Imerge Limited

Report and Financial Statements

31 December 2005

Registered No: 03360764

Directors
R L Bready
E J Cooney

Secretary
K W Donnelly

Auditors
Ernst & Young LLP
Compass House
80 Newmarket Road
Cambridge
CB5 8DZ

Registered office
Unit 6 Bar Hill Business Park
Saxon Way
Bar Hill
Cambridge
CB3 8SL

Directors' report

The directors present their report and financial statements for the year ended 31 December 2005.

Results and dividends

The loss for the financial year amounted to £1,514,089 (2004: £1,066,734). The directors do not recommend the payment of any dividends (2004: £nil).

Principal activities

The principal activity of the company during the year was the creation and exploitation of audio and video-based products and systems, multi-media networks and ancillary services.

Review of the business and future developments

2005 was a busy and successful year for Imerge.

Early in 2005, the board took the decision to pursue a trade sale for the business. This process was concluded in August 2005 when the company was purchased and became part of the Nortek Group (www.nortek-inc.com). In parallel with the acquisition activities, the company continued to invest heavily in Product and Sales Development which resulted in us winning a large contract from Crestron Electronics; a world leader in the Custom Install market. This meant that further investment had to be made in engineering resources in order to deliver the new product.

Furthermore, in Q4 2005 the company moved its UK based outsource manufacturing to a new sister company, LHK based in China.

Imerge had strong links with a number of Nortek Group companies prior to acquisition and following this event; the group began to heavily leverage our technology. 2006 will see the majority of Group CI sector companies taking new products from the company, all embodying Imerge's XiVA technology.

Directors and their interests

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

R L Bready	(appointed 8 August 2005)
E J Cooney	(appointed 8 August 2005)
B M Macaulay	(resigned 8 August 2005)
M A Newton*	(resigned 8 August 2005)
A E Lucas	(resigned 8 August 2005)
R Leaver*	(resigned 8 August 2005)

* Non-executive directors

Details of options for directors who served during the year are as follows:

Name of director	*1 January 2005*	*Granted*	*Exercised*	*31 December 2005*	*Exercise price*
B M Macaulay	8,173,499	–	8,173,499	–	£0.00244
	4,904,000	–	4,904,000	–	£0.001
A E Lucas	4,597,593	–	4,597,593	–	£0.00244
	4,620,000	–	4,620,000	–	£0.001

None of the directors who held office at 31 December 2005 had interests in the shares of the company.

Directors' report

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board

E J Cooney
Director

18 October 2006

Statement of directors' responsibilities in respect of the financial statements

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent auditors' report

to the members of Imerge Limited

We have audited the company's financial statements for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

Independent auditors' report

to the members of Imerge Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Cambridge

18 October 2006

Profit and loss account
for the year ended 31 December 2005

	Notes	2005 £	2004 £
Turnover	3	3,795,924	3,334,889
Cost of sales		(2,382,760)	(2,163,596)
Gross profit		1,413,164	1,171,293
Distribution costs		(613,417)	(517,650)
Administrative expenses		(2,240,104)	(1,698,419)
Operating loss	4	(1,440,357)	(1,044,776)
Interest receivable	7	4,306	5,040
Interest payable and similar charges	8	(78,038)	(26,998)
		(73,732)	(21,958)
Loss on ordinary activities before taxation		(1,514,089)	(1,066,734)
Tax on loss on ordinary activities	9	–	–
Loss for the financial year transferred to reserves	19	(1,514,089)	(1,066,734)

Statement of total recognised gains and losses
There are no recognised gains or losses other than the loss of £1,514,089 attributable to the shareholders for the year ended 31 December 2005 (2004: £1,066,734).

Balance sheet
at 31 December 2005

	Notes	*2005* £	*2004* £
Fixed assets			
Tangible assets	10	27,189	15,000
Current assets			
Stocks	12	537,362	80,844
Debtors	13	1,129,302	797,241
Cash at bank and in hand		372,227	121,696
		2,038,891	999,781
Creditors: amounts falling due within one year	14	(2,313,565)	(884,153)
Net current (liabilities) / assets		(274,674)	115,628
Total assets less current liabilities		(247,485)	130,628
Provisions for liabilities and charges	15	(111,000)	-
Net (liabilities) / assets		(358,485)	130,628
Capital and reserves			
Called up share capital	18	598,143	534,881
Capital contribution	19	900,498	-
Share premium account	19	12,553,954	12,492,738
Profit and loss account	19	(14,411,080)	(12,896,991)
Shareholders' (deficit) / funds	19	(358,485)	130,628

The financial statements were approved by the Board of Directors on 18 October 2006.

Signed on behalf of the Board of Directors

E J Cooney

Statement of cash flows
for the year ended 31 December 2005

	Notes	2005 £	2004 £
Net cash outflow from operating activities	20(a)	(1,251,120)	(1,121,988)
Returns on investments and servicing of finance	20(b)	(32,775)	(11,044)
Taxation	20(c)	–	269,231
Capital expenditure and financial investment	20(d)	(40,550)	(15,000)
Cash outflow before financing		(1,324,445)	(878,801)
Financing	20(e)	1,574,976	879,880
Increase in cash in the year		250,531	1,079

Reconciliation of net cash flow to movement in net debt

		2005 £	2004 £
Increase in cash		250,531	1,079
Cash inflow from increase in net debt		(550,000)	(524,000)
Change in net debt		(299,469)	(522,921)
Non cash changes			
– conversion of loan notes		–	6,327,406
– translation difference	20(f)	(40,957)	–
Change in net debt		(340,426)	5,804,455
Net debt at 1 January	20(f)	(28,304)	(5,832,789)
Net debt at 31 December	20(f)	(368,730)	(28,304)

Notes to the financial statements
at 31 December 2005

1. Going concern
At the balance sheet date the company had net liabilities of £358,485. The financial statements are prepared on a going concern basis. This is dependent on the ongoing financial support of the ultimate parent company Nortek Inc. which has confirmed that it will continue to support the company for the foreseeable future.

2. Accounting policies
Basis of preparation
The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

The company has taken advantage of the exemption in FRS 2 "Accounting for subsidiary undertakings" and has not prepared consolidated financial statements as it is a small company.

Related parties transactions
The company is a wholly owned subsidiary of Nortek (UK) Limited, the consolidated accounts of which are publicly available. Accordingly, the company has taken advantage of the exemption in FRS 8 from disclosing transactions with other members of the Nortek group.

Research and development
Research and development expenditure is written off in the year in which it is incurred. Development expenditure is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is capitalised and amortised over the period during which the company is expected to benefit.

Fixed assets
Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Leasehold improvements	-	Over the life of the lease
Fixtures & fittings	-	3 years
Equipment	-	3 years

Residual value is calculated on prices prevailing at the date of acquisition.

Investments
Investments held as fixed assets are stated at cost less provision for any impairment.

Stocks
Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Deferred taxation
Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets and liabilities are not discounted.

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

Notes to the financial statements
at 31 December 2005

2. Accounting policies (continued)

Operating lease agreements

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

Pension costs

Pension costs represent payments to money purchase schemes for the benefit of substantially all employees, which are operated by independent life assurance companies. The amount charged to the profit and loss account is contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Revenue recognition

Revenue is recognised when goods are dispatched or when the risk of ownership is transferred to the customer whichever is the later.

Provisions

Warranty expenditure is provided for based on the number of units sold which fall within the warranty period and expected number of warranty claims. The provision is released to the profit and loss account as warranty expenditure is incurred.

3. Turnover

Turnover represents amounts receivable for goods and services, excluding value added tax and trade discounts, in the normal course of business.

An analysis of turnover by geographical market is given below:

	2005	*2004*
	£	*£*
United Kingdom	884,304	883,273
Rest of Europe	596,650	645,792
USA and rest of world	2,314,970	1,805,824
	3,795,924	3,334,889

4. Operating loss

This is stated after charging / (crediting):

	2005	*2004*
	£	*£*
Auditors' remuneration - audit services	11,500	12,000
Depreciation of tangible fixed assets	28,361	21,397
Rentals under operating leases – land and buildings	113,837	110,995
Research and development expenditure written off	1,008,725	731,818
Net exchange differences	(4,884)	–

Notes to the financial statements
at 31 December 2005

5. Directors' remuneration

	2005	2004
	£	£
Emoluments	77,467	125,291
Fees	–	20,123
Company contributions to money purchase schemes	–	2,317
	77,467	147,731

No directors (2004: one director) were members of a money purchase scheme to which the company contributed during the year.

6. Staff costs

	2005	2004
	£	£
Wages and salaries	1,186,933	1,104,733
Social security costs	129,499	117,988
Other pension costs	38,091	40,989
	1,354,523	1,263,710

The monthly average number of employees during the year was as follows:

	2005	2004
	No.	No.
Administrative staff	4	5
Management staff	6	4
Sales and marketing	5	4
Product development	21	22
	36	35

7. Interest receivable

	2005	2004
	£	£
Bank interest receivable	4,306	5,040

8. Interest payable and similar charges

	2005	2004
	£	£
Loan interest payable	37,081	26,998
Exchange loss on intercompany loan	40,957	–
	78,038	26,998

Notes to the financial statements
at 31 December 2005

9. Taxation

	2005	*2004*
	£	*£*
UK corporation tax	–	–

The tax assessed on the loss on ordinary activities for the period is lower than the standard rate of corporation tax in the United Kingdom ('UK'). The differences are explained below:

	2005	*2004*
	£	*£*
Loss on ordinary activities before tax	(1,514,089)	(1,066,734)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2004: 30%)	(454,227)	(320,020)
Effect of:		
Disallowable expenses and non-taxable income	6,235	2,768
Depreciation in excess of capital allowances	8,509	6,419
Deductions for employee share gains	(54,553)	–
Tax losses	471,506	291,413
Other short term timing differences	22,530	19,420
	–	–

The amounts of deferred taxation provided in the accounts and the amounts not provided are as follows:

		Provided		*Not provided*
	2005	*2004*	*2005*	*2004*
	£	*£*	*£*	*£*
Accelerated capital allowances	–	–	(129,665)	(121,157)
Short term timing differences	–	–	(42,250)	(19,720)
Trading losses	–	–	(3,869,477)	(3,370,334)
	–	–	(4,041,392)	(3,511,211)

A deferred tax asset has not been recognised in respect of trading losses and other timing differences as there is insufficient evidence that the asset will be recovered. The asset will be utilised if the company makes suitable future taxable income.

Notes to the financial statements
at 31 December 2005

10. Tangible fixed assets

	Leasehold improvements £	*Fixtures and fittings* £	*Equipment* £	*Total* £
Cost:				
At 1 January 2005	8,191	144,662	322,199	475,052
Additions	–	–	40,550	40,550
Disposals	(8,191)	(144,662)	(307,199)	(460,052)
At 31 December 2005	–	–	55,550	55,550
Depreciation:				
At 1 January 2005	8,191	144,662	307,199	460,052
Provided during the year	–	–	28,361	28,361
Disposals	(8,191)	(144,662)	(307,199)	(460,052)
At 31 December 2005	–	–	28,361	28,361
Net book value:				
At 31 December 2005	–	–	27,189	27,189
At 1 January 2005	–	–	15,000	15,000

11. Investments held as fixed assets

	Shares in subsidiary undertaking £
Cost	
At 1 January 2005 and 31 December 2005	10,504
Provision	
At 1 January 2005 and 31 December 2005	10,504
Net book value	
At 1 January 2005 and 31 December 2005	–

The subsidiary undertaking is Imerge America Inc. a company incorporated in the USA, comprising a holding of 100% of its issued ordinary capital. It acts as a service centre in the USA for the company.

12. Stocks

	2005 £	*2004* £
Raw materials	21,922	36,293
Finished goods	515,440	44,551
	537,362	80,844

Notes to the financial statements
at 31 December 2005

13. Debtors

	2005	*2004*
	£	*£*
Trade debtors	969,522	668,629
Amounts owed by group undertakings	114	–
Other debtors	34,204	5,504
Prepayments and accrued income	125,462	123,108
	1,129,302	797,241

14. Creditors: amounts falling due within one year

	2005	*2004*
	£	*£*
Trade creditors	901,346	547,137
Amounts owed to group undertakings – loan	740,957	–
Amounts owed to group undertakings – other	5,983	13,464
Other taxation and social security	53,977	73,240
Other creditors	5,610	150,000
Accruals and deferred income	605,692	100,312
	2,313,565	884,153

15. Provisions for liabilities and charges

	Warranty provision
	£
At 1 January 2005	–
Charged to profit and loss account	164,000
Utilised in year	(53,000)
At 31 December 2005	111,000

Warranty expenditure is provided for based on the number of units sold which fall within the warranty period and expected number of warranty claims. The provision is released to the profit and loss account as warranty expenditure is incurred.

16. Commitments under operating leases

At 31 December 2005 the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings	
	2005	*2004*
	£	*£*
Operating leases which expire:		
In two to five years	118,706	110,995

17. Related party transactions

No transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standard 8 "Related Party Disclosures".

Notes to the financial statements
at 31 December 2005

18. Share capital

Authorised

	No. 2005	£ 2005	No. 2004	£ 2004
Ordinary shares of £0.01 each	4,000,000	40,000	4,000,000	40,000
Ordinary 'A' shares of £0.01 each	26,000,000	260,000	26,000,000	260,000
Ordinary 'B' shares of £0.001 each	616,000,000	616,000	616,000,000	616,000
	646,000,000	916,000	646,000,000	916,000

Allotted, called up and fully paid

	No. 2005	£ 2005	No. 2004	£ 2004
Ordinary 'A' shares of £0.01 each	13,248,577	132,486	13,248,577	132,486
Ordinary 'B' shares of £0.001 each	465,657,168	465,657	402,395,656	402,395
	478,905,745	598,143	415,644,233	534,881

The ordinary shares, 'A' ordinary shares and 'B' ordinary shares rank pari passu in all respects.

As a consequence of the acquisition of the company by Nortek (UK) Limited during the year the outstanding share options were exercised by the option holders and the resulting shares issued were acquired by Nortek (UK) Limited. This resulted in the issue of 42,511,512 'B' ordinary shares of £0.001 each (at a premium of £0.00144 per share) and 20,750,000 'B' ordinary shares of £0.001 each issued at par.

No share options were held at 31 December 2005 (2004: 61,801,176).

19. Reconciliation of shareholders' funds / (deficit) and movement on reserves

	Share capital £	*Capital contribution* £	*Share premium account* £	*Profit and loss account* £	*Total share-holders' funds / (deficit)* £
At 1 January 2004	38,262	–	6,316,793	(11,830,257)	(5,475,202)
Loss for the year	–	–	–	(1,066,734)	(1,066,734)
New share issues	496,619	–	6,175,945	–	6,672,564
At 31 December 2004	534,881	–	12,492,738	(12,896,991)	130,628
Loss for the year	–	–	–	(1,514,089)	(1,514,089)
Capital contribution*	–	900,498	–	–	900,498
New share issues	63,262	–	61,216	–	124,478
At 31 December 2005	598,143	900,498	12,553,954	(14,411,080)	(358,485)

* The capital contribution relates to a one-off non-returnable capital contribution from Nortek UK Limited. This is a non-distributable reserve.

Notes to the financial statements
at 31 December 2005

20. Notes to the statement of cash flows

(a) Reconciliation of operating loss to net cash outflow from operating activities

	2005 £	*2004* £
Operating loss	(1,440,357)	(1,044,776)
Depreciation	28,361	21,397
(Increase)/decrease in stocks	(456,518)	33,133
Increase in debtors	(332,061)	(248,312)
Increase in creditors	838,455	116,570
Increase in provisions	111,000	–
Net cash outflow from operating activities	(1,251,120)	(1,121,988)

(b) Returns on investments and servicing of finance

	2005 £	*2004* £
Bank interest received	4,306	5,040
Intercompany loan interest paid	(37,081)	(16,084)
	(32,775)	(11,044)

(c) Taxation

	2005 £	*2004* £
Research and development tax claim	–	269,231

(d) Capital expenditure and financial investment

	2005 £	*2004* £
Payments to acquire tangible fixed assets	(40,550)	(15,000)

(e) Financing

	2005 £	*2004* £
Issue of equity shares	124,478	355,880
New borrowings	1,463,403	549,000
Repayment of borrowings	(913,403)	(25,000)
Capital contribution	900,498	–
	1,574,976	879,880

Notes to the financial statements
at 31 December 2005

20. Notes to the statement of cash flows (continued)

(f) Analysis of changes in net debt

	At 1 January 2005	*Cash flows*	*Exchange movement*	*At 31 December 2005*
	£	*£*	*£*	*£*
Cash at bank and in hand	121,696	250,531	–	372,227
Short term loans	(150,000)	(550,000)	(40,957)	(740,957)
	(28,304)	(299,469)	(40,957)	(368,730)

21. *Ultimate parent company and controlling party*

The company's ultimate parent undertaking and controlling party is Nortek Inc, a company incorporated in the United States. The smallest and largest group in which the results of the company are consolidated are those headed by Nortek (UK) Limited and Nortek Inc. Copies of these consolidated accounts may be obtained from the company secretary K W Donnelly.