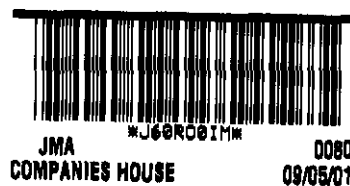


Manchester Incubator Company Limited
(formerly Manchester Biotech Limited)

Directors' report and financial statements

31 July 2000

Registered number 3278630



Manchester Incubator Company Limited

(formerly known as Manchester Biotech Limited)

Directors' report and financial statements

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Manchester Incubator Company Limited

(formerly known as Manchester Biotech Limited)

Directors' report

The directors present their report and the audited financial statements for the year ended 31 July 2000.

Principal activities

The principal activity of the business is to initiate and support Biotechnology ventures.

Business review

On 16 December 1999, the entire share capital of the company was acquired by Manchester Innovation Holdings Limited.

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

Post balance sheet events

On 21 February 2001 the company changed its name to Manchester Incubator Company Limited.

On the same date the company transferred its 62% shareholding in its subsidiary undertaking, Sagitus Solutions Limited, to the University of Manchester.

Proposed dividend and transfer to reserves

The directors do not recommend the payment of a dividend. The loss for the year absorbed by the company is £1,023,979.

Directors and directors' interests

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

Professor MWJ Ferguson	(resigned 18 September 1999)
Dr JL Gordon	(resigned 2 August 2000)
Dr AJ Hale	(resigned 25 August 1999)
Professor JA Hickman	(resigned 18 August 1999)
Mr RJ Pannone	(resigned 4 May 2000)
Mr PG Schaefer	(resigned 21 October 1999)
Dr MJ Morgan	(appointed 3 February 1999/resigned 1 November 1999)
Dr MA Smith	(appointed 3 November 1999)
Manchester Innovation Limited	(appointed 4 May 2000) – see below

None of the directors who held office at the end of the financial year had any disclosable interests in the shares of the company or its holding company.

Manchester Incubator Company Limited

(formerly known as Manchester Biotech Limited)

Directors' report *(continued)*

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

The directors of Manchester Innovation Limited are as follows:

Dr JL Gordon	(resigned 2 August 2000)
Dr MA Smith	
Dr MJ Morgan	

Auditors

In accordance with Section 384 (1) of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board


H Rosling
Secretary

Manchester Incubator Building
Grafton Street
Manchester
M13 9XX

Manchester Incubator Company Limited

(formerly known as Manchester Biotech Limited)

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the 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, subject to any material departures disclosed and explained in the financial statements; 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 maintaining 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



St James' Square
Manchester M2 6DS

**Auditors' report to the members of Manchester Incubator Company Limited
(formerly Manchester Biotech Limited)**

We have audited the financial statements on pages 5 to 17.

Respective responsibilities of the directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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. 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 with the company is not disclosed.

Basis of 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 as at 31 July 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


KPMG

*Chartered Accountants
Registered Auditors*

8 May 2001

Manchester Incubator Company Limited
(formerly known as Manchester Biotech Limited)

Profit and loss account
for the year ended 31 July 2000

	<i>Note</i>	2000 £	1999 £
Turnover from continuing operations	2	1,340,028	396,657
Administrative expenses		(2,411,696)	(741,071)
Operating loss from continuing operations		(1,071,668)	(344,414)
Other interest receivable and similar income	6	47,689	68,790
Loss on ordinary activities before taxation	2-6	(1,023,979)	(275,624)
Tax on loss on ordinary activities	7	-	-
Retained loss for the financial year		(1,023,979)	(275,624)

The company has no recognised gains or losses in either the current or preceding year other than those reported above and therefore no statement of total recognised gains and losses has been presented.

Manchester Incubator Company Limited

(formerly known as Manchester Biotech Limited)

Balance sheet

at 31 July 2000

	Note	2000		1999	
		£	£	Restated (see note 12)	
				£	£
Fixed assets					
Tangible assets	8	12,022,883		11,952,746	
Investments	9	62		62	
		<u>12,022,945</u>		<u>11,952,808</u>	
Current assets					
Debtors	10	823,206		824,211	
Cash at bank and in hand		242,425		1,634,349	
		<u>1,065,631</u>		<u>2,458,560</u>	
Creditors: amounts falling due within one year	11	(4,068,840)		(3,991,074)	
Net current liabilities		<u>(3,003,209)</u>		<u>(1,532,514)</u>	
Total assets less current liabilities		<u>9,019,736</u>		<u>10,420,294</u>	
Creditors: amounts falling due after one year	12	(10,447,599)		(10,824,178)	
Net liabilities		<u>(1,427,863)</u>		<u>(403,884)</u>	
Capital and reserves					
Called up share capital	14	100		100	
Profit and loss account		(1,427,963)		(403,984)	
Equity shareholder's funds		<u>(1,427,863)</u>		<u>(403,884)</u>	

These financial statements were approved by the board of directors on 23 April 2001 and were signed on its behalf by:

M A Smith

Dr MA Smith
Director

Manchester Incubator Company Limited
(formerly known as Manchester Biotech Limited)

Reconciliation of movements in shareholder's funds
for the year ended 31 July 2000

	2000 £	1999 £
Loss for the financial year	(1,023,979)	(275,624)
Net reduction in shareholder's funds	<u>(1,023,979)</u>	<u>(275,624)</u>
Opening shareholder's funds	(403,884)	(128,260)
Closing shareholder's funds	<u><u>(1,427,863)</u></u>	<u><u>(403,884)</u></u>

Manchester Incubator Company Limited

(formerly known as Manchester Biotech Limited)

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 accounting standards and under the historical cost accounting rules.

The company is exempt by virtue of sections 248 and 249 of the Companies Act 1985 from the requirement to prepare group financial statements as it qualifies as a small company. These financial statements present information about the individual undertaking and not about its group.

Post year end the balance of £3,322,990 owed to the University of Manchester was transferred to Manchester Innovation Holdings Limited, the company's immediate parent undertaking. The latter has confirmed that it will not demand repayment of the loan for at least 12 months from the date of signature of these financial statements. Having considered all relevant factors the directors believe it remains appropriate to sign the financial statements on the going concern basis.

Cashflow statement

The company is exempt from the requirement of Financial Reporting Standard Number 1 to produce its own cashflow statement as its cashflows are included within the consolidated cashflow statement of Manchester Innovation Holdings Limited.

Related party transactions

The directors have taken advantage of the exemption in Financial Reporting Standard Number 8, paragraph 3(c) and have not disclosed related party transactions with parent and fellow subsidiary undertakings. Any other related party transactions, including those with the ultimate parent undertaking, the University of Manchester, are disclosed in note 17.

Fixed assets and depreciation

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

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

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Manchester Incubator Company Limited

(formerly known as Manchester Biotech Limited)

Notes (continued)

1 Accounting policies (continued)

Pensions

The company is a member of the UMSS Limited group pension scheme which provides benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, being invested with insurance companies. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company.

Government grants

Capital based government 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.

Revenue based government grants anticipated are recognised to correspond to associated costs incurred on the assumption that all costs incurred will be recoverable from grant income and all grant conditions are met.

Investments

Investments in subsidiary undertakings are stated at the lower of cost and their carrying value. Dividends received and receivable are credited to the company's profit and loss account to the extent that they represent a realised profit for the company.

Turnover

Turnover represents the amounts derived from grant funding and donations.

2 Analysis of turnover and loss on ordinary activities before taxation

The turnover and loss on ordinary activities before taxation are wholly attributable to the principal activity of the company and arose wholly in the United Kingdom.

Manchester Incubator Company Limited

(formerly known as Manchester Biotech Limited)

Notes (continued)

3 Loss on ordinary activities before taxation

	2000 £	1999 £
<i>Loss on ordinary activities before taxation is stated:</i>		
<i>after charging:</i>		
Auditors' remuneration	3,200	3,000
Depreciation on tangible fixed assets:		
Owned	366,778	183,497
Loss on disposal of tangible fixed assets	-	1,609
Exceptional bad debt provision	336,020	-
<i>after crediting:</i>		
Government based grants	403,544	290,788

4 Remuneration of directors

	2000 £	1999 £
Directors' emoluments:		
Remuneration as executives	387	5,417

5 Staff numbers and costs

The average number of persons (including directors) employed by the company during the year was 16 (1999: 10). The aggregate payroll costs of these persons were as follows:

	2000 £	1999 £
Wages and salaries	508,785	267,865
Social security costs	54,131	26,850
Pension costs (see note 16)	7,258	15,574
	<u>570,174</u>	<u>310,289</u>

Manchester Incubator Company Limited

(formerly known as Manchester Biotech Limited)

Notes (continued)

6 Other interest receivable and similar income

	2000 £	1999 £
Bank interest receivable	47,689	68,790

7 Taxation

There is no tax charge in the current or previous year due to the availability of tax losses.

8 Tangible fixed assets

	Long Leasehold property £	Freehold Buildings £	Fixtures & fittings £	Total £
Cost				
At beginning of year	900,000	10,956,926	295,954	12,152,880
Additions	-	134,103	369,346	503,449
Disposals	-	-	(140,896)	(140,896)
At end of year	900,000	11,091,029	524,404	12,515,433
Depreciation				
At beginning of year	27,000	130,212	42,922	200,134
Charge for year	12,000	220,118	134,660	366,778
Disposals	-	-	(74,362)	(74,362)
At end of year	39,000	350,330	103,220	492,550
Net book value				
At 31 July 2000	861,000	10,740,699	421,184	12,022,883
At 31 July 1999	873,000	10,826,714	253,032	11,952,746

Manchester Incubator Company Limited

(formerly known as Manchester Biotech Limited)

Notes (continued)

9 Fixed asset investments

<i>Cost</i>	Shares in subsidiary undertaking £
At beginning and end of year	62

Shares in fixed asset investments comprise:

The company owns 62% of the £1 ordinary share capital of Sagitus Solutions Limited, a company registered in England and Wales. The principal activity of this company is biotechnology research and development.

10 Debtors

	2000 £	1999 £
Trade debtors	31,020	-
Amounts owed by immediate parent and fellow subsidiary undertakings	227,587	-
Amounts owed by the University of Manchester	484,666	-
Amounts owed by subsidiary undertakings	-	93,670
Other debtors	71,030	95,692
Called up share capital not paid	100	100
Prepayments and accrued income	8,803	634,749
	<u>823,206</u>	<u>824,211</u>

All debtors fall due within one year.

Manchester Incubator Company Limited

(formerly known as Manchester Biotech Limited)

Notes (continued)

11 Creditors: amounts falling due within one year

	2000	1999
		Restated
		(see note 12)
	£	£
Trade creditors	149,730	83,336
Amounts owed to group undertakings (see below)	3,323,052	3,342,805
Other taxes and social security	32,893	11,178
Other creditors	158,450	161,308
Accruals	115,275	56,042
Deferred income (see note 12)	289,440	336,405
	<u>4,068,840</u>	<u>3,991,074</u>

Amounts owed to group undertakings comprise:

Subsidiary undertakings	62	62
Other group companies	-	12,914
University of Manchester	3,322,990	3,329,829
	<u>3,323,052</u>	<u>3,342,805</u>

12 Creditors: amounts falling due after one year

	2000	1999
		Restated
		(see note 12)
	£	£
Other creditors	-	20,000
Deferred income (see below)	10,447,599	10,804,178
	<u>10,447,599</u>	<u>10,824,178</u>

Manchester Incubator Company Limited

(formerly known as Manchester Biotech Limited)

Notes (continued)

12 Creditors: amounts falling due after one year (continued)

Deferred income

	Government capital grants £	Service charge £	Lease premium £	Other capital grant £	2000 Total £	1999 Total £
At beginning of year	4,523,369	1,177,083	5,326,027	114,104	11,140,583	11,314,869
Receivable in year	-	-	-	-	-	-
	<u>4,523,369</u>	<u>1,177,083</u>	<u>5,326,027</u>	<u>114,104</u>	<u>11,140,583</u>	<u>11,314,869</u>
Credited to P&L	(90,467)	(125,000)	(73,973)	(114,104)	(403,544)	(174,286)
At end of year	<u>4,432,902</u>	<u>1,052,083</u>	<u>5,252,054</u>	<u>-</u>	<u>10,737,039</u>	<u>11,140,583</u>

The deferred income is to be released as follows:

	2000 £	1999 Restated £
Within one year	289,440	336,405
In the second to fifth year	1,157,760	1,271,864
Over five years	9,289,839	9,532,314
	<u>10,737,039</u>	<u>11,140,583</u>

The release of deferred income has been restated at 31 July 1999 to give a better reflection of the position at the year end.

Manchester Incubator Company Limited

(formerly known as Manchester Biotech Limited)

Notes (continued)

13 Provisions for liabilities and charges

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

	2000		1999	
	Provided £	Unprovided £	Provided £	Unprovided £
Difference between accumulated depreciation and capital allowances	-	418,145	-	770,417
Other timing differences	-	(267,730)	-	(572,550)
	<u>-</u>	<u>150,415</u>	<u>-</u>	<u>197,867</u>

The amounts are unprovided for deferred tax as the timing differences are not expected to reverse.

14 Called up share capital

	2000 £	1999 £
<i>Authorised</i>		
100 ordinary shares of £1 each	100	100
<i>Allotted and called up and fully paid</i>		
100 ordinary shares of £1 each	100	100

15 Commitments

Capital commitments at the end of the financial year for which no provision has been made.

	2000 £	1999 £
Contracted	-	98,000

Manchester Incubator Company Limited

(formerly known as Manchester Biotech Limited)

Notes (continued)

16 Pensions

The company participates in the UMSS Limited Group Pension Scheme which operates a pension scheme providing benefits based on final pensionable pay, contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The scheme is a defined benefit scheme which is externally funded and the contributions are determined by a qualified actuary on the basis of triennial valuations using the aggregate method. The pension costs are assessed using its projected unit method. The assumptions and other data, which have the most significant effect on the determination of the contribution levels are as follows:

Investment returns per annum	5.9%
Salary scale increases per annum	3.6%
Pension increases per annum	2.6%
Market value of assets at date of last valuation	£186,251 million
Preparation of members accrued benefits covered by the actuarial value of the assets	143%

The last actuarial valuation was undertaken at 31 July 1998.

As a result of the surplus identified at that date, the company is currently enjoying a contribution holiday.

The contributions paid by the company during the year were £ 7,258 (1999: £15,574). There was a provision of £nil (1999: £1,968) in the balance sheet representing the difference between the amount charged in the profit and loss account and the amount paid into the pension scheme.

17 Related party transactions

During the year the company made sales to the University of Manchester totalling £132,878 (1999: £nil) and purchases (including recharges) totalling £90,813 (1999: £34,358). At the year end amounts owed to the University of Manchester, included in creditors due within one year, amounted to £3,322,990 (1999: £3,329,829). Amounts due from the University of Manchester, included in debtors, amounted to £484,666 (1999: £nil).

During the year the company made sales to Sagitus Solutions Limited totalling £125,924 (1999: £nil). At the year end amounts due from Sagitus Solutions Limited, included in debtors, amounted to £nil (1999: £93,670). Amounts owed to Sagitus Solutions Limited, included in creditors due within one year, amounted to £62 (1999: £62).

Manchester Incubator Company Limited

(formerly known as Manchester Biotech Limited)

Notes *(continued)*

18 Ultimate and controlling parent company and parent undertaking of larger group of which the company is a member

The company is a wholly owned subsidiary undertaking of Manchester Innovation Holdings Limited which, in turn, is wholly owned by the University of Manchester.

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 the results of the company are consolidated is that headed by Manchester Innovation Holdings Limited. Copies of the financial statements of Manchester Innovation Holdings Limited are available to the public and may be obtained from Companies House, Crown Way, Maindy, Cardiff.

19 Post balance sheet events

On 21 February 2001 the company changed its name to Manchester Incubator Company Limited. On the same date the company transferred its 62% shareholding in Sagitus Solutions Limited to the University of Manchester.