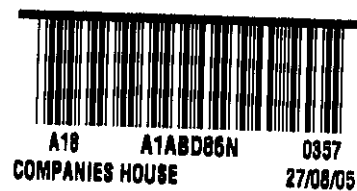


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IMERGE LIMITED

Report and Financial Statements

31 December 2004



IMERGE LIMITED

REPORT AND FINANCIAL STATEMENTS 2004

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IMERGE LIMITED

REPORT AND FINANCIAL STATEMENTS 2004

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

M A Newton (Chairman) (Non Executive)
B M Macaulay (Chief Executive)
A E Lucas (Director of Strategy)
R Leaver (Non Executive)

SECRETARY

C Wade

REGISTERED OFFICE

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

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
Cambridge

IMERGE LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

ACTIVITIES

The company's principal activities during the year were the creation and exploitation of audio and video-based products and systems, multi-media networks and ancillary services.

RESULTS AND REVIEW OF DEVELOPMENTS

Turnover for the year ended 31 December 2004 was £3,334,889 (2003 - £3,245,602). Loss for the year after taxation was £1,066,734 (2003 - £894,642) and has been transferred to reserves.

DIVIDENDS

The directors are unable to recommend the payment of a dividend (2003 - £nil).

DIRECTORS AND THEIR INTERESTS

The directors who served during the year are listed below. Directors' interests in the share capital of the company at the beginning and end of the year are shown in note 21.

M A Newton*
B M Macaulay
A E Lucas
R Leaver*

* Non-executive director

POST BALANCE SHEET EVENTS

On 29 March 2005, the company completed a fundraising to raise £605,700 through convertible loan notes.

In June 2005 a further £270,000 loan notes were issued.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year 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 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.

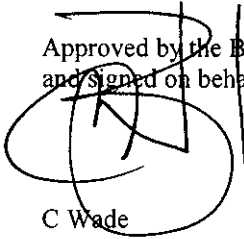
IMERGE LIMITED

DIRECTORS' REPORT

AUDITORS

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

A large, stylized handwritten signature in black ink, appearing to be 'C Wade', is written over the text 'Approved by the Board of Directors and signed on behalf of the Board'.

C Wade
Secretary

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IMERGE LIMITED

We have audited the financial statements of Imerge Limited for the year ended 31 December 2004 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes 1 to 24. 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

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report 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 transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

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

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

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the funding requirements of the company. In view of the significance of the fact that the preparation of the financial statements on a going concern basis assumes that the company will be successful in raising any funding which may be required, we consider that these disclosures should be drawn to your attention, but our opinion is not qualified in this respect.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Cambridge

15 July 2005

IMERGE LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2004

	Note	2004 £	2003 £
TURNOVER	2	3,334,889	3,245,602
Cost of sales		<u>(2,163,596)</u>	<u>(2,145,723)</u>
Gross profit		1,171,293	1,099,879
Selling and marketing costs		(517,650)	(456,613)
Administrative expenses		<u>(1,698,419)</u>	<u>(1,763,849)</u>
OPERATING LOSS	4	(1,044,776)	(1,120,583)
Interest receivable and similar income		5,040	12,749
Interest payable and similar charges	5	<u>(26,998)</u>	<u>(56,039)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,066,734)	(1,163,873)
Tax on loss on ordinary activities	6	<u>-</u>	<u>269,231</u>
LOSS FOR THE FINANCIAL YEAR		(1,066,734)	(894,642)
Retained loss brought forward		<u>(11,830,257)</u>	<u>(10,935,615)</u>
Retained loss carried forward		<u><u>(12,896,991)</u></u>	<u><u>(11,830,257)</u></u>

All activities derive from continuing operations.

There are no recognised gains and losses other than the loss for the financial year and the preceding financial year. Accordingly, no statement of total recognised gains and losses is given.

IMERGE LIMITED

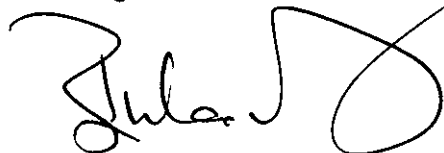
BALANCE SHEET 31 December 2004

	Note	2004 £	2003 £
FIXED ASSETS			
Tangible assets	7	15,000	21,397
Investments	8	-	-
		<u>15,000</u>	<u>21,397</u>
CURRENT ASSETS			
Stocks	9	80,844	113,977
Debtors	10	797,241	818,160
Cash at bank and in hand		121,696	120,617
		<u>999,781</u>	<u>1,052,754</u>
CREDITORS: amounts falling due within one year	11	<u>(884,153)</u>	<u>(1,034,447)</u>
NET CURRENT ASSETS		<u>115,628</u>	<u>18,307</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>130,628</u>	<u>39,704</u>
CREDITORS: amounts falling due after more than one year	12	<u>-</u>	<u>(5,514,906)</u>
		<u>130,628</u>	<u>(5,475,202)</u>
CAPITAL AND RESERVES			
Called up share capital	14	534,881	38,262
Share premium account	15	12,492,738	6,316,793
Profit and loss account		<u>(12,896,991)</u>	<u>(11,830,257)</u>
EQUITY SHAREHOLDERS' FUNDS (DEFICIT)	16	<u>130,628</u>	<u>(5,475,202)</u>

These financial statements were approved by the Board of Directors on

15 July 2005

Signed on behalf of the Board of Directors



B M Macaulay
Director

IMERGE LIMITED

CASH FLOW STATEMENT Year ended 31 December 2004

	Note	2004 £	2003 £
Net cash outflow from operating activities	17	(1,121,988)	(900,344)
Returns on investments and servicing of finance	18	(11,044)	(7,891)
Taxation		269,231	-
Capital expenditure	18	(15,000)	(5,605)
Cash outflow before financing		(878,801)	(913,840)
Financing	18	879,880	993,853
Increase in cash in the year	19	1,079	80,013

IMERGE LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2004

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

The company has taken advantage of the exemption in FRS2 "Accounting for subsidiary undertakings" and has not prepared consolidated financial statements as it is a medium-sized company.

Going concern

The company is an early stage undertaking that has required capital to develop its business to date. The directors have prepared financial projections covering the next two years. Whilst the company has progressed toward achieving break even, the financial projections show that the company may need to raise further finance in the next 12 months. The directors regularly monitor the financial position of the company. Should it become necessary to raise further funding the directors intention is to commence this process well in advance of the requirement. The directors believe that such funding would be forthcoming. On this basis the directors have prepared the accounts on a going concern basis. These accounts do not reflect any adjustments which would be necessary if the company failed to raise sufficient funds when they were deemed to be required.

Tangible 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 life of the lease
Equipment	3 years
Fixtures and fittings	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 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.

Turnover

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

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Translation differences arising are dealt with in the profit and loss account.

IMERGE LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2004

1. ACCOUNTING POLICIES (continued)

Leases

Operating lease rentals are charged to the profit and loss account as incurred.

Pensions

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 the contributions payable in the year.

Research and development

Research expenditure is written off as 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.

2. TURNOVER

All turnover is from the company's principal activity and originates from within the United Kingdom.

Turnover is analysed by geographical destination as follows:

	2004 £	2003 £
United Kingdom	883,273	898,905
Rest of Europe	645,792	337,816
USA and rest of world	1,805,824	2,008,881
	<u>3,334,889</u>	<u>3,245,602</u>

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The remuneration of the directors was as follows:

	2004 £	2003 £
Emoluments	125,291	123,514
Fees	20,123	21,981
Company contributions to money purchase pension schemes	2,317	3,403
	<u>147,731</u>	<u>148,898</u>

The above amounts do not include any gains made on the exercise of share options or the value of any shares or share options received under long-term incentive schemes. No directors (2003 - nil) exercised share options in the year, and shares were received or receivable under long-term incentives schemes by two director (2003 - one). One director (2003 - one) was a member of a money purchase pension scheme to which the company contributed during the year.

IMERGE LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2004

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

	2004 No	2003 No
Average number of persons employed by the company in the year		
Management	4	4
Sales and marketing	4	3
Administrative	5	5
Product development	22	19
	<u>35</u>	<u>31</u>
	£	£
Staff costs incurred during the year in respect of these employees were:		
Wages and salaries	1,104,733	1,078,332
Social security costs	117,988	117,197
Other pension costs	40,989	28,697
	<u>1,263,710</u>	<u>1,224,226</u>

4. OPERATING LOSS

	2004 £	2003 £
Operating loss is after charging:		
Depreciation of owned tangible fixed assets	21,397	99,684
Research and development costs	731,818	676,909
Rentals under operating leases - land and buildings	110,995	110,995
Auditors' remuneration for audit services	12,000	10,000
	<u></u>	<u></u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2004 £	2003 £
Loan interest	23,802	27,683
Loan stock charge	3,196	28,356
	<u>26,998</u>	<u>56,039</u>

IMERGE LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2004

6. TAX ON LOSS ON ORDINARY ACTIVITIES

	2004 £	2003 £
Current taxation		
Research and development tax claim in respect of prior years	-	(269,231)

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30% (2003 - 30%).
The current tax credit for the year was less than 30% (2003 - 30%) for the reasons set out in the following reconciliation.

	2004 £	2003 £
Loss on ordinary activities before tax	(1,066,734)	(1,163,873)
Tax at 30% (2003 - 30%) thereon	(320,020)	(349,162)
Expenses not deductible for tax purposes	2,768	1,000
Depreciation in excess of capital allowances	6,419	30,000
Trading losses	290,413	318,162
Other short term timing differences	19,420	-
Research and development tax claim in respect of prior years	-	(269,231)
	-	(269,231)

7. TANGIBLE FIXED ASSETS

	Short leasehold improvements £	Equipment £	Fixtures and fittings £	Total £
Cost				
At 1 January 2004	8,191	307,199	144,662	460,052
Additions	-	15,000	-	15,000
At 31 December 2004	8,191	322,199	144,662	475,052
Depreciation				
At 1 January 2004	4,730	295,165	138,760	438,655
Charge for the year	3,461	12,034	5,902	21,397
At 31 December 2004	8,191	307,199	144,662	460,052
Net book value				
At 31 December 2004	-	15,000	-	15,000
At 31 December 2003	3,461	12,034	5,902	21,397

IMERGE LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2004

8. INVESTMENTS HELD AS FIXED ASSETS

	Shares in subsidiary undertaking £
Cost	
At 1 January 2004 and 31 December 2004	10,504
Provision	
At 1 January 2004 and 31 December 2004	10,504
Net book value	
At 31 December 2004 and 31 December 2003	-

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 sales office in the USA for the company.

9. STOCKS

	2004 £	2003 £
Raw materials	36,293	75,882
Finished goods and goods for resale	44,551	38,095
	80,844	113,977

In the opinion of the directors, there is no material difference between the carrying value of stocks and their replacement cost.

10. DEBTORS

	2004 £	2003 £
Due within one year:		
Trade debtors	668,629	401,023
Other debtors	5,504	291,306
Prepayments and accrued income	123,108	125,831
	797,241	818,160

IMERGE LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2004

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004 £	2003 £
Loans from related parties	150,000	438,500
Trade creditors	547,137	403,356
Taxation and social security	73,240	36,812
Amounts owed to subsidiary undertakings	13,464	5,307
Accruals and deferred income	100,312	150,472
	<u>884,153</u>	<u>1,034,447</u>

Loans of £150,000 (2003 - £438,500), interest is charged at 10% per annum and the loans are repayable on demand.

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2004 £	2003 £
Convertible unsecured loan stock 2006, 2007 and 2008	-	5,514,906

On 16 February 2004, the company converted the 2006, 2007 and 2008 loan notes in accordance with their respective loan note instruments into A ordinary shares.

13. PROVISIONS FOR LIABILITIES AND CHARGES

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

	Provided		Not provided	
	2004 £	2003 £	2004 £	2003 £
Accelerated capital allowances	-	-	(121,157)	(115,000)
Short term timing differences	-	-	(19,720)	-
Trading losses	-	-	(3,370,334)	(3,070,000)
	<u>-</u>	<u>-</u>	<u>(3,511,211)</u>	<u>(3,185,000)</u>

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

IMERGE LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2004

14. CALLED UP SHARE CAPITAL

	2004 £	2003 £
Authorised		
4,000,000 Ordinary shares of 1p each	40,000	40,000
26,000,000 'A' Ordinary shares of 1p each	260,000	260,000
616,000,000 (2003 - nil) 'B' ordinary shares of 0.1p each	616,000	-
	<u>916,000</u>	<u>300,000</u>
Called up, allotted and fully paid		
Nil (2003 - 1,462,552) Ordinary shares of 1p each	-	14,626
13,248,577 (2003 - 2,363,647) 'A' Ordinary shares of 1p each	132,486	23,636
402,395,656 (2003 - nil) 'B' ordinary shares of 0.1p each	402,395	-
	<u>534,881</u>	<u>38,262</u>

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

On 16 February 2004 the authorised share capital was increased by the creation of 331,000,000 'B' Ordinary shares with nominal value of £0.001 each.

On 3 August 2004 the authorised share capital was increased by the creation of 75,000,000 B ordinary shares with a nominal value of £0.001 each.

On 31 August 2004 the authorised share capital was increased by the creation of 210,000,000 'B' Ordinary shares with nominal value of £0.001 each.

On 15 June 2005 the authorised share capital was increased by the creation of 184,000,000 'B' ordinary shares with nominal value of £0.001 each.

On 16 February 2004, 9,422,378 'A' ordinary shares were issued on the conversion of the 2006, 2007 and 2008 loan notes 1,462,552 ordinary shares were redesignated as 'A' ordinary shares.

On 16 February 2004, the company converted loans in accordance with their respective agreements into 173,770,492 'B' ordinary shares.

On 31 August 2004 165,743,443 'B' ordinary shares of £0.001 each were issued at a premium of £0.00144 and a further 62,881,721 were issued at a premium of £0.00458.

In April 2004 the company set up an Inland Revenue approved Enterprise Management Incentive share option scheme. Share options on the 'A' ordinary shares were granted as follows:

Date of grant	Exercise price	Granted in year	At 31 December 2003
3 August 2004	£0.00244	44,550,676	44,550,676
16 November 2004	£0.001	17,250,500	17,250,500
Total		<u>61,801,176</u>	<u>61,801,176</u>

All options were exercisable within three to ten years after the date of grant.

15. SHARE PREMIUM ACCOUNT

	£
Balance at 1 January 2004	6,316,793
Issue of shares	6,295,556
Expenses of share issues	(119,611)
Balance at 31 December 2004	<u>12,492,738</u>

IMERGE LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2004

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS (DEFICIT)

	2004 £	2003 £
Loss for the year	(1,066,734)	(894,642)
Issue of shares	6,672,564	-
Net addition to (decrease in) shareholders' funds	5,605,830	(894,642)
Opening shareholders' deficit	(5,475,202)	(4,580,560)
Closing shareholders' funds (deficit)	<u>130,628</u>	<u>(5,475,202)</u>

17. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2004 £	2003 £
Operating loss	(1,044,776)	(1,120,583)
Depreciation of tangible fixed assets	21,397	99,684
(Increase) decrease in debtors	(248,312)	173,697
Decrease in stocks	33,133	20,258
Increase (decrease) in creditors	116,570	(73,400)
Net cash outflow from operating activities	<u>(1,121,988)</u>	<u>(900,344)</u>

18. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2004 £	2003 £
Returns on investments and servicing of finance		
Interest received	5,040	7,792
Interest paid	(16,084)	(15,683)
Net cash (outflow) inflow	<u>(11,044)</u>	<u>(7,891)</u>
Capital expenditure		
Payments to acquire tangible fixed assets	(15,000)	(5,605)
Net cash outflow	<u>(15,000)</u>	<u>(5,605)</u>
Financing		
Share issued	355,880	-
New borrowings	549,000	300,000
Repayment of borrowings	(25,000)	(550,000)
Receipts from issue of convertible loan stock	-	1,243,853
Net cash inflow	<u>879,880</u>	<u>993,853</u>

IMERGE LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2004

19. ANALYSIS OF CHANGES IN NET DEBT

	At 1 January 2004 £	Cash flows £	Non-cash changes £	At 31 December 2004 £
Cash at bank and in hand	120,617	1,079	-	121,696
Short-term loans	(438,500)	(524,000)	812,500	(150,000)
Convertible loan stock	(5,514,906)	-	5,514,906	-
Net debt	<u>(5,832,789)</u>	<u>(522,921)</u>	<u>6,327,406</u>	<u>(28,304)</u>

Reconciliation of net cash flow to movement in net debt

	2004 £	2003 £
Increase in cash in the year	1,079	80,013
Cash (inflow) outflow from (increase) decrease in debt	<u>(524,000)</u>	<u>(993,853)</u>
Change in net debt	(522,921)	(913,840)
Non cash changes	6,327,406	(40,356)
Net debt at beginning of year	<u>(5,832,789)</u>	<u>(4,878,593)</u>
Net debt at end of year	<u>(28,304)</u>	<u>(5,832,789)</u>

Non cash changes relate to the conversion of loan notes.

20. COMMITMENTS

The company had no capital commitments at 31 December 2004 (2003 - £nil).

At 31 December 2004 the company was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings 2004 £	2003 £
Lease which expires Within two and five years	<u>110,995</u>	<u>110,995</u>

IMERGE LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2004

21. RELATED PARTY TRANSACTIONS

The following transactions were made between the company and a related party in the year:

- Residentie Investments BV - loan interest of £10,914 charged in the year (2003 - £12,000). This related party is a shareholder in the company. This loan was converted into shares during the year.
- Imerge America Inc. - management charges of £123,346 charged in the year (2003 - £119,688). At the year end £13,464 was owed to Imerge America Inc. (2003 - £5,307 owed by Imerge America Inc.).

22. DIRECTORS' INTERESTS

Directors' interests in the Ordinary shares of 1p of the company at 31 December 2003 (or date of appointment) and 31 December 2004 were as follows:

	Ordinary shares Issued			B ordinary shares Issued			Options granted		
	2003 No	in year No	2004 No	2003 No	in year No	2004 No	2003 No	in year No	2004 No
M A Newton	-	-	-	-	896,057	896,057	-	-	-
B M Macaulay	-	-	-	-	1,792,115	1,792,115	-	13,077,499	13,077,499
R Leaver	-	-	-	-	-	-	-	-	-
A E Lucas	20,000	-	20,000	-	-	-	-	9,217,593	9,217,593

The exercise prices and periods of the above options were:

	Number	Price	Exercise period
B M Macaulay	8,173,499	£0.00244	3 August 2007 - 2 August 2014
	4,904,000	£0.001	16 November 2007 - 15 November 2014
A E Lucas	4,597,593	£0.00244	3 August 2007 - 2 August 2014
	4,620,000	£0.001	16 November 2007 - 15 November 2014

23. ULTIMATE CONTROLLING PARTY

As no one shareholder controls more than half of the issued share capital of the company, the directors do not consider that the company has an ultimate controlling party.

24. SUBSEQUENT EVENTS

On 29 March 2005, the company completed a fundraising to raise £605,700 through convertible loan notes.

In June 2005 a further £307,703 loan notes were issued.