

Accountants and business advisors

HOMELINK TECHNOLOGIES LIMITED

Company Number: 201025 (Scotland)

ANNUAL REPORT

YEAR ENDED 31 MARCH 2004



HOMELINK TECHNOLOGIES LIMITED

COMPANY INFORMATION

Directors	P Newall S McHard M Swanson D McLaughlin N Taylor
Secretary	Maclay Murray & Spens
Company Number	201025 (Scotland)
Registered Office	151 Vincent Street Glasgow G2 5NJ
Auditors	PKF Pannell House 6 Queen Street Leeds LS1 2TW
Solicitors	Maclay Murray & Spens 151 Vincent Street Glasgow G2 5NJ
Bankers	Bank of Scotland Craigs House 78 Upper Craigs Stirling FK8 2DE

HOMELINK TECHNOLOGIES LIMITED

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HOMELINK TECHNOLOGIES LIMITED

DIRECTORS' REPORT

YEAR ENDED 31 MARCH 2004

The directors submit their report and the financial statements for the year ended 31 March 2004.

Principal activity

The principal activity of the company during the year continued to be the design and development of home security systems and related applications and to market and install these systems.

Going Concern

Homelink Technologies Limited experienced difficult trading conditions in the latter part of 2003. These conditions have prevailed and the Company has continued to make losses to the date on which these accounts have been signed. Whilst the Company has traded at a loss, it has met its liabilities as they fall due. This has been achieved through looking at the cost base and a number of redundancies were made and all costs have been critically reviewed and reduced where possible. Coupled with this reduction in costs, funding has been secured from a variety of sources including the rights issue and capital restructuring in July 2004 (see note 16 to the financial statements), research and development credits and through a bank overdraft facility.

The company have been in negotiations with a potential purchaser of the business since late October 2004. These detailed negotiations are progressing satisfactorily, and the Directors are hopeful that the deal can be concluded shortly. The potential purchaser has provided working capital injections since October 2004.

There have been encouraging developments in both the social and private sector housing markets that show confidence in the technology and the Company's underlying business model. Upgrades to product lines and new applications for the Company's products have been identified.

Whilst trading will remain difficult, the above developments provide the Board with a cautious optimism that the Company can continue to trade as a going concern for the next 12 months and that it is appropriate that the accounts are prepared on a going concern basis.

The directors who served during the year and their interests in the company's issued share capital at the balance sheet date and at the start of the year (or date of appointment, if later) were:

	'B' Ordinary Shares of £1 each		'B' Ordinary Shares of 10p each	
	2004	2003	2004	2003
P Newall	283,702	283,702	972,529	972,529
S McHard	4,147	4,147	24,180	24,180
M Swanson	28,124	28,124	102,715	102,715
J White (resigned 6 October 2003)	-	23,552	-	140,256
D McLaughlin	-	-	-	-
N Taylor	-	-	-	-

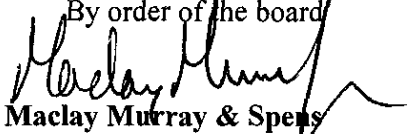
HOMELINK TECHNOLOGIES LIMITED

DIRECTORS' REPORT (continued)

YEAR ENDED 31 MARCH 2004

Basis of preparation

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

By order of the board

Maclay Murray & Spens
Secretary
28 January 2005

HOMELINK TECHNOLOGIES LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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;
- 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 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.

The directors are responsible for ensuring that the directors' report and other information included in the annual report is prepared in accordance with company law in the United Kingdom.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HOMELINK TECHNOLOGIES LIMITED**

We have audited the financial statements of Homelink Technologies Limited for the year ended 31 March 2004 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. 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 auditor's report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the 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 Director's 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 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 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 (continued)

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1(a) of the financial statements concerning the uncertainty over the future sales, profitability and cashflow. In view of the significance of this uncertainty we consider that it 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 March 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PKF

Registered Auditors

Leeds, UK
28 January 2005

HOMELINK TECHNOLOGIES LIMITED
PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 MARCH 2004

	Notes	2004 £	2003 £
TURNOVER	2	193,845	247,646
Cost of sales		<u>(265,864)</u>	<u>(440,471)</u>
GROSS LOSS		(72,019)	(192,825)
Administrative expenses		<u>(463,619)</u>	<u>(1,131,386)</u>
OPERATING LOSS	3	(535,638)	(1,324,211)
Interest receivable and similar income		8,652	15,515
Interest payable and similar charges		<u>(28,135)</u>	<u>(8,450)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(555,121)	(1,317,146)
TAXATION	5	79,021	-
LOSS FOR THE FINANCIAL YEAR		<u>(476,100)</u>	<u>(1,317,146)</u>

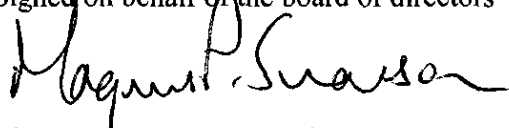
HOMELINK TECHNOLOGIES LIMITED
BALANCE SHEET
31 MARCH 2004

	Notes	2004 £	2003 £
FIXED ASSETS			
Tangible	6	11,972	40,338
Investments	7	100	100
		<u>12,072</u>	<u>40,438</u>
CURRENT ASSETS			
Stocks	8	13,242	23,886
Debtors	9	130,845	141,783
Cash at bank and in hand		17,711	450,828
		<u>161,798</u>	<u>616,497</u>
CREDITORS: amounts falling due within one year	10	(316,401)	(322,866)
NET CURRENT (LIABILITIES)/ASSETS		<u>(154,603)</u>	<u>293,631</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(142,531)</u>	<u>334,069</u>
CREDITORS: amounts falling due after more than one year	11	-	(500)
NET (LIABILITIES)/ASSETS		<u><u>(142,531)</u></u>	<u><u>333,569</u></u>
CAPITAL AND RESERVES			
Called up share capital	12	2,584,355	2,584,355
Share premium account		1,828,170	1,828,170
Other reserves		41,335	41,335
Profit and loss account	13	(4,596,391)	(4,120,291)
		<u>(142,531)</u>	<u>333,569</u>

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

The financial statements were approved by the board on 28 January 2005

Signed on behalf of the board of directors


M Swanson Director

HOMELINK TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2004

1 ACCOUNTING POLICIES

(a) Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002).

Group accounts have not been prepared as all of the company's subsidiaries are permitted to be excluded from group accounts by virtue of section 229 of the Companies Act 1985. These financial statements therefore present information about the company as an individual undertaking and not about its group.

Going Concern

The company has made a loss of £476,100 in the year to 31 March 2004 (2003: loss of £1,317,146). At 31 March 2004, the company has net liabilities of £142,531. The company has continued to suffer losses in the period from 1 April 2004 to 31 December 2004 of £254,400 according to the unaudited management accounts and has suffered further losses to the date of sign-off of these accounts. The company has not prepared cashflow forecasts for the twelve months from the date of sign off of these accounts.

Further details concerning the securing of funding and sales opportunities are set out in the directors' report but there is considerable uncertainty regarding the securing of the sales opportunities and the timing of future cashflows. In particular if further funding is not forthcoming from investors, the company will not meet its liabilities.

However, the directors believe that the investors will provide sufficient funding so that the company will be able to meet its liabilities as and when they fall due. As a result the directors have prepared the accounts on a going concern basis.

(b) Turnover

Turnover comprises the invoiced value of goods and services supplied by the company, net of value added tax and trade discounts. Income received in advance is deferred within other creditors until such time as the supply of goods or services to which it relates is performed.

(c) Tangible fixed assets

Tangible fixed assets are stated at cost or valuation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Computer hardware and software, fixtures, fittings and office equipment	25-50 % on cost
Motor vehicles	25 % on cost

HOMELINK TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2004

1 ACCOUNTING POLICIES (continued)

(d) Finance leases and hire purchase

Assets acquired under finance leases or hire purchase are treated as tangible fixed assets and depreciation is provided accordingly. The value of future rentals is shown as a liability and the interest element of rental obligations is charged to the profit and loss account over the period of the lease in proportion to the capital balance outstanding.

(e) Investments

Investments are stated at cost less provision for any impairment.

(f) Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost is determined on a first in first out basis, and includes all direct costs incurred and attributable production overheads. Net realisable value is based on estimated selling price allowing for all further costs of completion and disposal.

(g) Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation, except for those timing differences in respect of which the standard specifies that deferred tax should not be recognised. (see note 5)

(h) Research and development expenditure

Research and development expenditure is written off as incurred.

2 TURNOVER

All turnover arose within the United Kingdom.

3 OPERATING LOSS

The operating loss is stated after charging:

	2004	2003
	£	£
Depreciation of tangible fixed assets:		
- owned by the company	19,645	52,148
- held under finance lease or hire purchase contracts	7,215	9,714
Audit fees	6,000	6,000
Operating lease rentals:		
Plant and machinery	22,104	23,107
	<u>22,104</u>	<u>23,107</u>

HOMELINK TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2004

4 DIRECTORS' EMOLUMENTS AND BENEFITS

	2004 £	2003 £
Aggregate of directors' emoluments and other benefits as defined in paragraph 1 of Sch 6 to the Companies Act 1985	<u>49,838</u>	<u>170,743</u>

No directors (2003 - none) were members of company pension schemes.

5 TAXATION

	2004 £	2003 £
Current year taxation		
Research and development tax credit	(79,021)	-
	<u>(79,021)</u>	<u>-</u>

The tax losses carried forward at 31 March 2004 are approximately £4.06m. No deferred tax asset has been recognised in the accounts because of the uncertainty over future profitability of the company. The full amount of the unrecognised deferred tax asset is approximately £771,000 at a rate of 19%.

6 TANGIBLE FIXED ASSETS

	Motor vehicles £	Fixtures, fittings and office equipment £	Total £
Cost			
At 1 April 2003	38,855	121,695	160,550
Additions	-	184	184
Disposals	(25,510)	-	(25,510)
At 31 March 2004	<u>13,345</u>	<u>121,879</u>	<u>135,224</u>
Depreciation			
At 1 April 2003	29,950	90,262	120,212
Charge for the year	7,215	19,645	26,860
On disposals	(23,820)	-	(23,820)
At 31 March 2004	<u>13,345</u>	<u>109,907</u>	<u>123,252</u>
Net book amount			
At 31 March 2004	-	11,972	11,972
At 1 April 2003	<u>8,905</u>	<u>31,433</u>	<u>40,338</u>

HOMELINK TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2004

7 FIXED ASSET INVESTMENTS

	£
Cost	
At 1 April 2003 and 31 March 2004	100
	<hr/>
Net book amount	
At 1 April 2003 and 31 March 2004	100
	<hr/> <hr/>

Investments comprise an investment in a subsidiary, Ascot UK Limited, a company incorporated in the United Kingdom, comprising a holding of 100% of its issued ordinary capital.

8 STOCKS

	2004	2003
	£	£
Stocks	13,242	23,886
	<hr/> <hr/>	<hr/> <hr/>

9 DEBTORS

	2004	2003
	£	£
Trade debtors	21,538	90,108
Other debtors	109,307	51,675
	<hr/> <hr/>	<hr/> <hr/>
	130,845	141,783

HOMELINK TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2004

10 CREDITORS:

Amounts falling due within one year

	2004	2003
	£	£
Trade creditors	112,174	215,047
Other taxation and social security	16,201	20,026
Net obligations under finance leases and hire purchase contracts	440	8,278
Other creditors	187,586	79,515
	<u>316,401</u>	<u>322,866</u>

Finance leases and hire purchase creditors are secured on the assets concerned.

11 CREDITORS:

Amounts falling due after more than one year

	2004	2003
	£	£
Net obligations under finance leases and hire purchase contracts	-	500
	<u>-</u>	<u>500</u>

Finance leases and hire purchase creditors are secured on the assets concerned.

12 SHARE CAPITAL

	Authorised	Allotted, called up and fully paid	
	£	No	£
At 1 April 2003 and 31 March 2004			
"A" Ordinary shares of £1 each	1,180,014	1,089,678	1,089,678
"B" Ordinary shares of £1 each	1,000,000	544,899	544,899
"B" Ordinary shares of 10p each	1,997,783	1,997,783	199,778
Preference shares of £1 each	750,000	750,000	750,000
	<u>4,927,797</u>	<u>4,382,360</u>	<u>2,584,355</u>

Each 'A' share and 'B' share shall carry one vote.

Any dividend or distribution shall be paid to the holders of the "A" shares and the "B" shares pro rata based on the number of "A" shares and the "B" shares held by each of them.

Details of a post balance sheet capital restructuring exercise are included in note 16.

HOMELINK TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2004

13 RESERVES

Profit and loss account	£
At 1 April 2003	(4,120,291)
Loss for the year	(476,100)
At 31 March 2004	<u>(4,596,391)</u>

14 OTHER COMMITMENTS

At 31 March 2004 the company had annual commitments under operating leases as follows:

	2004	2003
	£	£
Expiry date:		
Less than one year	11,552	-
Between two and five years	-	22,104
	<u>11,552</u>	<u>22,104</u>

15 TRANSACTIONS WITH RELATED PARTIES

P Newall was owed £45,333 by the company in respect of gross accrued salary at 31 March 2004 (31 March 2003: £49,121).

S McHard was owed £10,000 (2003: £10,000) by the company at the year end.

M Swanson, a director, is a partner in Maclay Murray & Spens Solicitors which has provided legal services to the company amounting to £7,042 during the year (year to 31 March 2003: £67,601). The balance due to Maclay Murray & Spens at the year end was £30,626 (31 March 2003: £56,066).

HOMELINK TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2004

16 POST BALANCE SHEET EVENTS

On 14 July 2004, a rights issue and capital restructuring exercise was completed involving the following steps:

- the conversion of British Telecom's holding of 750,000 preference shares of £1 each to 750,000 A shares of £1 each, together with a waiver of all rights to accumulated preference dividends;
- the completion of an offer to the existing B shareholders of the Company on the basis of 11 new B shares of 5 pence each for every 16 issued and fully paid B shares, at a subscription price of 6.6 pence for each new B share. 1,673,903 new B shares of 5 pence each were issued, raising £110,478;
- the participation of British Telecom in the subscription for excess shares under the above offer, by way of the issue of 22,913 new A shares of 0.01 pence each at their nominal value, raising £2;
- the completion of a further offer to the existing B shareholders of the Company who accepted the above offer, to subscribe for new B shares of 5 pence each at a subscription price of 9.55 pence per share. 47,749 new B shares of 5 pence each were issued, raising £4,560;
- the issue to Patrick Newall, a director of the Company, pursuant to an underwriting commitment, of 3,445 new B shares of 5 pence each at a subscription price of 9.55 pence per share, raising £329.

The rights issue and capital restructuring exercise raised a total of £115,369 in aggregate, with the net proceeds to the Company, after all fees and expenses due and payable, being approximately £95,857.