Accountants and business advisors

HOMELINK TECHNOLOGIES LIMITED

Company Number: 201025 (Scotland)

ANNUAL REPORT

YEAR ENDED 31 MARCH 2003



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 St Vincent Street Glasgow G2 5NJ
Auditors	PKF Pannell House 6 Queen Street Leeds LS1 2TW
Solicitors	Maclay Murray & Spens 151 St Vincent Street Glasgow G2 5NJ
Bankers	Bank of Scotland Craigs House 78 Upper Craigs Stirling FK8 2DE

HOMELINK TECHNOLOGIES LIMITED

CONTENTS

	Page
DIRECTORS' REPORT	1 - 3
STATEMENT OF DIRECTORS' RESPONSIBILITIES	4
AUDITORS' REPORT	5 - 6
PROFIT AND LOSS ACCOUNT	7
BALANCE SHEET	8
NOTES TO THE FINANCIAL STATEMENTS	9 - 15

HOMELINK TECHNOLOGIES LIMITED
DIRECTORS' REPORT
YEAR ENDED 31 MARCH 2003

The directors submit their report and the financial statements for the year ended 31 March 2003.

Principal activity

The principal activity of the company in the year was that of the design and development of a home security system.

Going concern

Homelink Technologies Ltd has experienced very difficult trading conditions in the year to 31st March 2003. However, the Directors remain cautiously confident that the Company can continue to trade as a Going Concern for the next 12 months. The company has made losses in the year to 31 March 2004, according to the management accounts, of approximately £500,000 and further losses to the date of sign off of these accounts. The directors' confidence comes from the closure of a contract in Aston in October 2003, the likehood of receiving a Research and Development tax credit of approximately £125,000, and the agreement among shareholders to participate in a £115,000 rights issue. Additional initiatives are under way in order to improve the trading position of the company. These are detailed below.

Internal Cost Cutting and Fundraising
Significant headway has been made in cutting costs within the business wherever possible. Through a concerted programme of redundancies, cost review and careful planning, cash burn has been cut to around £35k from over £100k per month. Homelink have engaged the services of Catalyst Networks, a company which specializes in raising funding through a range of dilutive and non-dilutive sources. To this end, steps are currently being taken to secure a package of funding for Research & Development in the near future to assist with the working capital requirements of the company. The first round of about £125,000 is anticipated by Q3 2004 with an additional £100,000-£150,000 expected following preparation of the accounts and tax returns for 31 March 2003 and 2004. Catalyst are confident that with the winning of the Aston, Bradford and Salford contracts Homelink will be in a reasonably strong position to seek opportunities for raising funding from 3rd party investors.

In addition to this, Catalyst are also providing one of their Senior Executives to act as the CEO for Homelink. This course of action has increased monthly cash burn to around £47k from the current level of £35k.

The BT Sales Channel
BT have recently won a contract to supply 500 systems to Birmingham Aston Council which has generated £90,000 in funds for Homelink. This cash, in addition to cash receipts from current customers, funded the business through June 2004 when the rights issue took place.

The BT sales channel continues to generate prospects, with several giving grounds for optimism. In May 2004 contracts at Salford and Bradford were closed for 2,000 and 2,500 units respectively giving further confidence in the business model. These significant wins will provide the reference the Company needs in order to speed the closing process with other customers in the sales pipeline.

The non-BT Sales Channel
Homelink have engaged the services of an experienced ex-BT sales executive to sell into "new builds" within the house construction market. Several large national house builders have been targeted to date with some success. To date, several small sales are expected to generate larger amounts of business as the product is accepted onto the approved supplier lists of these large builders.

BT SafeHome; Homelink have recently signed an agreement that will allow the company to sell its product range - currently being sold into the Social Housing Market - into the Private Sector, using the

"BT SafeHome" brand name. The Board believe this will make the company's product lines particularly attractive to the "new build" private property market and some larger private landlords.

Catalyst Networks; Catalyst believe there are joint marketing opportunities available to Homelink to co-brand with large wireless network providers to help them secure customers. This would be by means of providing digital alarm systems with an emphasis on communicating "through the box" using the service providers facilities.

New Initiatives; Homelink are now actively looking into upgrading current product lines with the help of grants to move away from the traditional alarm market and into the Home Digital Communications area of service. A marine version of the product is currently being explored as well as a sensor to monitor water levels. This application could be particularly useful in a North American context as regards the prevention of basement flooding.

While trading remains difficult, the above provides the Board with cautious optimism that Homelink can continue to trade as a Going Concern. Accordingly the accounts have been prepared on a going concern basis.

Directors

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**	
	2003	2002	**2003**	2002
D Gordon (resigned 10 October 2002)	**-**	243,972	**-**	-
P Newall	**283,702**	349,259	**972,529**	790,525
S McHard	**4,147**	4,147	**24,180**	24,180
M Swanson	**28,124**	28,124	**102,715**	78,877
J White (resigned 6 October 2003)	**23,552**	23,552	**140,256**	111,349
D McLaughlin	-	-	-	-
N Taylor	-	-	-	-

Auditors

The auditors, PKF, will be proposed for reappointment in accordance with section 385 of the Companies Act 1985 relating to small companies.

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
30 July 2004

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 2003 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 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 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.

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 these uncertainties 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 2003 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
30 July 2004

HOMELINK TECHNOLOGIES LIMITED
PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 MARCH 2003

	Notes	2003 £	2002 £
TURNOVER	**2**	**247,646**	285,497
Cost of sales		**(440,471)**	(829,869)
GROSS LOSS		**(192,825)**	(544,372)
Administrative expenses		**(1,131,386)**	(877,128)
OPERATING LOSS	**3**	**(1,324,211)**	(1,421,500)
Interest receivable and similar income		**15,515**	387
Interest payable and similar charges		**(8,450)**	(18,149)
LOSS FOR THE FINANCIAL YEAR		**(1,317,146)**	(1,439,262)

HOMELINK TECHNOLOGIES LIMITED
BALANCE SHEET
31 MARCH 2003

	Notes	2003 £		2002 £	
FIXED ASSETS					
Tangible	6	**40,338**		87,253	
Investments	7	**100**		100	
		40,438		87,353	
CURRENT ASSETS					
Stocks	8	**23,886**		71,065	
Debtors	9	**141,783**		959,360	
Cash at bank and in hand		**450,828**		560,477	
		616,497		1,590,902	
CREDITORS: amounts falling due within one year	10	**(322,866)**		(425,770)	
NET CURRENT ASSETS			**293,631**		1,165,132
TOTAL ASSETS LESS CURRENT LIABILITIES			**334,069**		1,252,485
CREDITORS: amounts falling due after more than one year	11		**(500)**		(8,764)
NET ASSETS			**333,569**		1,243,721
CAPITAL AND RESERVES					
Called up share capital	12		**2,584,355**		2,672,767
Share premium account	13		**1,828,170**		1,374,099
Other reserves	13		**41,335**		-
Profit and loss account	13		**(4,120,291)**		(2,803,145)
			333,569		1,243,721

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 30 July 2004

Signed on behalf of the board of directors

Director

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 £1,317,146 in the year to 31 March 2003 (2002: loss of £1,439,262). The company has made losses in the year to 31 March 2004, according to the management accounts, of approximately £500,000 and further losses to the date of sign off of these accounts. The company has not prepared cash flow forecasts for the twelve months from the date of sign off of these accounts. Further details concerning the 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 cash flows. However, the directors believe that the company will be able to generate enough sales 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.

(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

Freehold land is not depreciated.

(d) Finance and operating leases

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.

Operating lease rentals are charged in the profit and loss account on a straight line basis over the lease term.

(e) Investments

Investments are stated at cost less less provision for any impairment.

1 ACCOUNTING POLICIES (continued)

(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) Research and development expenditure

Research and development expenditure is written off as incurred.

(h) 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.

2 TURNOVER

All turnover arose within the United Kingdom.

3 OPERATING LOSS

The operating loss is stated after charging:

	2003	2002
	£	£
Depreciation of tangible fixed assets:		
- owned by the company	**52,148**	28,497
- held under finance lease or hire purchase contracts	**9,714**	9,712
Audit fees	**6,000**	6,750
Operating lease rentals:		
Plant and machinery	**23,107**	22,104
Other	**-**	8,473

4 DIRECTORS' EMOLUMENTS AND BENEFITS

	2003	2002
	£	£
Aggregate of directors' emoluments and other benefits as defined in paragraph 1 of Sch 6 to the Companies Act 1985	**170,743**	83,385

No directors (2002 - none) were members of company pension schemes.

5 TAXATION

No UK corporation tax liability arose on ordinary activities in the year.

The tax losses carried forward at 31 March 2003 are approximately £3.8m. No deferred tax asset has been recognised in the accounts. The full amount of the unrecognised deferred tax asset is approximately £730,000 at 19%.

6 TANGIBLE FIXED ASSETS

	Motor vehicles £	Fixtures, fittings and office equipment £	Total £
Cost			
At 1 April 2002	**38,855**	**106,748**	**145,603**
Additions	**-**	**14,947**	**14,947**
At 31 March 2003	**38,855**	**121,695**	**160,550**
Depreciation			
At 1 April 2002	**20,235**	**38,115**	**58,350**
Charge for the year	**9,715**	**52,147**	**61,862**
At 31 March 2003	**29,950**	**90,262**	**120,212**
Net book amount			
At 31 March 2003	**8,905**	**31,433**	**40,338**
At 31 March 2002	18,620	68,633	87,253

7 FIXED ASSET INVESTMENTS

	Total £
Cost	
At 1 April 2002 and 31 March 2003	**100**
Net book amount	
At 31 March 2003	**100**
At 31 March 2002	**100**

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

	2003	2002
	£	£
Stocks	**23,886**	71,065

9 DEBTORS

	2003	2002
	£	£
Trade debtors	**90,108**	20,016
Other debtors	**51,675**	939,344
	141,783	959,360

10 CREDITORS:

Amounts falling due within one year

	2003	2002
	£	£
Trade creditors	**215,048**	341,083
Other taxation and social security	**20,026**	11,438
Net obligations under finance leases and hire purchase contracts	**8,278**	10,514
Other creditors	**79,514**	62,735
	322,866	425,770

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

11 CREDITORS:

Amounts falling due after more than one year

	2003	2002
	£	£
Net obligations under finance leases and hire purchase contracts	**500**	8,764

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 2002			
"A" Ordinary shares of £1 each	1,180,014	983,338	**983,338**
"B" Ordinary shares of £1 each	1,000,000	788,871	**788,871**
"B" Ordinary shares of 10p each	1,964,495	1,505,584	**150,558**
Preference shares of £1 each	750,000	750,000	**750,000**
	4,894,509	4,027,793	**2,672,767**
Movements in year:			
"A" Ordinary shares of £1 each	-	106,340	**106,340**
"B" Ordinary shares of £1 each	-	(243,972)	**(243,972)**
"B" Ordinary shares of 10p each	33,288	492,199	**49,220**
	33,288	354,567	**(88,412)**
At 31 March 2003			
"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**
	4,927,797	4,382,360	**2,584,355**

During the year 106,340 ordinary shares with an aggregate nominal value of £106,340 were issued for cash at par and with a premium of £90,336.

A rights issue of 3 for 14 "B" ordinary shares of 10p was offered to existing members during the year. The shares were offered for 83.9 pence per share and 492,199 10 pence "B" shares were issued.

During the year the company bought back 243,972 "B" ordinary £1 shares from David Gordon, a former director. The consideration was the payment of D Gordon's personal tax bill, which amounted to £202,637. The difference of £41,335 has been transferred to other reserves.

Each 'A' share and 'B' share shall carry one vote. The Preference shares shall have no right to vote in general meetings save on a resolution to wind up the company, in which case, the preference shares in issue at the relevant time shall carry, in aggregate, 50% of the voting rights at general meetings of the company on any such resolution.

No dividend shall, without the consent in writing of the Preference shareholders, be paid on shares other than Preference shares as long as any Preference shares have not been redeemed or converted or any Preference dividend has not been paid in full on or before the due date for payment and remains in arrears. 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.

12 SHARE CAPITAL (continued)

The holders of Preference shares shall be entitled in priority to any payment of dividend to the holders of any other class of share and are entitled to a cumulative preferential dividend equal to 8% of their par value. One half of such dividend is to be paid on each 30 September and 31 March during each year.

On winding up of the company, the Preference shareholders shall be entitled in priority to any payment to the holders of any other class of shares to the repayment of a sum equal to the nominal capital paid up or credited as paid up on Preference shares held by them together with a sum equal to all arrears and accruals of preference dividends.

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

13 RESERVES

Share premium account	**£**
At 1 April 2002	**1,374,099**
Premium on shares issued during the year	**454,071**
At 31 March 2003	**1,828,170**

Other reserves	**£**
At 1 April 2002	-
Transfer on share buy back	**41,335**
At 31 March 2003	**41,335**

Profit and loss account	**£**
At 1 April 2002	**(2,803,145)**
Loss for the year	**(1,317,146)**
At 31 March 2003	**(4,120,291)**

14 OTHER COMMITMENTS

At 31 March 2003 the company had annual commitments under operating leases as follows:

	2003	2002
	£	£
Expiry date:		
Within one year	-	27,937
Between two and five years	**22,104**	22,104

15 TRANSACTIONS WITH RELATED PARTIES

The balance due to the company by Ascot UK Limited at the year end was £103,394 (31 March 2002: £103,394). A provision of £103,394 has been made against this balance at 31 March 2003 (31 March 2002: £Nil). There are no fixed repayment terms relating to this amount and it is interest free.

P Newall was owed £49,121 by the company in respect of gross accrued salary at 31 March 2003 (31 March 2002: £Nil).

S McHard was owed £10,000 (31 March 2002: £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 £67,601 during the year (year to 31 March 2002: £163,952). The balance due to Maclay Murray & Spens at the year end was £56,066 (31 March 2002: £188,527).

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.