

CUSTOMVIS

CustomVis Plc

ANNUAL REPORT 2004



FUTURE IN SIGHT

FUTURE IN SIGHT

DIRECTORS

Executive Directors

Paul van Saarloos
Mukesh Jain

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
78 Carlton Place
Glasgow
G5 9TH

BANKERS

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West End Branch
158 Nethergate
Dundee
DD1 4DY

SOLICITORS

Hammonds
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EC2M 4YH

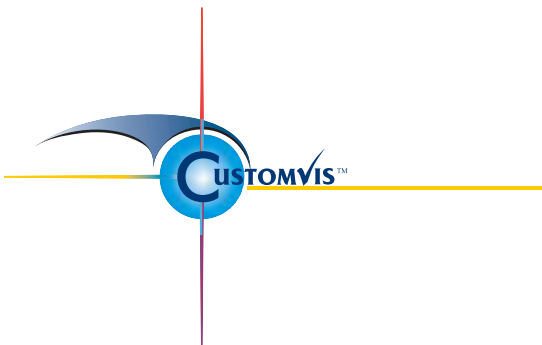
NOMINATED
ADVISORS AND
BROKERS

Collins Stewart
9th Floor
88 Wood Street
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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 2004. 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. As a consequence, the financial results reported upon in this statement relate to the first post-IPO period.

These funds were raised to enable management to scale up the Group's production, sales and service capabilities. The Group's sales, production and service networks are now well established with the first five lasers having been delivered before the year-end. These lasers are at various stages in their trial periods. The next five lasers are in advanced stages of production.

As previously announced, it has become apparent that the Group will be unable to meet the forecasts detailed in the Prospectus of July 2003. Delays in "scaling-up" the production facilities have negatively impacted our ability to obtain the clinical data required to achieve the forecast sales. In addition, some minor technical issues encountered in trials impacted laser system production. This resulted in the number of eyes treated to date, by the first machines delivered, being much lower than anticipated.



FINANCIAL RESULTS

The Group recorded a loss after tax of £4,010,932 (2003: £660,238) for the year ended 30 June 2004 on sales of £8,851 (2003: £2,848), reflecting the increased costs associated with the "scale-up" of production. This equated to a loss of 11.6p (2003: loss of 7.6p) per share.

Group net assets at 30 June 2004 were £7.4m (2003: £0.95m). This included intangible assets of £1.21m (2003: £1.56m) and net current assets of £5.9m (2003: £0.63m), which includes cash funds of £6.9m (2003: £0.77m). Net expenditure per month is at present approximately £0.38m.

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

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

OVERVIEW OF BUSINESS

BUSINESS PROGRESS

As a result of the significant gearing up of production during the year, together with the recruitment of leading people in the sector, the Board believes the Group is well positioned to make significant progress in the calendar year 2005.

Treatment rates are now accelerating, predominately from the placement of lasers in Columbia and Norway. Approximately 90 eyes have now been treated around the world. The initial clinical data is very encouraging with results indicating that our solid-state laser system is already able to match the results of our competitors' products. Further refinements to our system are expected to continue to improve the surgical outcomes.

Key goals for the next eighteen months are to obtain sufficient clinical data to advance the sale of lasers into existing markets, where regulatory approvals are held, and advance the approval processes for additional markets. In addition, the Group is aiming to be cash flow positive by the end of calendar year 2005. Through the approval processes improvements have been made in laser design and the Group has established quality control processes that would be the envy of many companies of a similar size.

There continues to be substantial interest in acquiring our system and the key over the next eighteen months will be to turn this positive feedback into sales and receipts.

MARKET

The Laser Vision Correction Industry continues to grow. Our solid state technology shows significant advantages over the non-solid state systems in existence. As noted in our Prospectus, the solid state system increases reliability and avoids the need for toxic gases. The reduced service requirements make it less likely that our system will cause surgery results to deteriorate over time.

The Group attends trade shows around the world and interest in our system is increasing, but additional clinical data is still required. Whilst this data is being collected, work continues on establishing the distributor network. Three distributors have signed agreements to market and sell our lasers in Asia and Europe, with a minimum of eight sales in total. In addition we are proceeding with Chinese regulatory approval, a twelve to eighteen month process. Subject to this approval, another distributor has committed to selling five lasers in the first year after this approval is received. Preliminary submissions for U.S. regulatory approval have also been made.

MANAGEMENT & STAFF

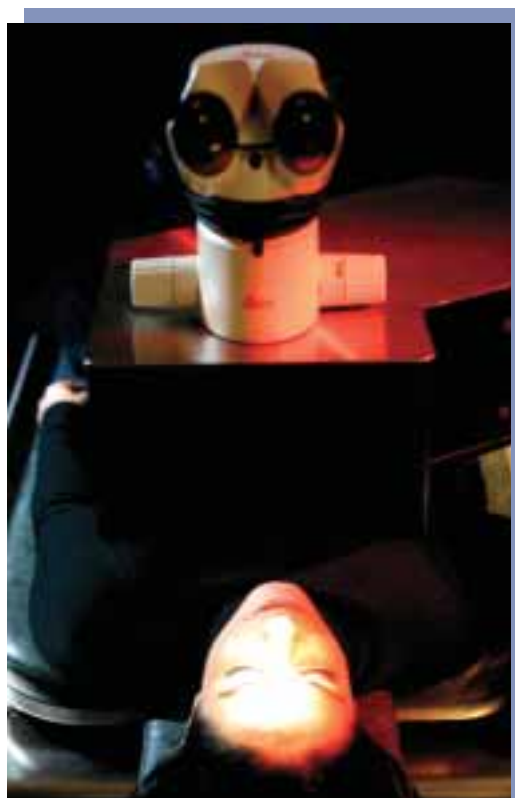
The Group has grown significantly over the past twelve months. Due to the size of the operation in Western Australia, the Group is centralising the executive functions in Perth, WA. The reporting, accounting processes and systems are currently being upgraded.

The Board continues to review its structure and as a result of this ongoing review Simon Gordon, Managing Director, and Hugh Grant, Finance Director, resigned from the Board on 2 November 2004.

Mr Harry Sykes also resigned after the year end. Dr William Ardrey moved from an executive to a non-executive role during the year and the remuneration and audit committees have been established.

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

“The Group is at an important stage. Having reached a point where we can at least match the performance of our competitors’ lasers we now need to turn our production platform and encouraging clinical trials into confirmed sales, cash and ultimately profits for our shareholders.”



REPORT OF THE DIRECTORS

The directors submit their report and the financial statement for the year ended 30 June 2004.

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 has been expanding its manufacturing facilities, setting up quality assurance processes and delivering the first lasers to surgeons on trial periods to assist with the collection of additional clinical data. Further details are 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. The Company will also further the development of ancillary services and products that are complementary to the laser eye surgery products and beneficial to the patients undergoing treatment.

RESEARCH AND DEVELOPMENT EXPENDITURE

During the financial year ended 30 June 2004 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 Group's results for the period are set out on page 10.

The directors do not recommend payment of a final dividend.

POST BALANCE SHEET EVENTS

On 7 July 2004 the Convertible Loan of £1.34 million was repaid.

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 2004 the creditors days for the group was calculated as 36 days. The creditors days for the Group for the period ended 30 June 2003 has not been calculated as the level of activity during the period was minimal.

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	
	2004	2003
Paul van Saarloos	8,869,000	13,303,500
Simon Gordon (resigned 02/11/04)	210,020	210,020
William Ardrey	4,288,718	4,288,718
Hugh Grant (resigned 02/11/04)	20	20
William Colvin (appointed 02/07/03)	45,000	-
Emanuel Rosen (appointed 02/07/03)	32,718	-
Mukesh Jain (appointed 08/11/03)	-	-
Harry Sykes (appointed 24/11/03, resigned 7/07/04)	-	-

Dr Paul van Saarloos' shareholding includes 4,434,500 ordinary shares held by him as a trustee for the van Saarloos family trust. His shareholding at 30 June 2004 is reduced due to Mr van Saarloos' divorce.

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

Simon Gordon's shareholding includes 210,000 ordinary shares held by Novamed Limited, a Company under his control.

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

Mr Harry Sykes was appointed as a non-executive director on 24 November 2003 and resigned on 7 July 2004 following the repayment of convertible loan notes.

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:

	DATE OF GRANT	NUMBER OF OPTION SHARES	EXERCISE PRICE (£)
Simon Gordon	14 January 2003	1,007,321	0.05
William Ardrey	20 June 2003	350,000	0.62
Hugh Grant	20 June 2003	70,000	0.62

The above options are exercisable within ten years of them being granted. The directors are however subject to lock in agreements preventing them from selling any shares prior to the earlier of twenty-four months from date of flotation or Company profitability. Details of these options are given in note 26 to the financial statements.

DIRECTORS

NON EXECUTIVE DIRECTORS

At 30 June 2004 there were three non-executive directors of CustomVis plc, two having been appointed on 2 July 2003 and one, Mr Harry Sykes, on 24 November 2003. Mr Sykes subsequently resigned on 7 July 2004. 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. He also serves on the CLVR Operating Board.

EXECUTIVE DIRECTORS

The following executive directors served for the whole of the financial year 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 for the whole of the financial year but resigned 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 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 – Chief Operating Officer & 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. In 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.



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

The directors report that as of 30 June 2003 the Company did not comply with Combined Code on Corporate Governance. At that reference date no non-executive directors had been appointed.

Two independent non-executive directors were appointed on 2 July 2003.

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 will normally attend as an invitee. This committee meets 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 from time to time.

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

The auditors PKF, have indicated their willingness to continue in office and a resolution proposing their reappointment will be put to the Annual General Meeting.

This report was approved by the Board on 3 November, 2004 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 2004 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 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

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 2004 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. 3 November 2004

GROUP PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2004

	Notes	2004 £	2003 £
Turnover and gross profit	2	8,851	2,848
Administrative expenses		(4,420,528)	(692,043)
Other operating income		59,353	23,818
Operating loss	3	(4,352,324)	(665,377)
Interest receivable and similar income	4	341,392	7,768
Loss on ordinary activities before taxation		(4,010,932)	(657,609)
Tax on loss on ordinary activities	6	-	(2,629)
Loss on ordinary activities after taxation transferred to reserves		(4,010,932)	(660,238)
Loss per Ordinary Share			
Basic	7	(11.6p)	(7.6p)
Diluted	7	(11.6p)	(7.6p)

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 30 JUNE 2004

	Notes	2004 £	2003 £
Loss for the financial year		(4,010,932)	(660,238)
Currency translation differences on foreign currency net investments		(135,650)	19,304
Total recognised gains and losses relating to the year		(4,146,582)	(640,934)

All the above figures relate to continuing activities.

THE NOTES ON PAGES 14 TO 26 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.



GROUP BALANCE SHEET AS AT 30 JUNE 2004

	Notes	2004		2003
		£	£	£
Fixed assets				
Intangible assets	8		1,216,988	1,565,278
Tangible assets	9		298,303	100,033
			1,515,291	1,665,311
Current assets				
Stock		682,027		-
Debtors	11	236,199		286,545
Cash at bank and in hand		6,893,905		773,458
		7,812,131		1,060,003
Creditors: amounts falling due within one year (Including convertible debt)	12	(1,915,815)		(429,236)
Net current assets			5,896,316	630,767
Net assets less current liabilities			7,411,607	2,296,078
Creditors: amounts falling due after more than one year (Including convertible debt)	13		-	(1,342,844)
Net assets			7,411,607	953,234
Capital and reserves				
Called up share capital	14		1,735,957	1,048,090
Share premium account	15		10,463,166	546,078
Foreign currency translation reserve	15		(116,346)	19,304
Profit and loss account	15		(4,671,170)	(660,238)
Equity Shareholders Funds	16		7,411,607	953,234

The financial statements were approved by the Board on 3 November, 2004 and signed on its behalf by

Paul van Saarloos
Director

THE NOTES ON PAGES 14 TO 26 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

COMPANY BALANCE SHEET AS AT 30 JUNE 2004

	Notes	2004		2003
		£	£	£
Fixed assets				
Tangible assets	9		25,157	-
Investments	10		1,000,316	1,000,316
			1,025,473	1,000,316
Current assets				
Debtors	11	7,767,581		1,157,124
Cash at bank and in hand		3,510,265		764,001
		11,277,846		1,921,125
Creditors: amounts falling due within one year (Including convertible debt)	12	(1,391,463)		(5,000)
Net current assets			9,886,383	1,916,125
			10,911,856	2,916,441
Creditors: amounts falling due after more than one year (Including convertible debt)	13			(1,342,844)
Net assets			10,911,856	1,573,597
Capital and reserves				
Called up share capital	14		1,735,957	1,048,090
Share premium account	15		10,463,166	546,078
Profit and loss account	15		(1,287,267)	(20,571)
Equity Shareholders Funds	16		10,911,856	1,573,597

The financial statements were approved by the Board on 3 November, 2004 and signed on its behalf by

Paul van Saarloos
Director

THE NOTES ON PAGES 14 TO 26 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.



GROUP CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2004

	Notes	2004 £	2003 £
Reconciliation of operating loss to net cash outflow from operating activities			
Operating loss		(4,352,324)	(665,377)
Depreciation and amortisation	3	400,704	105,537
Impairment of intangible fixed assets		22,247	-
Decrease/(increase) in debtors		50,346	(252,036)
(Increase) in stock		(682,027)	-
Increase in creditors		143,735	166,799
Exchange rate differences arising on cash balances		(124,832)	-
Net cash outflow from operating activities		(4,542,151)	(645,077)
Cash Flow Statement			
Net cash outflow from operating activities		(4,542,151)	(645,077)
Return on investments and servicing of finance	24	341,392	7,768
Taxation	24	-	(2,629)
Capital expenditure	24	(283,749)	(70,743)
Acquisitions and disposals	24	-	122,243
		(4,484,508)	(588,438)
Financing	24	10,604,955	1,361,896
Increase in cash in the year		6,120,447	773,458
Reconciliation of net cash flow to movement in net funds/(debt)	25		
Increase in cash in the year		6,120,447	773,458
Cash inflow from issue of loan notes		-	(1,342,844)
		6,120,447	(569,386)
Net debt at 30 June 2003		(569,386)	-
Net funds/(debt) at 30 June 2004		5,551,061	(569,386)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

1. ACCOUNTING POLICIES

1.1 ACCOUNTING CONVENTION

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 2004. 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 2004 was £1,266,696 (2003 - £20,571).

1.3. TURNOVER

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

1.4. GOODWILL

Acquired goodwill is written off in equal annual instalments over its estimated useful economic life of 5 years.

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 calculated 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



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

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 are 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.

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 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 period as adjusted for tax purposes. In accordance with Financial Reporting Standard Number 19, 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 2004

2. TURNOVER

During the past financial year the Group has not made any material sales. All of the Group's income was in relation to service work. 63% of this income arose in Australia, with the remaining 37% in the UK.

3. OPERATING LOSS

	2004	2003
	£	£
Operating loss is stated after charging:		
Amortisation of intangible assets	326,043	88,164
Impairment of intangible assets	22,247	-
Depreciation and other amounts written off tangible assets	74,661	17,373
Operating lease payments – land and buildings	44,492	7,760
Research and development		
• expenditure in current year	1,019,375	44,838
Auditors remuneration		
• Audit work – Group	19,447	14,110
– Company	6,500	5,000
• Other services	14,347	10,863
and after crediting:		
Government grants	59,353	23,818

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	2004	2003
	£	£
Bank interest	341,392	7,768

5. EMPLOYEES

	2004	2003
Number of employees	Number	Number
The average monthly number of employees (including the directors) during the year was:		
Directors	6	4
Administration	8	3
Electronics	8	4
Mechanical	10	5
Research	6	2
Service	9	1
	47	19

The average number of employees for 2003 shown above is the average monthly number of employees over the last three months of the accounting period since the purchase of the subsidiary. The majority of employees are employed by the subsidiary company in Australia.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

Employment Costs	2004 £	2003 £
Wages and salaries	1,732,325	160,832
Compensation for loss of office	44,178	-
Social security costs	203,068	1,084
Pensions	126,263	11,304
	2,105,834	173,220

5.1. DIRECTORS' EMOLUMENTS	2004 £	2003 £
Remuneration and other emoluments	658,874	44,757
Pension contributions	47,581	2,250
	706,455	47,007

	2004 Number	2003 Number
Number of directors to whom retirement benefits are accruing under a defined contribution scheme	5	2

	2004 £	2003 £
The emoluments of the highest paid director during the year were as follows:		
Emoluments	139,680	14,113
Pension contributions	10,800	-
	150,480	14,113

Certain of the directors had share options at 30 June 2004 as disclosed in the Report of the Directors. These options were issued during the financial period ended 30 June 2003. 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 2004.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

6. TAX ON LOSS ON ORDINARY ACTIVITIES – GROUP

	2004 £	2003 £
Current Tax		
Overseas taxation	-	2,629
Factors affecting tax charge for the year		
The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 30% (2003:30%). The reason for the difference is explained below.		
Interest under Australian legislation is taxed at 48.5%.		
Loss on ordinary activities before tax	(4,010,932)	(657,609)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	(1,203,280)	(197,283)
Permanent timing differences	-	1,754
Losses not utilised	1,203,280	195,529
Overseas taxation (Australian withholding tax)	-	2,629
	-	2,629

Deferred taxation

The Group has losses carried forward that give rise to a deferred taxation asset of approximately £1,375,000 (2003 - £470,000). This balance has not been incorporated into the financial statements as it is not certain at the balance sheet date that profits will be sufficient to allow this balance to reverse.

7. LOSS PER SHARE

Loss for the period attributable to shareholders	£(4,010,932)	£(660,238)
Weighted average number of shares in issue	34,439,861	8,666,563

The weighted average number of shares in issue was calculated by taking into account the exercise of options on 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

8. INTANGIBLE FIXED ASSETS – GROUP

	Patents £	Goodwill £	Total £
Cost			
At 1 July 2003 and 30 June 2004	23,228	1,630,214	1,653,442
Amortisation			
At 1 July 2003	981	87,183	88,164
Charge for the year	-	326,043	326,043
Impairment	22,247	-	22,247
At 30 June 2004	23,228	413,226	436,454
Net book value			
At 30 June 2003	22,247	1,543,031	1,565,278
At 30 June 2004	-	1,216,988	1,216,988

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.

9. TANGIBLE FIXED ASSETS - GROUP

	Plant & Machinery £	Fixtures, fittings & equipment £	Leasehold Improvements £	Total £
Cost				
At 1 July 2003	96,887	18,940	1,579	117,406
Exchange differences	(8,919)	(4,462)	(97)	(13,478)
Additions	124,768	158,666	315	283,749
At 30 June 2004	212,736	173,144	1,797	387,677
Depreciation				
At 1 July 2003	15,467	1,834	72	17,373
Exchange differences	(1,802)	(839)	(19)	(2,660)
Charge for the year	34,080	39,645	936	74,661
At 30 June 2004	47,745	40,640	989	89,374
Net book value				
At 30 June 2003	81,420	17,106	1,507	100,033
At 30 June 2004	164,991	132,504	808	298,303

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

TANGIBLE FIXED ASSETS – COMPANY

	Fixtures, fittings & equipment £	Total £
Cost		
Additions	37,162	37,162
At 30 June 2004	37,162	37,162
Depreciation		
Charge for the year	12,005	12,005
At 30 June 2004	12,005	12,005
Net book value		
At 30 June 2004	25,157	25,157

10. FIXED ASSET INVESTMENTS - COMPANY

	Subsidiary undertaking £	Total £
Cost and net book value		
At 30 June 2003 and 30 June 2004	1,000,316	1,000,316

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:

Company	Country of registration and operation	Nature of business	Class of shares held	Proportion of shares held
Subsidiary undertaking 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.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

11. DEBTORS – GROUP

	2004 £	2003 £
Other debtors	90,914	262,210
Prepayments and accrued income	145,285	24,335
	236,199	286,545
DEBTORS – COMPANY	2004 £	2003 £
Amounts owed by group undertaking	7,727,962	910,194
Prepayments and accrued income	39,619	246,930
	7,767,581	1,157,124

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR - GROUP

	2004 £	2003 £
Trade creditors	377,757	99,435
Directors' accounts	43,110	57,810
Other creditors	103,485	148,794
Accruals and deferred income	48,619	123,197
Convertible loan notes (see note 13)	1,342,844	-
	1,915,815	429,236
Creditors: amounts falling due within one year – Company		
Convertible loan notes (see note 13)	1,342,844	-
Accruals and deferred income	48,619	5,000
	1,391,463	5,000

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR – GROUP AND COMPANY

	2004 £	2003 £
Convertible loan notes	-	1,342,844
Loans falling due		
Between one and two years	-	1,342,844
	-	1,342,844

The convertible loan notes were unsecured and were repaid in full on the first anniversary of flotation, 8 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 2004

14. SHARE CAPITAL - GROUP AND COMPANY

	2004 £	2003 £
Authorised		
100,000,000 Ordinary shares of 5p each	5,000,000	5,000,000
Allotted, called up and fully paid		
34,719,148 (2003 – 20,961,785) Ordinary shares of 5p each	1,735,957	1,048,090

On 1 July 2003 options were exercised by Gem Consulting for 1,120,000 Ordinary Shares at a price of £0.62 per share.

On 8 July 2003 12,637,363 Ordinary Shares were issued by AIM flotation. The issue price was £0.91 per share.

15. RESERVES – GROUP

	Share premium account £	Foreign currency reserve £	Profit and loss account £	Total £
At 1 July 2003	546,078	19,304	(660,238)	(94,856)
Premium on issue of shares (net of issue expenses totalling £1,357,401)	9,917,088	-	-	9,917,088
Loss for the year	-		(4,010,932)	(4,010,932)
Foreign currency translation losses arising in the year	-	(135,650)	-	(135,650)
At 30 June 2004	10,463,166	(116,346)	(4,671,170)	5,675,650

RESERVES – COMPANY

	Share premium account £	Profit and loss account £	Total £
At 30 June 2003	546,078	(20,571)	525,507
Premium on issue of shares (net of issue expenses totalling £1,357,401)	9,917,088	-	9,917,088
Loss for the year	-	(1,266,696)	(1,266,696)
At 30 June 2004	10,463,166	(1,287,267)	(9,175,899)



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

16. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS - GROUP	2004
	£
Equity shareholders funds at 1 July 2003	953,234
Loss for the year	(4,010,932)
Net proceeds of equity share issue	10,604,955
Foreign currency translation losses arising in the period	(135,650)
Equity shareholders' funds at 30 June 2004	<u>7,411,607</u>

RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS - COMPANY	2004
	£
Equity shareholders funds at 1 July 2003	1,573,597
Loss for the year	(1,266,696)
Net proceeds of equity share issue	10,604,955
Equity shareholders' funds at 30 June 2004	<u>10,911,856</u>

17. CONTINGENT LIABILITIES

A third party is 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 has 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.

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 and at the year end, is a partner in Findlay & Company. Normal commercial rates are applied to all transactions. During the year to 30 June 2004 a total of £46,476 (2003 - £4,823) was paid by the Company to Findlay & Company. At 30 June 2004 the balance due to Findlay & Company was £4,113 (2003 - £nil). Mr Grant resigned as a director of the Company on 2 November 2004.

The company had loan notes outstanding throughout the period. 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 2004

20. POST BALANCE SHEET EVENTS

Apart from the repayment of loan notes on 7 July 2004 described in note 19, there have been no post balance sheet events that require disclosure.

21. CONTROLLING INTEREST

Following flotation of the Company on 8 July 2003, no individual party has overall control of the Company. At 30 June 2003 the Company was controlled by the van Saarloos family. Paul van Saarloos is a director of the Company. Mr van Saarloos, his former wife and a family trust over which he has effective control owned approximately 63% of the Company. Following the listing of the company and the divorce of Mr van Saarloos the percentage over which he is deemed to have effective control has reduced to 25.5%.

22. CAPITAL INSTRUMENTS

The Group did not use capital instruments as a hedging mechanism during the financial year ending 30 June 2004. The Group may commence some foreign exchange hedges in the next financial year. These are likely to be forward contracts in Australian dollars.

23. LEASING COMMITMENTS

At 30 June 2004 the Group had non-cancellable operating lease arrangements. The annual commitments are as follows:

	Land & Buildings	
	2004 £	2003 £
Operating leases which expire:		
Within one year	24,804	-
In two to five years	64,360	36,356
	89,164	36,356

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

24. GROSS CASH FLOWS - GROUP

	2004 £	2003 £
Returns on investments and servicing of finance		
Interest received	341,392	7,768
Taxation		
Corporation tax paid	-	(2,629)
Capital expenditure		
Payments to acquire intangible assets	-	(19,695)
Payments to acquire tangible assets	(283,749)	(51,048)
	(283,749)	(70,743)
Acquisitions and Disposals		
Cash assets acquired from subsidiary	-	122,243
Financing		
Issue of ordinary share capital	10,604,955	19,052
New loan notes issued	-	1,342,844
	10,604,955	1,361,896

25. ANALYSIS OF CHANGES IN NET DEBT - GROUP

	Opening Balance £	Other Movements £	Cash Flows £	Closing Balance £
Cash at bank and in hand	773,458	-	6,120,447	6,893,905
Debt due within one year	-	(1,342,844)	-	(1,342,844)
Debt due after more than one year	(1,342,844)	1,342,844	-	-
	(569,386)	-	6,120,447	5,551,061

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

26. SHARE OPTIONS

At 30 June 2004, there were option agreements in place for the purchase 2,261,704 (2003: 3,381,704) Ordinary Shares of 5p each. Options held by directors of the Company at year end were as follows:

	Number of Options	Exercise Price £
Simon Gordon	1,007,321	0.05
William Ardrey	350,000	0.62
Hugh Grant	70,000	0.62

Options in respect of 1,120,000 shares were exercised on 1 July 2003 at a price of 62p per Ordinary Share of 5p each. There are also further options in respect of 834,383 shares as follows:

	Number of Options	Exercise Price £	Exercise Period
	694,383	0.91	By 8 July 2008
	140,000	0.62	By 20 June 2006

27. ACCOUNTING PERIOD

These financial statements cover the year from 1 July 2003 to 30 June 2004. The comparative figures are for the period from incorporation, on 5 December 2002, to 30 June 2003.





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