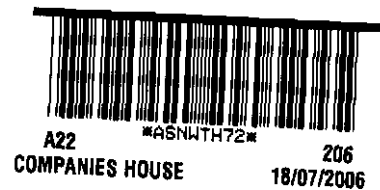


Applied Imaging International Limited
Annual report
for the year ended 31 December 2004

Registered Number 1984637



Applied Imaging International Limited
Annual report
for the year ended 31 December 2004
Contents

Directors' report for the year ended 31 December 2004	1
Independent auditors' report to the members of Applied Imaging International Limited	3
Profit and loss account for the year ended 31 December 2004.....	4
Balance sheet as at 31 December 2004.....	5
Accounting policies	6
Notes to the financial statements for the year ended 31 December 2004	8

Applied Imaging International Limited

Directors' report for the year ended 31 December 2004

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

Principal activities

The principal activity of Applied Imaging International Limited is the distribution of automated imaging and image analysis systems for the detection and characterization of chromosomes and molecular markers in genetics and cancer applications.

Review of business and future developments

The directors anticipate relatively flat revenue going forward as the Cytogenetics marketplace has become largely a replacement market with repeat customers buying new Cytogenetics products approximately every five years. The directors also believe that competition particularly in Western Europe has increased. The directors believe that there are opportunities for small growth in some newly emerging markets such as Eastern Europe and the sub continent. Going forward, 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 £5,823,274 (2003: £6,053,066) and the profit on ordinary activities before taxation was £369,546 (2003: £265,722).

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 (resigned 13 March 2006)
C Hull (resigned 31 December 2004)
B Hotchkies (resigned 31 August 2004)
R Stracey (appointed 1 January 2005)
T Griffin (appointed 16 February 2006)

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 (2003: £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 2004 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.

By order of the Board



T Griffin
Director
29 June 2006

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, the accounting policies 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.

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 2004 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

29 June 2006

Applied Imaging International Limited

Profit and loss account for the year ended 31 December 2004

	Note	2004 £	2003 £
Turnover	1	5,823,274	6,053,066
Cost of sales		(2,431,356)	(3,125,486)
Gross profit		3,391,918	2,927,580
Distribution costs		(1,628,252)	(2,040,612)
Administrative expenses		(1,534,017)	(1,034,955)
Operating profit/(loss)		229,649	(147,987)
Interest receivable and similar income	5	139,897	413,709
Profit on ordinary activities before taxation	2	369,546	265,722
Taxation on profit on ordinary activities	6, 12	(22,276)	14,849
Profit for the financial year	14, 15	347,270	280,571

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

The company has no recognised gains and losses other than the profit shown above and therefore no separate statement of total recognised gains and losses has been presented.

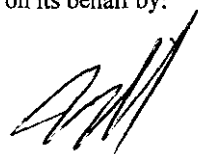
There are no material differences between the profit on ordinary activities before taxation and the retained profit for the financial year stated above and their historical cost equivalents.

Applied Imaging International Limited

Balance sheet as at 31 December 2004

	Note	2004 £	2004 £	2003 £	2003 £
Fixed assets					
Tangible assets	7		52,956		92,880
Current assets					
Stock	8	362,158		431,970	
Debtors	9	1,172,145		1,897,114	
Cash at bank and in hand		364,435		246,450	
		1,898,738		2,575,534	
Creditors: amounts falling due within one year	10	(1,744,735)		(2,825,501)	
Net current assets/(liabilities)			154,003		(249,967)
Total assets less current liabilities			206,959		(157,087)
Provisions for liabilities and charges	11		(47,817)		(31,041)
Net assets/(liabilities)			159,142		(188,128)
Capital and reserves					
Called up share capital	13		1,000,002		1,000,002
Share premium account	14		132,035		132,035
Capital contribution reserve	14		317,259		317,259
Profit and loss account	14		(1,290,154)		(1,637,424)
Equity shareholders' funds/(deficit)	15		159,142		(188,128)

The financial statements on pages 4 to 16 were approved by the board of directors on 29 June 2006 and signed on its behalf by:



T Griffin
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.

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 2004

1 Turnover

The analysis of turnover by geographical area is as follows:

	2004	2003
	£	£
By geographical market		
United Kingdom	680,520	1,924,197
Rest of Europe	2,051,295	2,350,771
USA	876,811	834,197
Rest of World	2,214,648	943,901
	5,823,274	6,053,066

2 Profit on ordinary activities before taxation

	2004	2003
	£	£
Profit on ordinary activities before taxation is stated after charging / (crediting):		
Auditors' remuneration:		
- audit services	25,000	27,000
- non-audit services	6,150	10,000
Depreciation on tangible fixed assets	63,158	96,624
Operating lease charges		
- plant and machinery	11,202	23,256
- other	192,760	192,760
Research and development	173,374	273,606
Exchange gain	(135,718)	(409,468)

Applied Imaging International Limited

3 Directors' emoluments

	2004	2003
	£	£
Aggregate emoluments	90,000	93,152
Aggregate amounts paid to defined contribution pension scheme	4,838	4,715

The number of directors who received contributions from the company towards their defined contribution pension scheme was one (2003: 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	
	2004	2003
	Number	Number
Production	-	4
Technical	15	11
Administration	4	4
Sales/marketing	8	13
	27	32

The aggregate payroll costs of these persons were as follows:

	2004	2003
	£	£
Wages and salaries	1,218,432	1,476,368
Social security costs	182,001	186,367
Other pension costs (note 17)	48,922	48,371
	1,449,355	1,711,106

Applied Imaging International Limited

5 Interest receivable and similar income

	2004 £	2003 £
Bank interest	4,179	4,241
Net exchange gain	135,718	409,468
	139,897	413,709

6 Taxation on profit on ordinary activities

(a) Analysis of charge in the period

	2004 £	2003 £
Current tax		
UK corporation tax at 30% (2003: 30%)	-	-
Adjustments in respect of prior periods	-	90,905
Total current tax	-	90,905
Deferred tax		
Origination and reversal of timing differences	22,276	(105,754)
	22,276	(14,849)

Applied Imaging International Limited

6 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:

	2004	2003
	£	£
Profit on ordinary activities before tax	369,546	265,722
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)	110,864	79,717
<i>Effects of:</i>		
Expenses not deductible for tax purposes	14,264	7,086
Accelerated capital allowances and other timing differences	(125,128)	(86,803)
Adjustments to tax charge in respect of previous period	-	90,905
Current tax charge for the year	-	90,905

(c) Factors that may affect future tax charges

The company has tax losses of £331,807 (2003: £742,839) available for set-off against future trading profit.

Applied Imaging International Limited

7 Tangible fixed assets

	Test equipment £	Office fixtures and equipment £	Leasehold improvements £	Total £
At 1 January 2004	110,140	336,680	106,296	553,116
Additions	-	23,234	-	23,234
Disposals	-	(161,516)	-	(161,516)
At 31 December 2004	110,140	198,398	106,296	414,834
Depreciation				
At 1 January 2004	66,680	287,260	106,296	460,236
Charge for year	33,863	29,295	-	63,158
Disposals	-	(161,516)	-	(161,516)
At 31 December 2004	100,543	155,039	106,296	361,878
Net book value				
At 31 December 2004	9,597	43,359	-	52,956
At 31 December 2003	43,460	49,420	-	92,880

8 Stocks

	2004 £	2003 £
Raw materials and consumables	54,371	48,996
Finished goods and goods for resale	307,787	382,974
	362,158	431,970

Applied Imaging International Limited

9 Debtors

	2004	2003
	£	£
Trade debtors	896,273	1,575,741
Other debtors	118,068	141,293
Deferred tax asset (see note 12)	157,804	180,080
	1,172,145	1,897,114

10 Creditors: amounts falling due within one year

	2004	2003
	£	£
Trade creditors	185,160	187,763
Amounts owed to group undertakings	477,743	849,075
Corporation tax	90,905	90,905
Other taxation and social security	32,487	57,663
Accruals and deferred income	958,440	1,640,095
	1,744,735	2,825,501

11 Provisions for liabilities and charges

	Guarantee provision
	£
At 1 January 2004	31,041
Utilised during the year	(86,096)
Charge for the year	102,872
At 31 December 2004	47,817

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

12 Deferred taxation

	£
At 1 January 2004	(180,080)
Deferred tax charge for the year	22,276
At 31 December 2004	(157,804)

Deferred tax comprises:

	2004 £	2003 £
Accelerated capital allowances	(43,917)	(45,068)
Short term timing differences	(14,345)	(9,312)
Losses	(99,542)	(125,700)
	(157,804)	(180,080)

The amounts of deferred taxation unprovided are set out below:

	2004 £	2003 £
Losses	-	(102,852)

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.

13 Called up share capital

	2004 £	2003 £
Authorised		
Ordinary shares of £1 each	1,001,000	1,001,000
Allotted, called up and fully paid		
Ordinary shares of £1 each	1,000,002	1,000,002

Applied Imaging International Limited

14 Reserves

	Profit and loss account £	Capital contribution reserve £	Share premium account £
At 1 January 2004	(1,637,424)	317,259	132,035
Profit for the financial year	347,270	-	-
At 31 December 2004	(1,290,154)	317,259	132,035

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

15 Movement in equity shareholders' funds

	2004 £	2003 £
Opening shareholders' funds as previously reported	(188,128)	(468,699)
Profit for the financial year	347,270	280,571
At 31 December 2004	159,142	(188,128)

16 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 2004 the company had annual commitments under non-cancellable operating leases as follows:

	2004		2003	
	Land and buildings £	Other £	Land and buildings £	Other £
Due less than one year	-	-	-	8,718
Between one and five years	119,373	10,789	119,373	10,789
	119,373	10,789	119,373	19,507

Applied Imaging International Limited

17 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 £48,922 (2003: £48,371) represents contributions payable by the company to the funds. There were no accrued or prepaid contributions at the year end (2003: £nil).

18 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.

19 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.