# Citizen Limited

Financial statements

For the year ended 30 June 2005

Grant Thornton



**Company No. 3193286**

# Company information

| | |
|---|---|
| **Company registration number** | 3193286 |
| **Registered office** | 5-8 Hardwick Street<br>London<br>EC1R 4RG |
| **Directors** | R J Horwood<br>N Habgood<br>R Dool |
| **Secretary** | R Britton |
| **Bankers** | Barclays Bank PLC<br>The Little Green<br>Richmond<br>Surrey<br>TW9 1QS |
| **Solicitors** | Lewis Silkin<br>12 Gough Square<br>London<br>EC4A 3DW |
| **Auditors** | Grant Thornton UK LLP<br>Chartered Accountants<br>Registered Auditors<br>Churchill House<br>Chalvey Road East<br>Slough<br>Berkshire<br>SL1 2LS |

# Contents

# Report of the directors

The directors present their report and the financial statements of the group for the year ended 30 June 2005.

### Results and dividends

The loss for the year after taxation amounted to £3,395,381 (2004: £3,273,042). The directors do not recommend a final dividend.

### Principal activities and review of the business

The principal activity of the group during the year was the provision of online digital workflow software and services, the design, provisioning and management of associated telecommunications networks and related services and the provision of computer hardware and software and related services, including the development of customised computer software.

### Future developments

Citizen continues to invest in Vio Worldwide Limited and its subsidiaries. Recent contract wins show that the group is well placed to take advantage of any opportunities which may arise in the future and lead to profitable trading.

### Directors and their interests

The directors who served the company during the year were as follows:

R J Horwood
N Habgood
R Dool

The directors' interests in the shares of the company were as stated below:

| | Ordinary Shares of £0.01 each | |
|---|---|---|
| | At 30 June 2005 | At 30 June 2004 |
| R J Horwood | 25,000 | 25,000 |
| N Habgood | - | - |
| R Dool | 3,000 | - |

### Directors' responsibilities

United Kingdom Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group at the end of the year and of the group's profit or loss for the year then ended. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable United Kingdom 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 group will continue in business.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Auditors**

Grant Thornton UK LLP were appointed auditors on 1 July 2005 to fill a casual vacancy in accordance with section 388(1) of the Companies Act 1985.

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with Section 385 of the Companies Act 1985.

**Small group provisions**

This report has been prepared in accordance with the special provisions for small groups under Part VII of the Companies Act 1985.

BY ORDER OF THE BOARD

R Britton
Secretary

Grant Thornton

# Report of the independent auditors to the members of Citizen Limited

We have audited the financial statements of Citizen Limited for the year ended 30 June 2005 which comprise the consolidated profit and loss account, the balance sheets, the statement of total recognised gains and losses, and notes 1 to 22. 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 preparing the report of the directors and the financial statements in accordance with United Kingdom law and 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 other information contained in the report of the directors and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Basis of opinion**

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

Grant Thornton

# Report of the independent auditors to the members of Citizen Limited (continued)

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 30 June 2005 and of the loss of the group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
LONDON THAMES VALLEY OFFICE
SLOUGH

1 November 2005

# Principal accounting policies

### Basis of accounting

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention.

The directors believe the group's secured facilities and existing funding are sufficient for the needs of the business for the foreseeable future and for at least twelve months from the date of approval of these financial statements. The directors accordingly consider it appropriate for these financial statements to be prepared on a going concern basis.

### Basis of consolidation

The group financial statements consolidate the financial statements of Citizen Limited and all of its subsidiary undertakings drawn up to 30 June each year. No profit and loss account is presented for Citizen Limited as permitted by section 230 of the Companies Act 1985.

### Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the group is small.

### Turnover

Turnover represents the supply of goods and services, excluding VAT, during the period. Revenue is recognised as follows:

- Professional service contracts: on a percentage complete basis, with due regard to milestones
- Support and maintenance: on a monthly or quarterly basis
- Licences: on supply to a customer

### Fixed assets

All fixed assets are initially recorded at cost.

### Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

| | | |
|---|---|---|
| Computer equipment | - | 3 years |
| Fixtures and fittings | - | 3 years |

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

# Principal accounting policies

### Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

### Investments

These comprise investments in shares in the Company's subsidiary undertakings that the directors intend to hold on a continuing basis in the Company's business. The investments are stated at cost less provision for diminution in value. Impairment reviews have resulted in the investments being carried at £nil.

### Goodwill

Goodwill is amortised on a straight line basis over three years from the date it arises. The company reviews the carrying value of any goodwill and where it is considered appropriate any permanent impairment in value will be reflected in the current year's profit and loss account, and consequently in the carrying value of the goodwill at the balance sheet date. Negative and positive goodwill are treated in the same way.

### Research and development

Research and development expenditure is written off as incurred.

### Work in progress

Work in progress is assessed on a contract by contract basis and is reflected in the profit and loss account by recording turnover and related costs as the contract progresses. Where the outcome of each contract can be assessed with reasonable certainty before its conclusion the profit is recognised in the profit and loss account as the difference between the attributable turnover and related costs for the contract. Attributable turnover is based on the state of completion with reference to the fair value of the goods or services provided as a proportion of the fair value of the contract.

### Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

### Foreign currencies

*Company*

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

# Principal accounting policies

**Foreign currencies (continued)**

*Group*

The financial statements of the overseas subsidiary undertaking are translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the retranslation of opening net assets is taken directly to reserves. The profit and loss account is translated at the average rate for the year and the difference between the profit and loss account translated at an average rate and at the closing rate is recorded as a movement in reserves.

# Consolidated profit and loss account

| | Note | 2005 £ | 2004 £ |
|---|---|---|---|
| **Turnover** | 1 | 3,043,965 | 2,438,214 |
| Cost of sales | | (1,206,021) | (1,074,083) |
| Gross profit | | 1,837,944 | 1,364,131 |
| Administrative expenses | 2 | (4,472,869) | (4,095,762) |
| **Operating loss** | | (2,634,925) | (2,731,631) |
| Other interest receivable and other income | | 626 | 2,559 |
| Interest payable | 3 | (991,475) | (831,500) |
| **Loss on ordinary activities before taxation** | | (3,625,774) | (3,560,572) |
| Taxation | 5 | 230,393 | 287,530 |
| **Loss retained for financial year** | | (3,395,381) | (3,273,042) |

All of the activities of the group are classed as continuing.

# Consolidated balance sheet

| | Note | 2005 £ | 2004 £ |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets-goodwill | 7 | **222,825** | 839,952 |
| Tangible assets | 8 | **115,684** | 118,600 |
| | | **338,509** | 958,552 |
| **Current assets** | | | |
| Stocks | 9 | **-** | 62,894 |
| Debtors | 11 | **956,206** | 1,379,746 |
| Cash at bank and in hand | | **453,534** | 290,991 |
| | | **1,409,740** | 1,733,631 |
| **Creditors: amounts falling due within one year** | 12 | **(3,071,303)** | (4,960,426) |
| **Net current liabilities** | | **(1,661,563)** | (3,226,795) |
| **Total assets less current liabilities** | | **(1,323,054)** | (2,268,243) |
| **Creditors: amounts falling due after more than one year** | 13 | **(11,583,024)** | (7,983,073) |
| | | **(12,906,078)** | (10,251,316) |
| **Capital and reserves** | | | |
| Called up share capital | 16 | **158** | 98 |
| Share premium reserve | 17 | **749,940** | - |
| Profit and loss account | 17 | **(13,656,176)** | (10,251,414) |
| **Total shareholders' deficit** | 18 | **(12,906,078)** | (10,251,316) |
| Equity shareholders' deficit | | **(2,184,972)** | (10,251,316) |
| Non equity shareholders' deficit | | **(10,721,106)** | - |
| **Total shareholders' deficit** | | **(12,906,078)** | (10,251,316) |

These financial statements have been prepared in accordance with the special provisions for small groups under Part VII of the Companies Act 1985.

These financial statements were approved by the directors on 25 October 2005 and are signed on their behalf by:

R J Horwood

**The accompanying accounting policies and notes form part of these financial statements**

# Company balance sheet

| | Note | 2005 £ | 2004 £ |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 8 | - | - |
| Investments | 10 | - | - |
| **Current assets** | | | |
| Cash at bank and in hand | | 788 | 99,335 |
| **Creditors: amounts falling due within one year** | 12 | (4,688) | (1,575,698) |
| **Net current liabilities** | | (3,900) | (1,476,363) |
| **Creditors: amounts falling due after more than one year** | 13 | (11,583,024) | (7,883,073) |
| | | (11,586,924) | (9,359,436) |
| **Capital and reserves** | | | |
| Called-up share capital | 16 | 158 | 98 |
| Share premium reserve | 17 | 749,940 | - |
| Profit and loss account | 17 | (12,337,022) | (9,359,534) |
| **Total shareholders' deficit** | | (11,586,924) | (9,359,436) |
| Equity shareholders' deficit | | (1,973,908) | (9,359,436) |
| Non equity shareholders' deficit | | (9,613,016) | - |
| **Total shareholders' deficit** | | (11,586,924) | (9,359,436) |

These financial statements have been prepared in accordance with the special provisions for small groups under Part VII of the Companies Act 1985.

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R J Horwood

**The accompanying accounting policies and notes form part of these financial statements**

# Statement of total recognised gains and losses

| | 2005 £ | 2004 £ |
|---|---|---|
| Loss for the year | (3,395,381) | (3,273,042) |
| Exchange differences on retranslation of the net assets of subsidiary undertakings | (9,381) | 87,556 |
| **Total losses recognised for the year** | (3,404,762) | (3,185,486) |

**The accompanying accounting policies and notes form part of these financial statements**

# Notes to the financial statements

## 1 Turnover

*Turnover is attributable to the one continuing activity, the provision of online digital workflow software* and services, and the design, provisioning and management of associated telecommunications networks and related services and the provision of computer hardware and software and related services, including the development of customised computer software.

An analysis of turnover by geographical distribution is given below:

| | 2005 £ | 2004 £ |
|---|---|---|
| UK | **2,574,834** | 1,983,414 |
| Other | **469,131** | 454,800 |
| | **3,043,965** | 2,438,214 |

## 2 Operating loss

The operating loss is stated after charging/(crediting):

| | 2005 £ | 2004 £ |
|---|---|---|
| Auditors' fees | **17,100** | 25,000 |
| Depreciation of owned fixed assets | **73,726** | 83,692 |
| Amortisation of negative goodwill | **-** | (685,263) |
| Amortisation of goodwill | **222,825** | 419,975 |
| Research and development expenditure written off | **982,147** | 1,198,042 |
| Operating lease costs - land and buildings | **210,150** | 282,618 |
| - other | **64,448** | 6,996 |
| Loss on foreign currency translation | **4,404** | - |

## 3 Interest payable

| | 2005 £ | 2004 £ |
|---|---|---|
| Interest payable on loan notes | **982,916** | 831,500 |
| Other interest payable | **8,559** | - |
| Interest payable | **991,475** | 831,500 |

# Notes to the financial statements

## 4 Directors remuneration

Remuneration in respect of directors was as follows:

| | 2005 | 2004 |
|---|---|---|
| | £ | £ |
| Emoluments | 200,659 | 235,224 |
| Value of company pension contributions to money purchase pension schemes | 15,000 | 14,490 |

The emoluments of the highest paid director during the year were £128,500 (2004: £140,292). The pension contributions were £nil (2004: £4,500).

## 5 Taxation

(a) Analysis of charge in the year

| | 2005 | 2004 |
|---|---|---|
| | £ | £ |
| Current tax: | | |
| UK Corporation tax based on the results for the year at 30% (2004 - 30%) | (235,058) | (287,530) |
| Adjustments to prior year tax charge | 4,665 | - |
| Total current tax | (230,393) | (287,530) |

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2004 - 30%)

| | 2005 | 2004 |
|---|---|---|
| | £ | £ |
| Loss on ordinary activities before tax | (3,625,774) | (3,560,572) |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004 - 30%) | (1,087,732) | (1,068,172) |
| Effects of: | | |
| Expenses not deductible for tax purposes | 601,005 | 480,333 |
| Depreciation in advance of capital allowances | 15,143 | 21,544 |
| Tax losses carried forward | 463,911 | 550,104 |
| Other timing differences | 7,673 | 16,191 |
| Research and development tax credits | (235,058) | (287,530) |
| Total UK current tax (note 5(a)) | (235,058) | (287,530) |

# Notes to the financial statements

## 6 Loss for the year

As permitted by section 230 of the Companies Act 1985, Citizen Limited's profit and loss account has not been included in these financial statements. The loss for the year is as follows:

| | 2005 £ | 2004 £ |
|---|---|---|
| Loss for the year | (2,977,488) | (3,516,316) |

## 7 Goodwill

| | Goodwill £ |
|---|---|
| Cost: | |
| At 1 July 2004 | 1,259,927 |
| Adjustment as a result of amendment to deferred consideration | (394,302) |
| At 30 June 2005 | 865,625 |
| Amortisation: | |
| At 1 July 2004 | 419,975 |
| Charge for the year | 222,825 |
| At 30 June 2005 | 642,800 |
| Net Book Value at 30 June 2005 | **222,825** |
| Net Book Value at 1 July 2004 | 839,952 |

# Notes to the financial statements

## 8 Tangible fixed assets

Group

| | Computer equipment £ | Fixtures, fittings and equipment £ | Total £ |
|---|---|---|---|
| **Cost** | | | |
| At 1 July 2004 | 300,982 | 43,768 | 344,750 |
| Additions | 83,452 | 1,788 | 85,240 |
| Disposals | - | (16,245) | (16,245) |
| At 30 June 2005 | 384,434 | 29,311 | 413,745 |
| **Depreciation** | | | |
| At 1 July 2004 | 216,029 | 10,121 | 226,150 |
| Charge for the year | 68,287 | 5,439 | 73,726 |
| Disposals | - | (1,815) | (1,815) |
| At 30 June 2005 | 284,316 | 13,745 | 298,061 |
| **Net book value** | | | |
| At 30 June 2005 | **100,118** | **15,566** | **115,684** |
| At 1 July 2004 | 84,953 | 33,647 | 118,600 |

Company

| | Computer equipment £ |
|---|---|
| **Cost** | |
| At 1 July 2004 and 30 June 2005 | 4,212 |
| **Depreciation** | |
| At 1 July 2004 and 30 June 2005 | 4,212 |
| **Net book value** | |
| At 1 July 2004 and 30 June 2005 | - |

## 9 Stocks and work in progress

| | 2005 £ | 2004 £ |
|---|---|---|
| Work in progress | - | 62,894 |
| | - | 62,894 |

# Notes to the financial statements

## 10 Investments in group undertakings and participating interests

| | £ |
|---|---|
| Net book value: | |
| At 1 July 2004 and 30 June 2005 | - |

*The company holds at least 20% of the share capital of the following companies:*

| | Country of incorporation | Class | Shares held |
|---|---|---|---|
| Vio Worldwide Limited | Great Britain | Ordinary | 100% |
| Vio North America LLC(*) | United States of America | Ordinary | 100% |
| Vio Inc. (*) | United States of America | Ordinary | 100% |
| Vionet Israel Limited (*) | Israel | Ordinary | 100% |
| Vio Europe SARL (*) | France | Ordinary | 100% |
| Portland PMS Limited (*) | Great Britain | Ordinary | 100% |

(*) Shares held indirectly

These companies were engaged in the provision of digital workflow software and services, the design, provisioning and management of associated telecommunications networks and related services, licensing of digital content software and the provision of computer hardware and software services.

## 11 Debtors

| | The group | | The company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | £ | £ | £ | £ |
| Trade debtors | 389,268 | 709,984 | - | - |
| Corporation tax receivable | 229,067 | 524,530 | - | - |
| Other debtors | 337,871 | 145,232 | - | - |
| | 956,206 | 1,379,746 | - | - |

# Notes to the financial statements

## 12 Creditors: amounts falling due within one year

| | The group | | The company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | £ | £ | £ | £ |
| Unsecured loan notes | - | 50,000 | - | - |
| Accrued interest on loan notes | - | 1,572,198 | - | 1,572,198 |
| Trade creditors | 681,158 | 575,067 | - | - |
| Other taxation and social security | 493,424 | 258,753 | - | - |
| Other creditors | 1,896,721 | 2,504,408 | 4,688 | 3,500 |
| | 3,071,303 | 4,960,426 | 4,688 | 1,575,698 |

## 13 Creditors: amounts falling due after more than one year

| | The group | | The company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | £ | £ | £ | £ |
| Convertible loan notes (see note 14) | - | 2,083,073 | - | 2,083,073 |
| Secured loan notes ( see note 14) | 9,018,073 | 5,800,000 | 9,018,073 | 5,800,000 |
| Accrued interest on loan notes | 2,564,951 | - | 2,564,951 | - |
| Deferred consideration | - | 100,000 | - | - |
| | 11,583,024 | 7,983,073 | 11,583,024 | 7,883,073 |

## 14 Loan notes

| | The group | | The company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | £ | £ | £ | £ |
| Convertible loan notes | - | 2,083,073 | - | 2,083,073 |
| Secured loan notes | 9,018,073 | 5,800,000 | 9,018,073 | 5,800,000 |
| | 9,018,073 | 7,883,073 | 9,018,073 | 7,883,073 |

The repayment dates for the loan note instruments have been set to be 31 December 2006.

During the year the £15,000 of convertible loan notes were redeemed and the remaining £2,068,073 were re-designated as secured loan notes.

The company issued a total of £1,150,000 (2004: £2,800,000) of secured loan notes during the year ended 30 June 2005. The loans accrue interest at two different rates; - £68,073 of loan notes at 8% and £8,950,000 of loan notes at 12%.

The holders of £8,950,000 of loan notes are registered as having a fixed and floating charge over the assets of the group.

# Notes to the financial statements

## 15 Provision for liabilities and charges

Deferred taxation not recognised in the financial statements and amounts recognised are as follows:

| | Recognised | | Not recognised | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | £ | £ | £ | £ |
| Decelerated capital allowances | - | - | 1,093,053 | 1,077,911 |
| Tax losses carried forward | - | - | 8,232,958 | 7,886,883 |
| Other timing differences | - | - | 314,660 | 247,203 |
| | - | - | 9,640,671 | 9,211,997 |

A deferred tax asset has not been recognised in the financial statements in respect of the losses as the *criteria for recognition under FRS 19 have not been met.*

## 16 Share capital

Authorised share capital:

| | Authorised | |
|---|---|---|
| | 2005 | 2004 |
| | £ | £ |
| 1,000,000 (2004: 1,499,000) ordinary shares of £0.001 | 1,000 | 1,499 |
| 500,000 (2004: 1 preference share of £1) preference shares of £0.001 | 500 | 1 |
| | 1,500 | 1,500 |

| | Alloted, called up and fully paid | |
|---|---|---|
| | 2005 | 2004 |
| | £ | £ |
| 98,000 ordinary shares of £0.001 | 98 | 98 |
| 60,000 preference shares of £0.001 | 60 | - |
| | 158 | 98 |

In the year the company sub divided and redesignated 1 preferred share of £1.00 into 1,000 preference shares of £0.001 and redesignated 499,000 ordinary shares of £0.001 as 499,000 preference shares of £0.001.

During the year 60,000 preference shares of £0.001 each were issued for a total consideration of £750,000.

The holders of the preference shares are entitled to receive, pro rata to their respective holdings of such

# Notes to the financial statements

shares and in priority to all other share holders 84% of any dividend or any other distribution of whatsoever nature declared.

The holders of the preference shares are entitled, on a return of assets, reduction of capital, liquidation or otherwise, in priority to all other shareholders an amount equal to £750,000 after provision has been made for liabilities, plus 84% of the remaining balance.

In the event of a listing the holders of the preference shares are entitled to receive £750,000 plus 84% of the aggregate value of the company.

## 17 Reserves

| Group | Share premium account £ | Profit and loss account £ |
|---|---|---|
| At 1 July 2004 | - | (10,251,414) |
| Retained loss for the year | - | (3,395,381) |
| Currency translation differences on foreign currency net investments | - | (9,381) |
| Issue of preference share capital | 749,940 | - |
| At 30 June 2005 | 749,940 | (13,656,176) |

| Company | Share premium account £ | Profit and loss account £ |
|---|---|---|
| At 1 July 2004 | - | (9,359,534) |
| Retained loss for the year | | (2,977,488) |
| Issue of preference share capital | 749,940 | - |
| At 30 June 2005 | 749,940 | (12,337,022) |

## 18 Reconciliation of movements in shareholders' funds

| Group | 2005 £ | 2004 £ |
|---|---|---|
| **Loss for the financial period** | (3,395,381) | (3,273,042) |
| Exchange difference on retranslation of net assets of subsidiary undertakings | (9,381) | 87,556 |
| Nominal value of shares issued | 60 | - |
| Premium on shares issued | 749,940 | - |
| Opening shareholders' funds | (10,251,316) | (7,065,830) |
| **Closing shareholders' funds** | (12,906,078) | (10,251,316) |

# Notes to the financial statements

| Company | 2005 | 2004 |
|---|---|---|
| | £ | £ |
| **Loss for the financial period** | (2,977,488) | (3,516,316) |
| Nominal value of shares issued | 60 | - |
| Premium on shares issued | 749,940 | - |
| Opening shareholders' funds | (9,359,436) | (5,843,120) |
| **Closing shareholders' funds** | (11,586,924) | (9,359,436) |

## 19 Commitments

At 30 June 2005 the group had annual commitments under non-cancellable operating leases as follows:

| Group | Land and buildings 2005 | Other 2005 | Land and buildings 2004 | Other 2004 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Operating leases which expire: | | | | |
| Within 2 to 5 years | 201,150 | 64,448 | 152,000 | 6,996 |
| | 201,150 | 64,448 | 152,000 | 6,996 |

## 20 Pensions

The group's profit and loss account includes contributions of £38,542 (2004 - £44,932) to a money purchase pension scheme. At the year end £30,125 remained unpaid.

## 21 Contingent Liabilities

In December 2001, a share sale agreement in respect of Vionet Israel Limited was signed between Scitex Corporation Limited and Vio Worldwide Limited, a group company and parent of company of Vionet Israel Limited.

Vionet Israel Limited is committed to pay royalties to the Chief Scientist's office of the Government of Israel at the rate of up to 3.5% of its sales as a result of funding received by Scitex Corporation Limited which amounted to approximately $981,000. The total royalties paid and payable in the future should not exceed this amount. At the date of the financial statements, Scitex Corporation Limited had paid $351,107 on account of this matter, and Vionet Israel Limited had paid $139,926.

# Notes to the financial statements

## 22 Related Party Transactions

On 20 October 2004 Citizen Limited entered into an agreement with LMS Capital (Bermuda) Limited consolidating all existing secured loan notes with Westpool Investments Trust Plc and LMS Capital (Bermuda) limited. On 28 January 2005, 21 February 2005 and 22 June 2005 further loan notes were issued. At 30 June 2005 Citizen limited had drawn £8,950,000 against the loan notes.

Vio Worldwide Limited, Vio Inc, Vionet Israel Limited and Portland PMS Limited have provided cross guarantees and indemnities between group companies and LMS Capital (Bermuda) Limited in relation to the loan notes documented in the Deed of Guarantee and Indemnity dated 21 February 2002 and varied on 20 October 2004, 28 January 2005, 21 February 2005 and 22 June 2005. LMS Capital (Bermuda) Limited is a related party by virtue of its ownership of 60,000 preference shares in Citizen Limited, and at the year end £2,564,951 of interest relating to the loan notes had been accrued for.

At 30 June 2005 Citizen limited owed R J Horwood £68,073 (2004 - £68,073) in the form of loan notes. Interest charges amounting to £11,115 (2004 - £6,504) have been accrued for at the year end.

During the year subsidiary companies paid a total of £121,639 in rent and buildings service charges to The New River Company Limited, which is a company ultimately owned by LMS Plc, which also owns LMS Capital (Bermuda) Limited.