Company Registration No. 2660050

GENETIX LIMITED

Report and Financial Statements

31 December 2004

Deloitte & Touche LLP
Southampton

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REPORT AND FINANCIAL STATEMENTS 2004

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REPORT AND FINANCIAL STATEMENTS 2004

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

M A Reid
T D Bell
G S Corsi
Dr S Richards

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 2004.

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 £1,500,285 (2003: £1,415,748). 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 £nil (2003: £1,500,000) and no final dividend is proposed.

DIRECTORS AND THEIR INTERESTS

The directors are shown on page 1 and all served throughout the year. No director had any interests in the shares of the company during the year.

M A Reid, T D Bell and G S Corsi 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.

SUPPLIER PAYMENT POLICY

It is the company's policy to pay suppliers in accordance with their agreed terms and conditions. Such terms and conditions are agreed with the supplier in advance and the company aims to comply with such terms once satisfactory performance is achieved.

AUDITORS

A resolution to re-appoint Deloitte & Touche LLP as the company's auditor 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
26 April 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss 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;
- 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 2004, 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 United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report 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 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 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 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 of the state of the company's affairs as 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.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Southampton
26 April 2005

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2004

	Note	2004 £	2003 £
TURNOVER: continuing operations	2	12,057,690	10,690,718
Cost of sales		(7,403,819)	(6,793,462)
Gross profit		4,653,871	3,897,256
Administrative expenses		(3,545,623)	(3,163,794)
OPERATING PROFIT: continuing operations	3	1,108,248	733,462
Interest receivable and similar income		11,472	19,380
Interest payable and similar charges	5	-	(120)
PROFIT ON ORDINARY ACTIVITES BEFORE TAXATION		1,119,720	752,722
Tax on profit on ordinary activities	6	(32,594)	(68,468)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		1,087,126	684,254
Dividends paid	7	-	(1,500,000)
RETAINED PROFIT / (LOSS) FOR THE FINANCIAL YEAR	16, 17	1,087,126	(815,746)

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 2004

	Note	2004 £	2003 £
FIXED ASSETS			
Intangible assets	8	294,012	362,447
Tangible assets	9	2,188,976	2,147,704
Investments	10	46,317	46,317
		2,529,305	2,556,468
CURRENT ASSETS			
Stocks	11	1,665,782	1,661,098
Debtors	12	3,183,373	2,384,663
Cash at bank and in hand		1,740,826	1,834,400
		6,589,981	5,880,161
CREDITORS: amounts falling due within one year	13	(3,314,931)	(3,758,883)
NET CURRENT ASSETS		3,275,050	2,121,278
TOTAL ASSETS LESS CURRENT LIABILITIES		5,804,355	4,677,746
PROVISIONS FOR LIABILITIES AND CHARGES	14	(472,129)	(432,646)
NET ASSETS		5,332,226	4,245,100
CAPITAL AND RESERVES			
Called up share capital	15	101	101
Profit and loss account	16	5,332,125	4,244,999
TOTAL EQUITY SHAREHOLDERS' FUNDS	17	5,332,226	4,245,100

Signed on behalf of the Board of Directors on 25 April 2005.

G S Corsi

G S Corsi
Director

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

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 FRS2 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 as a 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 service 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 activities 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 2004

1. ACCOUNTING POLICIES (continued)

Tangible fixed assets

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:

	2004 £	2003 £
By geographic destination:		
United Kingdom	1,656,544	1,430,024
Rest of Europe	2,673,172	2,603,620
North America	6,603,770	5,415,512
Asia	952,808	954,669
Rest of World	171,396	286,893
	12,057,690	10,690,718

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

3. OPERATING PROFIT

	2004 £	2003 £
Operating profit is stated after charging/(crediting):		
Depreciation of owned assets	240,873	262,579
Amortisation of patents and licences	125,687	114,556
Profit on disposal of fixed assets	(3,449)	(6,759)
Auditors' remuneration:		
Audit services		
Statutory audit	14,500	11,600
Audit related regulatory reporting	2,700	2,500
Tax services		
Compliance services	3,800	3,000
Advisory services	-	2,564
Research and development (including salaries)	1,500,285	1,415,748
Grant recoveries	(424,880)	(238,972)
Exchange gain on foreign currency transactions	(141,870)	(166,224)

4. INFORMATION REGARDING EMPLOYEES

M A Reid, T D Bell and G S Corsi are executives of the ultimate parent company, Genetix Group Plc, in addition to their roles as directors of Genetix Ltd. M A Reid and G S Corsi are also directors of Genpak Ltd and Genescreen Ltd. The directors received total emoluments of £315,000 from Genetix Group Plc during the year, but it is not practicable to allocate this between their services as executives of Genetix Group Plc and their services as directors of Genetix Ltd, Genescreen Ltd and Genpak Ltd.

Dr S Richards is the only director remunerated by Genetix Ltd and these details are shown below:

	2004 £	2003 £
Remuneration of directors:		
Directors' emoluments	69,746	65,527

	2004 No.	2003 No.
Average number of persons employed in the year:		
Sales and Marketing	16	14
Research and development	23	24
Production and customer support	27	22
Administration	8	10
Laboratory	6	6
	80	76

	2004 £	2003 £
Staff costs incurred during the year in respect of these employees were:		
Wages and salaries	2,560,508	2,091,411
Social security costs	275,361	218,640
Pension Costs	1,616	29,607
	2,837,485	2,339,658

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2004 £	2003 £
Bank loans and overdrafts	-	120

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2004 £	2003 £
Current tax		
United Kingdom corporation tax at 30% (2003: 30%)	196,583	89,816
Adjustment in respect of prior years	(175,060)	(54,660)
Group relief	-	17,801
Total current tax	21,523	52,957
Deferred tax		
Timing differences	11,071	3,378
Adjustment in respect of prior years	-	12,133
Total deferred tax	11,071	15,511
Total tax on profit on ordinary activities	32,594	68,468

The tax assessed for the year is lower that that resulting from applying the standard rate of corporation tax in the UK of 30% (2003: 30%).

The differences are detailed below:

	2004 %	2003 %
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	(12)	(16)
Prior period adjustments	(16)	(7)
Current tax rate for year as a percentage of profits	2	7

7. DIVIDENDS

	2004 £	2003 £
Ordinary shares		
Dividends paid – £nil per share (2003: £147.78 per share)	-	1,500,000

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

8. INTANGIBLE FIXED ASSETS

	Patents and licences £
Cost	
At 1 January 2004	558,077
Additions	57,252
At 31 December 2004	615,329
Accumulated amortisation	
At 1 January 2004	195,630
Charge for the year	125,687
At 31 December 2004	321,317
Net book value	
At 31 December 2004	294,012
At 31 December 2003	362,447

9. TANGIBLE FIXED ASSETS

	Freehold land and buildings £	Plant and machinery £	Motor vehicles £	Fixtures and fittings £	Total £
Cost					
At 1 January 2004	2,025,126	754,872	82,183	206,770	3,068,951
Additions	-	304,916		-	304,916
Disposals	-	(5,600)	(47,263)	-	(52,863)
At 31 December 2004	2,025,126	1,054,188	34,920	206,770	3,321,004
Accumulated depreciation					
At 1 January 2004	140,771	558,158	46,393	175,925	921,247
Charge for the year	40,503	162,549	10,871	26,950	240,873
Disposals	-	(2,112)	(27,980)	-	(30,092)
At 31 December 2004	181,274	718,595	29,284	202,875	1,132,028
Net book value					
At 31 December 2004	1,843,852	335,593	5,636	3,895	2,188,976
At 31 December 2003	1,884,355	196,714	35,790	30,845	2,147,704

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

10. INVESTMENTS HELD AS FIXED ASSETS

	Shares in subsidiaries £
At 1 January 2004 and 31 December 2004	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

	2004 £	2003 £
Raw materials	904,040	974,213
Work in progress	41,416	92,978
Finished goods	720,326	593,907
	1,665,782	1,661,098

12. DEBTORS

	2004 £	2003 £
Trade debtors	2,242,927	1,634,211
Amounts owed by group undertakings	678,610	461,765
Other debtors	185,777	214,879
Prepayments and accrued income	76,059	73,808
	3,183,373	2,384,663

All debtors are due within one year.

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004 £	2003 £
Trade creditors	838,934	1,097,751
Amounts owed to group undertakings	937,547	926,961
Corporation tax	393,225	395,448
Other taxation and social security	100,796	95,363
Other creditors	182,207	474,973
Accruals and deferred income	862,222	768,387
	3,314,931	3,758,883

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

14. PROVISIONS FOR LIABILITIES AND CHARGES

	Product warranties £	Deferred taxation £	Total £
Balance at 1 January 2004	123,962	308,684	432,646
Utilised in year	(80,575)	-	(80,575)
Profit and loss charge	108,987	11,071	120,058
Balance at 31 December 2004	152,374	319,755	472,129

Product warranties

A provision of £152,374 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:

	2004 £	2003 £
Capital allowances in excess of depreciation	365,090	342,170
Other timing differences	(45,335)	(33,486)
	319,755	308,684

15. CALLED UP SHARE CAPITAL

	Number	2004 £	2003 £
Authorised:			
Ordinary shares of 1p each	200,000	2,000	2,000
Called up, allotted and fully paid:			
Ordinary shares of 1p each	10,150	101	101

16. PROFIT AND LOSS ACCOUNT

	2004 £	2003 £
At 1 January 2004	4,244,999	5,060,745
Retained profit/(loss) for the year	1,087,126	(815,746)
At 31 December 2004	5,332,125	4,244,999

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2004 £	2003 £
Profit for the financial year	1,087,126	684,254
Dividends	-	(1,500,000)
Net addition to/(reduction in) shareholders' funds	1,087,126	(815,746)
Opening shareholders' funds at 1 January 2004	4,245,100	5,060,846
Closing shareholders' funds at 31 December 2004	5,332,226	4,245,100

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 FRS 8 paragraph 3(c) 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 2004, the company was committed to forward exchange contracts totalling US $4,000,000 at an average rate of £/$ 1.7574 and Euro 1,200,000 at an average rate of £/€ 1.4030 (2003: US $3,000,000 at £/$ 1.5960 and Euro 1,250,000 at £/€ 1.4128), all maturing before 31 December 2005, with an unrecognised gain at 31 December 2004 of £198,427 (2003: £207,789 gain, recognised in 2004).