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This document, which comprises an AIM admission document drawn up in accordance with the AIM Rules, has been issued in connection with the proposed admission of the entire issued and to be issued share capital of the Company to trading on AIM. This document is not an approved prospectus for the purposes of section 85 and 87 of FSMA and any offer to the public is exempt by virtue of section 86 of FSMA.

This document comprises a financial promotion and has been approved for issue in the United Kingdom for the purposes of section 21 Financial Services and Markets Act 2000 by Insinger de Beaufort, which is authorised and regulated by the Financial Services Authority.

The Directors of Seeing Machines Limited (the “Company”), whose names appear on page 5 of this document, accept responsibility for the information contained in this document. To the best of the knowledge of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. Under no circumstances should the information contained in this document be relied upon as being accurate or complete at any time after Admission.

**Application has been made for the whole of the ordinary share capital of Seeing Machines Limited in issue and to be issued pursuant to the Placing, to be admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. In addition, the AIM Rules are less demanding than those of the Official List of the UK Listing Authority (Official List). AIM securities are not admitted to the Official List. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. London Stock Exchange plc has not itself examined or approved the contents of this document. It is emphasised that no application is being made for admission of the Ordinary Shares to the Official List. No application has been made for the Ordinary Shares to be listed on any other recognised investment exchange. It is expected that Admission will become effective and dealings in the Ordinary Shares will commence on AIM on 1 December 2005. The whole text of this document should be read. The attention of persons receiving this document is drawn to the section headed “Risk Factors” contained in Part II of this document.**

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## **Seeing Machines Limited**

ACN 093 877 331

*(Incorporated in Australia under the Corporations Act 2001 (Commonwealth of Australia)  
and taken to be registered in the Australian Capital Territory)*

### **Admission to trading on AIM**

**Placing of 55,058,328 Ordinary Shares at 3p per share**

**by**

**Insinger de Beaufort**

**Nominated Adviser and Broker**

### **Ordinary Share capital immediately following Admission**

Number of issued and fully paid Ordinary Shares – 255,058,331 of no par value

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Upon Admission all the Ordinary Shares will rank *pari passu* in all respects and will rank in full for all dividends or other distributions declared, made or paid in respect of Ordinary Shares after Admission.

Insinger de Beaufort is acting as Nominated Adviser and Broker to the Company in relation to the Placing and Admission and will not be responsible to any other person other than the Company for providing the protections afforded to clients of Insinger de Beaufort or providing advice in connection with the Placing and Admission.

The responsibilities of Insinger de Beaufort as the Company’s Nominated Adviser and Broker under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire Ordinary Shares in reliance on any part of this document. No representation or warranty, express or implied, is made by Insinger de Beaufort as to any of the contents or completeness of this document.

This document does not constitute an offer for subscription or sale or the solicitation of an offer to buy Ordinary Shares in any jurisdiction where such an offer or solicitation is unlawful and, subject to certain exceptions, is not for distribution in or into the United States, Canada, Japan, Australia or South Africa. The Ordinary Shares have not been, and will not be, registered under the United States Securities Act of 1933 (as amended) or under the applicable securities law of Canada, Japan, Australia or South Africa and, subject to certain exceptions, may not be offered for sale or sold directly or indirectly, within the United States, Canada, Japan, Australia or South Africa or to or by any national, resident or citizen of such countries.

This document contains forward looking statements, including, without limitation, statements containing the words “believe”, “anticipated”, “expected” and similar expressions. Such forward looking statements involve unknown risk, uncertainties and other factors which may cause the actual results, financial condition, performance or achievement of the Company, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in “Risk Factors” set out in Part II of this document. Given these uncertainties, prospective investors are cautioned not to place any undue reliance on such forward looking statements. The Company disclaims any obligations to update any such forward looking statements in this document to reflect future events or developments.

## CONTENTS

<b>DEFINITIONS</b> .....	3
<b>DIRECTORS, SECRETARY AND ADVISERS</b> .....	5
<b>PLACING STATISTICS</b> .....	6
<b>EXPECTED TIMETABLE OF PRINCIPAL EVENTS</b> .....	6
<b>EXCHANGE RATES</b> .....	6
<b>PART I INFORMATION ON THE COMPANY</b> .....	7
1. Introduction .....	7
2. Background .....	7
3. Core Technologies and Competitive Advantage.....	9
4. Technology Licensing .....	10
5. Research and Development Program.....	14
6. Directors, key employees and consultants.....	15
7. Reasons for the Placing and Admission and Use of Proceeds.....	17
8. Details of the Placing.....	17
9. Summary financial information.....	17
10. Corporate governance.....	17
11. Dividend policy.....	18
12. Lock-in arrangements and orderly market provisions .....	18
13. Admission, settlement and CREST.....	18
14. Applicable Takeovers Law .....	19
15. Additional Information .....	19
<b>PART II RISK FACTORS</b> .....	20
<b>PART III ACCOUNTANTS' REPORT AND HISTORICAL FINANCIAL INFORMATION ON THE COMPANY</b> .....	23
<b>PART IV PRO FORMA STATEMENT OF NET ASSETS</b> .....	50
<b>PART V ADDITIONAL INFORMATION</b> .....	53

## DEFINITIONS

The following definitions and terms apply throughout this document unless the context otherwise requires:

“ <b>£</b> ”	Pounds sterling
“ <b>A\$</b> ”	Australian dollars
“ <b>ACN</b> ”	Australian Company Number
“ <b>Act</b> ”	the UK Companies Act 1985, as amended
“ <b>Admission</b> ”	the admission of the Existing Ordinary Shares and the Placing Shares to trading on AIM becoming effective pursuant to paragraph 6 of the AIM Rules
“ <b>AIM</b> ”	the AIM Market of the London Stock Exchange
“ <b>AIM Rules</b> ”	the rules governing the admission to and operation of AIM published by the London Stock Exchange from time to time
“ <b>Australian National University</b> ”	the Australian National University, a research-intensive university, based in Canberra, Australia
“ <b>City Code</b> ”	the City Code on Takeovers and Mergers
“ <b>Combined Code</b> ”	the Combined Code on Corporate Governance as annexed to the Listing Rules of the UK Listing Authority
“ <b>Company</b> ” or “ <b>Seeing Machines</b> ”	Seeing Machines Limited, ACN 093 877 331, a company incorporated in Australia under the Corporations Act
“ <b>Convertible Note Issue Deed</b> ”	the convertible note issue deed described at paragraph 7.7 of Part V of this document
“ <b>Convertible Notes</b> ”	the convertible notes issued by the Company pursuant to the Convertible Note Issue Deed
“ <b>Corporations Act</b> ”	the Corporations Act of 2001 of the Commonwealth of Australia
“ <b>CREST</b> ”	the system of paperless settlement of trades and the holding of uncertificated shares of which CREST Co Limited is the operator
“ <b>CSIRO</b> ”	Commonwealth Scientific and Industrial Research Organisation
“ <b>Depository</b> ”	Computershare Investor Services plc
“ <b>Depository Interest</b> ”	the security described in paragraph 13 of Part I of this document
“ <b>Directors</b> ” or “ <b>Board</b> ”	the board of directors of the Company whose names appear on page 5
“ <b>Enlarged Share Capital</b> ”	the 255,058,331 Ordinary Shares in issue immediately following Admission
“ <b>Employee Share Option Scheme</b> ”	the employee share option scheme adopted by the Company in November 2001 described in paragraph 6 of Part V of this document
“ <b>Existing Ordinary Shares</b> ”	the Ordinary Shares in issue at the date of this document
“ <b>FDA</b> ”	the Food and Drug Administration, USA
“ <b>FSA</b> ”	the UK Financial Services Authority
“ <b>FSMA</b> ”	the UK Financial Services and Markets Act 2000 (as amended)
“ <b>Insinger de Beaufort</b> ”	the Company’s Nominated Adviser and Broker
“ <b>Intellectual Property</b> ”	the Company’s patent portfolio and registered trademarks as described in paragraph 12 of Part V of this document, together with all copyright, know how and other intellectual property rights in relation to the Company’s technology portfolio

<b>“London Stock Exchange”</b>	London Stock Exchange plc
<b>“Official List”</b>	the Official List of the UK Listing Authority
<b>“Ordinary Shares”</b>	fully paid ordinary shares of no par value in the capital of the Company, including depositary interests representing Ordinary Shares and issued through the Depositary
<b>“Placing”</b>	the conditional placing of the Placing Shares by Insinger de Beaufort on behalf of the Company pursuant, <i>inter alia</i> , to the Placing Agreement, details of which are set out in paragraph 7.2 of Part V of this document
<b>“Placing Agreement”</b>	the conditional agreement dated 23 November 2005 between the Company (1), the Directors (2) and Insinger de Beaufort (3), details of which are set out in paragraph 7.2 of Part V of this document
<b>“Placing Price”</b>	3p per Placing Share
<b>“Placing Shares”</b>	the 55,058,328 new Ordinary Shares to be issued pursuant to the Placing
<b>“UK”</b>	United Kingdom of Great Britain and Northern Ireland
<b>“UK Listing Authority”</b>	the FSA acting in its capacity as the competent authority for the purposes of Part VI of FSMA including, where the context so permits, any committee, employee or servant of such authority to which any function of the UK Listing Authority may from time to time be delegated
<b>“Volvo Technology”</b>	Volvo Technology Corporation, a research and innovation company in the Volvo Group of companies where new technologies, products and businesses are developed
<b>“Volvo” or “Volvo Group”</b>	the Volvo Group, one of the world’s leading suppliers of transport solutions for commercial use and a leading manufacturer of trucks, buses, boats and construction equipment
<b>“Volvo Trucks”</b>	a division of the Volvo Group that manufactures trucks

## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors</b>	(James) Fulton Muir AO ( <i>Non-executive Chairman</i> ) Nicholas John Cerneaz ( <i>Chief Executive Officer</i> ) Alexander Zelinsky ( <i>Non-executive</i> ) Anthony Paul Kinnear ( <i>Non-executive</i> ) Trent William Victor ( <i>Non-executive</i> ) David John Gaul ( <i>Non-executive</i> ) Robert Charles Sale ( <i>Non-executive</i> )  <i>All of whose business address is:</i> Innovations Building Level 3 Corner Eggleston & Garran Roads Acton ACT 2601 Australia
<b>Company Secretary and Registered Office</b>	Belinda Burgess Innovations Building Level 3 Corner Eggleston & Garran Roads Acton ACT 2601 Australia
<b>Nominated Adviser and Broker</b>	Insinger de Beaufort 131 Finsbury Pavement London EC2A 1NT
<b>Solicitors to the Company (<i>Australian</i>)</b>	Deacons 1 Alfred Street Circular Quay Sydney NSW 2000 Australia
<b>Solicitors to the Company (<i>UK</i>)</b>	Lawrence Graham LLP 190 Strand London WC2R 1JN
<b>Solicitors to the Placing</b>	Lewis Silkin 12 Gough Square London EC4A 3DW
<b>Reporting Accountants</b>	Grant Thornton Corporate (NSW) Pty Ltd (Chartered Accountants) Level 17, 383 Kent Street Sydney New South Wales 2000 Australia
<b>Auditors</b>	Ernst & Young (Chartered Accountants) Ernst & Young House 51 Allara St Canberra ACT 2600 Australia
<b>Registrar</b>	Computershare Investor Services Pty Limited GPO Box 2975 Melbourne VIC 3001 Australia
<b>Depositary</b>	Computershare Investor Services plc PO Box 82 The Pavilions Bridgewater Road Bristol BS99 7NH

## PLACING STATISTICS

Placing Price	3p
Number of Ordinary Shares in issue immediately prior to Admission	191,212,874
Number of Placing Shares being placed on behalf of the Company	55,058,328
Number of Ordinary Shares in issue immediately following Admission (including the Placing Shares)	255,058,331
Placing Shares as a percentage of the Enlarged Share Capital	21.59 per cent.
Market capitalisation at the Placing Price	£7.65 million
Estimated net proceeds of the Placing receivable by the Company	£1.25 million

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Admission and commencement of dealings in Ordinary Shares on AIM	8.00 a.m. on 1 December 2005
Delivery of Depositary Interests into CREST	on 1 December 2005
Despatch of definitive share certificates in respect of the Placing Shares	by 8 December 2005

## EXCHANGE RATE

The rate of exchange used for the purpose of this document is, unless otherwise stated:	£1.00: A\$2.50
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## PART I

### INFORMATION ON THE COMPANY

#### 1. Introduction

Seeing Machines is a world leading developer of computer vision processing technologies that allow machines to see and track human faces and moving objects. These technologies can enable the development of important new products and applications, ranging from devices that help improve road safety and save lives, to those that help detect and manage eye disease and prevent loss of eyesight.

The Company is based at the Australian National University campus in Canberra. Seeing Machines was incorporated in July 2000 and commenced trading in November 2000 in order to commercialise research that had been jointly undertaken since 1997 by Volvo Technology in Sweden and researchers at the Australian National University into vision-based human-machine interfaces. The aim of this research was to develop technologies that enable computers to detect, track and interpret human faces and facial features. The initial goal was to improve driver safety and reduce transport accidents using real-time tracking of head-pose, gaze direction and eyelid behaviour to monitor driver fatigue, distraction or inattention. Early focus was on the development of the faceLAB™ product as a measurement tool.

Today, the Company's focus is on deploying its computer vision technologies, predominantly in Europe, the United States and Japan, in:

- human performance measurement (through the faceLAB™ product);
- driver safety products for automotive and other transport markets;
- vision-testing devices for healthcare markets; and
- new products in sports, entertainment, robotics and security markets.

The ownership of all relevant background intellectual property previously held by Volvo Technology and the Australian National University in the face and eye gaze tracking technology was transferred to Seeing Machines in January 2001. Following Admission, the Australian National University will own 11.02 per cent. and Volvo Technology will own 9.11 per cent. of the Enlarged Share Capital respectively. Volvo's interests are represented on the Board by Mr Trent Victor who is Product Area Manager for Driver Environment at Volvo Technology and Australian National University's interests are represented by Mr Fulton Muir AO who has a number of roles at the Australian National University including Member of University Council and Chair of Finance Committee.

The Company is seeking to raise £1.25 million (net of expenses) through the Placing and Admission to:

- progress implementation of the technology licensing and product development opportunities it currently has in global automotive and healthcare markets;
- investigate and progress commercialisation opportunities in new markets such as sports, entertainment, robotics and security;
- further develop and enhance its existing technology portfolio; and
- expand the sales team and establish a European sales and marketing office.

#### 2. Background

Since its establishment in 2000, Seeing Machines has invested primarily in enhancing its core vision processing technologies in the belief that vision-based human-machine interfaces will become an integral feature of many everyday machines and electronic devices. Seeing Machines has developed vision-based technology that can automatically detect and track human faces and measure the state of specific features such as eyes, eyelids and pupils. This technology can track and detect human faces and measure eye gaze direction and head movement to a high degree of accuracy. The data collected through the technology can be used for a variety of sophisticated applications such as detection of fatigue, inattention, distraction or interpretation of simple emotional states.

Combined with other technologies, the Company's vision processing technologies also have the potential to be used to track and measure pupil response to specific stimuli to potentially aid in the

diagnosis and management of certain eye diseases such as glaucoma and certain neurological disorders.

Seeing Machines' computer vision technology can also be adapted to enable computers to track and interpret objects other than human faces; for example, for detecting speed and other traffic signs, surrounding traffic movement, pedestrians and road obstacles through to tracking of ball trajectories in mass market sporting applications.

### *Awards*

Seeing Machines employs recognised experts in the field of computer vision research and engineering and has received numerous science and innovation awards since its inception, including:

- winner Australian IT Innovation Award as part of the World Congress on Information Technology in March 2002;
- winner 2002 Australian Eureka Prize for Information Technology Innovation;
- winner 2002 R&D 100 Award, a US award recognising the leading 100 global innovations in 2001 across all areas of science and technology;
- technology Pioneer at the 2003, 2004 and 2005 World Economic Forum;
- winner 2003 Australian iAward for the Software Product Innovation category; and
- winner 2003 Chief Minister's Australian Capital Territory Export Awards Information & Communications Technologies category.

In May 2005 Seeing Machines' co-founder and Chief Technology Officer, Alexander Zelinsky, received the prestigious Australian Academy of Technological Science and Engineering Clunies Ross Award for outstanding personal commitment over an extended period of time to successful innovation involving the application of science and technology for the benefit of Australia.

### *faceLAB™*

In May 2001, Seeing Machines released its first product, faceLAB™ version 1.0, a human performance measurement product that can acquire and analyse facial data. faceLAB™, which is now in its fourth version, has achieved aggregate sales in excess of £2.4 million to date. The product provides automatic 3D head tracking, eye location and tracking, gaze direction and eyelid closure measurements.

The Company has sold over 100 units of the faceLAB™ product primarily to customers in Europe, North America and Japan who use it for research and development purposes. Customers include many of the world's leading automotive manufacturers and component makers as well as government organisations that administer and research traffic safety. Other faceLAB™ customers include universities, research institutions and defence and military agencies.

The faceLAB™ product serves two purposes, as:

- a research tool; and
- a prototype and demonstration tool.

It is used as a research tool by human factors' researchers undertaking behavioural and cognitive studies, who wish to understand how people perform tasks, with particular interest in what people look at while they are performing particular tasks. Such studies typically focus on car and truck drivers, aircraft and helicopter pilots, and more generally those occupations involving critical control and monitoring responsibilities, such as air-traffic control. faceLAB™ is also being used to study perceptual development in infants.

faceLAB™ is also commonly purchased to demonstrate and assess the capabilities of Seeing Machines' core tracking technologies. It is often used as a real-time measurement sensor in prototype applications being developed by customers, such as driver warning systems, stereoscopic displays, entertainment and robotic applications. For example, faceLAB™ was used by New York University in 2002 to develop a wide field-of-view 3D stereoscopic display device. The HumanFIRST laboratory at the University of Minnesota has faceLAB™ integrated into its 3D driving simulator platform, providing high quality tracking data. Murdoch University in Australia has used faceLAB™ in its Interactive Television Audience Research Labs to assist in the measurement of viewing habits, scanning patterns, advertising response and interface design. The Australian Defence Science Technology Organization (DSTO) uses faceLAB™ for the analysis of piloting studies in simulators and immersive display areas.



faceLAB™ is also used for early stages of product development such as concept generation, research and advanced engineering, and rapid prototyping for innovative functions.

### ***Research & Development Grants***

In January 2002, the Company was awarded a £1.3 million research and development grant from the Australian Government of which approximately £1 million has been utilised to date in the further development of its core technologies. In December 2004, the Company was also awarded a further grant of £100,000 from the Australian Government to commence development of its glaucoma diagnostic device technology.

### ***Commercialisation***

The Company has already entered into several technology licensing and research and development agreements in a number of key markets which, the Directors believe, provide substantive opportunities for its vision processing technologies to become embedded in products in the automotive, healthcare and sports training sectors, amongst others, details of which are set out in paragraph 4 of this Part I.

## **3. Core Technologies and Competitive Advantage**

Computer vision technology detects and tracks a person's face and eyes and measures gaze direction and can be applied to revolutionise the way people interact with machines and systems, delivering benefits in safety and human performance improvement.

### ***Automatic and simultaneous head pose and eye gazing tracking***

Seeing Machines was the first computer vision house to develop a commercial stereo vision system that operates in real time and simultaneously measures head pose and eye gaze direction with acceptable reliability and accuracy. The ability to simultaneously measure head pose and eye gaze direction is a critical innovation. If a person's eyes become obscured or are no longer visible (when, say, the head is turned or sunglasses are worn) the eye tracking system will fail, however the head tracking system will take over and continue to provide data on head position until the eyes are again visible. Seeing Machines has developed technology that allows its vision tracking systems to automatically detect faces, find important facial features, track gaze direction, measure eyelid closure and build 3D models. The Directors are not aware of any commercial competitor that has been able to demonstrate the same kind of combined capabilities to date.

### ***Market readiness***

For commercial applications, it is critical that computer vision technology can be readily used in real world applications. Importantly, Seeing Machines is focused on making its technology market ready by delivering and continuing to enhance the following capabilities:

- non-contact passive sensing of faces and facial features;
- automatic facial acquisition;
- real-time processing of video images;
- operation in natural lighting — bright sunlight and night conditions;
- ability to handle partially hidden facial features and variations in lighting conditions; and
- detection of eye glasses and sunglasses.

### ***Patents and Trade Marks***

Seeing Machines has patents pending for inventions relating to its facial image processing technology in US, Europe and Japan. In particular, a foundation patent covering key areas of the technical approach to tracking and facial image processing was filed in July 2000, and the Company was granted a notice of allowance from the US Patent and Trademarks Office in September 2005. This means that the patent will now proceed to the grant stage, normally within the next three months. The Company also has a patent pending in relation to its ability to automatically detect facial features, a must-have aspect of computer vision functionality for real-world applications.

Seeing Machines' patent portfolio, including licensed patents, is outlined in the table below.

	<i>Patent Title</i>	<i>Earliest Date Priority</i>	<i>Assignee</i>
1	Facial image processing system	24 July 2000	Seeing Machines Limited
2	Method and apparatus for the automatic detection of facial features	27 March 2002	Seeing Machines Limited
3	Eye tracking system and method	31 March 2003	Seeing Machines Limited
4	Glaucoma testing from observations of optokinetic nystagmus	13 May 1991	Australian National University
5	Simultaneous binocular assessment of multiple optic nerve and cortical regions in diseases affecting nerve condition	30 March 1998	Australian National University
6	Method and apparatus for assessing the neural function by sparse stimuli	27 March 2000	Australian National University
7	Assessment of neural function	28 November 2003	Australian National University

The Company also has trade mark registrations in Europe, Australia, Japan and the United States covering the Company name and the Company logo.

For more detailed information regarding the Company's patents and trade marks see paragraph 12 of Part V of this document.

### ***Competition***

Seeing Machines faces competition from technology vendors who specialise in deploying their own tracking technology into specific market domains. Competitive technologies generally depend, to a large extent, on environments that control subject pose and lighting conditions so that if the subject moves 'out of frame', tracking ceases. Others rely on invasive equipment such as helmets or other wearable markers or devices, compared to Seeing Machines' non contact approach, which uses remote cameras and computer vision software. While these competitive technologies require certain controlled conditions, Seeing Machines' technology operates in real-world settings to automatically locate and track human faces and eyes, day or night, irrespective of a person's age or sex and in the presence of eye glasses.

On 1 July 2004, the Company secured an exclusive licence to patent rights held by the Australian National University in relation to the development of glaucoma diagnostic technology that measures pupil response to a certain visual stimulus pattern in order to derive a map of a person's field of vision. The Directors believe that the combination of the Company's own computer vision capabilities and the Australian National University's intellectual property rights form a significant barrier to entry for potential competitors in that this combination cannot easily be replicated by any one organisation, especially existing providers of current vision diagnostic equipment. Technology competitors in the visual field testing market are using subjective means that require patients to focus on and respond to a visual target, whereas Seeing Machines is developing a technology based on a completely objective method that uses an involuntary physiological response. For this reason the Directors believe that Seeing Machines' technology has the potential to become a 'gold standard' in the diagnosis and management of glaucoma to derive reliable, repeatable results and greater diagnostic accuracy.

## **4. Technology Licensing**

### ***Business Model***

Seeing Machines aims to be the world's leading provider of computer vision processing technologies.

The Company's business strategy is to deliver strong revenue streams and profit growth through licensing its vision processing technologies for use in high value products. To achieve this the Company intends to continue to build effective partnerships with Original Equipment Manufacturers, Tier 1 manufacturers and distributors who manufacture and sell products based on the Company's Intellectual Property. As a priority, the Company is targeting high volume, global markets where there is strong demand for technology-based improvements to achieve better safety or quality of life for humans, in particular, in the areas of road and transport safety and the management of eye diseases that cause blindness.

The Company intends to continue to invest in research and development and commercialisation activities in chosen markets in order to achieve diversified, reliable, high margin royalty streams through the unique capabilities and significant value-add that its vision processing technologies can provide.

The key opportunities to commercialise the Company's technology that have been identified and progressed to date are summarised below.

**(a) Driver safety products for automotive and other transport markets**

***The problem of driver fatigue, distraction and inattention***

According to recent World Health Organisation studies an estimated 1.2 million people lose their lives in road traffic accidents every year and up to 50 million more are injured, with global costs of road traffic accidents estimated in the same studies at US\$518 billion annually.

Fatigue in transportation is one of the main safety problems in modern society. The US National Transportation Safety Board (1999) has estimated that fatigue is involved in 15-30 per cent. of all accidents on the roads, at sea, and in the air. An international consensus group has estimated at least 20 per cent. of road accidents are due to sleepiness (Akerstedt, 2000).

Driver fatigue, distraction and inattention are high profile issues for governments and road safety authorities in developed countries. In a recent survey carried out in the United States, 57 per cent. of people reported to have driven while drowsy in the past year and 23 per cent. said they had actually fallen asleep at the wheel (Johnson, 1998). There is ongoing strong demand for technology-based improvements to help manage this problem.

Driver fatigue is a major safety issue in the trucking industry and a major contributor to heavy vehicle accidents which are costly for fleet operators and socially unacceptable in terms of basic road safety. With over 750,000 new trucks delivered globally every year and millions of heavy vehicles already registered, there is an increasing imperative to use technology to manage truck driver fatigue and distraction. Train safety is also an ongoing high profile problem in many developed countries.

***Driver warning systems***

Seeing Machines aims to deploy its technology into the next generation of safety products for automobiles, trucks, buses and trains in order to help reduce transport-related fatalities and lower the costs that arise out of transport-related accidents globally. Towards this goal, Seeing Machines is working with automotive and component manufacturers and suppliers, as well as leading research institutions, to progress development of driver monitoring and road scene recognition safety devices that use the Company's vision processing technologies.

Seeing Machines' technology has the potential to be used to monitor drivers and provide an appropriate warning where there are signs of fatigue, distraction or inattention. Similar opportunities exist for the technology to also be used in systems that detect speed signs, road signs, pedestrians, vehicles or other obstacles in order to support driver safety.

Since establishment, the Company has progressed a number of commercialisation partnerships and licensing opportunities for its technology in these potentially high volume automotive and transport markets.

***Trucks***

Volvo aims to introduce driver monitoring technology into its vehicles in the coming years. In September 2002, the Company entered into a licensing agreement with Volvo Technology on behalf of the Volvo Group, a recognised world leader in vehicle safety. This agreement provides Volvo with a licence to use Seeing Machines driver monitoring technology in relation to the manufacture and distribution of Volvo trucks, buses and construction equipment, along with certain first rights of introduction. The Volvo Group is one of the leading manufacturers of heavy trucks in the world with total deliveries of over 193,000 vehicles across its Volvo, Renault and Mack divisions in 2004.

The Company will also be undertaking a field trial with Schlumberger, a large global oil and mining services company, with a view to exploring the feasibility of deploying a driver monitoring system into its fleet of trucks.

***Cars***

The Company is currently finalising a co-operative research and development agreement with Hella, a major automotive component maker in Germany, to undertake development of a driver

monitoring concept product for a European-based car maker. As part of this process, Seeing Machines was ranked ahead of a number of competing technologies in an evaluation undertaken by the car maker for its driver safety monitoring product development and was nominated by the car maker as its preferred technology provider for the concept product.

Most of the world's major automotive and component makers have purchased Seeing Machines' faceLAB™ product to undertake safety related research and development. These include: Daimler Chrysler, Ford, Honda, Isuzu, Jaguar, Nissan, Hyundai, Peugeot-Citroen, Renault, Toyota, Volvo Cars, Denso, Delphi, Motorola and Robert Bosch. Similarly, world-leading government funded research institutions have undertaken research into automotive safety using faceLAB™ including the US National Highways Traffic Safety Administration, the US Department of Transport National Advanced Driving Simulator (NADS) and the French National Institute for Transport and Safety Research (INRETS).

The Company intends to capitalise upon these faceLAB™ customer relationships to develop new opportunities for driver monitoring systems and technology licensing agreements in the automotive sector.

Similar product development opportunities have also been identified in rail and air safety, where there is potential for products that monitor operator fatigue and distraction, as well as security products which identify the operator.

### ***Speed sign recognition***

The Company has in-house expertise to develop a speed sign recognition system and preliminary studies regarding the feasibility of a hardware implementation have been successfully completed.

The Company is a participant in the recently established Co-operative Research Centre ("CRC") for Advanced Automotive Technology spearheaded by General Motors Holden Innovation in Australia. One of the goals of the CRC is to develop and introduce new intelligent systems that improve vehicle safety. Further to this, Seeing Machines is participating in a CRC-sponsored project to develop systems that can be deployed in cars and trucks to help drivers avoid crashes, which may include systems that help drivers adapt and respond to changes in speed zones.

### ***Driver drowsiness detection, road sign recognition and obstacle detection***

The Company has finalised an agreement to become a commercialization partner in the "Smart Car" project currently being undertaken by researchers from National ICT Australia (NICTA). In the near term this collaboration, will utilize the Company's core technologies and focus on a new method for measuring the signs of driver drowsiness. Subject to finalising further agreements a second area of focus will be the development of a road sign recognition system. The goal is to deploy both of these capabilities into automotive and transport markets.

Seeing Machines has licensed facial recognition technology from CSIRO for use in automotive applications where appropriate, potentially enabling vehicles to identify individual drivers as well as monitor them for fatigue and distraction. The Company is also seeking to work with CSIRO to co-develop obstacle detection systems that could help drivers avoid collisions with unseen or unexpected objects such as pedestrians, animals or other vehicles.

## **(b) Visual field testing devices for healthcare markets**

### ***Glaucoma — a leading cause of blindness***

Glaucoma is a disease that causes gradual narrowing of a person's visual field and is a leading cause of blindness in developed countries. It affects 2 to 3 per cent. of the global population, with approximately 50 per cent. of glaucoma cases thought to go undetected until it is too late for effective treatment. A common screening test for the presence of glaucoma involves physically checking for elevated pressure inside the eye, even though a high percentage of glaucoma patients do not exhibit elevated pressure. In order to determine whether glaucoma is present, it is generally necessary for an ophthalmologist to undertake a variety of tests including measuring a person's field of vision using visual field testing devices.

### ***Glaucoma diagnostic technology***

The Company is well-progressed in the development of technology to aid in the diagnosis and management of glaucoma and other eye and neurological diseases. This development combines patented technology, licensed from the Australian National University with Seeing Machines' vision

processing technology to enable objective testing of a person's field of vision through measurement of pupil response to specific visual stimuli.

### ***Objective test for glaucoma***

The majority of visual field testing devices available on the market require subjective input from patients who are required to focus on and respond to a moving visual target. The requirement for patient input can introduce bias and impact upon the reliability and repeatability of results when attempting to map an individual's field of vision. Seeing Machines' technology is aimed at employing computer vision technology to objectively measure the involuntary responses of pupils to a specific pattern of visual stimulus. Industry experts believe that this approach has the potential to provide a faster, more reliable and more accurate measurement of the visual field than current methods and that there is a significant demand for an objective test of the visual field.

### ***Visual field testing device market***

The global market for visual field testing devices is large, comprised of over 70,000 ophthalmologists globally who rely on and use visual field testing devices in order to test for glaucoma and other eye diseases. An objective test for glaucoma could supplement existing subjective visual field testing devices and replace subjective testing devices over time.

Working with experts in vision research from the Australian National University's Centre for Visual Sciences, the Company completed an initial prototype of its objective glaucoma diagnostic technology in early 2005 and a second prototype was completed in June 2005. Eight scientific trials, including initial tests on patients with glaucoma, have been completed in the period to October 2005, with encouraging results. The Company is aiming to launch the first version of this technology, either licensed to existing makers of visual field testing devices or in its own device, following completion of necessary research and development, clinical trials, market research, FDA marketing clearance and market development.

Once fully proven and refined, this new technology has potential applications beyond detection and management of glaucoma. Visual field mapping is a leading method for diagnosing and managing a range of eye diseases such as age related macular degeneration and diabetic retinopathy. Early stage studies indicate that pupil response can be useful in diagnosing schizophrenia and multiple sclerosis. The Directors' believe that there is also potential to provide objective visual field testing applications in other markets, including for example in the optometrist market and in motor vehicle driver testing.

### **(c) New products in sports, entertainment, robotics and biometric security markets**

Opportunities to embed Seeing Machines' vision processing technology in products in other markets have been identified and a number of partnerships have been established. The Directors' believe that opportunities exist in visual entertainment, robotics, sports training, biometric security, military and defence, computing and safety devices for consumer and manufacturing markets. For example, licensing opportunities exist in enabling face animation for multi-media applications and to provide new interfaces for computer games and entertainment systems. Biometric security applications could also be enhanced by Seeing Machines' technology which could improve the acquisition process for locating faces or eyes in images and video.

In December 2004, Seeing Machines entered into a research and development agreement with the Advanced Telecommunications Research ("ATR") Institute in Japan, which commissioned the Company to build an application program interface ("API") for its core vision processing technologies. This will provide ATR with an applications development toolkit which will allow it to use Seeing Machines' technologies to undertake research into equipping humanoid robots with vision processing capabilities, in effect to enable robots to "see" human eyes and faces, interact with humans and carry out specified instructions and tasks.

The Company also plans to release a commercial version of the API device in early 2006. This will provide customers with access to the Company's core head and gaze tracking Intellectual Property and enable them to build their own prototype applications in transport, security, gaming or robotics markets, for example. This has the potential to lead to much faster and more widespread use of Seeing Machines' technology in commercial applications. Prototype applications that contain embedded technology provided by Seeing Machines and become commercialized would then lead to royalty revenue streams for the Company.

In March 2005, the Company entered into a licensing agreement with Pillar Vision, Inc, a US manufacturer of the Noah System, a training device that helps basketball athletes improve their

shooting accuracy. Utilising Seeing Machines' technologies to track the arc of a basketball as it leaves the athlete's hand, the Noah System is now easier to use and functions with a higher degree of accuracy. As a result the system has been launched to the large high-school gym market in the United States, in addition to professional and college basketball teams throughout the United States, with initial sales of the product already achieved. Seeing Machines will receive a royalty payment for each unit sold and it is expected that licensing revenues will commence early in 2006.

The Directors believe that the Company's vision processing technology can enable the development of new products and improve the utility of a diversified range of devices. The Company aims to develop many embedded licensing contracts generating royalty revenue streams in the years ahead.

## **5. Research and Development Program**

Seeing Machines will make ongoing investment in research and development to enhance its core vision processing technologies and create new capabilities in order to achieve its commercial goals.

The Company's research and development program is currently undertaken by 12 full time researchers and engineers with expertise and experience in computer vision, software engineering, embedded systems and hardware design. The Directors intend to continue to strengthen its world-leading vision processing research and engineering team by recruiting from around the world.

### ***Key areas of research and development***

The key strands of the Company's research and development program are:

- designing and developing products that use intelligent computer vision algorithms that interpret complex scenes and reliably extract high-value information in order to address real-world problems and stimulate new markets with innovative technology;
- monitoring and contributing to relevant scientific research in computer vision algorithms, computer vision sensor technology and related human interface technology; and
- conducting co-operative research projects with partners which have domain knowledge, product specific design and integration expertise and the channels to market required in order to solve the production engineering problems encountered when applications based on computer vision technology need to be integrated into complex environments such as in automobiles, games or security applications.

### ***Specific commercialisation initiatives***

Seeing Machines will continue to invest in research and development with the goal of maintaining and extending its leadership in providing the most advanced computer vision techniques for practical product applications, both now and into the future. Central to this focus is the continual improvement of the Company's existing Intellectual Property base. Specific areas where the Company intends to expend research and development funds in future in order to expand and improve its technology capabilities enable and expedite commercialisation are:

- improving computer vision algorithm performance where required by product demand, specifically to enable seamless and automatic measurement of facial information in a range of real-world environments;
- upgrading the robustness and accuracy of existing head and eye tracking methods in order to deploy fatigue and distraction warning products in automotive applications and other transport-related environments;
- building customized processing logic architectures to minimize the cost of rolling out core image processing algorithms and enable the use of these in mass market products in areas such as automotive, biometric security and entertainment;
- optimizing the design of embedded platforms to facilitate product integration into new markets and enabling the Company's image processing technologies to harness the processing power of specialised hardware and utilise cheaper and more compact hardware as it becomes available;
- maintaining core competencies in latest vision sensor and processing technologies by investigating performance and assessing potential product utility;
- continual integration and improvement of the Company's core software architecture to maximise technology re-use across products;

- investigating algorithmic suitability of vision-processing solutions for potential new products;
- developing specialised image processing techniques for medical applications; and
- developing data analysis tools for the measurements provided by the faceLAB™ software.

In the year ended 30 June 2004 the Company spent a total of £558,000 on research and development of which £291,000 was funded through Australian Government research and development grants, with the balance being funded out of the Company's working capital. In the year to 30 June 2005 the Company spent a total of £577,930 on research and development of which £262,388 was funded through government grants and the balance from working capital.

The Company's current research and development grants will be fully utilised by June 2006. However it is the intention of Directors to apply for new grant funding from the Australian Government for commercialisation and advanced engineering and potentially from the European Union prior to the expiry of the current grants.

## 6. Directors, key employees and consultants

The Board and Management of Seeing Machines combines a strong mix of commercial and technical skills and experience. The Board comprises the following Directors:

### Board of Directors

**(James) Fulton Muir**, AO (*Non-executive Chairman*), aged 75, has a distinguished career in banking, government and international relations. He has held senior positions in major Australian banks, including Westpac and St George. He has been the New South Wales State Government Commissioner for North America, and also economic adviser to the Chief Minister of Australian Capital Territory Government. He is a Director of several companies and also holds several roles with the Australian National University, including Member of the University Council and Chair of Finance Committee. Fulton was appointed an Officer of the Order of Australia (AO) for Services to Commerce and the Community in 1992.

**Nick Cerneaz**, B.Sc., B.E.(Hons), D.Phil (*Chief Executive Officer*), aged 39. Nick, a Rhodes Scholar and University Medallist, joined Seeing Machines in 2005 to take responsibility for the commercialisation of the Company's glaucoma diagnostic technology. Nick brings to Seeing Machines significant industry experience developing and commercializing medical software and devices. Most recently Nick was the Chief Operations Officer, and formerly Vice President, of Engineering at Mirada Solutions Limited ("Mirada") a UK based medical software company spun out from Oxford University in 1997. Nick was instrumental in building Mirada from its start-up origins through to a trade sale to CTI Molecular Imaging, which was itself recently acquired by Siemens Medical Systems, Inc.

**Alexander Zelinsky**, Ph.D., Bmath., SMIEEE, FTSE (*Non-executive*), aged 45. Prior to co-founding Seeing Machines, Alex was Professor and Head of the Department of Systems Engineering at the Australian National University. Alex is extensively published and is internationally recognised as a leader in the fields of robotics and computer vision. He has worked in the computer industry and has had extensive international experience as a project leader developing cutting edge technology. Alex has received numerous international awards and recognition for his work. In May 2005 Alex received the prestigious Australian Academy of Technological Sciences and Engineering Clunies Ross Award for outstanding personal commitment over an extended period of time to successful innovation involving the application of science and technology for the benefit of Australia. Alex is also Chief Technology Officer to the Company.

**Trent Victor**, M.Sc. (*Non-executive*), aged 37. Trent is Product Area Manager for Driver Environment at Volvo Technology. Volvo Technology is a research and innovation company in the Volvo Group where new technologies, products and businesses are developed. Trent is responsible for co-ordination of research, innovation and product integration in the driver's environment. He also has specific expertise in driver awareness products, such as drowsiness alert, distraction alert, interaction support (workload management), attention-sensitive driving support, impairment detection and distraction evaluation tools. Trent has been the key person behind Volvo's involvement in Seeing Machines, ever since Volvo's first research contract with the Australian National University in the 1990s.

**David Gaul** (*Non-executive*), aged 59. David is co-founder and President of CEA Technologies, a highly successful technology company that designs and develops radar and communications technology. David was the Australian Technology Entrepreneur of the Year in 2003 and has over 20 years experience in high-tech commercialism. David is a founding fellow of the Australian Institute of Company Directors. David is the uncle of Seeing Machines co-founder, Tim Edwards.

**Rob Sale** (*Non-executive*), aged 38. Rob has a long track record of success in establishing and developing technology start-ups. He grew Abacus Data Systems, an Australian IT services and software development company from 20 to over 100 staff and contractors, ultimately negotiating the sale of the business in 1999. Rob is a member of the CSIRO Sector Advisory Committee on Information Technology, Communications and Services. CSIRO is one of Australia's largest and most diverse scientific and research organisations.

**Anthony Kinnear**, BA (Hons), LLB (*Non-executive*), aged 40. Anthony has over 10 years public company experience in running and growing information and technology businesses. Anthony was Chief Executive Officer of SoftLaw Corporation Limited ("Softlaw"), an Australian technology company that provides expert systems software and related services to government markets. Anthony led Softlaw through a major phase in its commercial and corporate development, including its listing on the Australian Stock Exchange in December 2001, successfully establishing international operations in London and Washington D.C, and negotiating major technology licensing contracts with government agencies in Australia and the U K. Prior to this, Anthony also enjoyed a seven year career with Reed Elsevier plc in the Asia Pacific region, ultimately as the Chief Executive of LexisNexis Australia (formerly known as Butterworths) and, concurrently, Regional Director of the New Zealand and Asian operations of the business.

### **Key Employees and Consultants**

The Company's senior engineering and management personnel comprise the following, all of whom (other than Dr Ted Maddess) are full-time employees of the Company:

**Jochen Heinzmann**, *Principal Researcher* Ph.D., M Computer Science.

Jochen is a co-founder of Seeing Machines. His PhD studies involved developing IP for face and eye-gaze tracking. Jochen was one of first people in the world to demonstrate real-time face tracking in 1996. This work marked the beginning of vision-based face and eye gaze tracking that ultimately led to the foundation of Seeing Machines.

**Sebastien Rougeaux**, *Principal Researcher* B.Sc., GradDip Comp. Sci., M. Sc., Ph.D.

Sebastien is a co-founder of Seeing Machines. He is an internationally known robotics and computer vision researcher with extensive experience in Japan and Australia. His research has been widely accepted as a landmark work in active computer vision. He is a significant contributor to building the Intellectual Property of Seeing Machines.

**Timothy Edwards**, *Principal Engineer* B.Sc., B.E.

Tim is a co-founder of Seeing Machines. He is a professional systems engineer with strong skills in software engineering, embedded systems, hardware design and engineering management. In his role as Principal Engineer, Tim ensures there is effective interplay between the processes of technology research and development, product planning and specification, and product engineering. Tim is instrumental in ensuring that Seeing Machines creates innovative, high quality products that address or exceed market expectations.

**Dr Ted Maddess**, *Consultant (part time) Senior Fellow, Centre for Visual Sciences, Australian National University*.

Dr Maddess is a world-leading expert in vision research and the development of devices that aid diagnosis of eye diseases. At the Australian National University in the 1990s, Dr Maddess applied his knowledge of neurophysiology to glaucoma. He realised that the early stages of glaucoma, a common and irreversible form of blindness, could be detected using a special stimulus that appeals to nerve cells in the eye that measure luminance contrast. It took a decade of work to validate the concept, create a practical device, and turn his ideas into a successful medical instrument known as Frequency-Doubling-Technology Perimeter Device (or "FDT Perimeter"). This device is now recognised, through 187 independent studies (ISI Index), as one of the best diagnostic instruments for mapping the visual field and is now sold globally by Humphrey-Zeiss. In 2002 Dr Maddess received the prestigious Australian Academy of Technological Sciences and Engineering Clunies Ross Award for his contribution to science and technology. Prior to this he was also awarded the 1999 Australian



Technology Prize for commercialization, and the 1990 Rimpac Prize for Innovative Research on glaucoma. Dr. Maddess holds a tenured research Readership (Senior Fellow) at the ANU's prestigious Centre for Vision Research.

## **7. Reasons for the Placing and Admission and Use of Proceeds**

Seeing Machines' core markets and customers are predominantly in Europe, the United States and Japan. Moreover, the Company has developed important relationships with a number of key partners in Europe and aims to progress and expedite strategic relationships with a range of European and US based organisations in target segments. The Directors believe that the Placing and Admission will strongly support the Company's desire to engage more closely with its customers and partners in these markets and promote its international growth strategy.

The Company intends to establish an office in Europe, most likely in the United Kingdom, in order to engage more closely with its key markets. While the majority of core research and development will continue to be undertaken in Australia for the foreseeable future, an increasing number of market-facing staff and potentially the Chief Executive Officer will be based in Europe over the medium term.

As described below, the Company is proposing to raise £1.65 million (before expenses). It is planned these funds will be utilised as to £0.75 million in implementing the product development opportunities it has in global automotive, transport and healthcare markets and further development of its existing technology portfolio over the next three years, £0.15 million to be utilised to investigate and progress commercialisation opportunities in new markets such as entertainment, robotics and security, £0.40 million for the expenses relating to the Placing and Admission, £0.10 million for the establishment of a European office £0.03 million for the interest payment referred to in paragraph 7.7 of Part V and the balance for the Company's ongoing working capital needs.

## **8. Details of the Placing**

The Company is proposing to raise £1.65 million (before expenses) through a conditional placing by Insinger de Beaufort of new Ordinary Shares (representing 21.59 per cent. of the Enlarged Share Capital) at 3p per share pursuant to the Placing Agreement, the principal terms of which are summarised in paragraph 7.2 of Part V of this document. The Placing Shares will, when issued, rank *pari passu* in all respects with the Existing Ordinary Shares.

## **9. Summary financial information**

The financial information on the Company is provided in the accountants' report on the Company included in Part III of this document.

## **10. Corporate governance**

As the Company is not currently subject to the rules and regulations of the Australian Stock Exchange, the Company is not subject to the corporate governance requirements imposed by the Australian Stock Exchange. The Directors nevertheless recognise the value and importance of high standards of corporate governance and intend to develop appropriate measures to ensure that the Company will, as far as possible, be able to comply with the Combined Code (Principles of Good Governance and the Code of Best Practice) as set out in the Listing Rules of the UK Listing Authority so far as is practicable for a company of the size and the stage of development of the Company.

The Board has established a remuneration committee (the "Remuneration Committee") and a nominations committee (the "Nominations Committee") each comprising two non-executive Directors. The Remuneration Committee will review the performance of the executive Directors and determine the remuneration of the executive Directors and the basis of their service agreements with due regard to the interests of shareholders. The Remuneration Committee will also determine the payment of any bonuses to the executive Directors and the grant of options to employees, including the executive Directors, under any share option scheme. The Nominations Committee will also consider Board appointments, review the Board structure, size and composition, recommend the continuation (or not) in service of the executive Directors as executives or non-executive Directors and recommend Directors who are retiring by rotation to be put forward for re-election.

The Board has also established an audit committee (the "Audit Committee") comprising the Chairman and one non-executive Director. The Audit Committee will meet at least twice a year and

will be responsible for ensuring that the financial performance, position and prospects of the Company are properly monitored, controlled and reported on and for meeting the auditors and reviewing their reports relating to accounts and internal controls.

The Directors have also considered the guidance published by the Institute of Chartered Accountants in England and Wales (commonly known as the Turnbull Report) concerning the internal control requirements of the Combined Code. The Board will regularly review and manage key business risks in addition to financial risks facing the Company in the operation of its business.

The Board intends to comply with Rule 21 of the AIM Rules relating to Directors' dealings as applicable to AIM companies and will also take all reasonable steps to ensure compliance by the Company's applicable employees (as defined in the AIM Rules). The Company has adopted a share dealing code for this purpose.

#### **11. Dividend policy**

The Directors anticipate that, following the Admission, the Company's cash resources will be retained for the development of its stated business strategy and will not be distributed for the foreseeable future. Accordingly the Directors intend to commence payment of dividends only when it becomes commercially viable to do so, subject to the development and working capital requirements of the Company and the availability of distributable profits.

#### **12. Lock-in arrangements and orderly market provisions**

On Admission, the Directors will be interested in an aggregate of 93,915,018 Ordinary Shares (representing 36.82 per cent. of the Enlarged Share Capital). Details of the Directors' holdings of Ordinary Shares are set out in paragraph 4.1 of Part V of this document.

The Directors, certain shareholders and related parties who upon Admission will be the holders of 163,242,577 Ordinary Shares in aggregate (representing 64 per cent. of the Enlarged Share Capital), have undertaken to Insinger de Beaufort not to dispose of any interests in Ordinary Shares (except in certain limited circumstances) for a period of 12 months from Admission and for a further year thereafter to dispose of their interests in Ordinary Shares only with the prior consent of Insinger de Beaufort on an orderly market basis (save in certain limited circumstances).

In addition certain shareholders who upon Admission will be the holders of 20,730,198 Ordinary Shares in aggregate (representing 8.13 per cent. of the Enlarged Share Capital), have undertaken to Insinger de Beaufort for a period of 24 months from Admission only to dispose of their interests in Ordinary Shares with the prior consent of Insinger de Beaufort on an orderly market basis (save in certain limited circumstances).

Further details of the lock-in arrangements are disclosed in paragraph 7.4 of Part V of this document.

#### **13. Admission, settlement and CREST**

The Ordinary Shares will be issued in registered form. Shares of non-UK companies cannot be held and transferred directly into the CREST system. CREST is a paperless settlement system allowing securities to be transferred from one person's CREST account to another without the need to use share certificates or written instruments of transfer. Shareholders who wish to hold and transfer Ordinary Shares in uncertificated form may do so pursuant to a Depositary Interest arrangement established by the Company. Depositary Interests facilitate the trading and settlement of shares in non-UK companies through CREST.

The Ordinary Shares will not themselves be admitted to CREST. Instead the Depositary will issue Depositary Interests in respect of the Ordinary Shares. The Depositary Interests will be independent securities constituted under English law which may be held and transferred through the CREST system. The Depositary Interests will have the same security code (ISIN) as the underlying Ordinary Shares. The Depositary Interests will be created and issued pursuant to a deed poll to be entered into by the Depositary, which will govern the relationship between the Depositary and the holders of the Depositary Interests.

Ordinary Shares represented by Depositary Interests will be held by the Depositary on bare trust for the holders of the Depositary Interests.

Each Depositary Interest will be treated as one Ordinary Share for the purposes of determining eligibility for dividends, issues of bonus stock and voting entitlements. In respect of dividends, the

Company will put the Depositary (or custodian if appointed) in funds for the payment and the Depositary will transfer the money to the holders of the Depositary Interests. In respect of any bonus stock, the Company will allot any bonus stock to Computershare and will issue such bonus stock to the holder of the Depositary Interest (or as such holder may have directed) in registered form. In respect of voting, the Depositary will cast votes in respect of the Ordinary Shares as directed by the holders of the Depositary Interests which the relevant Ordinary Shares represent. Application has been made for the Depositary Interests in respect of the underlying Ordinary Shares to be admitted to CREST with effect from Admission.

#### **14. Applicable Takeovers Law**

##### **(a) The Corporations Act and the Foreign Acquisitions and Takeovers Act 1975 (Commonwealth of Australia)**

As an Australian incorporated company, the Company is subject to the takeover provisions of the Corporations Act which apply to companies listed on a stock exchange operated in Australia or companies with more than 50 members. The Company will not, at this time, be listed on an Australian stock exchange however, upon Admission the Company will have more than 50 members. It is therefore expected that these provisions will apply to the Company to forbid (except in limited circumstances such as with shareholder approval or pursuant to a takeover bid as defined in the Corporations Act) a shareholder or their associates acquiring a “relevant interest” in voting shares in the Company (including by issue) if that would result in the voting power of the acquirer (or another person):

- increasing from 20 per cent. or below to more than 20 per cent.; or
- increasing by more than 3 per cent. in a 6 month period, from a starting point above 20 per cent. but less than 90 per cent.

For these purposes a “relevant interest” can be acquired essentially by any means resulting in power to control the disposal of voting shares or to control the votes attaching to shares.

If a bidder (and its associates), pursuant to a takeover bid, achieves 90 per cent. of the total shareholding and 75 per cent. of the shares for which it made a bid, then the bidder may compulsorily acquire all of the outstanding shares.

If the Company’s assets exceed A\$50 million or if a proposal for an acquisition of shares in the Company values the Company at over A\$50 million, the acquisition of a substantial interest in the Company by a foreigner (i.e. a non-Australian investor) will require approval of the Australian Treasury under the Foreign Acquisitions and Takeovers Act 1975.

A substantial interest occurs when a foreigner (and any associates) has 15 per cent. or more of the Company’s shares or several foreigners (and any associates) have 40 per cent. or more in aggregate.

The A\$50 million is raised to A\$800 million for US investors.

##### **(b) The City Code**

The Company is managed and controlled outside the UK. For that reason the City Code does not currently apply to the Company. It is emphasised that, although the Depositary Interests representing Ordinary Shares will be admitted to trading on AIM, the Company will not be subject to takeover regulation in the UK. It follows therefore that shareholders are not entitled to the protections afforded by the City Code. In particular it will be possible, subject to the provisions of the Corporations Act, for an individual investor or a group of investors acting in concert to acquire Ordinary Shares representing 30 per cent. or more of the issued share capital of the Company or to exercise control over the affairs of the Company without being under an obligation to make an offer to acquire the Ordinary Shares not owned by them, as would be required by Rule 9 of the City Code.

#### **15. Additional information**

The attention of potential investors is drawn to Parts II to V of this document, which provide additional information, and in particular the risk factors set out in Part II entitled “Risk factors”.

## PART II

### RISK FACTORS

An investment in the Ordinary Shares involves a high degree of risk. Accordingly, prospective investors should carefully consider the specific risk factors set out below in addition to the other information contained in this document before investing in Ordinary Shares. The Directors consider the following risks and other factors to be the most significant for potential investors in the Company, but the risks listed do not necessarily comprise all those associated with an investment in the Company and are not set out in any particular order of priority. Additional risks and uncertainties not currently known to the Directors may also have an adverse effect on the Company's business.

If any of the following risks actually occur, the Company's business, financial condition, capital resources, results or future operations could be materially adversely affected. In such a case, the price of the Ordinary Shares could decline and investors may lose all or part of their investment.

#### **1. Uncertainties as to market acceptance of the Company's technologies**

Computer vision technologies of the type provided by the Company are based on relatively newly introduced innovations which are yet to gain significant market usage or acceptance in commercial applications of the type anticipated by the Company in automotive, transport, healthcare or other markets. While there are compelling reasons for usage of technology such as that provided by the Company, such as reduction in road fatalities and accidents and earlier detection of diseases which cause blindness, there are uncertainties as to whether the products that the Company aims to have released in its target markets will gain widespread acceptance and usage.

#### **2. Technical risk**

The computer vision technologies which the Company is seeking to deploy are based on highly complex algorithmic equations and solutions. The feasibility of utilising the Company's computer vision technologies in commercial applications depends upon effectively managing a range of technical factors, including ensuring that the technology has the robust 'market-ready' capabilities described in paragraph 3 of Part I of this document; ensuring that lighting and motion dynamics associated with specific product domains be adequately understood, specified and managed; ensuring that algorithms are able to operate on a cost-effective hardware platform; ensuring that efficient, scalable software architectures are in place; and ensuring that the technology readily integrates with other platforms and technologies where necessary. Failure to adequately deal with these technical risks may impact upon the ability of the Company to deploy its technology in commercial applications in one or more markets.

The development of the Company's glaucoma diagnostic technology is additionally subject to risks in relation to ongoing development and validation of the efficacy of the technique and combination of technologies used to generate a map of the human visual field. This process requires ongoing scientific testing and refinement and the completion of a series of clinical trials. The target markets for the product are also subject to various regulatory requirements and failure to gain marketing clearance from the FDA and equivalent regulatory bodies in other jurisdictions would severely limit the Company's ability to successfully commercialize this technology. The likelihood of commercial success of the glaucoma diagnostic technology might be enhanced by the provision of suitable reimbursement codes from the relevant government health insurance authorities within the target markets. Failure to obtain such reimbursement codes would limit the Company's abilities to successfully commercialize this technology.

The ongoing investment that the Company intends to make in its research and development program, as described in paragraph 5 of Part I, is designed to overcome the various technical risks inherent in the Company's business.

#### **3. General business risk**

The activities of the Company are subject to the usual commercial risks and factors such as industry competition, the performance of partners and suppliers and economic conditions generally may affect the Company's ability to generate income or achieve its objectives. Seeing Machines competes in high value, large markets which are highly competitive and which can be subject to rapid change. The Company may face increased competition from other computer vision technology providers, from component suppliers to the automotive, transport and healthcare markets and from

the makers of products in these markets themselves. There may be technology that exists or is under development that the Company is not aware of, or which may be developed in the future that competes with or supersedes the Company's technology in one or more respects or in one or more sectors. There is no guarantee that the Company will be able to compete successfully against current or future competitors.

#### **4. Intellectual property protection**

There is no assurance that steps taken by the Company to protect its intellectual property rights described in this document are adequate to deter third parties from misappropriating or infringing its intellectual property rights. Furthermore, the Company may not always be able to detect unauthorized use and take action to enforce its intellectual property rights. In the event that third parties infringe or misappropriate the Company's trade secrets or other intellectual property rights, the Company's business and profitability may be affected. In addition there is no assurance that patents will be issued in respect of patent applications made by the Company.

#### **5. Dependence on key engineering staff and management**

The Company currently relies on a number of key employees to manage and deliver the Company's research and development program and manage its product development and commercialization plans. The Company uses share options, and attractive remuneration packages to retain its staff. However, there is no assurance that the Company can retain the services of these persons. Failure to retain such employees or to find suitable replacements could have a material adverse effect on the Company's business and its prospects.

#### **6. Time to market**

The Company has established project plans and timetables for commercialisation of its technology in key markets. The ability of the Company to meet its projected timetables will depend upon achievement of technical, market and commercial milestones and, in some instances, regulatory approval. Failure to achieve these milestones could lead to delays in the release of products and therefore delays in revenue and profitability.

#### **7. Revenue Timing**

In some instances, the timing and extent of revenues from new product releases and embedded licensing contracts with third parties will be subject to factors beyond the Company's direct control, for example, decisions by partners utilizing the Company's technology as to the timing of product releases and the overall effectiveness of partners and distributors in marketing and selling products containing the Company's technology.

#### **8. Limited operating history**

As the Company commenced operations in 2000, it has a limited operating history upon which its performance may be evaluated. The Company's ability to attain financial and operational success should be evaluated in light of the risks, uncertainties, expenses, delays and difficulties associated with operations in the industries into which it aims to deploy its technology, many of which are beyond the Company's control. There is no assurance that the Company will be successful in meeting these challenges and addressing these uncertainties. If the Company is unable to do so, its business in one or more markets and financial position may be materially and adversely affected.

#### **9. Requirement for additional capital**

The Company may need to conduct further fund raising exercises from time to time in order to develop its business and sustain cash resources or to take advantage of opportunities which arise that require additional funding. If the Company is unable to conduct further fundraising activities if and when required, this may impact the Company's ability to grow and bring new technology and products to market.

#### **10. Certain shareholders will continue to have substantial control over the Company following Admission**

Following Admission, the principal shareholders as set out in paragraph 4.6 of Part V of this document who hold three per cent. or more of the Enlarged Share Capital will beneficially, directly or indirectly own, in aggregate, approximately 61.31 per cent. of the Enlarged Share Capital. As a result, these shareholders will be able to exercise significant control over all matters requiring shareholder

approval, which could delay or prevent an outside party from acquiring or merging with the Company. The ability of such shareholders to prevent or delay these transactions could cause the price of the Ordinary Shares to decline.

#### **11. Liquidity of the Ordinary Shares and the AIM market generally**

It may be more difficult for an investor to realise his or her investment on AIM than to realise an investment in a company whose shares or other securities are quoted on the Official List. The AIM Rules are less demanding than those of the Official List. An investment in a share that is traded on AIM is likely to carry a higher risk than an investment in a share quoted on the Official List. AIM has been in existence since June 1995 but its future success and liquidity in the market for the Ordinary Shares cannot be guaranteed. The share price of publicly traded emerging companies can be highly volatile.

The price at which the Ordinary Shares will be traded and the price at which investors may realise their investment will be influenced by a large number of factors, some specific to the Company and its operations and some, which may affect quoted companies generally. Admission to AIM should not be taken as implying that there will be a liquid market for the Ordinary Shares particularly as, on Admission, the Company will have a limited number of shareholders. The market for shares in smaller public companies, including the Company, is less liquid than for larger public companies. The Company is aiming to achieve capital growth and, therefore, Ordinary Shares may not be suitable as a short-term investment. Consequently, the share price may be subject to greater fluctuation on small volumes of shares, and thus the Ordinary Shares may be difficult to sell at a particular price. The market price of the Ordinary Shares may not reflect the underlying value of the Company's net assets.

#### **12. Currency risk**

The Company reports its financial statements in Australian dollars. The Company anticipates that its business may be conducted in jurisdictions which could generate revenue, expenses and liabilities in a number of global currencies. As a result the Company may be subject to the effects of exchange rate fluctuations with respect to any of these currencies.

**Investors should therefore consider carefully whether investment in the Company is suitable for them, in light of the risk factors outlined above, their personal circumstances and the financial resources available to them.**

## PART III

### A. ACCOUNTANTS' REPORT ON SEEING MACHINES LIMITED

The Directors  
Seeing Machines Limited  
Innovations Building  
Level 3  
Corner Eggleston & Garran Roads  
Canberra ACT 2601  
Australia

23 November 2005

Dear Sirs

#### Seeing Machines Limited

We report on the financial information prepared for inclusion in and set out in Part III B of the AIM Admission Document dated 23 November 2005 of Seeing Machines Limited ("the AIM Admission Document"). The financial information has been prepared on the basis of the accounting policies set out in Paragraph 5 of Part III B. This report is required by Paragraph (a) of Schedule Two of the AIM Rules and is given for the purpose of complying with that schedule and for no other purpose.

#### Responsibilities

The Directors of Seeing Machines Limited are responsible for preparing the financial information on the basis of preparation set out in Paragraph 2 to the financial information and in accordance with Australian Accounting Standards.

It is our responsibility to form an opinion on the financial information as to whether the financial information gives a true and fair view, for the purposes of the AIM Admission Document, and to report our opinion to you.

#### Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement, whether caused by fraud or other irregularity or error.

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**Opinion**

In our opinion, the financial information gives, for the purposes of the AIM Admission Document dated 23 November 2005, a true and fair view of the state of affairs of Seeing Machines Limited as at the dates stated and of its losses and cash flows for the periods then ended in accordance with the basis of preparation set out in Note 2 to the financial information and in accordance with Australian Accounting Standards.

**Declaration**

For the purposes of Paragraph (a) of Schedule Two of the AIM rules we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its inclusion in the AIM Admission Document dated 23 November 2005. This declaration is included in the AIM Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

Grant Thornton Corporate (NSW) Pty Ltd



**B. HISTORICAL FINANCIAL INFORMATION ON  
SEEING MACHINES LIMITED (“THE COMPANY”)**

**1. Introduction**

The historical financial information on Seeing Machines Limited has been prepared solely for the purpose of the AIM Admission Document of Seeing Machines Limited contained in this Part III B and does not constitute audited statutory accounts within the meaning of section 240 of the Companies Act.

**2. Basis of Preparation**

The financial information is based on audited financial accounts of the Company adjusted as appropriate and has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Australian Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with. The financial information has been prepared in accordance with the historical cost convention. A reconciliation between existing Australian Accounting Standards and Australian Equivalents to International Financial Reporting Standards (“AIFRS”) is included in note 9.26, which sets out the implications for the Company of first time adoption of AIFRS. All amounts included are in Australian Dollars (A\$) unless otherwise stated.

**3. Responsibility**

The Directors of Seeing Machines Limited are responsible for the historical financial information and the contents of the AIM Admission Document in which it is included.

**4. Statutory Information**

Seeing Machines Limited was incorporated in Australia on 24 July 2000. No limit is set on the number and amount of authorised or issued capital of Seeing Machines Limited.

**5. Accounting Policies**

The following is a summary of the material accounting policies adopted by the Company in preparation of the financial information.

**(a) Basis of preparation**

The basis of preparation of the financial information set out below is described in Section 2 above.

**(b) Change of accounting policies**

The Company prepared special purpose financial reports for the financial year ended 30 June 2003. For the financial years ended 30 June 2004 and 2005, the Directors of the Company have prepared general purpose financial reports. As a result, the following accounting standards have been applied in the preparation of the financial statements for the years ended 30 June 2004 and 2005:

- AASB 1005 – Financial Reporting by Segments;
- AASB 1017 – Related Party Disclosures; and
- AASB 1028 – Employee Benefits – the disclosures required under paragraphs 6.4 to 6.9 inclusive.

For the year ended 30 June 2003, the financial statements of the Company were special purpose financial reports, which did not require application of the above accounting standards.

**(c) Continuation as a going concern**

The Company has incurred an operating loss of A\$1,082,956 for the year ended 30 June 2005 (2004: operating loss of A\$805,754). The continuing viability of the entity and its ability to continue as a going concern and meet its debts and commitments as they fall due is critically dependent upon the Company receiving the:

- continued support of its shareholders, creditors and venture capital funding; and
- achieving sufficient cash flows to enable its obligations to be met.

Management have successfully raised equity investments of A\$1,099,800 at 30 May 2005 and believe that the Company will be successful in achieving the necessary cash flows required to enable its obligations to be met as and when they fall due.

As a result, the financial information has been prepared on a going concern basis. Accordingly, no adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern.

**(d) Income tax**

The Company adopts the liability method of tax-effect accounting whereby the income tax is based on the profit from ordinary activities adjusted for any permanent differences. The adoption of this policy normally results in the existence of a deferred income tax liability or a future income tax benefit.

Timing differences, which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income, are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

**(e) Inventories**

Inventories are measured at the lower of cost and net realisable value.

**(f) Leases**

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

*Operating leases*

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognized as an expense on a straight-line basis.

Contingent rentals are recognised as an expense in the financial year in which they are incurred.

*Finance leases*

Leases which effectively transfer substantially all the risks and benefits incidental to ownership of the leased item to the Company are capitalised at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised. Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and recognised directly in net profits.

**(g) Foreign currency transactions and balances**

Foreign currency transactions during the year are converted to Australian dollars at the rates of exchange ruling at the date of the transaction. Amounts receivable and payable in foreign currencies at the reporting date are translated using the spot rate at the end of the financial year.

All resulting exchange differences arising on settlement or re-statement are recognized as revenues and expenses for the financial year.

**(h) Cash and cash equivalents**

Cash on hand and in banks and short-term deposits are stated at nominal value. For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and short-term deposits readily convertible to cash within two working days.

**(i) Plant and equipment**

*Cost and recoverable amount*

All classes of plant and equipment are measured at cost. Non-current assets are not carried at an amount above their recoverable amount, and where a carrying value exceeds this recoverable amount, the asset is written down to the recoverable amount. In determining the recoverable amount of an asset, the estimated future cash flows have not been discounted.

*Depreciation*

Plant and equipment, computer software, furniture & fittings, and plant and equipment used exclusively for research & development, are depreciated so as to write off the cost of each asset over its expected useful life. The diminishing value method or the straight line method of depreciation is used for each asset class as deemed appropriate by the directors.

In accordance with the rules of the Income Taxation and Assessment Act 1997, it has been determined that all assets with a value below A\$1,000 as at the beginning of the year, and all additions to plant and equipment costing less than A\$1,000 be allocated to a Low Value Pool and written off under the diminishing value method according to tax rules.

Management have determined that the depreciation and amortisation rates to be applied against plant and equipment during the year are as follows:

	<i>Year ended 30 June 2005</i>	<i>Year ended 30 June 2004</i>	<i>Year ended 30 June 2003</i>
Leased computers	—	37.5%	37.5%
Computer software	40%	40%	40%
Furniture and fittings	7.5%-37.5%	7.5%-37.5%	7.5%-37.5%
Plant and equipment	7.5%-50%	7.5%-50%	7.5%-50%
Low value pool	37.5%	37.5%	37.5%
R & D equipment	33.3%	33.3%	33.3%

**(j) Intangibles**

Patents, trademarks and licences are valued in the accounts at cost of acquisition and are amortised over the period in which their benefits are expected to be realized, which are 15 years, 20 years and 5 to 20 years respectively.

Refer to Note 9.26 for discussion of the impact of AIFRS on the Company's intangibles accounting policy.

**(k) Employee benefits**

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave. Liabilities arising in respect of wage and salaries, annual leave and any other employee benefits expected to be settled within 12 months of the reporting date are measured at their nominal amounts based on remuneration rates, which are expected to be paid when the liability is settled. All other employee benefits are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect wages and salaries, non-monetary benefits, annual leave, long service leave, other leave entitlements and other types of employee benefits are charged against profits on a net basis in their respective categories.

Contributions are made by the Company to employee superannuation funds and are charged as expenses as incurred.

Equity-based remuneration is provided to employees via the Seeing Machines Limited Employee Option Plan and Employee Share Scheme. No accounting entries are made in relation to the Seeing Machines Limited Employee Option Plan until options are exercised, at which time the amounts receivable from employees are recognised in the statement of financial position as share capital.

Refer to Note 9.26 for discussion of the impact of AIFRS on the Company's equity based payments accounting policy.

**(l) Revenue recognition**

Revenue is recognised to the extent that it is probable that economic benefits will flow to the entity and the revenue can be reliably measured. Revenue from the sale of goods is recognised upon the delivery of the goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

All revenue is stated net of the amount of goods and services tax (GST).

**(m) Research and development costs**

Research and development costs are expensed as incurred, except where future benefits are expected, beyond any reasonable doubt, to exceed those costs. Where research and development costs are deferred such costs are amortised on a straight-line basis over future periods on a basis related to expected future benefits. In this regard, deferred research and development costs are amortised at a rate of 20% per annum. Unamortised costs are reviewed at each reporting date to determine the amount that is no longer recoverable and any amount identified is written off.

Refer to Note 9.26 for discussion of the impact of AIFRS on the Company's research and development accounting policy.

**(n) Receivables**

Trade receivables, which generally have 30 days terms are recognised and carried at original invoice amount less a provision for any irrecoverable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

**(o) Payables**

Liabilities for trade creditors, which generally have 30 days terms and other creditors are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

**(p) Goods and service tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position. Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**(q) Comparatives**

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

## 6. Statement of Financial Performance

		<i>Year ended</i> <i>30 June</i> <i>2005</i>	<i>Year ended</i> <i>30 June</i> <i>2004</i>	<i>Year ended</i> <i>30 June</i> <i>2003</i>
	<i>Note</i>			
			<i>A\$</i>	
Revenues from ordinary activities	9.1	1,612,752	1,245,697	1,793,222
Raw materials and consumables used		(483,791)	(258,038)	(453,181)
Employee benefits expenses		(884,526)	(743,487)	(657,066)
Depreciation and amortisation expenses	9.2(a)	(251,635)	(178,730)	(228,002)
Borrowing costs	9.2(b)	(38,442)	(47,527)	(23,630)
Other expenses from ordinary activities	9.2(c)	(1,037,314)	(823,669)	(758,584)
		<hr/>	<hr/>	<hr/>
Loss from ordinary activities before income tax		(1,082,956)	(805,754)	(327,241)
Income tax relating to ordinary activities		—	—	—
		<hr/>	<hr/>	<hr/>
<b>Net loss from ordinary activities after income tax attributable to members of the Company</b>		<b>(1,082,956)</b>	<b>(805,754)</b>	<b>(327,241)</b>
		<hr/>	<hr/>	<hr/>
<b>Total changes in equity other than those resulting from transactions with owners as owners attributable to members of Seeing Machines Limited</b>		<b>(1,082,956)</b>	<b>(805,754)</b>	<b>(327,241)</b>
		<hr/>	<hr/>	<hr/>

## 7. Statement of Financial Position

	<i>Note</i>	<i>As at 30 June 2005</i>	<i>As at 30 June 2004</i>	<i>As at 30 June 2003</i>
		<i>A\$</i>		
<b>Current Assets</b>				
Cash	9.5	663,213	881,788	535,876
Receivables	9.6	292,396	127,683	306,143
Inventories	9.7	99,099	39,022	40,231
Other	9.8	485,718	13,029	—
<b>Total Current Assets</b>		<u>1,540,426</u>	<u>1,061,522</u>	<u>882,250</u>
<b>Non-Current Assets</b>				
Plant and equipment	9.9	174,335	224,688	334,329
Intangible assets	9.10	225,107	170,499	150,691
Deferred research and development costs	9.11	396,691	268,845	217,815
Other		2,454	2,369	—
<b>Total Non-Current Assets</b>		<u>798,587</u>	<u>666,401</u>	<u>702,835</u>
<b>Total Assets</b>		<u>2,339,013</u>	<u>1,727,923</u>	<u>1,585,085</u>
<b>Current Liabilities</b>				
Payables	9.12	935,048	241,040	246,928
Deferred revenue		10,454	45,000	45,000
Interest bearing liabilities	9.13	—	517,729	19,882
Provisions	9.14	96,242	118,586	65,739
<b>Total Current Liabilities</b>		<u>1,041,744</u>	<u>922,355</u>	<u>377,549</u>
<b>Non-Current Liabilities</b>				
Interest bearing liabilities	9.13	471,526	—	471,304
Provisions	9.14	3,331	—	—
<b>Total Non-Current Liabilities</b>		<u>474,857</u>	<u>—</u>	<u>471,304</u>
<b>Total Liabilities</b>		<u>1,516,601</u>	<u>922,355</u>	<u>848,853</u>
<b>Net Assets</b>		<u>822,412</u>	<u>805,568</u>	<u>736,232</u>
<b>Equity</b>				
Contributed equity	9.15	3,394,946	2,295,146	1,420,056
Accumulated losses	9.16	(2,572,534)	(1,489,578)	(683,824)
<b>Total Equity</b>		<u>822,412</u>	<u>805,568</u>	<u>736,232</u>

## 8. Statement of Cash Flows

	<i>Year ended</i> <i>30 June</i> <i>2005</i>	<i>Year ended</i> <i>30 June</i> <i>2004</i>	<i>Year ended</i> <i>30 June</i> <i>2003</i>
		<i>A\$</i>	
<b>Cash Flows From Operating Activities</b>			
Grants and prizes received	—	52,341	105,455
Receipts from customers	1,487,628	1,463,546	1,690,479
Interest received	20,304	15,606	14,039
Borrowing costs	(38,442)	(47,527)	(23,630)
Payments to suppliers and employees	(2,521,397)	(1,905,618)	(1,905,714)
<b>Net cash flows used in operating activities</b>	9.20(a) (1,051,907)	(421,652)	(119,371)
<b>Cash Flows From Investing Activities</b>			
Purchase of plant and equipment	(90,171)	(57,122)	(136,008)
Payments for intangible assets	(91,652)	(30,520)	(95,504)
<b>Net cash flows used in investing activities</b>	(181,823)	(87,642)	(232,512)
<b>Cash Flows From Financing Activities</b>			
Proceeds from borrowings	—	—	450,000
Repayment of finance lease principal	(84,645)	(19,882)	(13,028)
Proceeds from issue of ordinary shares/convertible notes	1,099,800	875,090	97
<b>Net cash flows from financing activities</b>	1,015,155	855,208	437,069
<b>Net movement in cash held</b>	(281,575)	346,912	86,186
Cash at the beginning of the period	881,788	535,876	449,690
<b>Cash at the end of the financial period</b>	9.20(b) 663,213	881,788	535,876

## 9. Notes to the Financial Information

### 9.1 Revenue from Ordinary Activities

	<i>Year ended 30 June 2005</i>	<i>Year ended 30 June 2004</i>	<i>Year ended 30 June 2003</i>
		<i>A\$</i>	
Revenue from sale of goods	1,341,750	1,173,008	1,578,830
Revenue from services rendered	197,863	9,500	—
Interest receivable	20,878	15,606	14,039
Proceeds from grants and prizes	50,748	47,583	105,455
R&D tax concessions	—	—	94,898
Other revenue	1,513	—	—
Total revenues from ordinary activities	<u>1,612,752</u>	<u>1,245,697</u>	<u>1,793,222</u>

### 9.2 Expenses and Losses

	<i>Year ended 30 June 2005</i>	<i>Year ended 30 June 2004</i>	<i>Year ended 30 June 2003</i>
		<i>A\$</i>	
<b>(a) Depreciation and amortisation</b>			
Depreciation of plant and equipment	134,784	156,830	153,500
Amortisation of leased plant and equipment	—	6,019	9,502
Amortisation of patents, trade marks and licenses	18,890	10,712	6,684
Amortisation of research and development costs	97,961	5,169	58,316
Total depreciation and amortisation	<u>251,635</u>	<u>178,730</u>	<u>228,002</u>
<b>(b) Borrowing costs expensed</b>			
Interest expense – finance leases	—	1,102	2,326
Interest expense – convertible notes	38,442	46,425	21,304
Total borrowing costs expensed	<u>38,442</u>	<u>47,527</u>	<u>23,630</u>
<b>(c) Other expenses from ordinary activities</b>			
Legal	152,250	91,676	140,770
Marketing	102,687	27,252	48,122
Commission	55,282	45,023	—
Office	133,034	87,270	86,893
Operating lease rental	120,487	66,280	68,467
Travel	174,033	179,734	195,948
Professional fees	277,834	109,193	80,859
Recruitment and training	28,510	87,626	48,244
Write-off of research and development costs	21,072	62,145	—
Other (income) / expenses	(27,875)	67,470	89,281
	<u>1,037,314</u>	<u>823,669</u>	<u>758,584</u>
<b>(d) Other disclosures</b>			
Net foreign exchange losses/(gains)	29,575	14,605	6,272
Net loss on disposal of plant and equipment	—	3,916	—



### 9.3 Taxation

	<i>Year Ended 30 June 2005</i>	<i>Year ended 30 June 2004</i>	<i>Year ended 30 June 2003</i>
		<i>A\$</i>	
<b>(a) Income tax</b>			
The prima facie tax on operating loss differs from the income tax provided in the financial statements as follows:			
Prima facie tax benefit on operating loss from ordinary activities	(324,887)	(241,726)	(98,172)
Tax effect of permanent differences			
Entertainment expenses	648	933	636
Legal fees	6,007	7,907	25,368
Amortisation of patents	488	2,009	1,082
Amortisation of trademarks	1,159	1,090	922
Amortisation of other intangibles	1,941	—	—
Intangibles write-off	5,446	—	—
Timing differences not brought to account	(642,387)	(229,787)	(70,164)
Income tax attributable to ordinary activities	—	—	—
<b>(b) Deferred tax</b>			
Future income tax benefit arising from tax losses not recognized at reporting date as realization of the benefit is not regarded as virtually certain	(642,387)	(352,499)	(150,018)
This future income tax benefit will only be obtained if:			
(a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;			
(b) the conditions for deductibility imposed by tax legislation continue to be complied with; and			
(c) no changes in tax legislation adversely affect the Company in realising the benefit.			

#### 9.4 Remuneration of Directors

	<i>Year Ended 30 June 2005</i>	<i>Year ended 30 June 2004</i>	<i>Year ended 30 June 2003</i>
		<i>A\$</i>	
Remuneration received or receivable by all directors of the Company:			
– from the Company or any related party in connection with management of the Company	258,437	158,065	138,111
	<u>258,437</u>	<u>158,065</u>	<u>138,111</u>
The number of directors of Seeing Machines Limited whose total income from the Company falls within the specified bands:			
0 – \$9,999	1	2	3
\$10,000 – \$19,999	3	2	2
\$30,000 – \$39,999	1	—	—
\$40,000 – \$49,999	1	—	—
\$80,000 – \$89,999	—	—	—
\$120,000 – \$130,000	—	1	1
\$140,000 – \$150,000	1	—	—
	<u>1</u>	<u>—</u>	<u>—</u>

The names of the directors who have held office during the three years ended 30 June 2005 are as follows:

Fulton Muir  
 Tony Kinnear (appointed 28/09/04)  
 Alexander Zelinsky  
 Trent Victor (appointed 18/2/03)  
 Robert Sale (appointed 18/2/03)  
 David Gaul (appointed 24/08/04)  
 Lars-Goran Ronsengren (resigned 18/2/03)  
 John Fick (resigned 25/11/03)  
 Nick Cerneaz (appointed 6/10/05)

#### 9.5 Cash Assets

	<i>As at 30 June 2005</i>	<i>As at 30 June 2004</i>	<i>As at 30 June 2003</i>
		<i>A\$</i>	
Cash on hand	—	—	660
Cash at bank	663,213	881,788	535,216
	<u>663,213</u>	<u>881,788</u>	<u>535,216</u>
Total cash	<u>663,213</u>	<u>881,788</u>	<u>535,876</u>

### 9.6 Receivables (Current)

	<i>As at 30 June 2005</i>	<i>As at 30 June 2004</i>	<i>As at 30 June 2003</i>
		<i>A\$</i>	
Trade debtors	268,004	107,015	280,594
Goods and service tax receivable	21,392	2,663	9,235
Other debtors	2,000	18,005	16,314
	<u>283,396</u>	<u>127,683</u>	<u>306,143</u>

### 9.7 Inventories (Current)

	<i>As at 30 June 2005</i>	<i>As at 30 June 2004</i>	<i>As at 30 June 2003</i>
		<i>A\$</i>	
At cost:			
Finished products	375	—	—
Raw materials	98,724	39,022	40,231
Total inventories	<u>99,099</u>	<u>39,022</u>	<u>40,231</u>

### 9.8 Other Assets

	<i>As at 30 June 2005</i>	<i>As at 30 June 2004</i>	<i>As at 30 June 2003</i>
		<i>A\$</i>	
Prepayments	33,247	13,029	—
Deferred transaction costs related to intended issue of equity instruments	452,471	—	—
Total other assets	<u>485,718</u>	<u>13,029</u>	<u>—</u>

## 9.9 Plant and Equipment

	<i>As at 30 June 2005</i>	<i>As at 30 June 2004</i>	<i>As at 30 June 2003</i>
		<i>A\$</i>	
Furniture and fittings at cost	9,593	6,642	7,958
Less: accumulated depreciation	(2,793)	(2,151)	(1,774)
	<u>6,800</u>	<u>4,491</u>	<u>6,184</u>
Plant and equipment at cost	95,836	22,344	26,536
Less: accumulated depreciation	(62,401)	(11,829)	(10,543)
	<u>33,435</u>	<u>10,515</u>	<u>15,993</u>
Software at cost	35,889	31,320	24,922
Less: accumulated depreciation	(28,135)	(21,029)	(12,481)
	<u>7,764</u>	<u>10,291</u>	<u>12,441</u>
Low Value Pool at cost	208,466	191,161	198,805
Less: accumulated depreciation	(137,595)	(100,264)	(84,671)
	<u>70,871</u>	<u>90,897</u>	<u>114,134</u>
R & D equipment at cost	348,567	316,326	304,846
Less: accumulated depreciation	(293,102)	(217,651)	(135,107)
	<u>55,465</u>	<u>98,675</u>	<u>169,739</u>
Capitalised plant and equipment under finance leases at cost	—	46,137	46,137
Less: accumulated depreciation	—	(36,318)	(30,299)
	<u>—</u>	<u>9,819</u>	<u>15,838</u>
Total plant and equipment	698,361	613,930	609,204
Less: accumulated depreciation and amortization	(524,026)	(389,242)	(274,875)
Total written down value amount	<u>174,335</u>	<u>224,688</u>	<u>334,329</u>
<b>Movements in carrying amounts</b>			
Balance at the beginning of the period	224,688	334,329	97,855
Additions	90,177	57,124	444,865
Disposal	(5,746)	(3,916)	(45,389)
Depreciation/amortisation expense	(134,784)	(162,849)	(163,002)
Carrying amount at the end of the period	<u>174,335</u>	<u>224,688</u>	<u>334,329</u>

### 9.10 Intangible Assets

	<i>As at 30 June 2005</i>	<i>As at 30 June 2004</i>	<i>As at 30 June 2003</i>
		<i>A\$</i>	
Patents at cost	102,318	108,084	92,910
Less: accumulated depreciation	(14,140)	(11,858)	(5,159)
	<u>88,178</u>	<u>96,226</u>	<u>87,751</u>
Trademarks at cost	77,230	73,300	70,454
Less: accumulated depreciation	(16,299)	(11,150)	(7,514)
	<u>60,931</u>	<u>62,150</u>	<u>62,940</u>
Licences at cost	85,000	12,500	—
Less: accumulated depreciation	(9,002)	(377)	—
	<u>75,998</u>	<u>12,123</u>	<u>—</u>
Total intangibles	<u><u>225,107</u></u>	<u><u>170,499</u></u>	<u><u>150,691</u></u>

### 9.11 Deferred Research and Development Costs

	<i>As at 30 June 2005</i>	<i>As at 30 June 2004</i>	<i>As at 30 June 2003</i>
		<i>A\$</i>	
Balance at the beginning of year	2,083,543	1,566,100	1,043,074
Research and development costs incurred during the year and deferred	870,188	517,443	523,026
	<u>2,953,731</u>	<u>2,083,543</u>	<u>1,566,100</u>
Less grants received	(2,453,840)	(1,809,529)	(1,265,018)
Less accumulated amortization	(103,130)	(5,169)	(83,267)
	<u>396,691</u>	<u>268,845</u>	<u>217,815</u>
Total deferred R&D costs	<u><u>396,691</u></u>	<u><u>268,845</u></u>	<u><u>217,815</u></u>

The amount of deferred research and development costs are those costs which are directly attributable to the on-going research and development projects of the Company.

### 9.12 Payables (Current)

	<i>As at 30 June 2005</i>	<i>As at 30 June 2004</i>	<i>As at 30 June 2003</i>
		<i>A\$</i>	
Trade creditors	444,376	160,913	209,453
Other creditors and accrued expenses	490,672	80,127	37,475
	<u>935,048</u>	<u>241,040</u>	<u>246,928</u>
Total payables	<u><u>935,048</u></u>	<u><u>241,040</u></u>	<u><u>246,928</u></u>

### 9.13 Interest Bearing Liabilities

	<i>As at</i> <i>30 June</i> <i>2005</i>	<i>As at</i> <i>30 June</i> <i>2004</i>	<i>As at</i> <i>30 June</i> <i>2003</i>
		<i>A\$</i>	
<b>Current</b>			
Lease liability	—	—	19,882
Convertible notes <sup>(a)</sup>	—	517,729	—
Total current interest bearing liabilities	<u>—</u>	<u>517,729</u>	<u>19,882</u>
<b>Non-current</b>			
Lease liability	—	—	
Convertible notes <sup>(a)</sup>	471,526	—	471,304
Total non-current interest bearing liabilities	<u>471,526</u>	<u>—</u>	<u>471,304</u>

(a) Convertible notes include accrued interest payable of \$21,525 (2004: \$67,729, 2003: \$21,304). Convertible notes and accrued interest are due for repayment or conversion on 17 December 2006. The convertible note holders have an option to convert the convertible notes upon AIM admission to 426 shares at \$1,057.50 per share. On 21 November 2005 the Company agreed to pay CBDF Pty Limited ATF The Canberra Business Development Fund (“CBDF”) A\$35,355 and also to convert the convertible notes upon Admission, at which time the Company will pay CBDF a further A\$84,645 in respect of accrued interest and interest due upon conversion of the convertible notes. The interest rate implicit in the Convertible Note Issued Deed is 9%. The convertible notes set out in table above do not satisfy requirements of AASB 1033 “Presentation and Disclosure of Financial Instrument” accordingly these have been classified as interest bearing liability.

### 9.14 Provisions

	<i>As at</i> <i>30 June</i> <i>2005</i>	<i>As at</i> <i>30 June</i> <i>2004</i>	<i>As at</i> <i>30 June</i> <i>2003</i>
		<i>A\$</i>	
<b>Current</b>			
Employee entitlements	96,242	118,586	65,739
<b>Non-current</b>			
Employee benefits	3,331	—	—
Number of full-time equivalent employees at financial year end.	<u>21</u>	<u>26</u>	<u>19</u>

### 9.15 Contributed Equity

	<i>As at</i> <i>30 June</i> <i>2005</i>	<i>As at</i> <i>30 June</i> <i>2004</i>	<i>As at</i> <i>30 June</i> <i>2003</i>
		<i>A\$</i>	
2005: 9,270 (2004:7,565, 2003:6,935) fully paid ordinary shares	3,394,946	1,420,146	1,420,056
Convertible notes fully paid <sup>(1)</sup> (refer to note 9.15(b))	—	875,000	—
Total Equity	<u>3,394,946</u>	<u>2,295,146</u>	<u>1,420,056</u>

(1) The convertible notes set out in table above satisfy requirements of AASB 1033 “Presentation and Disclosure of Financial Instrument” accordingly these have been classified as contributed equity.

*Movements in shares on issue*

	2005		2004		2003	
	<i>No of shares</i>	<i>A\$</i>	<i>No of shares</i>	<i>A\$</i>	<i>No of shares</i>	<i>A\$</i>
Beginning of period	7,565	1,420,146	6,935	1,420,056	6,190	1,250,775
Issued during the period	1,040	1,099,800	630	90	745	169,281
Convertible notes converted	665	875,000				
End of period	<u>9,270</u>	<u>3,394,946</u>	<u>7,565</u>	<u>1,420,146</u>	<u>6,935</u>	<u>1,420,056</u>

- (i) There were 1,705 shares issued during the year ended 30 June 2005 including 665 shares issued as a result of convertible notes being converted (refer to note 9.15(b)), set out below are details of the shares issues:

<i>Date</i>	<i>Details</i>	<i>Number of shares</i>	<i>Issue Price A\$</i>	<i>A\$</i>
1 July 2004	Opening balance	7,565	—	1,420,146
21 May 2005	Share issue	665	1,304.35 to 1,321.84	875,000
30 May 2005	Share issue	1,040	1,057.50	1,099,800
Total		<u>9,270</u>		<u>3,394,946</u>

- (ii) There were 630 shares issued during the year ended 30 June 2004 as a result of options exercised by related parties (refer to note 9.22(b)).

- (iii) There were 745 shares issued during the year ended 30 June 2003 as set out below:

<i>Date</i>	<i>Details</i>	<i>Number of shares</i>	<i>Issue Price \$A</i>	<i>\$A</i>
1 July 2002	Opening balance	6,190	—	1,250,775
30 August 2002	Share issue	70	0.14	10
1 November 2002	Share issue	49	0.14	7
18 December 2002	Share issue	560	0.14	80
17 April 2003	Share issue	66	2,563.39	169,184
Total		<u>6,935</u>		<u>1,420,056</u>

*Movements in convertible notes on issue<sup>(1)</sup>*

	2005		2004		2003	
	<i>No of convertible notes</i>	<i>A\$</i>	<i>No of convertible notes</i>	<i>A\$</i>	<i>No of convertible notes</i>	<i>A\$</i>
Beginning of period	875,000	875,000	—	—	—	—
Issued during the period	—	—	875,000	875,000	—	—
Convertible notes converted	(875,000)	(875,000)	—	—	—	—
End of period	<u>—</u>	<u>—</u>	<u>875,000</u>	<u>875,000</u>	<u>—</u>	<u>—</u>

- (1) The table above does not include the convertible notes set out in note 9.13 as the terms and conditions of these convertible notes do not meet definition of contributed equity according to AASB 1033 "Presentation and Disclosure of Financial Instrument" and has been appropriately disclosed as an interest bearing liability.

- (a) Ordinary shares will participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.
- (b) On 21 May 2004, the Company issued convertible notes of \$875,000. These convertible notes were converted to shares on 21 May 2005 in the Company at a price of \$1,304.35 to \$1,321.84 per share. There were no convertible notes issued for the years ended 30 June 2003.
- (c) During the financial year ended 30 June 2005 no options were issued over ordinary shares. Existing share options are exercisable progressively from the first, second and third anniversary from the date of issue. All options will expire on 30 June 2010. The options have an average exercise price of \$2,309. Details of options are provided in Note 9.21. As at 30 June 2005, there were 295 unissued ordinary shares over which options are outstanding.

#### 9.16 Accumulated Losses

	<i>As at 30 June 2005</i>	<i>As at 30 June 2004</i>	<i>As at 30 June 2003</i>
		<i>A\$</i>	
Accumulated losses at the beginning of the financial period	(1,489,578)	(683,824)	(356,583)
Net loss for the financial year attributable to members of the Company	(1,082,956)	(805,754)	(327,241)
Accumulated losses at the end of the financial period	<u>(2,572,534)</u>	<u>(1,489,578)</u>	<u>(683,824)</u>

#### 9.17 Capital and Leasing Commitments

##### (a) Operating Lease Commitments

Non-cancellable office leases contracted for but not capitalised in the accounts:

Payable:

– not later than one year	28,502	120,487	—
– later than one year, not later than five years	—	28,502	—
	<u>28,502</u>	<u>148,989</u>	<u>—</u>



The property lease is a non-cancellable lease with a two year term with a further one year option. Rent is payable quarterly in advance.

**9.18 Capital and Leasing Commitments (Continued)**

	<i>As at 30 June 2005</i>	<i>As at 30 June 2004</i>	<i>As at 30 June 2003</i>
	<i>A\$</i>		
<b>(b) Finance Lease Commitments</b>			
Finance lease commitments for computer equipment payable:			
– not later than one year	—	—	20,985
– later than one year, not later than two years	—	—	—
– later than two years, not later than five years	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
Minimum lease payments	—	—	20,985
Less future finance charges	—	—	(1,103)
	<u>—</u>	<u>—</u>	<u>—</u>
Total lease liability	<u>—</u>	<u>—</u>	<u>19,882</u>
Represented by:			
Current lease liability	—	—	19,882
	<u>—</u>	<u>—</u>	<u>19,882</u>

The finance lease on computing equipment commenced on 7 June 2001 and expired on 2 June 2004 and was secured by term deposits held at the Commonwealth Bank of Australia.

**(c) Licence expenditure commitments**

Estimated licence expenditure contracted for at reporting date,

but not provided for, payable:

– not later than one year	118,714	112,500	—
– later than one year, not later than five years	75,000	50,000	—
	<u>193,714</u>	<u>162,500</u>	<u>—</u>

**9.19 Segment Reporting**

The Company operates in one business segment being research, development and production of computer vision technology in Australia. The Company's primary product is faceLAB™ which is marketed internationally.

## 9.20 Cashflow Information

(a) Reconciliation of cash flow from operations with loss from ordinary activities after income tax

	<i>Year ended</i> <i>30 June 2005</i>	<i>Year ended</i> <i>30 June 2004</i>	<i>Year ended</i> <i>30 June 2003</i>
Net loss	(1,082,956)	A\$ (805,754)	(327,241)
Non cash items			
Amortisation of non-current assets	116,851	21,900	9,987
Depreciation of non-current assets	134,784	156,830	163,002
Write off of intangible assets	18,153	—	—
Internal transfer of plant and equipment	5,744	—	—
Net loss on disposal of plant and equipment	—	3,916	—
Borrowing costs	38,442	46,425	21,304
Changes in assets and liabilities			
Decrease/(increase) in other assets	(85)	(2,369)	—
Decrease/(increase) in deferred R&D costs	(225,810)	(56,199)	(14,991)
Decrease/(increase) in prepayments	(472,689)	(13,029)	14,337
Decrease/(increase) in receivables	(164,713)	178,460	(142,923)
Decrease/(increase) in inventories	(60,077)	1,209	17,186
(Decrease)/increase in employee benefits provisions	(19,013)	52,847	26,667
(Decrease)/increase in deferred revenue	(34,546)	—	45,000
(Decrease)/increase in payables	694,008	(5,888)	68,301
Net cash flows used in operating activities	<u>(1,051,907)</u>	<u>(421,652)</u>	<u>(119,371)</u>

(b) Reconciliation of cash

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	<i>As at</i> <i>30 June 2005</i>	<i>As at</i> <i>30 June 2004</i>	<i>As at</i> <i>30 June 2003</i>
Cash on hand	—	—	660
Cash at bank	663,213	881,788	535,216
Total cash	<u>663,213</u>	<u>881,788</u>	<u>535,876</u>

(c) Reconciliation of cash

At reporting date, there was A\$2,700 (2004: A\$30,000, 2003: A\$ nil) business credit card facility available that remained unutilised.

## 9.21 Employee Benefits

### Retirement benefits

Contributions are made by the Company to employee superannuation funds and are charged as expenses when incurred.

### Employee Share Option Scheme

An employee share option scheme has been established whereby Seeing Machines Limited may, at the discretion of the Board of Directors, grant options over the ordinary shares of the Company to directors, executives and certain members of staff of the Company. The options, issued for nil consideration, are granted in accordance with Seeing Machines Limited Employee Share Options Scheme Terms. The options are exercisable progressively beginning on the first, second and third anniversary of the date of grant. All options will expire on 30 June 2010. The options cannot be transferred. All directors, executives and staff members are eligible for the scheme subject to the discretion of the board.

Information with respect to the number of options granted under the employee share option scheme is as follows:

	2005		2004		2003	
	<i>No of options</i>	<i>Weighted average exercise price</i>	<i>No of options</i>	<i>Weighted average exercise price</i>	<i>No of options</i>	<i>Weighted average exercise price</i>
		<i>A\$</i>		<i>A\$</i>		<i>A\$</i>
Balance at beginning of period	427	2,297.82	354	2,095.40	307	980.35
– granted	—	—	192	2,704.00	168	2,704.00
– forfeited	(132)	\$2,272.84	(119)	2,351.02	(72)	341.85
– exercised	—	—	—	—	(49)	0.14
Balance at end of period	<u>295</u>	<u>\$2,308.99</u>	<u>427</u>	<u>2,297.82</u>	<u>354</u>	<u>2,095.40</u>
Exercisable at end of period	<u>183</u>	<u>\$2,067.22</u>	<u>172</u>	<u>1,695.63</u>	<u>107</u>	<u>1,437.64</u>

(a) Options granted during the reporting period

The following table summarises information about options granted by Seeing Machines Limited to employees during the financial period:

	<i>Year ended 30 June 2005</i>	<i>Year ended 30 June 2004</i>	<i>Year ended 30 June 2003</i>
Grant dates	—	1 Jul 2003 9 May 2004	19 Sep 2002 10 Feb 2003
Vesting date	—	1st, 2nd and 3rd anniversary	1st, 2nd and 3rd anniversary
Expiry date	—	30 June 2010	30 June 2010
Weighted average exercise price	—	A\$2,704	A\$1,349

(b) Options exercised

- (i) There were no options exercised by employees during the year ended 30 June 2005.
- (ii) There were no options exercised by employees during the year ended 30 June 2004. For details of options exercised by related parties, refer to Note 9.22(b).
- (iii) There were 49 options exercised by employees during the year ended 30 June 2003 at a weighted average exercise price of 14 cents.

(c) Options held at the end of the reporting period:

The following table summarises information about options held by employees as at 30 June 2005:

<i>Number of options</i>	<i>Grant date</i>	<i>Vesting dates</i>	<i>Expiry date</i>	<i>Weighted average exercise price</i>
80	18 Dec 2000	18 Dec 2001 18 Dec 2002 18 Dec 2003	30 June 2010	A\$1,349
6	27 Apr 2001	27 Apr 2002 27 Apr 2003 27 Apr 2004	30 June 2010	A\$1,349
4	14 Jan 2002	14 Jan 2003 14 Jan 2004 14 Jan 2005	30 June 2010	A\$2,704
6	21 Jan 2002	21 Jan 2003 21 Jan 2004 21 Jan 2005	30 June 2010	A\$2,704
3	11 Mar 2002	11 Mar 2003 11 Mar 2004 11 Mar 2005	30 June 2010	A\$2,704
42	19 Sep 2002	19 Sep 2003 19 Sep 2004 19 Sep 2005	30 June 2010	A\$2,704
21	4 Nov 2002	4 Nov 2003 4 Nov 2004 4 Nov 2005	30 June 2010	A\$2,704
4	6 Jan 2003	6 Jan 2004 6 Jan 2005 6 Jan 2006	30 June 2010	A\$2,704
21	10 Feb 2003	10 Feb 2004 10 Feb 2005 10 Feb 2006	30 June 2010	A\$2,704
78	1 July 2003	1 Jul 2004 1 Jul 2005 1 Jul 2006	30 June 2010	A\$2,704
30	9 May 2004	9 May 2005 9 May 2006 9 May 2007	30 June 2010	A\$2,704

## **9.22 Related Parties**

### *(a) Director-related entity transactions*

During the two years ended 30 June 2004, John Fick (a director of Seeing Machines Limited who resigned on 25 November 2003), was also a director and shareholder of Capital Technic Group Pty Limited (“CTG”). CTG’s consulting business Capital Technic Consulting Pty Limited has provided management and consulting services to Seeing Machines Limited throughout the financial year. The management fees were based on normal commercial terms and conditions and amounted to A\$ nil (2004: A\$42,588; 2003:A\$18,614).

(b) *Equity instruments held by directors*

Interest at balance date

Interest in the equity instruments of Seeing Machines Limited held by directors of the Company and their director-related entities:

	<i>2005</i>	<i>2004</i>	<i>2003</i>
	<i>No.</i>	<i>No.</i>	<i>No.</i>
<i>Ordinary shares fully paid</i>			
J Fick (resigned 25 November 2003)	426	426	356
A Zelinsky	4,238	4,238	3,678
R Sale	171	—	—
A Kinnear	48	—	—
N Cerneaz	19	—	—
<i>Options over ordinary shares</i>			
J Fick (resigned 25 November 2003)	—	—	70
A Zelinsky	—	—	560
<i>Convertible notes</i>			
R Sale	—	150,000	—
Other director related entities	—	115,000	—

Movements in director's equity holdings

During the year ended 30 June 2005 Mr R Sale, A.Kinnear, and N.Cerneaz acquired 171, 48 and 19 ordinary shares respectively for A\$1,057.50 per share as part of the Company's capital raising activities in May 2005.

During the year ended 30 June 2004, JATS Technology Pty Ltd (a holding company owned by the founding shareholders of the Company) acquired 560 ordinary shares through the exercise of options at an average exercise price of A\$0.14. Mr A Zelinsky is a director of JATS Technology Pty Ltd.

Capital Technic Group acquired 70 ordinary shares through the exercise of options at an average exercise price of A\$0.14. Mr J Fick is a director of Capital Technic Group.

Rob Sale and related entities acquired 265,000 convertible notes, which converted to ordinary shares on 21 May 2005 at A\$1,322 per share.

There have been no other transactions concerning equity instruments during the financial year with directors or their director-related entities.

### **9.23 Financial Instruments**

This note sets out information regarding risks associated with financial instruments.

(a) *Net Fair Values*

The net fair value of financial assets and liabilities approximates to the values shown in the Statement of Financial Position and the notes thereto.

The carrying amounts and net fair values of financial assets and liabilities at balance date are:

	<i>Year ended 30 June 2005</i>	<i>Year ended 30 June 2004</i>	<i>Year ended 30 June 2003</i>
		<i>A\$</i>	
Financial assets:			
Cash	663,213	881,788	535,876
Debtors	268,004	107,015	280,594
Other receivables	24,392	20,668	25,549
	<u>955,609</u>	<u>1,009,471</u>	<u>842,019</u>
Financial liabilities:			
Trade creditors	444,376	160,913	209,453
Other creditors	490,672	80,127	37,475
Borrowings	471,526	517,729	471,304
Lease liabilities	—	—	19,882
	<u>1,406,574</u>	<u>758,769</u>	<u>738,114</u>

*(b) Credit Risk*

Credit risk is the risk that a financial asset will not be realised by the Company due to the default of the debtor. The financial assets subject to credit risk are as follows:

	<i>Year ended 30 June 2005</i>	<i>Year ended 30 June 2004</i>	<i>Year ended 30 June 2003</i>
		<i>A\$</i>	
Financial assets:			
Cash at bank	663,213	881,788	535,876
Receivables	292,396	127,683	306,143
Maximum exposure	<u>955,609</u>	<u>1,009,471</u>	<u>842,019</u>

The Company has no concentration of credit risks.

*(c) Currency Risk*

The Company holds amounts receivable and payable in foreign currency denominations, therefore there is a risk associated with movements in exchange rates.

(d) *Interest Rate Risk*

Interest rate risk is the risk that the value of a financial asset or liability will change due to interest rate fluctuations. The interest rate applicable to each class of financial asset and liability subject to interest rates are as follows:

	<i>Year ended 30 June 2005</i>	<i>Year ended 30 June 2004</i>	<i>Year ended 30 June 2003</i>
		<i>A\$</i>	
Financial assets – weighted average effective floating interest rate:			
Cash at bank	4.36%	1.70%	1.90%
Financial liabilities – weighted average effective fixed interest rate:			
Finance lease	—	—	9.25%
Borrowings	9.00%	9.00%	9.00%

**9.24 Remuneration of The Auditors**

	<i>Year ended 30 June 2005</i>	<i>Year ended 30 June 2004</i>	<i>Year ended 30 June 2003</i>
		<i>A\$</i>	
Remuneration for:			
– Auditing of the financial report of the Company	23,000	10,000	6,000
– Other services	21,866	8,000	—
	<u>44,866</u>	<u>18,000</u>	<u>6,000</u>

**9.25 Company Details**

Seeing Machines Limited is a Company limited by shares, incorporated and domiciled in Australia. The registered office is located at the Innovations Building, Level 3, Cnr Eggleston & Garran Roads, ACT 2601.

**9.26 Adoption Of Australian Equivalents To International Financial Reporting Standards (“Aifrs”)**

**Background**

Seeing Machines Limited is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (“AGAAP”) to AIFRS, which will be applicable for the financial year ending 30 June 2006.

**Management of the transition to AIFRS**

The Company’s management is assessing the significance of changes resulting from the introduction of AIFRS and, where applicable, preparing for their implementation. This includes assessing changes in accounting policies that will arise from differences between existing Australian Accounting Standards and the new AIFRS and, where applicable, reviewing the adequacy of existing systems and implementing revised processes and procedures to ensure that financial reporting requirement under the new AIFRS will be met.

**Major changes in accounting policies**

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS and management’s best estimates of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005 and on net loss for the year ended 30 June 2005.

The figures disclosed are management’s best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to

AIFRS may differ from the estimates disclosed due to (a) ongoing assessment being undertaken by management; (b) potential amendments to AIFRS and interpretations thereof being issued by the standard-setters and IFRIC; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

(a) Reconciliation of equity as presented under AGAAP to that under AIFRS:

	<i>Notes</i>	<i>30 June 2005**</i>	<i>1 July 2004*</i>
		<i>A\$</i>	
<b>Total equity under AGAAP</b>		822,412	805,568
<b>Adjustments to retained earnings (net of tax)</b>			
Derecognition of deferred research costs	(i)	(396,691)	(268,845)
Recognition of option reserve	(v)	(51,066)	(37,960)
Recognition of value of options vested	(v)	(13,106)	(13,106)
<b>Total equity under AIFRS</b>		<u>361,549</u>	<u>485,927</u>

\* This column represents the adjustments as at the date of transition to AIFRS.

\*\* This column represents the cumulative adjustments as at the date of transition to AIFRS and those for the year ended 30 June 2005.

(i) Under AASB 138 Intangible Assets, costs incurred in the research phase or the development of an internally generated intangible asset would be expensed. The company's current accounting policy allows for the capitalization of such costs where future benefits are expected beyond reasonable doubt.

The de-recognition of deferred research costs may increase the Company's accumulated losses by A\$268,845 as at the date of transition to AIFRS. The estimated cumulative impact as at the date of transition to AIFRS and those for the year ended 30 June 2005 is an increase of A\$396,691 in the Company's accumulated losses. The Company's net loss for the year ended 30 June 2005 may also increase by A\$127,846.

(ii) Under the Australian equivalent to IAS 36 Impairment of Assets the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in a change in the Company's current accounting policy, which determines the recoverable amount of an asset on the basis of non-discounted cash flows. Under the new policy it is likely that impairment of assets will be recognized sooner and that the amount of write-downs will be greater. No indication of impairment was identified as at the date of transition and balance date.

(iii) Under AASB 116 Property, Plant and Equipment, the company would be required to include as part of the cost of its leasehold improvements, an estimate of the costs to remove those improvements at the end of the lease term where such an obligation exists to the lessor. These costs are not recognized under AGAAP. A corresponding liability would also be recognized under AIFRS in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets. However, management estimates the costs to remove those improvements to be immaterial.

(iv) Under AASB 120: Accounting for Government Grants and Disclosure of Government Assistance, the company would be required to treat any Government grants related to assets as deferred income. The deferred Government grants income is recognised as income on a systematic and rational basis over the useful life of the asset. Management estimates the overall impact of AASB 120 to be immaterial.

(v) Under AASB 2: Share Based Payments, the company would recognise the fair value of options granted to employees as remuneration as an expense on a pro-rata basis over the vesting period in the income statement with a corresponding adjustment to equity. Share-based payment costs are not recognised under AGAAP. The application of AASB 2 may result in an increase of A\$37,960 to the Company's accumulated losses and an increase of A\$37,960 to the Company's other reserves as at transition date. The application may also result in an increase of A\$51,066



to the Company's accumulated losses and an increase of A\$51,066 to the company's other reserves as at 30 June 2005. The Company's net loss for the year ended 30 June 2005 may also increase by A\$13,106.

- (vi) AASB 112 Income Taxes requires the Company to use a balance sheet liability method, rather than the current income statement method, which recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base. Management estimates the adoption of AASB 112 will not result in a material difference.
  - (vii) AASB 119 Employee Benefits requires liabilities for long-term employee benefits to be measured at present value. Under current AGAAP, wages and salaries and annual leave are measured at nominal amounts in all circumstances. In the unusual case where wages and salaries and annual leave are not short-term employee benefits, AASB 119 requires the associated liabilities to be measured at present value whereas current AGAAP requires the associated liabilities to be measured at the nominal amount. Management estimates the adoption of AASB 119 will not result in a material difference.
- (b) Reconciliation of net loss as presented under AGAAP to that under AIFRS

	<i>Year ended</i>
	<i>30 June</i>
	<i>2005</i>
<i>Notes</i>	<i>A\$</i>
	<hr/>
<b>Net loss as reported under AGAAP</b>	(1,082,956)
<b>Adjustments to net loss</b>	
Write-off of capitalized research costs	(a)(i) (127,846)
Fair value of share options issued to employees	(a)(v) (13,106)
	<hr/>
<b>Total net loss under AIFRS</b>	<b>(1,223,908)</b>
	<hr/> <hr/>

- (c) Restated AIFRS Statement of Cash Flows for the year ended 30 June 2005

No material impacts are expected to the cash flows presented under AGAAP on adoption of AIFRS.

### **9.27 Subsequent Events**

As set out in note 9.13, on 21 November 2005 the Company agreed to pay CBDF Pty Limited ATF The Canberra Business Development Fund ("CBDF") A\$35,355 and also to convert the convertible notes upon Admission, at which time the Company will pay CBDF a further A\$84,645 in respect of accrued interest and interest due upon conversion of the convertible notes, as set out in paragraph 7.7 of Part V.

Other than as disclosed above, there has not arisen in the interval period between the end of the financial year and the date of this report any matter or circumstance that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

## PART IV

### A. REPORT ON PRO-FORMA FINANCIAL INFORMATION

The Directors  
Seeing Machines Limited  
Innovations Building  
Level 3  
Corner Eggleston & Garran Roads  
Canberra ACT 2601  
Australia

23 November 2005

Dear Sirs

#### **Seeing Machines Limited (“The Company”)**

We report on the pro forma statement of net assets of the Company (“the Pro forma financial information”) set out in this Part IV B of the AIM Admission Document dated 23 November 2005, which has been prepared on the basis of accounting policies adopted by the Company and for illustrative purposes only to provide information about how the Placing and Admission might have affected the financial information presented on the Company as at 30 June 2005 (as set out in Part III B of the AIM Admission Document).

#### **Responsibilities**

It is the responsibility solely of the Directors of the Company to prepare the Pro forma financial information in accordance with Schedule Two of the AIM Rules with reference to paragraph 20.2 of Annex I of the PD Regulation attached to the AIM Rules.

It is our responsibility to form an opinion as required by paragraph 7 of Annex II of the PD Regulation attached to the AIM Rules as to the proper compilation of the Pro forma financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports previously given by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such report or opinions beyond that owed to those to whom the reports were addressed by us at the dates of their issue.

#### **Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the directors of Seeing Machines Limited.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated.

**Opinion**

In our opinion:

- (a) the Pro forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of Seeing Machines Limited.

**Declaration**

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its inclusion in the AIM Admission Document dated 23 November 2005. This declaration is included in the AIM Admission Document in compliance with Paragraph (a) of Schedule Two of the AIM Rules.

Yours faithfully

GRANT THORNTON CORPORATE (NSW) PTY LTD.

## B. PRO FORMA FINANCIAL INFORMATION

Set out below is the unaudited pro forma financial information of Seeing Machines Limited prepared to illustrate the effects of the Placing and Admission as if they had taken place as at 30 June 2005. This statement has been prepared on the basis set out in the notes below for illustrative purposes only. Because of its nature, this pro forma financial information of net assets may not give a true picture of the position of the Company.

	<i>30-Jun-05</i> <i>(Note 1)</i> <i>A\$</i>	<i>Adjustments</i> <i>(Note 2)</i> <i>A\$</i>	<i>Adjustments</i> <i>(Note 3)</i> <i>A\$</i>	<i>30-Jun-05</i> <i>(Notes 1 to 3)</i> <i>A\$</i>
<b>Current assets</b>				
Cash assets .....	663,213	(120,000)	2,991,682	3,534,895
Receivables.....	292,396	—	—	292,396
Inventories .....	99,099	—	—	99,099
Prepayments.....	485,718	—	—	485,718
<b>Total current assets .....</b>	<b>1,540,426</b>	<b>(120,000)</b>	<b>2,991,682</b>	<b>4,412,108</b>
<b>Non-current assets</b>				
Plant and equipment.....	174,335	—	—	174,335
Intangible assets.....	225,107	—	—	225,107
Deferred research and development costs ..	396,691	—	—	396,691
Other .....	2,454	—	—	2,454
<b>Total non-current assets.....</b>	<b>798,587</b>	<b>—</b>	<b>—</b>	<b>798,587</b>
<b>Total assets.....</b>	<b>2,339,013</b>	<b>(120,000)</b>	<b>2,991,682</b>	<b>5,210,695</b>
<b>Current liabilities</b>				
Payables .....	935,048	—	—	935,048
Deferred revenue.....	10,454	—	—	10,454
Provisions.....	96,242	—	—	96,242
<b>Total current liabilities .....</b>	<b>1,041,744</b>	<b>—</b>	<b>—</b>	<b>1,041,744</b>
<b>Non-current liabilities</b>				
Interest bearing liabilities.....	471,526	(471,526)	—	—
Provisions.....	3,331	—	—	3,331
<b>Total non-current liabilities.....</b>	<b>474,857</b>	<b>(471,526)</b>	<b>—</b>	<b>3,331</b>
<b>Total liabilities.....</b>	<b>1,516,601</b>	<b>(471,526)</b>	<b>—</b>	<b>1,045,075</b>
<b>Net assets .....</b>	<b>822,412</b>	<b>351,526</b>	<b>2,991,682</b>	<b>4,165,620</b>

Notes:

1. Represents the audited statement of net assets of the Company as at 30 June 2005.
2. The adjustment represents a payment to CBDF Pty Ltd ATF Canberra Business Development Fund (“CBDF”) of A\$35,355 (£14,793) on 21 November 2005 and a subsequent payment to CBDF on 29 November 2005 of A\$84,645 (£35,416), comprising accrued interest to 30 June 2005 of A\$21,526 (£9,007) and total additional interest due on conversion of the Convertible Notes of A\$63,119 (£26,410), on conversion of the Convertible Notes with a principal value of A\$450,000 (£188,285) as set out in Paragraph 7.7 of Part V.
3. The adjustment represents the cash proceeds from the Placing amounting to A\$3,947,682 (£1,651,750) in relation to a subscription of 55,058,328 fully paid Ordinary Shares at an issue price of £0.03 per Ordinary Share as set out in Part 1 of the AIM Admission Document less expenses of the Placing of A\$956,000 (£400,000).
4. The pro forma net assets of Seeing Machines Limited has assumed an exchange rate of £1.00 to A\$2.39.

All of the above transactions are reflected in the pro forma statement of net assets.

The pro forma statement of net assets has been prepared under Australian Accounting Standards. Apart from the adjustments disclosed above, the quantitative (“measurement”) adjustments required in accordance with International Financial Reporting Standards include the adjustment to the capitalisation of research and development costs. Under International Financial Reporting Standards certain capitalisation of research and development costs are deemed inappropriate and require writing off to the profit and loss account. This adjustment would reduce the Company’s net assets position by A\$396,691.

## PART V

### ADDITIONAL INFORMATION

#### 1. The Company

- 1.1 The Company was incorporated as an Australian proprietary company under the Corporations Act on 24 July 2000 with Australian Company Number 093 877 331 and is taken to be registered in the Australian Capital Territory. The Company is governed by the Corporations Act and by its constitution.
- 1.2 On 18 May 2005, the shareholders of the Company resolved to change its company type to a public company limited by shares. As part of this change of company type, the shareholders of the Company also resolved to approve the adoption of a new constitution and a change of company name to "Seeing Machines Limited". The new constitution was effective on the date on which the resolution was passed, that is 18 May 2005.
- 1.3 The change of the Company's type and name took effect on 24 June 2005.
- 1.4 The registered office and principal place of business of the Company is at "Innovations Building", Level 3, Corner Eggleston & Garran Roads, Acton, Australian Capital Territory, 2601, Australia, telephone number +612-6125 6501.
- 1.5 The liability of the shareholders of the Company is limited.
- 1.6 The Company has no subsidiaries nor is the Company a subsidiary of any parent company. The Company does not hold shares in any other Company. There are no charges or mortgages over any of the assets of the Company.
- 1.7 The principal activity of the Company is the development and deployment of computer vision processing technologies.
- 1.8 The principal investments of the Company in the period commencing 1 July 2002 up to the date of this document have been:
  - research and development to enhance the Company's core vision processing technologies in order to make them market ready for deployment into a range of everyday machines and electronic devices;
  - development, marketing, sale and distribution of the Company's flagship product, faceLAB<sup>TM</sup>;
  - development of the Company's automotive market opportunities; and
  - development of the Company's glaucoma diagnostic technology.

The Company will continue to primarily invest in these areas, and ongoing commercialisation of its core vision processing technologies, for the foreseeable future. Most of the investment is expended at the Company's facilities in Canberra, Australia. Further details are contained in paragraph 5 of Part I of this document.

#### 2. Share Capital

- 2.1 The following table shows the issued share capital of the Company as at 30 June 2005, as at the date of this document and as it will be immediately following Admission:

Date	Number of Ordinary Shares
As at 30 June 2005	191,212,874*
As at the date of this document	191,212,874
Immediately following Admission	255,058,331

\* This number represents the number of shares in issue as at 30 June 2005 as subdivided pursuant to a resolution dated 22 June 2005 (further details of which are set out in paragraph 2.2 below). The actual number of shares in issue as at 30 June 2005 was 9,270.

- 2.2 On 22 June 2005, the Company resolved to subdivide its share capital into a larger number of Ordinary Shares. The subdivision took effect on 23 November 2005. Prior to the subdivision of its share capital, the number of Ordinary Shares in issue was 9,270. The subdivision, based on a

ratio of 1:20627.063, resulted in there being 191,212,874 Ordinary Shares in issue. As a consequence of the subdivision there was also a *pro rata* subdivision of all options that were outstanding immediately prior to the share subdivision.

- 2.3 Under Australian law shares have no par or nominal value and Ordinary Shares are recorded in the books of the Company at their issue price.
- 2.4 In addition, companies which are incorporated under Australian law do not have an authorised share capital and there is generally no limit in the Corporations Act on the power of the Directors to issue shares. However, the Company's constitution limits the power of the Directors to issue shares or securities convertible into shares, without shareholder approval to what is effectively 15 per cent. of the Company's issued share capital in any period of 12 months. This restriction is subject to certain exceptions including, *inter alia*, the issue of shares in connection with Admission, which exception permits the issue of the Placing Shares without the need for shareholder approval. This provision of the Company's constitution and the exceptions to it are summarised in greater detail in paragraph 3.4 below.
- 2.5 The Company has received notice from CBDF Pty Ltd ("CBDF") under the terms of the Convertible Note Issue Deed that it wishes to convert all of the Convertible Notes. The conversion of the Convertible Notes will take effect on Admission, when 8,787,129 Ordinary Shares will be issued to CBDF. Further details of the terms of the Convertible Note Issue Deed are set out in paragraph 7.7 below.
- 2.6 Under a Warrant Instrument dated 23 November 2005, the Company has agreed to grant to Insinger de Beaufort warrants to subscribe for 2,550,583 Ordinary Shares (equal to one per cent. of the Enlarged Share Capital). These warrants will be exercisable by Insinger de Beaufort at the Placing Price at any time within two years from the date of Admission.
- 2.7 14 employees and ex-employees hold options over 5,342,409 Ordinary Shares in aggregate (representing 2.09 per cent. of the Enlarged Share Capital) which have been granted under the Employee Share Option Scheme. The exercise price of these options is 2.1p. These options are in addition to the options which have been issued to the Chief Executive Officer, Nick Cerneaz and the Operations Manager, Belinda Burgess which are referred to in paragraphs 4.1(2) and 6 respectively below. Further details of the terms on which these options have been granted are set out in the summary of the terms of the Employee Share Option Scheme in paragraph 6 below.
- 2.8 Save as disclosed in this Part V and save for the Placing Shares:
  - (1) no share in the capital of the Company has been issued or is now proposed to be issued, fully or partly paid, either in cash or for a consideration other than cash;
  - (2) no share in the capital of the Company is under option or has been agreed conditionally or unconditionally to be put under option;
  - (3) no commission, discount, brokerage or other special term has been granted by the Company or is now proposed in connection with the issue or sale of any part of the share capital of the Company;
  - (4) no founder, management or deferred shares have been issued by the Company; and/or
  - (5) no amount or benefit has been paid to any promoter of the Company.
- 2.9 The ISIN code for the Ordinary Shares is AU0000XINAJ0.

### **3. Constitution**

The provisions of the constitution of the Company are interpreted subject to the Corporations Act and, upon Admission, the AIM Rules. The constitution also contains provisions facilitating the application of the Australian Stock Exchange Rules should the Company subsequently list on that exchange.

#### **3.1 Powers of the Company**

Pursuant to the Corporations Act the Company has the legal capacity and powers of an individual both in and outside Australia. The Company also has all the powers of a body corporate, including the power to:

- (1) issue and cancel shares in the Company;

- (2) issue debentures (despite any rule of law or equity to the contrary, this power includes the power to issue debentures that are irredeemable, redeemable only if a contingency, however remote, occurs, or redeemable only at the end of a period, however long);
- (3) grant options over unissued shares in the Company;
- (4) distribute any of the Company's property among the shareholders, in kind or otherwise;
- (5) give security by charging uncalled capital;
- (6) grant a floating charge over the Company's property;
- (7) arrange for the Company to be registered or recognised as a body corporate in any place outside Australia; and
- (8) do anything that it is authorised to do by any other law (including a law of a foreign country).

### **3.2 Directors**

- (1) The number of directors of the Company will be the number determined by the directors from time to time and must be at least 3 and not more than 10. The Corporations Act requires the Company to have at least 3 directors at all times. At least 2 of the directors must ordinarily reside in Australia.
- (2) The business of the Company is managed by the directors, who may exercise all the powers of the Company which the constitution or any other applicable law or rules do not require to be exercised by the Company in general meeting.
- (3) The directors may delegate any of their powers (other than those which by law must be dealt with by the directors as a board) to committees and may authorise the delegate to sub-delegate any or all of the powers delegated.
- (4) At each annual general meeting of the Company, the following directors (except for the managing director) must retire from office and is eligible for re-election:
  - (i) any director appointed to fill a casual vacancy or as an addition to the board by the directors; and
  - (ii) 1/3 of the directors, or if their number is not a multiple of 3, then the number nearest to 1/3; The directors to retire are those directors who have been in office the longest, or, if in the office for an identical period, those directors selected by lot.

Any retiring director is eligible for re-election at the meeting at which they retired.

- (5) No share qualification is required of a director.
- (6) Except for the remuneration of the managing director or a director who is a salaried officer, which is determined by the directors, the directors may be paid such remuneration determined by the Company in general meeting. The aggregate remuneration payable to the directors (excluding the managing director) must not exceed A\$350,000 (increasing at 3 per cent. compound per annum from July 2006). The Company may also pay a retiring allowance to non-executive directors who have been in office for at least 5 years not exceeding the total emoluments of the director in the 3 years preceding his retirement.
- (7) A contract or arrangement made by the Company with a director, or in which a director is in any way interested, is not avoided merely because the director is a party to or interested in it.
- (8) Provided that a director has duly declared the nature of his interest in a contract or arrangement in accordance with the Corporations Act, the director, subject to the Act:
  - (i) may vote as a director at any meeting of the directors in respect of that contract or arrangement; and
  - (ii) is not, merely because of his office as director or the fiduciary relationship it entails, liable to account to the Company for any profit derived by him from the contract or arrangement.

### **3.3 Rights attaching to Ordinary Shares**

The Ordinary Shares are the only class of shares in issue in the capital of the Company. The rights attaching to the Ordinary Shares are set out in the constitution and, in certain circumstances, are regulated by the Corporations Act and the general law.

The following is a summary of the principal rights attaching to Ordinary Shares:

(1) *Voting*

Each holder of Ordinary Shares present in person or by proxy, attorney or, where the holder is a body corporate, by representative at a meeting of shareholders has, on a show of hands, one vote and, on a poll, one vote for each fully paid Ordinary Share held by that shareholder and a proportionate vote for every partly paid share registered in the shareholder's name on the Company's share register.

A shareholder may appoint a person as that shareholder's proxy to attend, speak, vote and join in the demand for a poll at a meeting of shareholders in that shareholder's place.

At a meeting of shareholders, a poll may be demanded on any resolution (other than the election of the chairperson or the adjournment of a meeting) by the chairperson of that meeting, or by at least five shareholders present in person and entitled to vote on the resolution, or by shareholders present in person with at least 5 per cent. of the total voting rights of all shareholders having the right to vote on the resolution on a poll.

A shareholder is not entitled to vote at a meeting in respect of a share in the Company held by the shareholder unless all sums presently payable by the shareholder in respect of that share has been paid.

An objection may be raised to the qualification of a shareholder to vote only at the meeting or adjourned meeting at which the vote objected to is given or tendered. The objection must be referred to the chairperson of the meeting whose decision is final.

(2) *Meetings and Notice*

Each shareholder is entitled to receive notice of and to attend general meetings of the Company and to receive all notices, accounts and other documents required to be sent to the shareholders under the constitution and the Corporations Act.

General meetings may be called by a director, the directors by resolution of the board or members of the company holding at least 5 per cent. of the votes that may be cast at a general meeting.

28 days notice must be given for general meetings and the Annual General Meeting.

(3) *Dividends*

Dividends may only be payable out of the profits of the Company. Subject to preferential, special, deferred or other rights with which any shares may in the future be issued:

- (i) the directors may declare that a dividend or interim dividend is payable to shareholders as appear to the directors to be justified by the profits of the Company;
- (ii) there are no fixed dates for declaration or payment of dividends and no fixed date on which any entitlement to a dividend arises;
- (iii) entitlements to dividends do not lapse;
- (iv) there are no restrictions or procedures relating to dividends that are peculiar to non-resident holders;
- (v) there are no pre-determined rates, methods of calculation or periodicity for payment of dividends; and
- (vi) there are no cumulative rights to dividends.

The directors may withhold payment of a dividend in relation to a share in certain circumstances where the holder of the shares has failed to comply with the provisions of the Corporations Act or the constitution relating to the disclosure of underlying interests.

No dividend bears interest against the Company.

A transfer of shares does not pass the right to any dividend declared on the shares unless the transfer is registered or left with the Company for registration in accordance with the constitution on or before the record date fixed by the directors in respect of that dividend, or if no record date was fixed, the date the dividend was declared.

The directors may deduct from any dividend payable to a shareholder all sums of money presently payable by the member to the Company on account of calls or otherwise in relation to shares in the Company.



(4) *Transfer of shares*

A shareholder may transfer all or any of the shareholder's shares by a transfer document in any form that the directors approve. Except where required by the Corporations Act, the AIM Rules or, the ATSC Settlement Rules and the constitution, there is no restriction on the transfer of shares.

The Company may not charge a fee on the transfer of any shares.

An instrument of transfer must usually be signed by or on behalf of both the transferor and the transferee, be duly stamped if required and be left for registration, together with the certificate (if any for the shares) at the registered office of the Company or at the address where the register in respect of the shares to be transferred is kept.

Should the Company subsequently list on the Australian Stock Exchange, share transfer forms, procedures and restrictions relating to shares traded on that exchange will be governed by the rules and practice of that exchange.

The Company may participate in any computerised or electronic system for settlement, security transfer and registration permitted. On Admission, trading in CREST will be via Depositary Interests. Further information concerning the holding of Ordinary Shares and trading of Depositary Interests through the CREST system is set out in paragraph 13 of Part I of this document.

If the Company refuses to register any transfer of shares, it must give to the transferee, and stockbroker (if any) by whom the transfer was lodged for registration, written notice within 5 business days after the transfer was lodged, stating that the transfer has been refused and the reasons for the refusal.

Under the constitution the Company may require a shareholder to disclose the underlying interest in any shares held by such shareholder.

(5) *Liquidation rights*

In the event of liquidation, the liquidator may, by special resolution, divide among the members the whole or any part of the property of the Company at such value as the liquidator considers is fair and determine how the division is to be carried out as between the members or different classes of members.

The liquidator may, by special resolution, vest the whole or any part of the property of the Company in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no member is compelled to accept any shares or other securities in respect of which there is any liability.

(6) *Variation of Rights*

The rights attaching to Ordinary Shares may not be varied or cancelled without the consent in writing of the holders of 75 per cent. of the issued Ordinary Shares or the sanction of a special resolution at a general meeting of shareholders passed by at least 75 per cent. of the shareholders present and voting at that meeting. If the variation is to be sanctioned by a special resolution, at least 28 days' written notice, or any shorter period of notice allowed under the Corporations Act, specifying the intention to propose the resolution as a special resolution must be given to all shareholders.

### **3.4 *New Issues of Securities***

Subject to the constitution the issue of shares is under the control of the directors who may allot, issue or grant options over shares on the terms and conditions, with the rights and restrictions, for the consideration and at the time the directors think fit.

However, unless a prescribed exception applies, the constitution prohibits the Company from issuing more than 15 per cent. of its issued capital in any 12 month period without obtaining shareholder approval. The prescribed exceptions include a pro-rata rights issue to all shareholders, issues before Admission, issues made in connection with Admission, an issue arising from options disclosed in this document and any issue under an employees incentive scheme previously approved by shareholders.

### 3.5 Alteration of constitution

The constitution can only be amended by a special resolution of the shareholders present and voting at a general meeting of shareholders. The notice requirements above in paragraph 3.3(2) apply with respect to a special resolution to amend the constitution.

### 3.6 Indemnity

If the Company is required to make any payment in respect of any shares or a member or any distribution or other money payable to a member in respect of their shares, the member must indemnify the Company against its liability to make the payment.

### 3.7 Change of Control

There are no provisions in the constitution which would have the effect of delaying, preventing or deferring a change of control of the Company.

## 4. Interests of Directors And Others

### 4.1 Directors Interests

The interests of the Directors and their immediate families and of persons connected with them within the meaning of Section 346 of the Act in the share capital of the Company as at the date of this document all of which are beneficial which could, with reasonable diligence, be ascertained by the Directors, and as they are expected to be immediately following completion of the Placing are as follows:

#### (1) Ordinary Shares

	<i>As at the date of this document</i>		<i>Following Admission</i>	
	<i>Number of Existing Ordinary Shares</i>	<i>Percentage of Existing Ordinary Shares</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Enlarged Share Capital</i>
Fulton Muir	—	—	—	—
Nicholas Cerneaz	391,914	0.20%	391,914	0.15%
Anthony Kinnear <sup>1</sup>	990,099	0.52%	990,099	0.39%
Alexander Zelinsky <sup>2</sup>	87,417,493	45.72%	87,417,493	34.27%
Trent Victor	—	—	—	—
David Gaul	—	—	—	—
Robert Sale <sup>3</sup>	5,115,512	2.68%	5,115,512	2.01%

1 Anthony Kinnear's Ordinary Shares are held by Ezaspi Pty Ltd, a company wholly owned by Ritmarn Pty Limited (the trustee of the Kinnear family trust). Anthony Kinnear is a director of Ritmarn Pty Limited.

2 The interest disclosed for Alexander Zelinsky relates to the Ordinary Shares held by JATS Technology Pty Ltd, a company in which he is interested in 24.4 per cent. of its issued shares.

3 The interest disclosed for Robert Sale includes 3,939,769 Ordinary Shares held by Rob Sale's wife Paula Kay Sale. This interest does not include 2,351,485 Ordinary Shares held by Territory Beyond Pty Ltd (a company of which Rob Sale is a director) as trustee of the Sale Family Trust.

#### (2) Options over Ordinary Shares

Under the Executive Employment Agreement entered into between the Company and the Chief Executive Officer (see paragraph 4.2 below), the Company agreed to grant Dr Cerneaz options to subscribe for a number of Ordinary Shares equal to five per cent. of the Enlarged Share Capital. The Company has agreed to grant the options on the terms of the Employee Share Option Scheme, in addition, the following terms apply:

- (a) the exercise price is the Placing Price;
- (b) 0.75 per cent. of the options will vest upon Admission;
- (c) 1.25 per cent. of the options will vest upon completion of the three month probation period beginning 5 September 2005;
- (d) 2 per cent. of the options will vest 1 year after Admission; and
- (e) the final 1 per cent. of the options will vest 2 years after Admission.

#### **4.2 Chief Executive Officer's Executive Employment Agreement**

The Company and Nick Cerneaz entered into an executive employment agreement (the "Executive Employment Agreement") dated 5 September 2005 under which Dr Cerneaz provides his services as a director and in the capacity of Chief Executive Officer of the Company. The agreement provides for remuneration comprising a salary component of A\$180,000 upon commencement of employment. The Board will also determine an annual salary increase based on Dr Cerneaz's performance. The Company will also pay Dr Cerneaz an annual bonus of 20 per cent. subject to review based on specific bonus targets set annually. The Agreement also provides for the options referred to in paragraph 4.1(2) above.

If he ceases to be employed by the Company, Dr Cerneaz will be entitled to exercise any options which have vested but which remain unexercised for a period of 12 months following him ceasing to be so employed.

#### **4.3 Non-Executive Directors' Appointment Terms**

The non-executive directors of the Company are employed under letters of appointment with the Company. In each case the appointment continues until it is terminated in accordance with the Company's constitution or the Corporations Act. Under the terms of such letters of appointment Mr Muir is entitled to fees of A\$12,000 per annum and each of Mr Gaul, Mr Sale and Mr Kinnear are entitled to fees of A\$13,200 per annum. Under the terms of their appointment letters each of Mr Zelinsky and Mr Victor are not entitled to a fee unless otherwise resolved by the Board.

In addition the Company has an agreement with the Commonwealth Scientific and Industrial Research Organisation (CSIRO) which employs Mr Zelinsky (a founding director of the Company). Under an arrangement between CSIRO and the Company documented in a letter:

- (a) Mr Zelinsky's directorship of the Company which began on 14 December 2000 will continue until 30 December 2005 after which it will come under review, however Mr Zelinsky has advised the Company that CSIRO will agree to Mr Zelinsky continuing as a director of the Company;
- (b) CSIRO contracts Mr Zelinsky back to the Company up to 2 days per month, such arrangement to continue until 30 December 2005 after which it will come under review; and
- (c) Alex Zelinsky's role will only be of an advisory, technical nature with no executive function or powers within the Company other than responsibilities as a Company director.

In addition Rob Sale provides consulting services to the Company in respect of fundraising activities. These services are provided on the basis of an arrangement set out in a letter from the Company to Mr Sale dated 2 August 2004. Under the terms of the letter Mr Sale is remunerated a nominal fee of A\$500 per day for his services and the agreement continues until the Board decides in its discretion to conclude it.

Save as set out in paragraphs 4.2 and 4.3, there are no service agreements in existence between any of the Directors and the Company which cannot be determined by the Company without payment of compensation (other than statutory compensation) within one year and no director is entitled to any benefits on termination that have not been disclosed.

#### **4.4 Directors' Estimated Remuneration**

The total remuneration and benefits in kind paid to directors for the year ended 30 June 2005 was A\$258,437. The estimated aggregate remuneration and benefits in kind to be paid to the Directors for the current financial year ending 30 June 2006 under the arrangements in force as at the date of this document is A\$231,600. The reimbursement of out of pocket expenses incurred by directors are not included in the information provided in this paragraph.

#### 4.5 Directors' Term of Office

Details of the period of the term of office of each of the Directors are set out below:

<i>Name</i>	<i>Date of Appointment</i>	<i>Date of expiration of term of office</i>
Fulton Muir	14/12/2000	Annual General Meeting to be held in 2006
Nicholas John Cerneaz	6/10/2005	Annual General Meeting to be held in 2006
Anthony Kinnear	28/9/2004	Annual General Meeting to be held in 2006
Alexander Zelinsky	18/12/2000	Annual General Meeting to be held in 2006
Trent William Victor	18/12/2003	Annual General Meeting to be held in 2007
David John Gaul	24/8/2004	Annual General Meeting to be held in 2008
Robert Charles Sale	22/5/2004	Annual General Meeting to be held in 2007

#### 4.6 Substantial shareholders and Other Interests

The Directors are aware of the following persons who, at the date of this document and/or are expected following Admission, directly or indirectly, jointly or severally hold or will hold 3 per cent. or more of the issued Ordinary Shares.

	<i>As at the date of this document</i>		<i>Following Admission</i>	
	<i>Number of Existing Ordinary Shares</i>	<i>Percentage of issued share capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Enlarged Share Capital</i>
JATS Technology Pty Limited	87,417,493	45.72%	87,417,493	34.27%
Volvo	23,266,073	12.17%	23,266,073	9.11%
Australian National University Canberra Business Development Fund	28,114,687	14.70%	28,114,687	11.02
Capital Technic Group	—	—	8,787,129	3.45%
Bradley Argyle Rose <sup>1</sup>	8,787,129	4.60%	8,787,129	3.45%
Timothy Donald Rose <sup>2</sup>	6,910,066	3.61%	6,910,066	2.71%
	6,910,066	3.61%	6,910,066	2.71%

1 This interest includes 4,558,581 Ordinary Shares held by Megaminster Pty Limited.

2 This interest includes 4,558,581 Ordinary Shares held by Rose Properties Pty Limited.

The shares held by the persons named above have the same voting rights as all of the other Ordinary Shares in issue.

- 4.7 Save as disclosed in paragraph 4.5 above, the Directors are not aware of any person who, immediately following Admission, will, directly or indirectly, be interested in 3 per cent. or more of the Ordinary Shares or who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.
- 4.8 Save as disclosed in paragraph 4.1 above, none of the Directors nor any member of his immediate family or any person connected with him holds or is beneficially or non beneficially interested, directly or indirectly, in any shares or options to subscribe for, or securities convertible into, shares of the Company.
- 4.9 Except as disclosed in this Part V, no Director has or has had any interest in any transaction which is or was of an unusual nature, contains or contained unusual terms or is or was significant in relation to the business of the Company and which was effected during the current or immediately preceding financial year or remains in any respect outstanding or unperformed.
- 4.10 No loans or guarantees have been granted or provided to or for the benefit of any of the Directors by any member of the Company and which have not been repaid or released as at the date of this document.

4.11 In addition to their directorships of the Company, the Directors hold, or have held, the following directorships and/or have been a partner in the following partnerships during the five years prior to the date of this document:

	<u>Current directorships or partnerships</u>	<u>Past directorships or partnerships</u>
Fulton Muir	ANU Enterprise Pty Ltd Australian Scientific Instruments Pty Ltd Bioz Pty Ltd Canberra World Cup Showjumping Ltd Epicorp Ltd Gabriel Foundation Ltd Snow Foundation Ltd	
Nick Cerneaz	—	—
Tony Kinnear	Ezaspi Pty Ltd Ritmarn Pty Ltd The Thomson Corporation (Australia) Pty Ltd Thomson Legal & Regulatory Ltd Lawpoint Pty Ltd	Butterworth & Co Publishers Ltd Butterworths New Zealand Ltd Info-One International Pty Ltd Legalco International Pty Ltd Legalco Pty Ltd Malayan Law Journal Sdn Bhd Passionately and Beyond Pty Ltd Reed Elsevier (Greater China) Ltd Reed Elsevier Australia Pty Ltd Reed Elsevier India Private Ltd Reed Elsevier Singapore Pte Ltd Reed International Books Australia Pty Ltd Ruleburst (Europe) Limited Residex Pty Ltd SLC Capital Ltd SoftLaw Corporation (Europe) Ltd SoftLaw Corporation (North America) Ltd SoftLaw Corporation Ltd
Alex Zelinsky	Epicorp Ltd JATS Technology Pty Ltd	Zelinsky Computing Services Pty Ltd
David Gaul	Aitchison & Croser Pty Ltd ANU Connect Pty Ltd ASF Ltd CEA Mechanical & Marine Pty Ltd CEA Research and Development Pty Ltd CEA Share Ltd CEA Technologies Inc CEA Technologies Pty Ltd Cooperative Research Center for Sensor Signal & Information Processing Driftwood Think Tank Pty Ltd Epicorp Ltd Epicorp Seed Fund Ltd Jaiclimb Pty Ltd Macquarie Syndication (No 9) Pty Ltd Sonorn Pty Ltd Spire Innovations Pty Ltd W.B.C. No 1 Pty Ltd	Gaucro Pty Ltd

	<u>Current directorships or partnerships</u>	<u>Past directorships or partnerships</u>
Trent Victor	—	—
Rob Sale	Caffe Pty Ltd Territory Beyond Pty Ltd	Abacus Data Systems Pty Ltd Express Blower Australia Pty Ltd Groundcover Australia Pty Ltd Groundworks Australia Pty Ltd

4.12 Save as disclosed in paragraph 4.12 below, no Director has:

- (1) any unspent convictions in relation to indictable offences; or
- (2) had a bankruptcy order made against him or entered into an individual voluntary arrangement or had any asset of his subject to receivership; or
- (3) been a director of any company which, while he was a director or within 12 months after his ceasing to be a director, had a receiver appointed or was the subject of a compulsory liquidation, creditors voluntary liquidation or administration or entered into a company voluntary arrangement or composition or arrangement with its creditors generally or with any class of its creditors; or
- (4) been a partner of any partnership which, while he was a partner or within 12 months after his ceasing to be a partner, went into compulsory liquidation, administration or partnership voluntary arrangement, or had a receiver appointed to any partnership asset; or
- (5) had any public criticisms by statutory or regulatory authorities (including recognised professional bodies); or
- (6) been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

4.13 Fulton Muir was a director of Capricornia Television Corporation Pty Ltd until 1 September 1994. This company was deregistered following a members' voluntary liquidation, which commenced on 14 December 1993. There was no shortfall to creditors.

## 5. Employees

The key employees of the Company are Nick Cerneaz, Timothy Edwards, Jochen Heinzmann and Sebastian Rougeaux. Details of these employees can be found in Part I.

At 31 October 2005, the Company employed 19 staff across the following categories:

- (1) Research & Engineering – 12 staff members;
- (2) Manufacturing – 2 staff members;
- (3) Administration – 2 staff members;
- (4) Marketing – 1 staff member; and
- (5) Executive Management – 2 staff members.

Each staff member is employed in Canberra under an individual employment contract with the Company. A number of staff have been granted options under the Company's Employee Share Option Scheme, the terms of which are described in paragraph 6 below.

## 6. Employee Share Option Scheme

Under the terms of the Employee Share Option Scheme the Board may determine at its absolute discretion that certain executive directors, officers of the Company and employees are eligible to participate in Employee Share Option Scheme and the number of options to be offered to those persons. The exercise price of the options is also determined by the Board.

Options vest according to the following schedule:

<u>Percentage of options vesting</u>	<u>Vesting Date</u>
25 per cent.	12 months after date of grant
35 per cent.	24 months after date of grant
40 per cent.	36 months after date of grant

The expiration date for the exercise of all options is 30 June 2010. Any options that are unexercised after that time will immediately lapse.

In the event that a takeover offer is made to acquire the whole or any part of the issued Ordinary Shares of the Company, the Board must allow the holders of any vested (but unexercised) options or unvested options to exercise those options. There are anti-dilution provisions in the Employee Share Option Scheme which prevent against the dilution of option holders' rights in the event of a bonus issue of shares or other *pro-rata* issue of securities by the Company. If there is any reconstruction of the capital of the Company, (for example a subdivision or reduction) a proportionate readjustment must be made to the number of options and the exercise price.

The options outstanding as at the date of this document are detailed in paragraph 2.6 above. Options will be granted to Nick Cerneaz, the Chief Executive Officer of the Company, in fulfilment of clause 11 of the Executive Employment Agreement. Details of these arrangements with Dr Cerneaz are set out in paragraph 4.1(2) above.

In addition, the Company has agreed to grant options to Operations Manager, Belinda Burgess, to subscribe for such number of Ordinary Shares are equal to 0.75 per cent. of the Enlarged Share Capital. The Company has agreed to grant the options to Ms Burgess on the following terms and on the terms of the Employee Share Option Scheme:

- (a) the exercise price is the Placing Price;
- (b) 0.25 per cent. of the options will vest upon Admission;
- (c) 0.25 per cent. of the options will vest 1 year after Admission; and
- (d) the final 0.25 per cent. of the options will vest 2 years after Admission.

## **7. Material Contracts**

The following contracts, (not being contracts entered into in the ordinary course of business) have been entered into by the Company during the two years preceding the date of this document and are or may be material. Some contracts entered into earlier than two years preceding the date of this document are included below due to their historical relevance in respect of other contracts or because they are still current and are or may be material:

### **7.1 Nominated Adviser/Broker Engagement Letter**

This is an agreement dated 27 April 2005 between the Company and Insinger de Beaufort whereby Insinger de Beaufort has agreed to act as nominated adviser and broker to the Company in relation to the Admission and the Placing for a fee of £85,000 and out of pocket expenses. In addition, Insinger de Beaufort will receive a commission of 5 per cent. on the gross proceeds of the Placing and will, on Admission, be granted a warrant over 1 per cent. of the Enlarged Share Capital exercisable at the Placing Price at any time during the two years following Admission. Insinger de Beaufort will also be entitled to a commission of 5 per cent. on any further funds received from an investor introduced to the Company by Insinger de Beaufort within 12 months of their introduction. Following Admission, Insinger de Beaufort will charge an annual retainer for ongoing services a nominated adviser and broker of £20,000. The agreement is subject to termination by either party on 30 days' notice.

### **7.2 Placing Agreement**

The Company has entered into a Placing Agreement dated 23 November 2005 between the Company (1), the Directors (2) and Insinger de Beaufort (3) pursuant to which conditionally upon *inter alia*, Admission taking place on or before 1 December 2005 (or such later time and/or date as Insinger de Beaufort and the Company may agree, being not later than 16 December 2005. Insinger de Beaufort has agreed to act as nominated adviser and broker to the Company and to use reasonable endeavours to procure subscribers for the Placing Shares proposed to be issued by the Company at the Placing Price. Insinger de Beaufort's appointments as nominated adviser and broker may each be terminated by either party giving one month's written notice. In consideration of such appointments, the Company agrees to pay Insinger de Beaufort an annual retainer of £20,000.

The Placing Agreement contains indemnities and warranties from the Company and warranties from the Directors in favour of Insinger de Beaufort together with provisions which enable Insinger de Beaufort to terminate the Placing Agreement in certain circumstances prior to Admission, including, but not limited to, circumstances where any warranties are found not to be true or accurate in any material respect. If Admission takes place, Insinger de Beaufort will receive a fee of

£85,000 plus incidental expenses and a commission of five per cent. of the aggregate value of the Placing Shares at the Placing Price for which they have procured subscribers. In addition, Insinger de Beaufort will be issued with warrants to subscribe for up to one per cent. of the Enlarged Share Capital exercisable at the Placing Price, such warrants to be exercisable at any time prior the second anniversary of Admission. The Company will meet all reasonable fees and expenses associated with the Placing.

The Directors on behalf of themselves, their families and others deemed to be connected with them, have undertaken not to dispose of any Ordinary Shares, save in the event of an intervening court order, a takeover becoming or being declared unconditional, the transfer or cancellation of such shares as part of a merger or scheme of arrangement, an offer or agreement with the Company to purchase its own shares or, as regards an individual, in the event of the death of an individual, for a period of 12 months Admission and for a further period of 12 months on an orderly market basis except with the prior written consent of Insinger de Beaufort, which consent shall not be unreasonable withheld or delayed.

### ***7.3 Letter of engagement with Grant Thornton Corporate (NSW) Pty Ltd***

An engagement letter dated 15 April 2005 was entered into between Seeing Machines and Grant Thornton Corporate (NSW) Pty Ltd, pursuant to which Seeing Machines appointed Grant Thornton Corporate (NSW) Pty Ltd as its corporate finance adviser. Under the terms of this engagement letter Grant Thornton Corporate (NSW) Pty Ltd received an initial fee of A\$20,000 and will receive a further fee of A\$70,000 on Admission.

### ***7.4 Lock-in and Orderly Market Agreements***

Lock-in and orderly market agreements have been entered into between Insinger de Beaufort, the Company and a number of key shareholders. Under these agreements each of JATS Technology Pty Ltd, Volvo Technological Development AB, the Australian National University, Ezaspi Pty Ltd, Caffè Pty Ltd, Rose Properties Pty Ltd and Megaminster Pty Ltd have agreed, conditional upon Admission, not to dispose of any interests in the Ordinary Shares held by them at Admission for a period of 12 months, save in certain limited circumstances. In the case of the agreement entered into with JATS Technology Pty Ltd such circumstances include a disposal of up to 3,094,059 of the restricted Ordinary Shares. In addition, pursuant to such agreements these shareholders have agreed for a further period of 12 months not to dispose of any interest in such Ordinary Shares without the consent of Insinger de Beaufort on an orderly market basis, save in certain limited circumstances.

Lock-in and orderly market agreements have also been entered into entered into between Insinger de Beaufort, the Company and each of VC Holdings Pty Limited, Capital Technic Group Limited and The Capital Superannuation Fund, pursuant to which each has agreed, conditional upon Admission, that in the event that at any time in the 2 years following Admission it holds 4,000,000 or more Ordinary Shares, it will not dispose of any interest in such Ordinary Shares for a period of 12 months, save in certain limited circumstances and for a further 12 months not to dispose of any interest in such Ordinary Shares without the consent of Insinger de Beaufort on an orderly market basis, save in certain limited circumstances. In the event that during the period of 2 years from the date of Admission its holding falls below 4,000,000 Ordinary Shares then each of VC Holdings Pty Limited, Capital Technic Group Limited and The Capital Superannuation Fund have agreed during such period not to dispose of any interest in such Ordinary Shares without the consent of Insinger de Beaufort on an orderly market basis, save in certain limited circumstances.

In addition orderly market agreements have been entered into between Insinger de Beaufort, the Company and certain other shareholders. Under those agreements each of CBDF Pty Ltd, Paula Sale, Glenn Dickins, Bradley Rose and Tim Rose have agreed, conditional upon Admission not to dispose of any interest in the Ordinary Shares held by them at Admission for a period of 2 years from Admission, other than with the consent of Insinger de Beaufort on an orderly market basis, save in certain limited circumstances.

### ***7.5 Researchers Deeds of Undertaking***

The Deeds of Undertaking signed between the Company and separately with Timothy Edwards, Jochen Heinzmann, Sebastien Rougeaux and Alexander Zelinsky require these key researchers of the Company (whether employees or contractors) to observe non-competition provisions and to assign any intellectual property they create in the course of their work for the Company to the Company. These Deeds are effective for the period of each person's employment and for 1 year following the termination of employment with the Company.



#### **7.6 Patent Assignment Deed**

Under this deed, dated 23 August 2000 between the Company and Timothy Edwards, Jochen Heinzmann, Sebastien Rougeaux and Alexander Zelinsky, these key researchers assign all of their interest in Patent PQ 8960 (facial image processing system) to the Company and agree not to challenge the Company's ownership of the intellectual property in the system.

#### **7.7 CBDF Convertible Note Issue Deed**

This is a deed dated 17 December 2002 between the Company and CBDF Pty Limited ATF The Canberra Business Development Fund ("CBDF") (which is a joint venture of the Australian Capital Territory government and Australian Capital Ventures Ltd) and is varied by a Deed of Variation dated 17 February 2005. The Company issued 534,546 Convertible Notes to CBDF in consideration for a loan to the Company of A\$450,000. Pursuant to a further Deed of Variation dated 21 November 2005 the Company paid CBDF the sum of A\$35,355 and agreed upon Admission to convert the Convertible Notes. Upon Admission 8,787,129 Ordinary Shares will be issued to CBDF and the Company will pay the sum of A\$84,645 to CBDF in respect of accrued interest and interest due upon conversion of the Convertible Notes.

#### **7.8 Volvo Technology Research Agreement**

This is an agreement dated 15 December 2000 between the Company and Volvo Technology. It governs the development of the (VTD In-Vehicle) face and eye gaze tracker development program (analysis of driver and passenger behaviour) (the "Project"). The term of this agreement is 7 years. Under this agreement the Company carried out the Project at its own cost developing a prototype vision system, including an in-car version, for Volvo Technology in the first 18 months of the agreement. The Company received A\$185,000 from Volvo Technology from which A\$100,000 was accepted by the Company as consideration for issuing Volvo Technology with 1 per cent. equity in the Company in about January 2001.

#### **7.9 Volvo Technology Agreement**

This is an agreement between the Company and Volvo Technology dated 24 September 2002. The term of this agreement is until the Volvo Technology Licence Agreement below is terminated. Under this agreement, the Company grants to Volvo Technology and its related corporations, a worldwide, non-exclusive right to use the face and gaze tracking technology as described in Schedule 1 of the agreement plus patent applications PQ8960, P51405 and P53281 (Technology) and improvements for production (by itself or others) of Volvo products for use in cars, buses, trucks or construction equipment. This agreement was entered into as a result of a decision by the Company and Volvo Technology to transfer rights granted to Volvo Technology previously provided under a shareholders agreement.

#### **7.10 Volvo Technology Licence Agreement and variation**

This is an agreement between the Company and Volvo Technology dated 24 September 2002 and varied by the variation deed (undated) executed by the parties. The Term of this agreement is 20 years.

Under this agreement, the Company provides licensing opportunities to Volvo Technology to use and sublicense the technology. Volvo Technology may use the technology in relation to the manufacture and distribution of Volvo buses, trucks and construction equipment (Volvo Vehicles) and to purchase products from third party suppliers licensed by the Company to manufacture or distribute components incorporating the technology (Licensed Tier 1 Suppliers).

This agreement was entered into as a result of a decision by the Company and Volvo Technology to transfer rights granted to Volvo Technology previously provided under a shareholders agreement.

The Company and Volvo Technology also agree to work cooperatively to develop the face and eye tracking technology with the long-term goal of developing new products and applications for the automotive industry.

**7.11 *Advanced Telecommunications Research Institute Department of Humanoid Robotics and Computational Neuroscience (“ATR”) Research and Development Agreement (“R&D agreement”) and Enterprise Product License Agreement (“EPLA”)***

These are agreements between the Company and ATR both dated 30 November 2004. The R&D agreement governs the carrying out of a research and development project with ATR. The Company owns all intellectual property that it creates during the course of the project. The product to be delivered by the Company is a fully developed, tested, documented and functioning software application together with source code (ATR Product). The software is intended to demonstrate how the Company’s human machine interface can be used to incorporate human head, face and eye tracking capabilities into third party software applications. The product has been delivered. The EPLA permits ATR to use the faceLAB™ Application Programming Interface for internal research and development and ATR has no rights to manufacture, distribute or resell or make the software available to any third party.

**7.12 *Research & Development and Licensing Agreement with the ANU***

This agreement is between the Company and ANU dated 1 July 2004. ANU grants to the Company a non-transferable, exclusive, royalty-bearing licence over certain patent rights belonging to the ANU to develop and commercialise a new medical diagnostic device which monitors the pupil diameter of both eyes while visual stimuli are presented (“Field”). The term of this agreement extends until all new products developed by the Company using the intellectual property in the Field have been exploited. This is a non-transferable licence, however there is allowance for the Company to sublicense its background intellectual property, its rights in jointly developed intellectual property and its licence to use any intellectual property. The Company retains the right to seek further exclusive licences outside the Field and territories, primarily Australia, the USA, Canada, EU and Japan (Territories). Licence fees are payable in instalments scheduled to take place over 2 years as certain events occur as set out in the agreement. The Company must also pay a minimum annual royalty fee calculated according to a formula in the agreement. The Company indemnifies ANU against any proceedings brought against ANU or the Company itself. This indemnity excludes liability in respect of quality, performance or fitness for purpose and third party claims arising from use of the licensed intellectual property and loss of business opportunity. ANU may terminate the licence if the Company fails to exploit and use its best endeavours to achieve the objectives under the agreement being to maximise the exploitation of the Company’s products in the Field in the Territories. Either party may terminate the agreement by giving 30 days’ notice to the other party if the other party is in breach of the agreement (other than a non-trivial breach).

**7.13 *Licensing Agreement with Pillar Vision, Inc (“Pillar Vision”)***

This is an agreement between the Company and Pillar Vision dated 31 March 2005. The Company grants to Pillar Vision a licence to incorporate its basketball tracking software with Pillar’s Noah System into a new product for sale to end customers on the terms in the licence agreement.

Pillar is to pay the Company a licence fee for each unit of product sold incorporating the Company’s software. The Company has granted to Pillar a one-off offset of US\$20,000 in consideration of development fees previously paid.

The licence is for 5 years after which there is an automatic right of renewal on a 12 monthly basis. The Company indemnifies Pillar against any claims for breach of any third party rights. The agreement may be terminated by written notice by either party for material breach.

**7.14 *CSIRO Technology Evaluation and Licence Agreement***

This is an agreement between the Company and CSIRO dated 22 October 2003. Under this agreement, the Company has a non-exclusive licence to incorporate CSIRO’s face recognition technology (SQIS Technology) into the Company’s faceLAB™ and faceLAB™ derived products and to commercially exploit those products world wide in the automotive market and human factors markets (defined as the automotive, transportation, electronics, aeronautical, military, universities and other public research focused institutions markets). The term is 5 years from 6 May 2004.

CSIRO owns all improvements made during the evaluation period which expired no later than 30 November 2003, during which the Company was given access to CSIRO’s face recognition software technology. The Company owns all improvements made after the Evaluation Period. The Company has undertaken some initial work using the SQIS technology.

As long as the Company predominantly sells or licenses faceLAB™ for research there is no insurance requirement. Once it starts to commercially exploit it so that people rely on it for safety, the Company must take out adequate product liability insurance. The Company indemnifies CSIRO against all claims arising out of the manufacture or sale of the Company's products and exploitation of the SQIS Technology. Any agreements with resellers must be consistent with the licence. CSIRO may terminate the agreement by giving 30 days' written notice in the case of material breach by the Company.

#### **7.15 Distributorship Agreements**

The Company currently engages distributors to sell and market faceLAB™ in the USA, China, Taiwan and South Korea. It is in the process of negotiating the renewal of another USA distributorship agreement as well as the renewal of the agreements with the current distributors covering Japan, Europe and Canada. It also has an agreement with a UK-based distributor to sell and market faceLAB™ in the medical research sector in the USA, Europe, Canada, Scandinavia, Australia, New Zealand, Korea and Taiwan.

#### **7.16 Project Agreement with National Information and Communications Technology Australia (NICTA)**

This is an agreement between the Company and NICTA dated 9 May 2005. NICTA is a registered Australian business formed by the Australian Government's Department of Communications, Information Technology and the Arts and the Australian Research Council. Under the agreement, the parties collaborate with each other on a research and innovation initiative known as *Road Safety — Driver Drowsiness Detection* (Project). The aim of the Project is to develop a new physiologically based measure for drowsiness.

#### **7.17 Hella Cooperation Agreement**

This is an agreement between Hella KgaA & Co (Hella) and the Company dated 14 November 2005 pursuant to which the parties have agreed to co-operate in relation to a project to develop a camera system for automotive driver monitoring, which project is a sub-project of the joint research project between Hella and a leading car manufacturer. Under the terms of the agreement any intellectual property which is created during the course of the project (Project Technology) belongs to the party who created it. At the end of the project on 1 December 2005, each party is obliged to grant the other a non-exclusive right to use any background intellectual property provided by that party (Background Technology) and any Project Technology on reasonable commercial terms. In addition the agreement contains rights of first introduction which prevent the Company from allowing any third party to use either the Background Technology or the Project Technology in passenger cars and light trucks for a period of 12 months from the date of production of the first series production vehicle with equipment from the project by a customer of Hella, which period must end by 30 June 2009 at the latest. This first introduction right is subject to certain carve outs and ceases to apply in certain circumstances including, *inter alia*, if Hella does not choose the Company as its partner for the serial development by 31 December 2006.

### **8. Funding**

The Placing is being carried out for the purposes outlined in this document and the Directors consider that the net proceeds of the Placing will be sufficient for those purposes.

### **9. Working Capital**

The Directors are of the opinion that, having made due and careful enquiry and after taking account of the net proceeds of the Placing the working capital available to the Company will be sufficient for its present requirements, that is for at least 12 months from the date of Admission.

### **10. Litigation**

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened against the Company of which the Company is aware) which have, may have or have had during the 12 months preceding the date of this document any significant effect on the Company or its financial position or profitability.

### **11. Taxation**

Seeing Machines is incorporated in Australia. The contents of this paragraph 11 are intended only to provide a general outline of the taxation implications to UK and Australian residents of an

investment in Ordinary Shares. Shareholders who may be subject to tax in any jurisdiction other than the United Kingdom or Australia or who are not residents for taxation purposes in these jurisdictions should consult their professional advisers without delay.

### **11.1 UK Residents**

The statements set out below are intended only as a general guide to the tax position based on current UK tax legislation and HM Revenue & Customs practice and apply only to certain categories of UK persons. The summary does not purport to be a complete analysis or listing of all the potential tax consequences of holding Ordinary Shares. Prospective purchasers of Ordinary Shares are advised to consult their own tax advisers concerning the consequences under any tax laws of the acquisition, ownership and disposition of Ordinary Shares. The statements do not cover all aspects of UK taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Ordinary Shares by particular investors. The statements apply only to shareholders who are the beneficial owners of the Ordinary Shares but are not applicable to all categories of shareholders, and in particular are not addressed to:

- shareholders who do not hold their Ordinary Shares as capital assets;
- shareholders who own (directly or indirectly) 10 per cent. or more of the Company;
- special classes of shareholders such as dealers in securities or currencies, broker-dealers, or investment companies;
- shareholders who hold Ordinary Shares as part of straddles, hedging or conversion transactions; or
- shareholders who hold Ordinary Shares in connection with a trade, profession or vocation carried on in the UK (whether through a branch or agency or otherwise).

Except where indicated, the statements below in respect of the taxation of dividends and distributions and the taxation of chargeable gains only cover the principal UK tax consequences of holding Ordinary Shares for holders who are resident in the UK for tax purposes although it should be noted that special rules, which are not covered, apply to such holders of Ordinary Shares who are not domiciled in the UK.

#### *UK Taxation of dividends and distributions*

The Company will not be required to withhold UK tax from dividends paid on the Ordinary Shares. A UK holder, or a holder of Ordinary Shares who is carrying on a trade, profession or vocation in the UK through a branch or agency in connection with which the Ordinary Shares are held will, depending upon the holder's particular circumstances, be subject to UK income tax or corporation tax as the case may be on the amount of any dividends paid by the Company. An individual shareholder who is resident in the UK for tax purposes and who receives a dividend from the Company will be taxable at the dividend ordinary rate (10 per cent. in 2005-06) or (depending on the amount of the holder's overall taxable income) at the dividend upper rate (32.5 per cent. in 2005-06). A shareholder resident outside the UK may also be subject to foreign taxation on dividend income under local law.

Dividends may be subject to Australian dividend withholding tax ("WHT"). If the Company pays Australian corporate tax on its earnings then it will accumulate "franking credits" that allow it to pay franked dividends to shareholders. To the extent of their franking, any dividends that are paid to UK residents will ordinarily not be subject to WHT. Any unfranked portion of dividends paid to UK residents will ordinarily be subject to a WHT of 15 per cent. Reduced rates of WHT may apply to corporate Shareholders that hold at least a 10 per cent. interest in the Company.

If the dividend has been subject to WHT, the amount of the dividend received plus the WHT will be included in the assessable income of the UK individual shareholder. In these circumstances the shareholder should be entitled to a credit for the foreign tax paid. The credit would be limited to the lesser of the WHT or the UK tax payable on the combined amounts of the dividend plus WHT. If the WHT exceeds the UK tax payable on the dividend, the excess is neither creditable nor repayable.

Dividends paid to a UK resident company shareholder will be assessable income of the Shareholder. If the dividend has been subject to WHT it will be treated as described above.

#### *UK Taxation of chargeable gains*

A disposal, or deemed disposal, of Ordinary Shares by a shareholder who is either resident or ordinarily resident for tax purposes in the UK will, depending on the shareholder's circumstances and

subject to any available exemption or relief, give rise to a chargeable gain or allowable loss for the purposes of the taxation of chargeable gains in the UK. Broadly, shareholders who are not resident or ordinarily resident for tax purposes in the UK will not be liable for UK tax on capital gains realised on the disposal of their Ordinary Shares unless such Ordinary Shares are used, held or acquired for the purposes of a trade, profession or vocation or, in the case of companies, a permanent establishment, carried on in the UK through a branch or agency or for the purpose of such branch or agency. Such shareholders may be subject to foreign taxation on any gain under local law.

A shareholder who is an individual and who has, on or after 17 March 1998, ceased to be resident or ordinarily resident for tax purposes in the UK for a period of less than five complete tax years and who disposes of the Ordinary Shares during that period may also be liable to UK taxation of chargeable gains (subject to any available exemption or relief) as if, broadly, the disposal was made in such shareholder's year of return to the UK.

Shareholders may only be subject to Australia's capital gains tax on the disposal of Ordinary Shares if they and their associates held 10 per cent. or more of the issued capital of the Company at any time within five years of the disposal. Such investors should consult with a tax adviser experienced in Australian taxation matters for further information on the applicability of the Australian capital gains tax to their shareholding.

#### *UK Stamp duty and stamp duty reserve tax*

The following comments do not apply on the issue or transfer of Ordinary Shares into depositary receipt or clearance arrangements, to which special rules apply.

No liability to UK stamp duty or stamp duty reserve tax will generally arise on the issue of Ordinary Shares by the Company under the Placing.

Transfers of Depositary Interests within CREST will be subject to stamp duty reserve tax at the rate of 0.5 per cent. on the amount or value of the consideration.

UK stamp duty may arise on transfers of other Ordinary Shares held in certificated form depending on the circumstances, such as whether the transfer is executed in the UK. Provided that such Ordinary Shares are not registered in any register of the Company kept in the UK and any matters connected with the transfer are carried out outside the UK, any agreement to transfer such Ordinary Shares should not be subject to stamp duty reserve tax.

#### *UK Inheritance tax*

The Ordinary Shares will not be assets situated in the UK for UK inheritance tax purposes. A gift of such assets by, or the death of, an individual holder who is domiciled, or is deemed to be domiciled under certain rules relating to long residence or previous domicile, may nevertheless (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax. For inheritance tax purposes a transfer of assets at less than market value may be treated as a gift and particular rules may apply where the donor reserves or retains some benefit.

## **11.2 Australian residents**

### **(a) Taxation of Future Share Disposals**

#### *Australian Resident Shareholders — General*

Australian Shareholders who trade Ordinary Shares in the ordinary course of their business will hold their Ordinary Shares on revenue account. These Shareholders must include any profits made on the disposal of their Ordinary Shares in their assessable income.

Shareholders who include profit made on the disposal of their Ordinary Shares in their assessable income are not assessed for tax under the capital gains tax provisions but under the ordinary income tax provisions.

All other Australian Shareholders will hold their Ordinary Shares on capital account. These Australian resident Shareholders must consider the impact of Australian capital gains tax rules on the disposal of their Ordinary Shares.

A Shareholder derives a capital gain on the disposal of Ordinary Shares where the consideration received on disposal exceeds the capital gains tax cost base of the Ordinary Shares.

A Shareholder derives a capital loss on the disposal of Ordinary Shares where the consideration received on disposal is less than the capital gains tax reduced cost base of the Ordinary Shares.

All capital gains and losses for the year are added together to produce a net capital position. A net capital gain for a financial year is included in the resident taxpayer's assessable income and is subject to taxation in Australia. A net capital loss may generally be carried forward to the next financial year to be deducted against future capital gains.

#### *Capital Gains Tax Discount*

Shareholders that are either individuals, trusts or complying superannuation funds (and in some cases a life insurance company) (whether resident or non-Australian resident) may be entitled to obtain a capital gains tax discount in relation to a net capital gain derived in a financial year. The "discount percentage" is 50 per cent. for an individual or a trust and 33 1/3 per cent. for complying superannuation entities. This capital gains tax discount is only available if the Shareholder has held the Ordinary Shares for at least twelve months. The concession is not available to a Shareholder that is a company.

#### (b) Dividends

Dividends are paid to Shareholders from the accounting profits of the Company. Australian resident Shareholders will receive credits for any Australian corporate tax that has been paid on these profits. These credits are known as "franking credits" and they represent the extent to which a dividend is "franked". It is possible for a dividend to be either fully or partly franked. Where a dividend is partly franked the franked portion is treated as fully franked and the remainder as being unfranked.

It should be noted that the definition of dividend for Australian tax purposes is broad and can include certain capital returns and off-market share buy-backs.

#### *Australian Resident Shareholders — Individuals*

Individual resident Shareholders will need to include dividends and the amount of any franking credits attached thereto in their assessable income in the period in which they receive the dividend. Individual Shareholders will receive tax credits for any franking credits attached to the dividend. Individual Shareholders may receive a tax refund if the franking credits attached to the dividend exceed their tax payable on the receipt of the dividend. Individuals may need to pay additional tax at their marginal rate of tax if the tax payable as a result of receiving the dividend exceeds the franking credits attached to the dividend.

#### *Australian Resident Shareholders — Corporate*

Dividends payable to Australian resident corporate Shareholders together with the amount of any franking credits attached thereto will be included in their assessable income in the year the dividend is paid. The corporate Shareholder will be entitled to a franking credit to the extent that the dividend is franked. This would result in the dividend being free of further company tax to the extent that it is franked. A fully franked dividend should effectively be free of tax to an Australian resident corporate Shareholder. Where franking credits are unused by a corporate shareholder because the corporate shareholder's tax payable has been reduced to A\$Nil they may be converted to income tax losses. The franking credits attaching to dividends received will be added to the corporate shareholder's franking account.

**It is the responsibility of all persons to satisfy themselves of the particular taxation treatment that applies to them by consulting their own professional tax advisers before investing in Ordinary Shares. Taxation consequences will depend on particular circumstances.**

**Neither the Company nor any of its officers, employees, agents and advisers accept any liability or responsibility in respect of taxation consequences connected with an investment in Ordinary Shares.**

## 12. General

(a) The Company's patent portfolio including licensed patents is outlined in the table below:

<i>Patent Title</i>	<i>Earliest Priority Date</i>	<i>Assignee</i>	<i>Country/region</i>	<i>Application Number</i>	<i>Status</i>
1 Glaucoma testing from observations of optokinetic nystagmus	13-May-1991	ANU	US Australia	5295495 645420	Granted Granted
2 Simultaneous	30-March-1998	ANU	US	6315414	Granted

<i>Patent Title</i>	<i>Earliest Priority Date</i>	<i>Assignee</i>	<i>Country/region</i>	<i>Application Number</i>	<i>Status</i>
binocular assessment of multiple optic nerve and cortical regions in diseases affecting nerve condition			Europe	999128983.6	Pending
			Canada	2326636	Pending
			Australia	732741	Granted
3 Method and apparatus for assessing the neural function by sparse stimuli	27-March-2000	ANU	US	10/239971	Notice of Allowance issued
			Europe	1916739.4	Pending
			Japan	2001-570175	Pending
			Canada	2404617	Pending
			Australia	4936/01	Pending
4 Facial image processing system	24-July-2000	Seeing Machines Limited	US	10/350835	Notice of Allowance issued
			Europe	1911248.1	Pending
			Japan	2002-514654	Pending
5 Method and apparatus for the automatic detection of facial features	27-March-2002	Seeing Machines Limited	US	10/951081	Pending
6 Eye tracking system and method	31-March-2003	Seeing Machines Limited	International	TBA/filed 27 September 2005 in US	Awaiting filing receipt
7 Assessment of neural function	28-November-2003	Seeing Machines Limited	Australia	PCT/AU 2004-001656	Pending

The Company's registered trade marks are outlined in the table below:

European Community (Denmark, Sweden, Finland, Germany, France, Italy, Holland, Belgium, Luxembourg, Great Britain, Ireland, Spain, Greece, Portugal, Austria, Poland, Czech Republic, Slovakia, Cyprus, Hungary, Slovenia, Estonia, Latvia, Lithuania and Malta).

<i>Title</i>	<i>Class</i>	<i>Registration Number</i>	<i>Date Registered</i>
SEEING MACHINES	9	2118305	31-Jul-02
Seeing Machines Logo	9	2131217	25-Oct-02

#### **Australia**

<i>Title</i>	<i>Class</i>	<i>Registration Number</i>	<i>Date Registered</i>	<i>Earliest Priority Date</i>
FACELAB	9	868792	8-Mar-01	—
Seeing Machines Logo	9	850956	20-Sep-00	
SEEING MACHINES	9	850957	20-Sep-00	

#### **United States**

<i>Title</i>	<i>Class</i>	<i>Registration Number</i>	<i>Date Registered</i>	<i>Earliest Priority Date</i>
FACELAB	9	2795396	16-Dec-03	8-Mar-01
Seeing Machines Logo	9	2575837	4-Jun-02	19-Mar-01
SEEING MACHINES	9	2578079	11-Jun-02	19-Mar-01

## Japan

<u>Title</u>	<u>Class</u>	<u>Registration Number</u>	<u>Date Registered</u>	<u>Earliest Priority Date</u>
Seeing Machines Logo	9	4592035	Aug-02	—
SEEING MACHINES	9	4592036	Aug-02	—

- (b) The accounting reference date of the Company is 30 June. The first statutory accounting period for the Company following Admission will be the period ending 30 June 2006.
- (c) Save as set out in this document there has been no significant change in the financial or trading position of the Company since 30 June 2005, being the date to which the financial information set out in Part III of this document was prepared.
- (d) The total costs, charges and expenses (including commissions) payable in connection with the Placing and Admission are estimated to amount to £400,000 (excluding value added tax) and are payable by the Company. The amounts payable for arranging to procure subscribers for shares pursuant to the Placing will include a commission equal to 5 per cent. of the aggregate value of the Placing Shares at the Placing Price payable to Insinger de Beaufort. Other than as set out in this document, there is no commission payable by the Company to any person in consideration of their agreeing to subscribe for Placing Shares or of their procuring or agreeing to procure subscribers for Placing Shares. The net proceeds of the Placing receivable by the Company are expected to amount to £1.25 million.
- (e) Grant Thornton Corporate (NSW) Pty Ltd has given and not withdrawn its written consent to the inclusion in this document of their accountants' report and letter set out in Part III and the references to them and to their name in the form and context in which they are included and accept responsibility for their report.
- (f) Insinger de Beaufort has given and not withdrawn its written consent to the issue of this document with the inclusion of its name in the form and context in which they are included.
- (g) Insinger de Beaufort is regulated by the Financial Services Authority and is registered in England and Wales with number 2479169. Its registered office is at 131 Finsbury Pavement, London EC2A 1NT.
- (h) The Directors are unaware of any exceptional factors which have influenced the Company's recent activities.
- (i) No person, (excluding professional advisers otherwise disclosed in this document and trade suppliers) has:
- received, directly or indirectly, from the Company within 12 months preceding the date of this document; or
  - entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission any of the following:
    - fees totalling £10,000 or more;
    - securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or
    - any other benefit with a value of £10,000 or more at the date of Admission.
- (j) Where information has been sourced from a third party, the third party has confirmed that this information has been accurately produced and as far as the Company is aware and is able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- (k) There are no arrangements under which future dividends are waived or agreed to be waived.
- (l) The auditors of the Company, Ernst & Young (who are a member of the Institute of Chartered Accountants in Australia), have audited the accounts of the Company for the year ended 30 June 2005.



- (m) The financial information in this document relating to the Company do not constitute statutory accounts within the meaning of Section 240 of the Act. The Company is not required to prepare statutory accounts within that meaning and has not delivered statutory accounts to the Registrar of Companies in England and Wales.
- (n) The arrangements for paying for the Placing Shares are set out in the placing letters issued by Insinger de Beaufort. All monies received from placees will be held by Insinger de Beaufort prior to Admission, when the net proceeds will be paid to the Company. If Admission does not become effective, all subscription monies shall be refunded as soon as practicable without interest and at the placee's risk.
- (o) No temporary documents of title will be issued. The Ordinary Shares will be in registered form. Definitive share certificates will be sent to placees who request them by first class post at the risk of the placee within seven days of the completion of the Placing. Pending the dispatch of definitive share certificates transfers will be certified against the register.
- (p) The Ordinary Shares the subject of the Placing are not being offered generally and no applications have or will be accepted other than under the terms of the Placing Agreement. All of the Ordinary Shares the subject of the Placing have been conditionally placed.
- (q) Save as disclosed in this document there are no significant investments by the Company under active consideration.
- (r) Save as disclosed in this document there are no patents or intellectual property rights, licences or particular contracts that are of fundamental importance to the Company's business.
- (s) With the exception of the arrangements summarised in paragraph 9.22 of Part III and paragraph 4.3 of Part V the Company is not, and has not been, a party to any transactions with related parties which were material to the Company.

### **13. Availability Of Admission Document**

Copies of this document will be available free of charge to the public at the offices of Insinger de Beaufort, 131 Finsbury Pavement, London EC2A 1NT and of the Company's UK solicitors, Lawrence Graham LLP, 190 Strand, London WC2R 1JN during normal business hours on any business day (Saturdays and public holidays excepted) from the date of this document for a period of one month following Admission.

23 November 2005