

GENETIX LIMITED

Report and Financial Statements

31 December 2005



REPORT AND FINANCIAL STATEMENTS 2005

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REPORT AND FINANCIAL STATEMENTS 2005

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

M A Reid
A J Kellett
Prof J F Burke

SECRETARY

S C Hedger

REGISTERED OFFICE

Queensway
New Milton
Hampshire
BH25 5NN

BANKERS

Barclays Bank plc
PO Box 612
Ocean Way
Southampton
SO14 2ZP

SOLICITORS

Olswang
90 High Holborn
London
WC1V 6XX

AUDITORS

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Southampton

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

ACTIVITIES

The principal activity of the company is the design and manufacture of automated systems and related products for use in systems biology.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The company traded satisfactorily throughout the year under review and the directors are confident that the company will continue to grow and provide profitable returns.

RESEARCH AND DEVELOPMENT

The company continues an active programme of research and development, the costs of which in the year amounted to £1,237,829 (2004: £1,500,285). New and improved products are continuing to be developed.

RESULTS AND DIVIDENDS

The results for the year are set out in detail on page 5. Dividends paid in the year amounted to £1,500,000 (2004: £nil) and no final dividend is proposed.

DIRECTORS AND THEIR INTERESTS

The following directors served during the year. No director had any interests in the shares of the company during the year.

M A Reid

T Bell (resigned 11 January 2006)

G S Corsi (resigned 31 January 2006)

Dr S Richards (resigned 20 January 2006)

A J Kellett (appointed 27 March 2006)

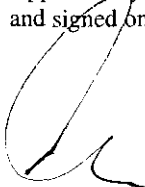
Prof J F Burke (appointed 30 January 2006)

M A Reid, A J Kellett and Prof J F Burke are also directors of Genetix Group plc, the ultimate parent undertaking, and accordingly their interests in the share capital of that company are shown in its financial statements.

AUDITORS

A resolution to re-appoint Deloitte & Touche LLP as the company's auditors will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



S C Hedger
Secretary
4 July 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare the accounts for the company in accordance with United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare such financial statements for each financial year which give a *true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice of the state of affairs of the company and of the profit or loss of the company for that period and comply with UK GAAP and the Companies Act 1985*. 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;
- state whether applicable accounting standards have been followed; and
- 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GENETIX LIMITED

We have audited the financial statements of Genetix Limited for the year ended 31 December 2005, which comprise the profit and loss account, the balance sheet and the related notes 1 to 21. 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 auditors' 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

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and whether the financial statements have been 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 other transactions with the company is not disclosed.

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

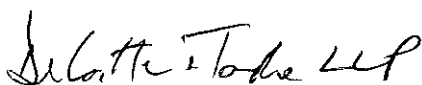
Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 circumstances of the company, 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 in accordance with United Kingdom Generally Accepted Accounting Practice of the state of affairs of the company as at 31 December 2005 and of its profit for the year then ended and the financial statements have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Southampton, United Kingdom

July 2006

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2005

	Note	2005 £	2004 £
TURNOVER: continuing operations	2	12,047,510	12,057,690
Cost of sales		(6,396,712)	(7,403,819)
GROSS PROFIT		5,650,798	4,653,871
Administrative expenses		(3,672,396)	(3,545,623)
OPERATING PROFIT: continuing operations	3	1,978,402	1,108,248
Interest receivable and similar income		42,188	11,472
Interest payable and similar charges	5	(6,488)	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		2,014,102	1,119,720
Tax on profit on ordinary activities	6	(403,308)	(32,594)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		1,610,794	1,087,126
Dividends paid	7	(1,500,000)	-
RETAINED PROFIT FOR THE FINANCIAL YEAR	16, 17	110,794	1,087,126

There are no recognised gains and losses for the current and prior year other than as stated above. Accordingly a statement of total recognised gains and losses is not presented.

BALANCE SHEET
At 31 December 2005

	Note	2005 £	2004 £
FIXED ASSETS			
Intangible assets	8	173,882	294,012
Tangible assets	9	2,177,622	2,188,976
Investments	10	46,317	46,317
		<u>2,397,821</u>	<u>2,529,305</u>
CURRENT ASSETS			
Stocks	11	1,464,064	1,665,782
Debtors	12	2,696,630	3,183,373
Cash at bank and in hand		2,769,641	1,740,826
		<u>6,930,335</u>	<u>6,589,981</u>
CREDITORS: amounts falling due within one year	13	(3,445,152)	(3,314,931)
NET CURRENT ASSETS		<u>3,485,183</u>	<u>3,275,050</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		5,883,004	5,804,355
PROVISIONS FOR LIABILITIES AND CHARGES	14	(439,984)	(472,129)
NET ASSETS		<u>5,443,020</u>	<u>5,332,226</u>
CAPITAL AND RESERVES			
Called up share capital	15	101	101
Profit and loss account	16	5,442,919	5,332,125
TOTAL EQUITY SHAREHOLDERS' FUNDS	17	<u>5,443,020</u>	<u>5,332,226</u>

Signed on behalf of the Board of Directors on 4 July 2006


A.J. Kellett
Director

NOTES TO THE ACCOUNTS

Year ended 31 December 2005

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Group accounts

The company is exempt from the requirement to prepare group accounts by the Companies Act 1985 (S228) and FRS 2 section 2(21) as it is a wholly owned subsidiary undertaking of Genetix Group plc, which itself prepares group accounts. These financial statements therefore present information about the company as an individual undertaking and not about its group.

Turnover

Turnover represents the sales value of goods and services to external customers falling within the company's ordinary activities. Sales of individual instruments are accounted for as long-term contracts being recognised when the final outcome can be assessed with reasonable certainty. Profit is recognised on long-term contracts if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs as contract activity progresses. Turnover is calculated by reference to the value of work performed to date as a proportion of total contract value. Sales of consumables are recognised on delivery of product, and services contracts evenly over the contractual period.

Turnover is stated net of trade discount and sales related taxes.

Turnover and operating result are attributable to the principal activity of the company.

Pensions

The company operates a stakeholder pension scheme for its UK employees.

Foreign currency

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Adjustments resulting from exchange fluctuations have been reflected in the profit and loss account.

The company uses derivative financial instruments solely to reduce the exposure to foreign exchange risk.

Government grants

Government grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Other grants are credited to the profit and loss account as the related expenditure is incurred.

Research and development

Research and development expenditure is charged to the profit and loss account as incurred.

Product warranties

Provision is made for the anticipated cost of expected claims against product warranties on products sold.

Intangible assets - patents and licences

Patents and licences are valued at cost on acquisition and are depreciated in equal annual instalments over their estimated useful lives of four years.

NOTES TO THE ACCOUNTS **Year ended 31 December 2005**

1. ACCOUNTING POLICIES (continued)

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation and provision for impairment. Depreciation is provided in equal annual instalments in order to write off the cost of each asset over its estimated useful life at the following rates:

Freehold property	2% per annum
Plant and machinery	25-50% per annum
Motor vehicles	25% per annum
Fixtures and fittings	25% per annum

Freehold land is not depreciated.

Investments

Investments held as fixed assets are stated at cost less provision for any impairment in value.

Stocks

Stocks and work-in-progress are stated at the lower of cost and net realisable value, after making allowance for obsolete and slow moving items.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets and liabilities are not discounted.

2. TURNOVER

In the opinion of the directors, the company operates only one class of business generated in the United Kingdom. Turnover can be analysed as follows:

	2005 £	2004 £
By geographic destination:		
United Kingdom	1,303,056	1,656,544
Rest of Europe	2,555,528	2,673,172
North America	6,212,498	6,603,770
Asia	958,545	952,808
Rest of World	1,017,883	171,396
	<u>12,047,510</u>	<u>12,057,690</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2005

3. OPERATING PROFIT

	2005 £	2004 £
Operating profit is stated after charging/(crediting):		
Depreciation of owned assets	232,592	240,873
Amortisation of patents and licences	242,396	125,687
Profit on disposal of fixed assets	(2,550)	(3,449)
Auditors' remuneration:		
<u>Audit services</u>		
Statutory audit	12,935	14,500
Audit related regulatory reporting	783	2,700
<u>Tax services</u>		
Compliance services	3,200	3,800
Research and development (including salaries)	1,237,829	1,500,285
Grant recoveries	(7,018)	(424,880)
Exchange gain on foreign currency transactions	(314,270)	(141,870)
	<u>2,573,104</u>	<u>2,837,485</u>

4. INFORMATION REGARDING EMPLOYEES

None of the directors received any remuneration from the company during the year (2004: £nil).

	2005 No.	2004 No.
Average number of persons employed in the year:		
Sales and marketing	14	16
Research and development	25	23
Production and customer support	25	27
Administration	8	8
Laboratory	3	6
	<u>75</u>	<u>80</u>

	2005 £	2004 £
Staff costs incurred during the year in respect of these employees were:		
Wages and salaries	2,305,445	2,560,508
Social security costs	263,659	275,361
Pension costs	4,000	1,616
	<u>2,573,104</u>	<u>2,837,485</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2005 £	2004 £
Interest payable on corporation tax	<u>6,488</u>	<u>-</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2005

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2005	2004
	£	£
Current tax		
United Kingdom corporation tax at 30% (2004: 30%)	417,603	196,583
Adjustment in respect of prior years	(20,818)	(175,060)
Total current tax	<u>396,785</u>	<u>21,523</u>
Deferred tax		
Timing differences	6,523	11,071
Total deferred tax	<u>6,523</u>	<u>11,071</u>
Total tax on profit on ordinary activities	<u><u>403,308</u></u>	<u><u>32,594</u></u>

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK of 30% (2004: 30%).

The differences are detailed below:

	2005	2004
	%	%
Standard tax rate for year as a percentage of profits	30	30
Effects of:		
Expenses not deductible for tax purposes	-	1
Capital allowances in excess of depreciation	-	(2)
Movement in short term timing differences	-	1
R&D tax credit	(9)	(12)
Prior period adjustments	(1)	(16)
Current tax rate for year as a percentage of profits	<u><u>20</u></u>	<u><u>2</u></u>

7. DIVIDENDS

	2005	2004
	£	£
Ordinary shares		
Dividends paid – £147.78 (2004: £nil per share)	<u><u>1,500,000</u></u>	<u><u>-</u></u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2005

8. INTANGIBLE FIXED ASSETS

	Patents and licences £
Cost	
At 1 January 2005	615,329
Additions	122,266
	<hr/>
At 31 December 2005	737,595
	<hr/>
Accumulated amortisation	
At 1 January 2005	321,317
Charge for the year	242,396
	<hr/>
At 31 December 2005	563,713
	<hr/>
Net book value	
At 31 December 2005	173,882
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At 31 December 2004	294,012
	<hr/>

9. TANGIBLE FIXED ASSETS

	Freehold land and buildings £	Plant and machinery £	Motor vehicles £	Fixtures and fittings £	Total £
Cost					
At 1 January 2005	2,025,126	1,054,188	34,920	206,770	3,321,004
Additions	-	246,577	23,000	-	269,577
Disposals	-	(61,723)	(14,114)	-	(75,837)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2005	2,025,126	1,239,042	43,806	206,770	3,514,744
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated depreciation					
At 1 January 2005	181,274	718,595	29,284	202,875	1,132,028
Charge for the year	40,504	176,602	11,591	3,895	232,592
Disposals	-	(13,384)	(14,114)	-	(27,498)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2005	221,778	881,813	26,761	206,770	1,337,122
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value					
At 31 December 2005	1,803,348	357,229	17,045	-	2,177,622
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	1,843,852	335,593	5,636	3,895	2,188,976
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NOTES TO THE ACCOUNTS
Year ended 31 December 2005

10. INVESTMENTS HELD AS FIXED ASSETS

	Shares in subsidiaries £
At 1 January 2005 and 31 December 2005	46,317

Subsidiaries	Country of incorporation/ registration and operation	Principal activity	Percentage of equity shares held %
Genescreen Limited	England and Wales	Provision of scientific services	100
Genetix USA Inc.	United States of America	Marketing company for North America	100

11. STOCKS

	2005 £	2004 £
Raw materials	788,240	904,040
Work in progress	110,993	41,416
Finished goods	564,831	720,326
	<u>1,464,064</u>	<u>1,665,782</u>

12. DEBTORS

	2005 £	2004 £
Trade debtors	2,379,737	2,242,927
Amounts owed by group undertakings	101,153	678,610
Other debtors	151,805	185,777
Prepayments and accrued income	63,935	76,059
	<u>2,696,630</u>	<u>3,183,373</u>

All debtors are due within one year.

NOTES TO THE ACCOUNTS
Year ended 31 December 2005

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005	2004
	£	£
Trade creditors	568,292	838,934
Amounts owed to group undertakings	961,219	937,547
Corporation tax	402,431	393,225
Other taxation and social security	106,742	100,796
Other creditors	28,822	182,207
Accruals and deferred income	1,377,646	862,222
	<u>3,445,152</u>	<u>3,314,931</u>

14. PROVISIONS FOR LIABILITIES AND CHARGES

	Product warranties £	Deferred tax £	Total £
Balance at 1 January 2005	152,374	319,755	472,129
Utilised in year	(54,816)	-	(54,816)
Profit and loss charge	16,148	6,523	22,671
	<u>113,706</u>	<u>326,278</u>	<u>439,984</u>

Product warranties

A provision of £113,706 has been recognised for expected claims against product warranties on products sold during the year. It is expected that most of this expenditure will be incurred in the next financial year.

Deferred taxation

Deferred taxation has been provided in the financial statements as follows:

	2005	2004
	£	£
Capital allowances in excess of depreciation	368,508	365,090
Other timing differences	(42,230)	(45,335)
	<u>326,278</u>	<u>319,755</u>

15. CALLED UP SHARE CAPITAL

	Number	2005	2004
		£	£
Authorised:			
Ordinary shares of 1p each	200,000	2,000	2,000
	<u>200,000</u>	<u>2,000</u>	<u>2,000</u>
Called up, allotted and fully paid:			
Ordinary shares of 1p each	10,150	101	101
	<u>10,150</u>	<u>101</u>	<u>101</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2005

16. PROFIT AND LOSS ACCOUNT

	2005	2004
	£	£
At 1 January 2005	5,332,125	4,244,999
Retained profit for the year	110,794	1,087,126
	<hr/>	<hr/>
At 31 December 2005	<u>5,442,919</u>	<u>5,332,125</u>

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2005	2004
	£	£
Profit for the financial year	1,610,794	1,087,126
Dividends	(1,500,000)	-
	<hr/>	<hr/>
Net addition to shareholders' funds	110,794	1,087,126
Opening shareholders' funds at 1 January 2005	5,332,226	4,245,100
	<hr/>	<hr/>
Closing shareholders' funds at 31 December 2005	<u>5,443,020</u>	<u>5,332,226</u>

18. ULTIMATE PARENT COMPANY

The ultimate parent company is Genetix Group plc, a company incorporated in the United Kingdom. Genetix Group plc is the largest and smallest group for which group financial statements are prepared. Copies of the group financial statements can be obtained from Queensway, New Milton, Hampshire, BH25 5NN.

19. ULTIMATE CONTROLLING PARTY

M A Reid, director, is the ultimate controlling party of the company by virtue of his interests in the shares of Genetix Group plc.

20. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption contained in paragraph 3(c) of FRS 8 not to present details of transactions with other group entities as it is a wholly owned subsidiary of Genetix Group plc, whose accounts are publicly available, and such transactions are eliminated on consolidation.

21. CONTINGENT LIABILITY

At 31 December 2005, the company was committed to forward exchange contracts totalling US \$7,000,000 at an average rate of £/\$ 1.7376 (2004: US \$4,000,000 at £/\$ 1.7574 and Euro 1,200,000 at £/€ 1.4030), all maturing before 31 December 2006, with an unrecognised loss of £18,022 (2004: £198,427 gain), recognised in 2005.