Registrar

201025

REPORT OF THE DIRECTORS AND

FINANCIAL STATEMENTS FOR THE PERIOD 25 OCTOBER 1999 TO 31 MARCH 2001

FOR

HOMELINK TECHNOLOGIES LIMITED



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for the Period 25 October 1999 to 31 March 2001

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HOMELINK TECHNOLOGIES LIMITED

COMPANY INFORMATION
for the Period 25 October 1999 to 31 March 2001

DIRECTORS:	D Gordon J Hamilton P Newall M Livingstone S McHard M Swanson J White J B Douglas
SECRETARY:	James Hamilton
REGISTERED OFFICE:	4 Somerset Place Glasgow G3 7JT
REGISTERED NUMBER:	201025 (Scotland)
AUDITORS:	KPMG Registered Auditors Chartered Accountants 24 Blythswood Square Glasgow G2 4QS

REPORT OF THE DIRECTORS
for the Period 25 October 1999 to 31 March 2001

The directors present their report with the financial statements of the company for the period 25 October 1999 to 31 March 2001.

INCORPORATION
The company was incorporated on 25 October 1999 and commenced trading on the same date.

PRINCIPAL ACTIVITY
The principal activity of the company in the period under review was that of the completion of the design & development of a home security system.

REVIEW OF BUSINESS
The results for the period and financial position of the company are as shown in the annexed financial statements.

After the company secured initial shareholder funding in December 1999 and February 2000 it pressed on with the completion of the home security system - Itech box, the intellectual property rights to which are owned by Ascot Management Solutions Limited, a company whose shareholders are P Newall and D Gordon. There was a public launch of the product in June 2000, taking a good profile in the financial and trade press. Further shareholders and directors were secured shortly thereafter. Early versions of the product were demonstrated to some of these customers. Significant interest was quickly generated with potential customers. Pilot schemes (5) were established late 2000 and early 2001, some have recently converted to orders and others are pending. Four other customers have agreed to install pilot schemes. No sales were concluded prior to the year end. The process to concluding orders has taken longer than anticipated but current reaction from customers confirms that active trading is about to begin. The company has now secured two material contracts worth circa £3M for immediate rollout.

The company has a strong and committed board of directors. By the Balance Sheet date the directors and others had invested circa £1m. Beyond that date a further £967,000 has been invested making a total investment of circa £2M to date.

This represents a strong belief in the company and its product. The Board are confident that the product will sell successfully into its chosen market and that it is now ready to begin installation of systems.

DIVIDENDS
No dividends will be distributed for the period ended 31 March 2001.

HOMELINK TECHNOLOGIES LIMITED

REPORT OF THE DIRECTORS
for the Period 25 October 1999 to 31 March 2001

DIRECTORS
The directors during the period under review were:

D Gordon	- appointed 25.10.99
J Hamilton	- appointed 25.10.99
P Newall	- appointed 8.12.99
M Livingstone	- appointed 31.5.00
S McHard	- appointed 1.6.00
M Swanson	- appointed 31.5.00
J White	- appointed 31.5.00
J B Douglas	- appointed 23.11.00

The beneficial interests of the directors holding office on 31 March 2001 in the issued share capital of the company were as follows:

	31.3.01	***at date of appointment***
Ordinary £1 shares		
D Gordon	263,530	2
J Hamilton	817	-
P Newall	235,647	-
M Livingstone	1,634	-
S McHard	3,317	-
M Swanson	22,497	-
J White	18,840	-
J B Douglas	33,500	-

The beneficial interest of J B Douglas comprises family shareholdings.

M Livingstone resigned as a director on 2 April 2001.

All the directors, being eligible, offer themselves for election at the forthcoming first Annual General Meeting.

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 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.

AUDITORS
A Resolution concerning the re-appointment of auditors will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD:

.....
James Hamilton - SECRETARY

Dated: 20th November 2001

REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF HOMELINK TECHNOLOGIES LIMITED

We have audited the financial statements on pages 6 to 16.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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.

Basis of audit opinion

We conducted our audit in accordance with 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 uncertainty over the future funding of the company. 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 2001 and of its loss for the period from 25 October 1999 (date of incorporation) to 31 March 2001 and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Registered Auditors
Chartered Accountants
24 Blythswood Square
Glasgow
G2 4QS

Dated: 23 NOVEMBER 2001

PROFIT AND LOSS ACCOUNT
for the Period 25 October 1999 to 31 March 2001

	Notes	£
TURNOVER		-
Cost of sales		745,333
GROSS LOSS		(745,333)
Administrative expenses		616,782
OPERATING LOSS	3	(1,362,115)
Interest receivable and similar income		6,547
		(1,355,568)
Interest payable and similar charges	4	8,315
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,363,883)
Tax on loss on ordinary activities	5	-
LOSS FOR THE FINANCIAL PERIOD AFTER TAXATION		(1,363,883)
DEFICIT CARRIED FORWARD		£(1,363,883)

CONTINUING OPERATIONS
None of the company's activities were acquired or discontinued during the current period.

TOTAL RECOGNISED GAINS AND LOSSES
The company has no recognised gains or losses other than the loss for the current period.

The notes form part of these financial statements

BALANCE SHEET
31 March 2001

	Notes	£	£
FIXED ASSETS:			
Tangible assets	6		64,783
CURRENT ASSETS:			
Debtors	7	118,777	
Cash in hand		961	
		119,738	
CREDITORS: Amounts falling due within one year	8	(521,488)	
NET CURRENT LIABILITIES:			(401,750)
TOTAL ASSETS LESS CURRENT LIABILITIES:			(336,967)
CREDITORS: Amounts falling due after more than one year	9		(19,278)
			£(356,245)
CAPITAL AND RESERVES:			
Called up share capital	13		668,108
Share premium	14		339,530
Profit and loss account			(1,363,883)
SHAREHOLDERS' FUNDS DEFICIT –:	17		£(356,245)

ON BEHALF OF THE BOARD:

D Gordon - DIRECTOR

P Newall - DIRECTOR

Approved by the Board on 20th November 2001

The notes form part of these financial statements

HOMELINK TECHNOLOGIES LIMITED

CASH FLOW STATEMENT
for the Period 25 October 1999 to 31 March 2001

	Notes	£	£
Net cash outflow from operating activities	A		(1,194,735)
Returns on investments and servicing of finance	B		(1,768)
Capital expenditure	B		(47,769)
			(1,244,272)
Financing	C		1,094,015
Decrease in cash in the period			**£(150,257)**

Reconciliation of net cash flow to movement in net debt	C		
Decrease in cash in the period		**(150,257)**	
Cash outflow from decrease in debt and lease financing		9,077	
Change in net debt resulting from cash flows			(141,180)
New hire purchase contracts			(38,855)
Movement in net debt in the period			**(180,035)**
Net debt at 25 October			-
Net debt at 31 March			**£(180,035)**

The notes form part of these financial statements

NOTES TO THE CASH FLOW STATEMENT
for the Period 25 October 1999 to 31 March 2001

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

	£
Operating loss	(1,362,115)
Depreciation charges	21,841
Increase in debtors	(118,777)
Increase in creditors	239,770
Services provided in exchange for shares	24,546
Net cash outflow from operating activities	(1,194,735)

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

	£
Returns on investments and servicing of finance	
Interest received	6,547
Interest paid	(7,157)
Interest element of hire purchase payments	(1,158)
Net cash outflow for returns on investments and servicing of finance	(1,768)
Capital expenditure	
Purchase of tangible fixed assets	(47,769)
Net cash outflow for capital expenditure	(47,769)
Financing	
Capital element of hire purchase repayments	(9,077)
Amount Introduced by Directors	120,000
Proceeds from Share Issues	983,092
Net cash inflow from financing	1,094,015

The notes form part of these financial statements

NOTES TO THE CASH FLOW STATEMENT
for the Period 25 October 1999 to 31 March 2001

C. ANALYSIS OF CHANGES IN NET DEBT

	At 25.10.99 £	Cash flow £	Other non-cash changes £	At 31.3.01 £
Net cash:				
Cash at bank and in hand	-	961		961
Bank overdraft	-	(151,218)		(151,218)
	-	(150,257)		(150,257)
Debt:				
Hire purchase	-	9,077	(38,855)	(29,778)
	-	9,077	(38,855)	(29,778)
Total	-	(141,180)	(38,855)	(180,035)
Analysed in Balance Sheet				
Cash at bank and in hand	-			961
Bank overdraft	-			(151,218)
Hire purchase				
within one year	-			(10,500)
after one year	-			(19,278)
	-			(180,035)

NOTES TO THE FINANCIAL STATEMENTS
for the Period 25 October 1999 to 31 March 2001

1. ACCOUNTING POLICIES

Basis of preparation
The financial statements have been prepared on the going concern basis, which assumes that the company will have sufficient funds at its disposal to enable it to continue operating for the foreseeable future.

The company has funded its operating losses to date from capital provided by its shareholders, and from a small overdraft facility provided by Bank of Scotland. Subsequent to the balance sheet date the company has raised a further £967,000 of cash by way of rights issues. In addition, the company's bankers have offered a short term working capital facility of £500,000 for a period of 3 months from November 2001 which the Board intends to accept. The directors have concluded negotiations with the council members of a large borough council in England and the Board of a Housing Association for the sale of the company's core security product and believe the securing of these first contracts will enable the company to generate additional sales to other borough councils.

The directors consider that further fund raising will be essential. This will be a mixture of external investment, further funds from shareholders and bank funding. The successful achievement of the current operating plan prepared by the directors, which includes cash flow projections covering the period from the date of approval of these financial statements through to 30 November 2002, is dependent upon successful fund raising and the company being able to generate an appropriate level of sales, as well as an adequate margin from such sales, sufficient to cover the company's ongoing operating costs. The fund raising process is not yet finalised. The company has received three outline offers, albeit not binding commitments, of equity investments of circa £2m and senior debt financing (in one case up to £16m). These outline offers have come from one substantial UK quoted trade company and two major lending institutions. Negotiations are ongoing. The Directors have no reason to doubt the seriousness of the interest expressed by those three parties so far and on that basis are confident that a deal will be concluded. The directors believe that any deal arising from these outline offers will provide adequate funding to enable the company to achieve its operating plan and that the short term working capital facility for 3 months mentioned above will be sufficient to enable the directors to conclude the necessary inward investment.

Consequently, the directors currently have no reason to believe that the operating plan will not be implemented successfully or that the company will not have sufficient funds to enable it to continue to operate. On this basis the directors believe it is appropriate to present these financial statements on a going concern basis. The financial statements do not include adjustments that would become necessary if the current operating plan is not implemented successfully such that the company fails to achieve the required level of income and/or that the company is unable to raise such additional funds as may be required to enable the company to continue operating once existing cash resources, including the cash received from the most recent rights issue are exhausted. In that event, adjustments would have to be made to reduce fixed and current assets to their recoverable amount and to provide for any further liabilities that might arise.

Accounting convention
The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards.

Tangible fixed assets
Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life or, if held under a finance lease, over the lease term, whichever is the shorter.

Fixtures and fittings	- 25% on cost
Motor vehicles	- 25% on cost
Computer Software	- 50% on cost

Deferred taxation
Provision is made at current rates for taxation deferred in respect of all material timing differences except to the extent that, in the opinion of the directors, there is reasonable probability that the liability will not arise in the foreseeable future.

1. ACCOUNTING POLICIES - continued

Hire purchase and leasing commitments
Assets obtained under hire purchase contracts or finance leases are capitalised in the balance sheet. Those held under hire purchase contracts are depreciated over their estimated useful lives. Those held under finance leases are depreciated over their estimated useful lives or the lease term, whichever is the shorter.

The interest element of these obligations is charged to the profit and loss account over the relevant period. The capital element of the future payments is treated as a liability.

Rentals paid under operating leases are charged to the profit and loss account as incurred.

2. STAFF COSTS

	£
Wages and salaries	220,436
Social security costs	23,683
	244,119

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

Office	7

3. OPERATING LOSS

The operating loss is stated after charging:

	£
Hire of plant and machinery	660
Depreciation - owned assets	11,318
Depreciation - assets on hire purchase contracts	10,523
Auditors' remuneration	5,000
Directors' emoluments	146,461

4. INTEREST PAYABLE AND SIMILAR CHARGES

	£
Bank Interest	7,157
Hire Purchase Interest	1,158
	8,315

5. TAXATION

No liability to UK corporation tax arose on ordinary activities for the period.

NOTES TO THE FINANCIAL STATEMENTS
for the Period 25 October 1999 to 31 March 2001

6. **TANGIBLE FIXED ASSETS**

	Totals	Fixtures and fittings	Motor vehicles	Computer Software
	£	£	£	£
COST:				
Additions	86,624	12,498	38,855	35,271
At 31 March 2001	86,624	12,498	38,855	35,271
DEPRECIATION:				
Charge for period	21,841	2,478	10,523	8,840
At 31 March 2001	21,841	2,478	10,523	8,840
NET BOOK VALUE:				
At 31 March 2001	64,783	10,020	28,332	26,431

Fixed assets, included in the above, which are held under hire purchase contracts are as follows:

	Motor vehicles
	£
COST:	
Additions	38,855
At 31 March 2001	38,855
DEPRECIATION:	
Charge for period	10,523
At 31 March 2001	10,523
NET BOOK VALUE:	
At 31 March 2001	28,332

7. **DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	£
V.A.T.	10,092
Prepayments	31,840
Due From Ascot Management Solutions Ltd	76,845
	118,777

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	£
Bank loans and overdrafts (see note 10)	151,218
Hire purchase contracts (see note 11)	10,500
Trade Creditors	87,392
Directors Loan Account	120,000
Social Security & Other Taxes	42,401
Accruals	109,977
	521,488

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

	£
Hire purchase contracts (see note 11)	19,278

10. LOANS AND OVERDRAFTS

An analysis of the maturity of loans and overdrafts is given below:

	£
Amounts falling due within one year or on demand:	
Bank overdrafts	151,218

11. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS AND LEASES

	Hire purchase contracts £
Gross obligations repayable:	
Within one year	12,353
Between one and five years	22,760
	35,113
Finance charges repayable:	
Within one year	1,853
Between one and five years	3,482
	5,335
Net obligations repayable:	
Within one year	10,500
Between one and five years	19,278
	29,778

11. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS AND LEASES - *continued*

The following payments are committed to be paid within one year:

	Land and buildings Operating leases £
Expiring:	
Between one and five years	19,800

12. SECURED DEBTS

The following secured debts are included within creditors:

	£
Bank overdrafts	151,218
Hire purchase contracts	29,778
	180,996

Bank of Scotland has taken a bond and floating charge subsequent to the year end over the assets of the company. The bank security is supported by a personal guarantee from P Newall who is a director.

13. CALLED UP SHARE CAPITAL

Authorised:

Number:	Class:	Nominal value:	£
1,000,000	Ordinary	£1	1,000,000

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	£
668,108	Ordinary	£1	668,108

During the period the following issues of shares took place :-

November 1999 750 shares at par value
December 1999 500 shares at a premium of £999 per share
December 1999 499,500 shares at NIL paid as a capitalisation issue drawn from the share premium account
February 2000 35,347 shares at par value
February 2000 53,021 shares at an average premium of £2.30 per share
June 2000 24,546 shares at par value £NIL paid in consideration for corporate finance services
December 2000 54,444 shares at an average premium of £3.99 per share

14. SHARE PREMIUM

	£
December 1999 Received	499,500
December 1999 Capitalisation Issue	(499,500)
February 2000 Received	121,979
December 2000 Received	217,551
	339,530

15. TRANSACTIONS WITH DIRECTORS

D Gordon was paid an aggregate amount of £325,000 in respect of costs incurred on behalf of, and consultancy services provided to, the company prior to its formation.

The company has accrued at the year end consultancy fees of £80,000 due to P Newall in respect of advice on insurance matters and fund raising matters.

16. RELATED PARTY DISCLOSURES

There is a non interest bearing directors loan at 31 March 2001 of £60,000 each from D Gordon and P Newall. Subsequent to the year end, as part of the rights issue in May 2001, these sums were utilised as subscriptions to that rights issue and are thus no longer due to the directors.

The directors D Gordon and P Newall are both shareholders in Ascot Management Solutions Limited. There is a licence agreement operating between Ascot Management Solutions Limited and the company allowing the company to exploit the patent held by Ascot Management Solutions Limited. Royalties are payable by the company to Ascot Management Solutions Limited in respect of future trade. The balance due to the company by Ascot Management Solutions Limited has no fixed repayment terms and is interest free (Note 7).

J Hamilton, a director, is a partner in a firm of Chartered Accountants which has during the period provided accountancy services to the company. The fees charged by the firm amount to £6,848

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	£
Loss for the financial period	(1,363,883)
Issue of share capital at a premium	1,007,638
Net reduction of shareholders' funds	(356,245)
Opening shareholders' funds	-
Closing shareholders' funds	(356,245)
Equity interests	(356,245)