,463,166
Profit & loss account	15		(9,811,137)		(1,287,267)
<b>Equity shareholders funds</b>	16		2,387,986		10,911,856

The financial statements were approved by the Board on 20 October, 2005 and signed on its behalf by

**Paul van Saarloos**  
Director

THE NOTES ON PAGES 14 TO 27 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.



## GROUP CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2005

	Notes	2005 £	2004 £
<b>Reconciliation of operating loss to net cash outflow from operating activities</b>			
Operating loss		(4,803,723)	(4,352,324)
Depreciation and amortisation	3	438,997	400,704
Impairment of intangible fixed assets	3	890,945	22,247
Loss on sale of fixed assets	3	27,284	-
Decrease in debtors		57,584	50,346
(Increase) in stock		(360,166)	(682,027)
(Decrease)/increase in creditors		(115,003)	143,735
Exchange rate differences arising on cash balances		246,260	(124,832)
<b>Net cash outflow from operating activities</b>		<b>(3,617,822)</b>	<b>(4,542,151)</b>
<b>Cash Flow Statement</b>			
Net cash outflow from operating activities		(3,617,822)	(4,542,151)
Return on investments and servicing of finance	24	166,213	341,392
Capital expenditure	24	(134,454)	(283,749)
		(3,586,063)	(4,484,508)
Financing	24	-	10,604,955
<b>(Decrease)/increase in cash in the year</b>		<b>(3,586,063)</b>	<b>6,120,447</b>
<b>Reconciliation of net cash flow to movement in net funds</b>			
(Decrease)/increase in cash in the year	25	(3,586,063)	6,120,447
Net funds/(debt) at 30 June 2004		5,551,061	(569,386)
Net funds at 30 June 2005		1,964,998	5,551,061

## 1. ACCOUNTING POLICIES

### 1.1 FUNDAMENTAL ACCOUNTING CONCEPT AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

At balance sheet date the group had £1.96 million of cash, £0.46 million of creditors due within one year and no long term debt. Primarily as a result of the group failing to generate budgeted sales and following a review of updated projections and cash flow forecasts the directors determined that the group would require a significant cash investment in order to allow it to continue to operate at the existing structure for foreseeable future.

The directors approached a number of existing shareholders and other potential investors some of whom indicated a willingness to provide additional funding. During October 2005 the company received new equity investment of £1,730,750 before expenses as detailed in note 20.

Based on the above, the directors believe that the going concern basis continues to be appropriate.

The financial statements are prepared under the historical cost convention. The Group has consistently applied all relevant accounting standards.

### 1.2 BASIS OF CONSOLIDATION

The Group financial statements consolidate the financial statements of CustomVis plc and its subsidiary undertaking up to 30 June 2005. No profit and loss account is presented for CustomVis plc as permitted by section 230 of the Companies Act 1985. CLVR Pty. Ltd has been included in the Group financial statements using the acquisition method of accounting. Accordingly, the primary financial statements include the results and cash flows of CLVR Pty. Ltd. for the year. The loss incurred by the parent Company for the year ended 30 June 2005 was £8,523,870 (2004 – loss of £1,266,696).

### 1.3 TURNOVER

Turnover represents the total invoice value, excluding value added tax, of sales made during the year.

### 1.4 GOODWILL

Acquired goodwill was previously written off in equal annual instalments over its estimated useful economic life of 5 years. At 30 June 2005 the remaining amount was fully written off.

### 1.5 PATENTS

Patents are valued at cost less accumulated amortisation. Amortisation is calculated to write off the cost in equal annual instalments over their estimated useful life of 2 years.

### 1.6 GOVERNMENT GRANTS

Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the assets by equal annual instalments. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

### 1.7 RESEARCH AND DEVELOPMENT

Research expenditure is written off to the profit and loss account in the period in which it is incurred.

### 1.8 TANGIBLE FIXED ASSETS AND DEPRECIATION

Depreciation is provided at rates to write off the cost less residual value of each asset over its expected useful life, as follows:

Plant and machinery	18.75 to 100% reducing balance
Fixtures, fittings and equipment	15 to 50% reducing balance
Leasehold improvements	15% reducing balance

### 1.9 INVESTMENTS

Fixed asset investments are stated at cost and where necessary reviewed for impairment.



## 1.10 STOCK

Stock is valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition is accounted for as follows:

Raw materials – purchase cost on a first in first out basis; and

Finished goods and work in progress – cost of direct material. Labour and overhead costs incurred in bringing finished goods and work in progress to its present location and condition are written off to profit and loss as these costs are not believed to be directly recoverable due to the continuing development of the product.

## 1.11 LEASES

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

## 1.12 CAPITAL INSTRUMENTS

Shares are included in shareholders' funds. Other instruments are included as liabilities if they contain an obligation to transfer economic benefits and if not they are included within shareholders' funds. The groups financial instruments comprise borrowings, some cash and liquid resources and various items such as debtors, trade creditors etc that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

## 1.13 FOREIGN CURRENCIES

### Company

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate ruling at the balance sheet date. All differences are taken to the profit and loss account as they occur.

### Group

The balance sheet of the overseas subsidiary undertaking is translated at the rate of exchange ruling at the balance sheet date and the profit and loss account is translated at an average rate. Exchange differences arising on the retranslation of opening net assets are taken directly to reserves. All other translation differences are taken to the profit and loss account in the period in which they arise.

## 1.14 DEFERRED TAXATION

The charge for taxation is based on the results for the year as adjusted for tax purposes. Full provision is made for taxation deferred in respect of timing differences, except where the standard states that the provision should not be made. Deferred tax assets are not provided for where it is not certain that future profits will be sufficient to allow these balances to reverse. Deferred tax balances are not discounted.

## 1.15 PENSIONS

The Group makes defined contributions to a group pension scheme and to a number of personal pension schemes. Pension contributions are charged to the profit and loss account as incurred.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2005 £	2004 £
<b>2. SEGMENTAL ANALYSIS – TURNOVER</b>		
Geographic Analysis by Origin:		
UK/Europe	49,750	8,851
Australasia	100,993	-
	150,743	8,851
Geographic Analysis by Destination:		
UK/Europe	38,809	8,851
Australasia	111,934	-
	150,743	8,851

### BUSINESS ANALYSIS

The group predominantly operates within the laser vision correction industry. An analysis of the loss before tax and net assets is given below:

	2005 Loss before tax	2004 Loss before tax	2005 Net assets	2004 Net assets
UK/Europe	(1,856,144)	(1,201,848)	296,932	3,279,543
Australasia	(2,781,366)	(2,809,084)	2,638,011	4,132,064
Rest of the world	-	-	115,266	-
	(4,637,510)	(4,010,932)	3,050,209	7,411,607



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2005 £	2004 £
<b>3. OPERATING LOSS</b>		
Operating loss is stated after charging:		
Depreciation	112,954	74,661
Amortisation of intangible assets	326,043	326,043
Impairment of intangible assets	890,945	22,247
Operating lease payments – land and buildings	132,534	44,492
Loss on disposal of fixed assets	27,284	-
Research and development – expenditure in current year	884,304	1,019,375
Auditors' remuneration	27,753	19,447
<ul style="list-style-type: none"> <li>• Audit work - Group</li> <li style="padding-left: 40px;">of which - Company</li> <li>• Other services</li> </ul>	12,790	6,500
	11,248	14,347
and after crediting:		
Government grants	-	59,353
<b>4. INTEREST RECEIVABLE AND SIMILAR INCOME</b>		
Bank interest	166,213	341,392

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2005 Number	2004 Number
<b>5. EMPLOYEES</b>		
Number of employees		
The average monthly number of employees (including the directors) during the year was:		
Directors	6	6
Administration & Marketing	10	8
Electronics & Software	14	8
Mechanical	11	10
Research	8	6
Service	8	9
	57	47

The majority of employees are employed by the subsidiary company in Australia.

### EMPLOYMENT COSTS

	2005 £	2004 £
Wages and salaries	1,758,779	1,732,325
Compensation for loss of office	114,873	44,178
Social security costs	101,379	203,068
Pensions	135,072	126,263
	2,110,103	2,105,834



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2005 £	2004 £
<b>5.1 DIRECTORS' EMOLUMENTS</b>		
Remuneration and other emoluments	333,344	614,696
Compensation for loss of office	95,000	44,178
Pension contributions	40,755	47,581
	469,099	706,455

Compensation payments for loss of office totalling £95,000 (2004: £44,178) were paid to two directors (2004: one director) who resigned as directors during the year.

	2005 Number	2004 Number
Number of directors to whom retirement benefits are accruing	6	5
The emoluments of the highest paid director during the year were as follows:		
Emoluments	136,667	139,680
Pension contributions	12,262	10,800
	148,929	150,480

Certain of the directors had share options at 30 June 2005 as disclosed in the Report of the Directors. None of these options have been exercised at the balance sheet date, and accordingly no gains were made on these in the year to 30 June 2005.

	2005 £	2004 £
<b>6. TAX ON LOSS ON ORDINARY ACTIVITIES – GROUP</b>		
<b>Current Tax</b>		
Overseas taxation	-	-
<b>Factors affecting tax charge for the year</b>		
Loss on ordinary activities before tax	(4,637,510)	(4,010,932)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	(1,391,253)	(1,203,280)
Losses not utilised	1,363,888	854,090
Expenses not deductible for tax purposes	27,365	349,190
	-	-

### Deferred taxation

The Group has losses carried forward that give rise to a deferred taxation asset estimated at £2,740,000 (2004 - £1,375,000). This balance has not been incorporated into the financial statements as it is not certain at the balance sheet date that profits in the foreseeable future will be sufficient to allow this balance to be utilised.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
<b>7. LOSS PER SHARE</b>		
Loss for the year attributable to shareholders	£(4,637,510)	£(4,010,932)
Weighted average number of shares in issue	34,719,148	34,439,861

The weighted average number of shares in issue for the year ended 30 June 2004 was calculated by taking into account the exercise of options related to 1,120,000 Ordinary Shares on 1 July 2003 and the issue of 12,637,363 Ordinary Shares on 8 July 2003 by way of flotation on the Alternative Investment Market.

Diluted loss per share has been calculated using the same figures as the basic calculation. No account has been taken of options, as these potential Ordinary Shares are not considered to be dilutive under the definitions of the applicable accounting standards.

### 8. INTANGIBLE FIXED ASSETS – GROUP

	Patents £	Goodwill £	Total £
<b>Cost</b>			
At 1 July 2004 and 30 June 2005	23,228	1,630,214	1,653,442
<b>Amortisation</b>			
At 1 July 2004	23,228	413,226	436,454
Charge for the year	-	326,043	326,043
Impairment	-	890,945	890,945
At 30 June 2005	23,228	1,630,214	1,653,442
<b>Net book value</b>			
At 30 June 2004	-	1,216,988	1,216,988
At 30 June 2005	-	-	-

All intangible assets relate solely to the Group and not to the Company. The patents are owned by the subsidiary Company and goodwill is created upon consolidation.

At the balance sheet date the directors, having reviewed the carrying value of goodwill, decided that an impairment adjustment should be made to reduce the carrying value to £nil.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### 9. TANGIBLE FIXED ASSETS – GROUP

	Plant & Machinery £	Leasehold Improvements £	Fixtures, fittings & equipment £	Total £
<b>Cost</b>				
At 1 July 2004	212,736	1,797	173,144	387,677
Exchange differences	23,248	196	14,861	38,305
Additions	122,102	12,623	117	134,842
Disposals	(11,351)	-	(37,911)	(49,262)
At 30 June 2005	346,735	14,616	150,211	511,562
<b>Depreciation</b>				
At 1 July 2004	47,745	989	40,640	89,374
Exchange differences	5,216	108	3,130	8,454
Charge for the year	65,403	2,345	45,206	112,954
Disposals	(5,121)	-	(16,470)	(21,591)
At 30 June 2005	113,243	3,442	72,506	189,191
<b>Net book value</b>				
At 30 June 2004	164,991	808	132,504	298,303
At 30 June 2005	233,492	11,174	77,705	322,371

### TANGIBLE FIXED ASSETS – COMPANY

	Fixtures, fittings & equipment £	Total £
<b>Cost</b>		
At 1 July 2004	37,162	37,162
Additions	117	117
Disposals	(37,279)	(37,279)
At 30 June 2005	-	-
<b>Depreciation</b>		
At 1 July 2004	12,005	12,005
Charge for the year	4,051	4,051
Disposals	(16,056)	(16,056)
At 30 June 2005	-	-
<b>Net book value</b>		
At 30 June 2004	25,157	25,157
At 30 June 2005	-	-

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### 10. FIXED ASSET INVESTMENTS – COMPANY

	<b>Subsidiary Undertaking £</b>
<b>Subsidiary Undertakings:</b>	
<b>Cost</b>	
At 1 July 2004 and 30 June 2005	1,000,316
<b>Provision for diminution in value</b>	
At 1 July 2004	-
Arising in the year	1,000,316
At 30 June 2005	1,000,316
<b>Net book value</b>	
At 30 June 2004	1,000,316
At 30 June 2005	-

The above investment relates entirely to the subsidiary undertaking, CLVR Pty. Ltd. which was purchased on 17 April 2003.

#### 10.1 HOLDINGS OF 20% OR MORE

The Company holds 20% or more of the share capital of the following companies:

<b>Company</b>	<b>Country of registration and operation</b>	<b>Nature of business</b>	<b>Class of Shares held</b>	<b>Proportion of shares held</b>
<b>Subsidiary undertaking</b>				
CLVR Pty Ltd	Australia	Development and sale of laser optical equipment	Ordinary	100%

The above subsidiary's transactions are all included within the consolidated financial statements.

	<b>2005 £</b>	<b>2004 £</b>
<b>11. STOCK – GROUP</b>		
Raw materials	370,438	402,435
Work in progress	59,318	23,074
Finished goods	612,437	256,518
	<u>1,042,193</u>	<u>682,027</u>



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2005 £	2004 £
<b>12. DEBTORS – GROUP</b>		
<b>Current assets</b>		
Other debtors	44,291	90,914
Prepayments and accrued income	134,324	145,285
	178,615	236,199
<b>DEBTORS – COMPANY</b>		
<b>Current assets</b>		
Amounts owed by group undertaking	999,691	7,727,962
Prepayments and accrued income	62,634	39,619
	1,062,325	7,767,581

Amounts owed by group undertaking of £999,691(2004: £7,727,962) all fall due after more than one year.

	2005 £	2004 £
<b>13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR – GROUP</b>		
Trade creditors	245,040	377,757
Directors' accounts	17,584	43,110
Other creditors	181,871	103,485
Accruals and deferred income	13,473	48,619
Convertible loan notes (see note below)	-	1,342,844
	457,968	1,915,815
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR – COMPANY</b>		
Trade creditors	38,246	-
Convertible loan notes (see note below)	-	1,342,844
Accruals and deferred income	5,289	48,619
	43,535	1,391,463

The convertible loan notes were unsecured and were repaid in full on 7 July 2004. The lender had the option to convert the loan at any time up to the repayment date into 2,165,877 ordinary shares of 5p each. No interest was payable on the capital balance.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2005 £	2004 £
<b>14. SHARE CAPITAL – GROUP AND COMPANY</b>		
<b>Authorised</b>		
100,000,000 Ordinary shares of 5p each	5,000,000	5,000,000
<b>Allotted, called up and fully paid</b>		
34,719,148 (2004 – 34,719,148) Ordinary shares of 5p each	1,735,957	1,735,957

### 15. RESERVES – GROUP

	Share premium account £	Foreign currency reserve £	Profit and loss account £	Total £
At 1 July 2004	10,463,166	(116,346)	(4,671,170)	5,675,650
Loss for the year	-	-	(4,637,510)	(4,637,510)
Foreign currency translation gains arising in the year	-	276,112	-	276,112
At 30 June 2005	10,463,166	159,766	(9,308,680)	1,314,252

### RESERVES – COMPANY

	Share premium account £	Profit and loss account £	Total £
At 30 June 2004	10,463,166	(1,287,267)	9,175,899
Loss for the year	-	(8,523,870)	(8,523,870)
At 30 June 2005	10,463,166	(9,811,137)	652,029

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### 16. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS – GROUP

	2005 £
Equity shareholders funds at 1 July 2004	7,411,607
Loss for the year	(4,637,510)
Foreign currency translation gains arising in the year	276,112
Equity shareholders' funds at 30 June 2005	<u>3,050,209</u>

### RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS – COMPANY

	2005 £
Equity shareholders funds at 1 July 2004	10,911,856
Loss for the year	(8,523,870)
Equity shareholders' funds at 30 June 2005	<u>2,387,986</u>

### 17. CONTINGENT LIABILITIES

In the Annual Report for the year ended 30 June 2004 the group advised that a third party was seeking a refund of monies paid under a contract with CLVR Pty Ltd (the Company's wholly owned subsidiary) that was terminated in August 2001. CLVR had a potential counter claim against the third party for damages relating to breach of contract. The directors and the Company's legal advisors believe the risk of a liability arising to the third party to be remote. The amount payable by the Group in the event of the action being successful cannot be quantified.

As the original action was dismissed in court, and no further claim has been lodged, the Group no longer considers this to be a contingent liability.

### 18. TRANSACTIONS WITH DIRECTORS

One of the directors, Paul van Saarloos, has a loan outstanding from CLVR Pty Ltd. This relates to undrawn salary. The amount of this loan is disclosed within creditors as directors' accounts. No interest is charged on this balance.

### 19. RELATED PARTY TRANSACTIONS

Findlay & Company provide consultancy, payroll and some general accounting services. Hugh Grant, a director in the Company during the year, is a partner in Findlay & Company. Normal commercial rates are applied to all transactions. During the period when Hugh Grant was a director a total of £11,780 (2004 - £46,476) was paid by the Company to Findlay & Company. At 30 June 2005 the balance due to Findlay & Company was £nil (2004 - £4,113). Mr Grant resigned as a director of the Company on 2 November 2004.

The company had loan notes outstanding at the start of the year. These notes are described in note 13. The value of these was £1,342,844, and they were convertible up to the anniversary of flotation. The loan was from Warrawee Investments Limited which is controlled by Harry Sykes who was a non-executive director of the company. Mr Sykes resigned as a director on 7 July, 2004, at which time the loan was repaid. The loan agreement was entered into on normal commercial terms, prior to Mr Sykes becoming a director.

The Group has taken advantage of the exemptions within FRS 8: Related Party Transactions and accordingly transactions between the companies within the Group are not disclosed.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### 20. POST BALANCE SHEET EVENTS

During July 2005, in order to reduce costs, the company reduced employee numbers from approximately 45 to 27. The benefit of this reduction will be evident in the current period. Also subsequent to the year end the group has entered into contracts for the sale of a further three lasers with payments spread over terms ranging from two to three years.

In October 2005, the Company issued 30,100,000 new Ordinary shares of 5p each at a price of 5.75p per share, generating funds of £1,730,750 before expenses.

### 21. CONTROLLING INTEREST

Following flotation of the Company on 8 July 2003, no individual party has overall control of the Company.

### 22. CAPITAL INSTRUMENTS

The Group did not use capital instruments as a hedging mechanism during the financial year ending 30 June 2005. The Group may commence some foreign exchange hedges in the next financial year depending on the level of sales made under finance arrangements and the currencies in which these are denominated. These are likely to be forward contracts in Australian dollars.

### 23. LEASING COMMITMENTS

At 30 June 2005 the Group had an operating lease arrangement associated with office premises in Perth, Western Australia. The annual commitments are as follows:

	Land & Buildings	
	2005	2004
	£	£
Operating leases which expire:		
Within one year	-	24,804
In two to five years	92,124	64,360
	92,124	89,164

As a result of reductions in staffing levels, and in order to reduce future commitments associated with the operating lease, the Company is currently sub-leasing some of the office space associated with the lease. Under the terms of the lease, if the lease is cancelled, any termination payment is subject to negotiation.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### 24. GROSS CASH FLOWS – GROUP

	2005 £	2004 £
<b>Returns on investments and servicing of finance</b>		
Interest received	166,213	341,392
<b>Capital additions &amp; disposals</b>		
Proceeds from sale of tangible fixed assets	387	-
Payments to acquire tangible fixed assets	(134,841)	(283,749)
	(134,454)	(283,749)
<b>Financing</b>		
Issue of ordinary share capital	-	10,604,955

### 25. ANALYSIS OF CHANGES IN NET FUNDS – GROUP

	Opening Balance £	Cash Flows £	Closing Balance £
Cash at bank and in hand	6,893,905	(4,928,907)	1,964,998
Debt due within one year	(1,342,844)	1,342,844	-
	5,551,061	(3,586,063)	1,964,998

### 26. SHARE OPTIONS

At 30 June 2005, there were option agreements in place for the purchase 3,088,704 (2004: 2,261,704) Ordinary Shares of 5p each. Options held by directors of the Company at year end, in respect of 700,000 shares, are as follows:

	Number of Options	Exercise Price
Mukesh Jain	100,000	0.05
Mukesh Jain	250,000	0.60
William Ardrey	350,000	0.62

Details of the remainder of the options, in respect of 2,388,704 shares, are as follows:

	Number of Options	Exercise Price	Exercise Period
	907,321	0.05	By 8 July 2006
	140,000	0.62	By 20 June 2006
	694,383	0.91	By 8 July 2008
	647,000	0.60	By 26 April 2015

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