

Registered Number: 03360764

Imerge Limited

Report and Financial Statements

31 December 2007

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COMPANIES HOUSE

Imerge Limited

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 2007.

Results and dividends

The loss for the financial year amounted to £1,792,825 (2006: £741,343). The directors do not recommend the payment of any dividends (2006: £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

2007 proved to be a difficult year with the company recording a record loss. The contributing factors to the loss were a delay's in the introduction of the new Media Server [MS5000] which not only absorbed greater development resource but also caused a delay in expected sales revenue. In addition the result was also hampered by significantly reduced take up in orders from one of the companies large OEM partners. In the second half of the year the company carried out a review of both its internal and external operations, the result of this exercise meant a re-shaping of the business with greater focus and resource being given to understanding its customers requirements, also where the company can add value and how to better improve it's customer relations. This coupled with the introduction of new products the management strongly believe will put the company in a much better position during in 2009.

Directors

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

R L Bready
E J Cooney

Qualifying third party indemnity provisions

The company has taken out insurance to indemnify, against third party proceedings, the directors of the company whilst serving on the board of the company. These indemnity policies subsisted throughout the year and remain in place at the date of this report.

Provision of information to auditors

So far as each of the directors is aware at the time the report is approved:

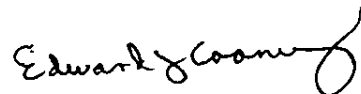
- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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

A handwritten signature in black ink, appearing to read 'Edward J Cooney', with a stylized flourish at the end.

E J Cooney
Director

Date: 16 December, 2008

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and 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 2007 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, 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.

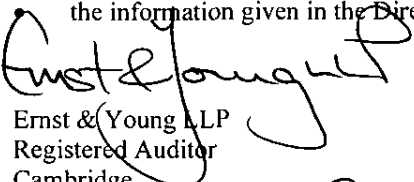
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 2007 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements


Ernst & Young LLP
Registered Auditor
Cambridge

Date:



Profit and loss account

for the year ended 31 December 2007

	Notes	2007 £	2006 £
Turnover	3	4,614,658	4,915,257
Cost of sales		(2,259,762)	(2,355,792)
Gross profit		2,354,896	2,559,465
Administrative expenses		(4,147,771)	(3,300,885)
Operating loss	4	(1,792,875)	(741,420)
Interest receivable	7	50	77
Loss on ordinary activities before taxation		(1,792,825)	(741,343)
Tax on loss on ordinary activities	8	—	—
Loss for the financial year transferred to reserves	18	(1,792,825)	(741,343)

All activity arises from continuing operations.

Statement of total recognised gains and losses

for the year ended 31 December 2007

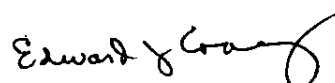
There are no recognised gains or losses other than the loss of £1,792,825 attributable to the shareholders for the year ended 31 December 2007 (2006: £741,343).

Balance sheet

at 31 December 2007

	Notes	2007 £	2006 £
Fixed assets			
Tangible assets	9	34,422	26,032
Current assets			
Stocks	11	754,697	481,082
Debtors	12	693,374	1,064,213
Cash at bank and in hand		82,812	238,940
		1,530,883	1,784,235
Creditors: amounts falling due within one year	13	(4,008,716)	(2,734,538)
Net current liabilities		(2,477,833)	(950,303)
Total assets less current liabilities		(2,443,411)	(924,271)
Provisions for liabilities and charges	14	(449,242)	(175,557)
Net liabilities		(2,892,653)	(1,099,828)
Capital and reserves			
Called up share capital	17	598,143	598,143
Capital contribution	18	900,498	900,498
Share premium account	18	12,553,954	12,553,954
Profit and loss account	18	(16,945,248)	(15,152,423)
Shareholders' deficit	18	(2,892,653)	(1,099,828)

The financial statements were approved by the Board of Directors on 16 December 2008 and signed on their behalf by



E J Cooney
Director

Cash flow statement

for the year ended 31 December 2007

	Notes	2007 £	2006 £
Net cash outflow from operating activities	19(a)	(135,178)	(104,950)
Returns on investments and servicing of finance	19(b)	50	77
Capital expenditure and financial investment	19(c)	(21,000)	(28,414)
Cash outflow before financing		<u>(156,128)</u>	<u>(133,287)</u>
 Decrease in cash in the year		 <u>(156,128)</u>	 <u>(133,287)</u>
 Reconciliation of net cash flow to movement in net debt			
		2007 £	2006 £
Decrease in cash		(156,128)	(133,287)
Change in net debt resulting from cash flows		(156,128)	(133,287)
Non cash changes			
– translation difference	19(d)	2,976	89,879
Change in net debt		<u>(153,152)</u>	<u>(43,408)</u>
Net debt at 1 January	19(d)	<u>(412,138)</u>	<u>(368,730)</u>
Net debt at 31 December	19(d)	<u>(565,290)</u>	<u>(412,138)</u>

Notes to the financial statements

at 31 December 2007

1. Going concern

At the balance sheet date the company had net liabilities of £2,892,653 (2006: £1,099,828). 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 is itself a subsidiary company and is exempt from the requirement to prepare group accounts by virtue of section 228 of the Companies Act 1985. These financial statements therefore present information about the company as an individual undertaking and not about its group.

Related parties transactions

The company is a wholly owned subsidiary of Nortek Inc., 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
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 2007

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:

	2007 £	2006 £
United Kingdom	868,822	685,803
Rest of Europe	317,039	589,356
USA and rest of world	3,428,797	3,640,098
	<u>4,614,658</u>	<u>4,915,257</u>

4. Operating loss

This is stated after charging / (crediting):

	2007 £	2006 £
Restructuring costs	161,908	—
Auditors' remuneration - audit of financial statements	13,500	17,029
Depreciation of tangible fixed assets	12,610	29,571
Rentals under operating leases – land and buildings	66,351	64,495
Research and development expenditure written off	440,866	1,243,368
Net exchange differences	70,969	(28,211)

Notes to the financial statements

at 31 December 2007

5. Directors' remuneration

No directors received any remuneration from the company during the year (2006: £nil). No directors (2006: £nil) were members of a money purchase scheme to which the company contributed during the year.

6. Staff costs

	2007 £	2006 £
Wages and salaries	1,535,225	1,425,289
Social security costs	167,755	151,088
Other pension costs	72,614	53,344
	<u>1,775,594</u>	<u>1,629,721</u>

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

	2007 No.	2006 No.
Administrative staff	4	4
Management staff	6	6
Sales and marketing	7	7
Product development	24	24
	<u>41</u>	<u>41</u>

7. Interest receivable

	2007 £	2006 £
Bank interest receivable	<u>50</u>	<u>77</u>

Notes to the financial statements

at 31 December 2007

8. Taxation

	2007 £	2006 £
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. The differences are explained below:

	2007 £	2006 £
Loss on ordinary activities before tax	(1,792,825)	(741,343)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006: 30%)	(537,847)	(222,403)
Effect of:		
Disallowable expenses and non-taxable income	1,445	1,025
Depreciation in excess of capital allowances	3,783	8,871
Tax losses	481,675	246,834
Other short term timing differences	50,944	(34,327)
	—	—

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

	2007 £	Provided 2006 £	2007 £	Not provided 2006 £
Accelerated capital allowances	—	—	(132,832)	(138,536)
Short term timing differences	—	—	(56,468)	(9,557)
Trading losses	—	—	(4,293,403)	(4,118,534)
	—	—	(4,482,703)	(4,266,627)

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.

Factors that may affect future tax charges:

The UK Corporation tax rate decreases from 30% to 28% from 1 April 2008. The unprovided deferred tax balance has been adjusted in the current year to reflect this change. Changes to the UK capital allowances regime will also impact the capital allowances the company claim. The full impact of these changes is still being assessed.

Notes to the financial statements

at 31 December 2007

9. Tangible fixed assets

	<i>Furniture, fittings and equipment £</i>
Cost:	
At 1 January 2007	83,964
Additions	21,000
At 31 December 2007	<u>104,964</u>
Depreciation:	
At 1 January 2007	57,932
Provided during the year	12,610
At 31 December 2007	<u>70,542</u>
Net book value:	
At 31 December 2007	<u>34,422</u>
At 1 January 2007	<u>26,032</u>

10. Investments held as fixed assets

	<i>Shares in subsidiary undertaking £</i>
Cost	
At 1 January 2007 and 31 December 2007	10,504
Provision	
At 1 January 2007 and 31 December 2007	10,504
Net book value	
At 1 January 2007 and 31 December 2007	<u>—</u>

The subsidiary undertaking is Imerge America Inc, a company incorporated in the USA, comprising a holding of 100% of its issued ordinary capital. It acted as a service centre in the USA for the company. However, subsequent to the year end this US operation ceased to operate.

11. Stocks

	<i>2007 £</i>	<i>2006 £</i>
Raw materials	113,650	123,218
Finished goods	641,047	357,864
	<u>754,697</u>	<u>481,082</u>

Notes to the financial statements

at 31 December 2007

12. Debtors

	2007	2006
	£	£
Trade debtors	203,829	830,274
Amounts owed by group undertakings	373,596	101,218
Other debtors	29,907	11,943
Prepayments and accrued income	86,042	120,778
	<u>693,374</u>	<u>1,064,213</u>

13. Creditors: amounts falling due within one year

	2007	2006
	£	£
Trade creditors	120,961	177,766
Amounts owed to group undertakings	3,529,319	2,108,175
Other taxation and social security	68,162	52,994
Other creditors	29,626	12,934
Accruals and deferred income	260,648	382,669
	<u>4,008,716</u>	<u>2,734,538</u>

Included in amounts owed to group undertakings is £648,102 (2006: £651,078) relating to a short term loan owing to the ultimate holding company, Nortek Inc. This loan is non interest bearing and repayable on demand.

14. Provisions for liabilities and charges

	Restructuring provision	Warranty provision	Total provision
	£	£	£
At 1 January 2007		175,557	175,557
Charged to the profit and loss account	161,908	166,376	328,284
Utilised in year	–	(54,599)	(54,599)
At 31 December 2007	<u>161,908</u>	<u>287,334</u>	<u>449,242</u>

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. The restructuring provision relates to the redundancies announced in relation to internal restructure of the business. The provision will be utilised within 2008.

15. Commitments under operating leases

At 31 December 2007 the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings	
	2007	2006
	£	£
Operating leases which expire:		
In two to five years	<u>128,420</u>	<u>121,428</u>

Notes to the financial statements
at 31 December 2007

Notes to the financial statements

at 31 December 2007

16. 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".

17. Share capital

Authorised

	No.	2007 £	No.	2006 £
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
	<u>646,000,000</u>	<u>916,000</u>	<u>646,000,000</u>	<u>916,000</u>

Allotted, called up and fully paid

	No.	2007 £	No.	2006 £
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	465,657,168	465,657
	<u>478,905,745</u>	<u>598,143</u>	<u>478,905,745</u>	<u>598,143</u>

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

18. Reconciliation of shareholders' deficit and movement on reserves

	Share capital £	Capital contribution £	Share premium account £	Profit and loss account £	Total share- holders' funds / (deficit) £
At 31 December 2005	598,143	900,498	12,553,954	(14,411,080)	(358,485)
Loss for the year	—	—	—	(741,343)	(741,343)
At 31 December 2006	598,143	900,498	12,553,954	(15,152,423)	(1,099,828)
Loss for the year	—	—	—	(1,792,825)	(1,792,825)
At 31 December 2007	<u>598,143</u>	<u>900,498</u>	<u>12,553,954</u>	<u>(16,945,248)</u>	<u>(2,892,653)</u>

Notes to the financial statements

at 31 December 2007

19. Notes to the statement of cash flows

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

	2007 £	2006 £
Operating loss	(1,792,875)	(741,420)
Depreciation	12,610	29,571
(Increase)/decrease in stocks	(273,615)	56,280
Decrease in debtors	370,839	65,089
Increase in creditors	1,436,088	420,973
Increase in provisions	111,777	64,557
Net cash outflow from operating activities	<u>(135,178)</u>	<u>(104,950)</u>

(b) Returns on investments and servicing of finance

	2007 £	2006 £
Bank interest received	50	77
	<u>50</u>	<u>77</u>

(c) Capital expenditure and financial investment

	2007 £	2006 £
Payments to acquire tangible fixed assets	<u>(21,000)</u>	<u>(28,414)</u>

(d) Analysis of changes in net debt

	At 1 January 2007 £	Cash flows £	Exchange movement £	At 31 December 2007 £
Cash at bank and in hand	238,940	(156,128)	–	82,812
Short term loans - intercompany	(651,078)	–	2,976	(648,102)
	<u>(412,138)</u>	<u>(156,128)</u>	<u>2,976</u>	<u>(565,290)</u>

Notes to the financial statements

at 31 December 2007

20. Pensions

Eligible employees are members of a defined contribution pension scheme operated by the company for the benefit of all eligible employees. The scheme's funds, which are administered by trustees, are independent of the company's finances. Contributions paid during the year amounted to £72,416 (2006: £53,344). Unpaid contributions at the year-end amount to £12,744 (2006: £8,581).

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.