

Applied Imaging International Limited  
Annual report  
for the year ended 31 December 2003

Registered Number 1984637



Applied Imaging International Limited  
Annual report  
for the year ended 31 December 2003  
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# **Applied Imaging International Limited**

## **Directors' report for the year ended 31 December 2003**

The directors present their report and the audited financial statements of the company for the year ended 31 December 2003.

### **Principal activities**

The principal activity of Applied Imaging International Limited is the distribution of automated imaging systems utilised in genetics and pathology laboratories for the analysis of chromosomes in cancer and prenatal disorders.

### **Review of business and future developments**

The directors anticipate relatively flat revenue on a go forward basis as the Cytogenetics marketplace has become largely a replacement market with repeat customers buying new Cytogenetics products approximately every four to five years. The directors also believe that competition particularly in Western Europe and Asia has increased. The directors believe there are opportunities for small growth in some newly emerging markets such as Eastern Europe and the sub continent. On a go forward basis, we will continue to make moderate investments in product development to keep our Cytogenetics product offering competitive. The directors anticipate that the revenues derived from other product offerings such as the company's Ariol product will be largely focused in the North American marketplace and will be sold by our parent company although there may be opportunities for limited sales in certain European countries.

### **Results and dividends**

Turnover for the year was £6,053,066 (2003: £6,247,312) and the profit on ordinary activities before taxation was £265,722 (2003: £422,702).

The directors do not propose a dividend for the year (2003: £nil).

### **Directors and their interests**

The directors who held office during the year are given below:

P O'Kelly

C Hull (resigned 31 December 2004)

B Hotchkies (resigned 31 August 2004)

R Stracey (appointed 1 January 2005)

According to the register of directors' interests, no director had an interest in the shares of the company during the year.

The interests of the directors in the shares of the ultimate holding company, Applied Imaging Corporation, are disclosed in the financial statements of that company.

### **Research and development**

The company provides research, development and engineering services for the parent company, for which they are reimbursed.

### **Political and charitable contributions**

The company made no political or charitable contributions during the year (2002: £nil).

# Applied Imaging International Limited

## Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2003 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that 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.

## Independent auditors

A resolution to reappoint PricewaterhouseCoopers LLP will be proposed at the annual general meeting.

## By order of the Board



P O'Kelly  
Director  
8 November 2005

# Applied Imaging International Limited

## Independent auditors' report to the members of Applied Imaging International Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and 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 issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

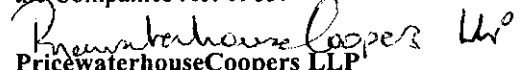
### Basis of audit opinion

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.

### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
**PricewaterhouseCoopers LLP**  
Chartered Accountants and Registered Auditors  
Newcastle upon Tyne  
8 November 2005

# Applied Imaging International Limited

## Profit and loss account for the year ended 31 December 2003

	Note	2003 £	2002 £
Turnover	1	6,053,066	6,247,312
Cost of sales		(3,125,486)	(2,900,731)
Gross profit		2,927,580	3,346,581
Distribution costs		(2,040,612)	(2,002,025)
Administrative expenses		(1,034,955)	(1,267,193)
Operating (loss)/profit		(147,987)	77,363
Interest receivable and similar income	5	413,709	345,441
Interest payable and similar charges	6	-	(102)
Profit on ordinary activities before taxation	2	265,722	422,702
Taxation on profit on ordinary activities	7	14,849	19,404
Profit for the financial year	15, 16	280,571	442,106

The company's results for the periods presented are from continuing activities.

There are no material differences between the profit on ordinary activities before taxation and the retained profit for the financial year stated above and their historical cost equivalents.

## Statement of total recognised gains and losses for the year ended 31 December 2003

	2003 £	2002 £
Profit for the financial year	280,571	442,106
Prior year adjustment arising from the implementation of FRS19	-	54,922
	280,571	497,028

# Applied Imaging International Limited

## Balance sheet as at 31 December 2003

	Note	2003 £	2003 £	2002 £	2002 £
<b>Fixed assets</b>					
Tangible assets	8		92,880		188,987
<b>Current assets</b>					
Stock	9	431,970		215,678	
Debtors	10	1,897,114		1,917,739	
Cash at bank and in hand		246,450		657,683	
		2,575,534		2,791,100	
<b>Creditors: amounts falling due within one year</b>	11	(2,825,501)		(3,385,132)	
<b>Net current liabilities</b>			(249,967)		(594,032)
<b>Total assets less current liabilities</b>			(157,087)		(405,045)
<b>Provisions for liabilities and charges</b>	12		(31,041)		(63,654)
<b>Net liabilities</b>			(188,128)		(468,699)
<b>Capital and reserves</b>					
Called up share capital	14		1,000,002		1,000,002
Share premium account	15		132,035		132,035
Capital contribution reserve	15		317,259		317,259
Profit and loss account	15		(1,637,424)		(1,917,995)
<b>Equity shareholders' funds</b>	16		(188,128)		(468,699)

The financial statements on pages 4 to 16 were approved by the board of directors on 8 November 2005 and signed on its behalf by:



P O'Kelly  
Director

# Applied Imaging International Limited

## Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements with the exception of the change in accounting policy in respect of deferred taxation, as explained below.

### Basis of preparation

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

The continuing operations of the company are dependent upon the financial support of the parent undertaking, Applied Imaging Corporation, which has indicated that it intends to support the operations of the company for the foreseeable future.

### Cash flow statement

Under Financial Reporting Standard 1 (revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that the parent undertaking includes the company in its own published consolidated financial statements.

### Foreign exchange

Transactions in foreign currencies during the year are translated into sterling at the rate of exchange ruling at the time the transactions take place. In arriving at the result for the year before taxation, account is taken of all gains or losses which either have been realised on settlement or are unrealised and arise on the translation of foreign currency assets and liabilities at the rate of exchange ruling at the balance sheet date.

### Depreciation

Depreciation of tangible fixed assets is provided on a straight line basis at the following rates per annum:

Fixtures, fittings and equipment	-	10 – 33.3%
Computer software	-	33.3%
Computer hardware	-	20 – 33.3%
Electronic equipment	-	33.3%

Expenditure on repairs and renewals is written off in the year in which it is incurred.

### Government grants

Grants related to revenue expenditure or job creation are credited to income in the period in which the expenditure occurs or the employment commences.

Capital based grants are included within accruals and deferred income in the balance sheet and credited to operating profit over the estimated useful economic lives of the assets to which they relate.

### Research and development expenditure

Expenditure on research and development is written off in the year in which it is incurred, unless a commercial product has been identified. Development costs are then capitalised and written off over their estimated economic life from the date the product is launched.



# Applied Imaging International Limited

## **Leased assets**

Assets acquired under finance leases are capitalised under tangible fixed assets and are depreciated over their useful economic lives. The relevant lease capital liability outstanding is included in creditors. Lease finance charges are charged to the profit and loss account.

The costs of operating leases are charged to profit and loss account as they arise.

## **Pension costs**

The company operates a defined contribution scheme and contributions are charged to the profit and loss account as they become payable. The scheme is independent of the finances of the company.

## **Stocks**

Stocks are stated at the lower of cost and net realisable value. Cost comprises the purchase price of materials, direct labour costs and production overheads incurred up to the state of manufacture reached.

## **Product guarantees/warranties**

Provision has been made for the estimated future cost of maintenance under guarantees in respect of products sold.

## **Taxation**

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. This is with the exception of deferred taxation assets, which are only recognised if it is considered more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

## **Turnover**

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers. The company recognises turnover on product sales upon shipment where receipt of cash is not contingent upon some other event. Contingent sales are deferred until the contingency crystallises. Expected hardware warranty expenses and product returns are accrued. Turnover also includes amounts received in relation to research and development work conducted for the parent by the company.

# Applied Imaging International Limited

## Notes to the financial statements for the year ended 31 December 2003

### 1 Turnover

The analysis of turnover by geographical area is as follows:

	2003	2002
	£	£
<b>By geographical market</b>		
United Kingdom	1,924,197	1,389,599
Rest of Europe	2,350,771	2,247,634
USA	834,197	973,108
Rest of World	943,901	1,636,971
	<b>6,053,066</b>	<b>6,247,312</b>

### 2 Profit on ordinary activities before taxation

	2003	2002
	£	£
<b>Profit on ordinary activities before taxation is stated after charging / (crediting):</b>		
Auditors' remuneration:		
- audit services	27,000	20,000
- non-audit services	10,000	6,000
Depreciation on tangible fixed assets	96,624	113,118
Operating lease charges		
- plant and machinery	23,256	40,154
- other	192,760	112,792
Research and development	273,606	814,859
Exchange gain	(409,468)	(345,012)

# Applied Imaging International Limited

## 3 Directors' emoluments

	2003	2002
	£	£
Aggregate emoluments	93,152	97,752
Aggregate amounts paid to defined contribution pension scheme	4,715	4,715

The number of directors who received contributions from the company towards their defined contribution pension scheme was one (2002: one).

## 4 Employee information

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2003	2002
	Number	Number
Production	4	4
Technical	11	11
Administration	4	4
Sales/marketing	13	15
	32	34

The aggregate payroll costs of these persons were as follows:

	2003	2002
	£	£
Wages and salaries	1,476,368	1,418,129
Social security costs	186,367	162,222
Other pension costs (note 18)	48,371	54,897
	1,711,106	1,635,248

# Applied Imaging International Limited

## 5 Interest receivable and similar income

	2003	2002
	£	£
Bank interest	4,241	429
Net exchange gain	409,468	345,012
	413,709	345,441

## 6 Interest payable and similar charges

	2003	2002
	£	£
Bank loan and overdraft	-	102

## 7 Taxation on profit on ordinary activities

### (a) Analysis of charge in the period

	2003	2002
	£	£
<b>Current tax</b>		
UK corporation tax at 30% (2002: 30%)	-	-
Adjustments in respect of prior periods	90,905	-
Total current tax	90,905	-
<b>Deferred tax</b>		
Origination and reversal of timing differences	(105,754)	(19,404)
	(14,849)	(19,404)

# Applied Imaging International Limited

## 7 Taxation on profit on ordinary activities (continued)

### (b) Factors affecting tax charge for the period

The tax assessed for the period is different than the standard rate of corporation tax in the UK. The differences are explained below:

	2003	2002
	£	£
<b>Profit/(loss) on ordinary activities before tax</b>	<b>265,722</b>	<b>422,702</b>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	79,717	126,811
<i>Effects of:</i>		
Expenses not deductible for tax purposes	7,086	7,070
Accelerated capital allowances and other timing differences	(86,803)	(133,881)
Adjustments to tax charge in respect of previous period	90,905	-
<b>Current tax charge for the year</b>	<b>90,905</b>	<b>-</b>

### (c) Factors that may affect future tax charges

The company has tax losses of £742,839 (2002: £687,211) available for set-off against future trading profit.

# Applied Imaging International Limited

## 8 Tangible fixed assets

	Test equipment £	Office fixtures and equipment £	Leasehold improvements £	Total £
At 1 January 2003	110,140	336,164	106,296	552,599
Additions	-	517	-	517
Disposals	-	-	-	-
<b>At 31 December 2003</b>	<b>110,140</b>	<b>336,681</b>	<b>106,296</b>	<b>553,116</b>
<b>Depreciation</b>				
At 1 January 2003	29,449	238,163	96,000	363,612
Charge for year	37,231	49,097	10,296	96,624
Disposals	-	-	-	-
<b>At 31 December 2003</b>	<b>66,680</b>	<b>287,260</b>	<b>106,296</b>	<b>460,236</b>
<b>Net book value</b>				
<b>At 31 December 2003</b>	<b>43,460</b>	<b>49,421</b>	<b>-</b>	<b>92,880</b>
At 31 December 2002	80,691	98,002	10,295	188,987

## 9 Stocks

	2003 £	2002 £
Raw materials and consumables	48,996	29,289
Finished goods and goods for resale	382,974	186,389
	<b>431,970</b>	<b>215,678</b>

# Applied Imaging International Limited

## 10 Debtors

	2003	2002
	£	£
Trade debtors	1,575,741	1,748,312
Other debtors	141,293	95,101
Deferred tax asset (see note 13)	180,080	74,326
	1,897,114	1,917,739

## 11 Creditors: amounts falling due within one year

	2003	2002
	£	£
Trade creditors	187,763	409,459
Amounts owed to parent undertaking	849,075	2,040,894
Corporation tax	90,905	-
Other taxation and social security	57,663	82,161
Accruals and deferred income	1,640,095	852,618
	2,825,501	3,385,132

## 12 Provisions for liabilities and charges

	Guarantee provision
	£
At 1 January 2003	63,654
Utilised during the year	(80,649)
Charge for the year	48,036
At 31 December 2003	31,041

The provision is set up for potential warranty costs on products sold under the terms and conditions of the guarantee agreement within the sales contracts.

# Applied Imaging International Limited

## 13 Deferred taxation

	£
At 1 January 2003	(74,326)
Deferred tax charge for the year	(105,754)
<b>At 31 December 2003</b>	<b>(180,080)</b>

Deferred tax comprises:

	2003 £	2002 £
Accelerated capital allowances	(45,068)	(44,729)
Short term timing differences	(9,312)	(29,597)
Losses	(125,700)	-
	<b>(180,080)</b>	<b>(74,326)</b>

The amounts of deferred taxation unprovided are set out below:

	2003 £	2002 £
Losses	(102,852)	(206,163)

The deferred tax asset in respect of losses has been recognised to the extent that it is expected to reverse in the foreseeable future in accordance with FRS 19.

## 14 Called up share capital

	2003 £	2002 £
<b>Authorised</b>		
Ordinary shares of £1 each	1,001,000	1,001,000
<b>Allotted, called up and fully paid</b>		
Ordinary shares of £1 each	1,000,002	1,000,002



# Applied Imaging International Limited

## 15 Reserves

	Profit and loss account £	Capital contribution reserve £	Share premium account £
At 1 January 2003	(1,917,995)	317,259	132,035
Profit for the financial year	280,571	-	-
<b>At 31 December 2003</b>	<b>(1,637,424)</b>	<b>317,259</b>	<b>132,035</b>

The capital contribution reserve comprises the capital element of a loan from the parent undertaking, which was waived in 1994 by the parent undertaking.

## 16 Movement in equity shareholders' funds

	2003 £	2002 £
Opening shareholders' funds as previously reported	(468,699)	(956,727)
Prior year adjustment arising for the implementation of FRS19	-	54,922
Opening shareholders' funds as restated	(468,699)	(910,805)
Profit for the financial year	280,571	442,106
<b>At 31 December 2003</b>	<b>(188,128)</b>	<b>(468,699)</b>

## 17 Financial commitments

There were no capital commitments at the end of the financial year or preceding year for which no provision has been made.

At 31 December 2003 the company had annual commitments under non-cancellable operating leases as follows:

	2003		2002	
	Land and buildings £	Other £	Land and buildings £	Other £
Due less than one year	-	8,718	-	2,253
Between one and five years	119,373	10,789	150,020	14,853
	<b>119,373</b>	<b>19,507</b>	<b>150,000</b>	<b>17,106</b>

# **Applied Imaging International Limited**

## **18 Pensions**

The company operates a defined contribution pension scheme and also pays contributions to individual's own pension arrangements. The pension cost charge for the period of £48,371 (2002: £54,897) represents contributions payable by the company to the funds. There were no accrued or prepaid contributions at the year end (2002: £nil).

## **19 Related party transactions**

As the company is a wholly owned subsidiary of Applied Imaging Corporation, the company has taken advantage of the exemption contained in FRS 8 "Related Party Disclosures" and has therefore not disclosed transactions or balances with entities which form part of the group.

## **20 Ultimate parent undertaking and controlling party**

The ultimate parent undertaking and controlling party is Applied Imaging Corporation, a company incorporated in the United States of America, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of Applied Imaging Corporation consolidated financial statements can be obtained from the Company Secretary at 120 Baytrch Drive, San Jose, California, 95134.