

Registered number: 3278630

**Manchester Incubator Company Limited**

Directors' report and financial  
statements for the year ended  
31 July 2006

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## **Company information**

### **Directors**

Mr I W Jackson  
Dr M Picardo  
Professor R W Coombs  
Professor R A North  
Professor J D Perkins

### **Secretary**

Miss C J Faulkner

### **Registered Office**

Manchester Incubator Building  
48 Grafton Street  
Manchester  
M13 9XX

### **Bankers**

The Royal Bank of Scotland  
38 Moseley Street  
Manchester  
M60 2BE

### **Auditors**

Deloitte & Touche LLP  
Manchester

## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 July 2006. The directors' report has been prepared in accordance with the special provisions relating to small companies under Section 246(4) of the Companies Act 1985.

### Principal activities

The principal activity of the company is the incubation of start up companies.

### Business Review

The results for the year are set out on page 5 of the financial statements.

The position at year end was satisfactory.

### Results and dividends

The profit and loss account is set out on page 5.

The loss for the year after taxation amounted to £132,410 (2005: profit of £46,881).

The directors do not recommend the payment of a dividend (2005: £nil).

### Directors and directors' interests

The directors who held office during the year were as follows:

Mr I W Jackson

Dr M Picardo

Professor D Gordon (resigned 12 October 2006)

Professor R W Coombs

Professor R A North

Professor J D Perkins

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company or any other group company were granted to any of the directors or their immediate families, or exercised by them during the financial year.

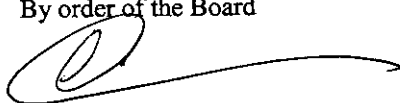
### Auditors

In the case of each of the persons who are directors of the company at the date when this report is approved:

- So far as each is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the company's auditors are unaware; and
- Each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information.

In accordance with Section 384 of the Companies Act 1985 a resolution for the re-appointment of Deloitte & Touche LLP auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



Miss C J Faulkner  
Company Secretary

12/12/06

The Fairbairn Building  
PO Box 88  
Manchester  
M60 2BE

## Statement of directors' responsibilities

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

Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view in accordance with UK GAAP 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 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 MEMBER OF MANCHESTER INCUBATOR COMPANY LIMITED

We have audited the financial statements of Manchester Incubator Company Limited for the year ended 31 July 2006 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's member, 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 member 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 member, 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 (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 are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion, the information given in the directors' report is consistent with the financial statements. We also report to you if, in our opinion, 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 other information contained in the annual report for the above year as described in the contents section 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 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 July 2006 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

*Deloitte & Touche LLP*  
**Deloitte & Touche LLP**  
Chartered Accountants and Registered Auditors  
Manchester

9 January 2007

**Profit and loss account**  
*for the year ended 31 July 2006*


	<i>Note</i>	<b>2006</b> <b>£</b>	<b>2005</b> <b>£</b>
<b>Turnover from continuing operations</b>	<b>2</b>	1,383,645	1,161,968
Administrative expenses		(1,479,106)	(1,068,021)
<b>Operating (loss)/profit from continuing operations</b>		(95,461)	93,947
Other interest receivable and similar income	<b>6</b>	3,211	-
<b>(Loss)/profit on ordinary activities before taxation</b>	<b>2,3</b>	(92,250)	93,947
Tax on (loss)/profit on ordinary activities	<b>7</b>	(40,160)	(47,066)
<b>(Loss)/profit for year transferred (from)/to reserves</b>	<b>14</b>	(132,410)	46,881
Opening reserves brought forward		(2,118,730)	(2,165,611)
<b>Closing reserves carried forward</b>		(2,251,140)	(2,118,730)

There are no recognised gains or losses for the current or previous financial year other than as stated in the profit and loss account. Accordingly, no statement of total recognised gains and losses has been prepared.

**Balance sheet**  
**at 31 July 2006**

	<i>Note</i>	<b>2006</b> <b>£</b>	<b>2005</b> <b>£</b>
<b>Fixed assets</b>			
Tangible assets	8	10,235,624	10,358,712
		<hr/>	<hr/>
<b>Current assets</b>			
Debtors	9	1,938,948	1,926,650
Cash at bank and in hand		637,263	8,923
		<hr/>	<hr/>
		2,576,211	1,935,573
<b>Creditors: amounts falling due within one year</b>	10	(2,222,706)	(1,324,871)
		<hr/>	<hr/>
<b>Net current assets</b>		353,505	610,702
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		10,589,129	10,969,414
		<hr/>	<hr/>
Creditors: amounts falling due after more than one year	11	(8,718,705)	(9,006,740)
Provisions for liabilities & charges	12	(522,464)	(482,304)
		<hr/>	<hr/>
<b>Net assets</b>		1,347,960	1,480,370
		<hr/>	<hr/>
<b>Capital and reserves</b>			
Called up share capital	13	3,599,100	3,599,100
Profit and loss account	14	(2,251,140)	(2,118,730)
		<hr/>	<hr/>
<b>Equity Shareholder's Funds</b>		1,347,960	1,480,370
		<hr/>	<hr/>

These financial statements were approved by the Board of Directors on 12/12/06 and were signed on its behalf by:

  
I.W. Jackson  
Director



**Reconciliation of movements in shareholders' funds**  
*for the year ended 31 July 2006*

	2006 £	2005 £
(Loss)/profit for the financial year	(132,410)	46,881
	<hr/>	<hr/>
Net reduction in/(addition to) shareholders' funds	(132,410)	46,881
Opening shareholders' funds	1,480,370	1,433,489
	<hr/>	<hr/>
Closing shareholders' funds	1,347,960	1,480,370
	<hr/>	<hr/>

## Notes

*(forming part of the financial statements)*

### 1 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 United Kingdom accounting standards and under the historical cost accounting rules.

#### *Cash flow statement*

Under FRS 1, the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

#### *Related Party Transactions*

As the company is a wholly owned subsidiary of The University of Manchester, the company has taken advantage of the exemption contained in FRS8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of The University of Manchester, within which this company is included, can be obtained from the address given in note 17.

#### *Tangible Fixed assets and depreciation*

Depreciation is provided to write off the cost, less the estimated residual value of tangible fixed assets, by equal instalments over their useful economic lives, as follows:

Long leasehold property	-	over the life of the lease
Freehold buildings	-	over 50 years
Fixtures and fittings	-	3-10 years

#### *Government grants*

Income from research grants and contracts and other services rendered is included to the extent of the completion of the contract or service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contribution towards overhead costs.

#### *Post retirement benefits*

The company is a member of The University of Manchester Superannuation Scheme. This is a defined benefit scheme which is externally funded. Contributions to the scheme are charged to the profit and loss account as though the scheme was a defined contribution scheme. This is in accordance with the accounting for multi-employer pension schemes whereby the assets and liabilities of the scheme cannot be readily split between the participating members.

#### *Taxation*

Current 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 tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

## Notes (continued)

### 1 Accounting Policies (continued)

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

#### Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers.

Turnover is recognised at the point the company has performed its obligations, based on the fair value of the right to consideration.

### 2 Analysis of turnover and (loss)/profit on ordinary activities before taxation

The turnover and (loss)/profit on ordinary activities before taxation are wholly attributable to the principal activity of the company and arise solely in the UK.

### 3 (Loss)/profit on ordinary activities before taxation

	For the year ended 31 July 2006 £	For the year ended 31 July 2005 £
<i>(Loss)/profit on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration:	3,350	3,350
Depreciation of tangible fixed assets:		
Owned	256,244	280,327
Government based grants	(283,035)	(288,035)
	<u>          </u>	<u>          </u>

### 4 Remuneration of directors

The directors were all employees of The University of Manchester and were remunerated by The University of Manchester (or its other subsidiaries).

### 5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year was nil (2005: 1).

The aggregate payroll costs of these persons were as follows:

	For the year ended 31 July 2006 £	For the year ended 31 July 2005 £
Wages and Salaries	-	14,364
Social Security costs	-	1,198
	<u>          </u>	<u>          </u>
	-	15,562
	<u>          </u>	<u>          </u>

## Notes (continued)

### 6 Interest receivable and similar income

	For the year ended 31 July 2006 £	For the year ended 31 July 2005 £
Bank Interest	3,211	-
	<u>3,211</u>	<u>-</u>

### 7 Taxation

Analysis of tax charge in year:	For the year ended 31 July 2006 £	For the year ended 31 July 2005 £
<b>Current tax</b>	£	£
UK corporation tax	-	-
<b>Total current tax</b>	<u>-</u>	<u>-</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	12,929	47,066
Adjustment in respect of prior year	27,231	-
<b>Tax on profit on ordinary activities</b>	<u>40,160</u>	<u>47,066</u>

Factors affecting the tax charge for the current year:

The current tax charge for the year is higher (2005: lower) than standard rate of corporation tax in the UK of 30% (2005: 30%). The differences are explained below.

	For the year ended 31 July 2006 £	For the year ended 31 July 2005 £
<b>Current tax reconciliation</b>		
(Loss)/profit on ordinary activities before taxation	(92,250)	93,947
Current tax at 30% (2005:30%)	<u>(27,675)</u>	<u>28,184</u>
<b>Effects of:</b>		
Expenses not deductible for tax purposes	61,523	18,883
Depreciation in excess of/(lower than) capital allowances	(49,362)	37,004
Short term timing differences	(11,401)	(11,401)
Utilisation of losses	26,915	(72,670)
<b>Total current tax (see above)</b>	<u>-</u>	<u>-</u>

## Notes (continued)

### 8 Tangible fixed assets

	Land & buildings £	Leasehold property £	Fixtures & fittings £	Total £
<b>Cost</b>				
At beginning of year	11,055,451	900,000	620,364	12,575,815
Additions	-	-	133,156	133,156
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	11,055,451	900,000	753,520	12,708,971
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Depreciation</b>				
At beginning of year	1,497,739	99,000	620,364	2,217,103
Charge for year	227,837	12,000	16,407	256,244
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	1,725,576	111,000	636,771	2,473,347
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value</b>				
As at 31 July 2006	9,329,875	789,000	116,749	10,235,624
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 July 2005	9,557,712	801,000	-	10,358,712
	<hr/>	<hr/>	<hr/>	<hr/>

### 9 Debtors

	As at 31 July 2006 £	As at 31 July 2005 £
Trade debtors	240,677	481,257
Amounts owed by The University of Manchester	162,973	1,636
Amounts owed by group undertakings	1,204,973	952,766
Other debtors	3,974	7,091
Prepayments and accrued income	263,946	448,598
VAT	62,405	35,302
	<hr/>	<hr/>
	1,938,948	1,926,650
	<hr/>	<hr/>

All debtors fall due within one year.

## Notes (continued)

### 10 Creditors: amounts falling due within one year

	As at 31 July 2006 £	As at 31 July 2005 £
Trade creditors	666,393	325,015
Amounts owed to The University of Manchester	297,997	198,974
Amounts owed to group undertakings	787,337	477,004
Other taxes and social security	-	-
Other creditors	164,974	8,852
Accruals	17,970	26,991
Deferred income (note 11)	288,035	288,035
	<u>2,222,706</u>	<u>1,324,871</u>

### 11 Creditors: amounts falling due after more than one year

	As at 31 July 2006 £	As at 31 July 2005 £
Deferred income	8,718,705	9,006,740

	Government capital grants £	Service charge £	Lease premium £	2006 Total £	2005 Total £
At beginning of year	3,985,504	427,082	4,882,189	9,294,775	9,582,810
Credited to profit and loss account	(89,062)	(125,000)	(73,973)	(288,035)	(288,034)
At end of year	<u>3,896,442</u>	<u>302,082</u>	<u>4,808,216</u>	<u>9,006,740</u>	<u>9,294,775</u>

	As at 31 July 2006 £	As at 31 July 2005 £
Within one year	288,035	288,035
In the second to fifth year	1,152,140	1,152,140
After five years	7,566,565	7,854,600
	<u>9,006,740</u>	<u>9,294,775</u>

## Notes (continued)

### 12 Provisions for liabilities and charges

The amounts provided for deferred taxation and the amounts not provided are set out below:

Deferred tax	£
At 1 August 2005	482,304
Charge for the year	401,60
	<hr/>
At 31 July 2006	522,464
	<hr/>

The elements of deferred taxation are as follows:

	As at 31 July 2006 £	As at 31 July 2005 £
Difference between accumulated depreciation and capital allowances	692,602	620,609
Other timing differences	(170,138)	(138,305)
	<hr/>	<hr/>
Undiscounted provision	522,464	482,304
	<hr/>	<hr/>

### 13 Called up share capital

	As at 31 July 2006 £	As at 31 July 2005 £
<i>Authorised</i>		
Ordinary shares of £1 each	3,599,100	3,599,100
	<hr/>	<hr/>
<i>Allotted, called up</i>		
Ordinary shares of £1 each	3,599,100	3,599,100
	<hr/>	<hr/>

### 14 Reserves

	Profit and loss account £
At beginning of year	(2,118,730)
Loss for the year	(132,410)
	<hr/>
At end of year	(2,251,140)
	<hr/>

## Notes (continued)

### 15 Pension scheme

#### • The University of Manchester Superannuation Scheme (UMSS)

The company is a member of The University of Manchester Superannuation Scheme providing benefits based on final pensionable pay. Because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits', the scheme is accounted for as if the scheme was a defined contribution scheme, the cost recognised within the surplus/deficit for the period in the income and expenditure account being equal to the contributions payable to the scheme for the period.

The latest full actuarial valuation was carried out at 31 July 2004 and was updated for FRS 17 purposes to 2006 by a qualified independent actuary. The contribution for the year was £nil (2005:£nil).

The major assumptions used in this valuation were:

	31 July 2006	31 July 2005	31 July 2004
Rate of increase in salaries	3.70%	3.50%	3.80%
Rate of increase in pensions in payment and deferred pensions	2.70%	2.50%	2.80%
Discount rate applied to scheme liabilities	5.10%	5.00%	5.70%
Inflation assumption	2.70%	2.50%	2.80%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

#### Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Value at 31 July 2006 £000	Value at 31 July 2005 £000	Value at 31 July 2005 £000
Equities	170,906	170,482	144,030
Bonds	65,731	41,069	40,164
Other – Property	21,833	15,152	7,972
	<hr/>	<hr/>	<hr/>
Total market value of assets	258,470	226,703	192,166
Present value of scheme liabilities	(262,885)	(237,403)	(195,882)
	<hr/>	<hr/>	<hr/>
Deficit in the scheme – Pension liability	4,415	(10,700)	(3,716)
Related deferred tax asset	-	-	-
	<hr/>	<hr/>	<hr/>
Net pension liability	4,415	(10,700))	3,716)
	<hr/>	<hr/>	<hr/>



## Notes (continued)

### 15. Pensions (continued)

#### Analysis of the amount charged to operating deficit

	2006 £'000	2005 £'000
Current service cost	10,062	6,894
Past service cost	281	596
	<hr/>	<hr/>
<b>Total operating charge</b>	<b>10,343</b>	<b>7,490</b>
	<hr/>	<hr/>

#### Analysis of net return on pension scheme

	2006 £'000	2005 £'000
Expected return on pension scheme assets	15,713	14,114
Interest on pension liabilities	(12,007)	(11,213)
	<hr/>	<hr/>
<b>Net return</b>	<b>3,706</b>	<b>2,901</b>
	<hr/>	<hr/>

#### Analysis of amount recognised in statement of total recognised gains and losses (STRGL).

	2006 £'000	2005 £'000
Actual return less expected return on scheme assets	12,898	21,279
Experience gains and losses on liabilities	(2,622)	8,764
Changes in assumptions	(5,361)	(37,392)
	<hr/>	<hr/>
<b>Actuarial gain/(loss) recognised in STRGL</b>	<b>4,915</b>	<b>(7,349)</b>
	<hr/>	<hr/>

#### Movement in deficit during the year

	2006 £'000	2005 £'000
Deficit in scheme at beginning of year	(10,700)	(3,716)
Current service cost	(10,062)	(6,894)
Contributions	8,007	4,954
Past service cost	(281)	(596)
Other finance income	3,706	2,901
Actuarial gain/(loss)	4,915	(7,349)
	<hr/>	<hr/>
<b>Deficit in scheme at year end</b>	<b>(4,415)</b>	<b>(10,700)</b>
	<hr/>	<hr/>

The actuarial valuation at 31 July 2006 showed a decrease in the deficit from £10,700,000 to £4,415,000.

Normal Employer Contributions were increased on 1 August 2005 to 15% of pensionable pay. It has been agreed with the trustees that contributions for the next year will be increased to 17.5% of pensionable pay from 1 August 2006.

## Notes (continued)

### 15. Pensions (continued)

#### History of experience gains and losses

	2006	2005	2004	Year ended 31 July	
				2003	2002
Difference between expected and actual return on scheme assets:					
Amount (£000)	12,898	21,279	673	(2,213)	(40,670)
Percentage of scheme assets	5%	9%	0%	(1%)	(23%)
Experience gains and losses on scheme liabilities:					
Amount (£000)	(2,622)	8,764	-	-	4,131
Percentage of scheme liabilities	(1%)	4%	0%	0%	3%
Total amount recognised in the statement of total recognised gains and losses:					
Amount (£000)	4,915	(7,349)	4,430	(24,526)	(36,539)
Percentage of scheme assets	2%	(3%)	2%	(13%)	(24%)

### 16 Capital commitments

There were no capital commitments at 31 July 2006 or 31 July 2005.

### 17 Ultimate parent undertaking of larger group of which the company is a member

The ultimate holding and controlling organisation is The University of Manchester which is established in Great Britain. The company is a subsidiary undertaking of Manchester Innovation Holdings Limited, a company incorporated in England and Wales.

The largest group in which the results of the company are consolidated is that headed by The University of Manchester, the smallest group in which they are consolidated is that headed by Manchester Innovation Holdings Limited. The consolidated accounts of The University of Manchester can be obtained from the university's registered office, which is The University of Manchester, Oxford Road, Manchester, M13 9PL. The consolidated financial statements of Manchester Innovation Holdings Limited are available to the public and may be obtained from Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ.