

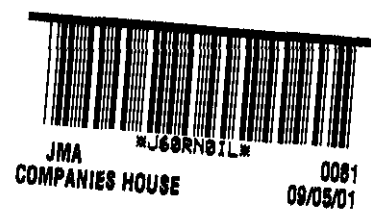
Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Directors' report and consolidated financial statements

31 July 2000

Registered number 3832569



Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Directors' report and consolidated financial statements

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Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Directors' report

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

Principal activities

The company acts as a holding company for its group which, in turn, provides the means for the resources, projects and expertise of the University of Manchester to be exploited commercially for the benefit of the University.

Business review

The company was incorporated as Manchester Innovation Limited on 27 August 1999 and changed its name to Manchester Innovation Holdings Limited on 13 December 1999.

On 16 December 1999, the company acquired the entire share capital of the following:

- Manchester Innovation Limited (formerly known as Vuman Limited);
- Manchester Technology Developments Limited; and
- Manchester Incubator Company Limited (formerly Manchester Biotech Limited)

This transaction was effected via a share for share exchange and the directors have applied the provisions of merger accounting under schedule 13 of the Companies Act. The effect of this is to present the new combined group as one for both the year ended 31 July 2000 and for the preceding year. Further details of this are set out in note 10 to the financial statements.

The results for the year are shown on page 5.

Proposed dividend and transfer to reserves

The directors do not recommend the payment of a dividend.

The loss for the year absorbed by the group is £1,624,547

Post balance sheet events

On 15 March 2001 Manchester Innovation Holdings Limited ("MIHL") acquired the debt owed by Manchester Incubator Company Limited (formerly Manchester Biotech Limited) to the University of Manchester. On the same date the authorised share capital of MIHL was increased by 3,392,990 ordinary shares of £1 each and the debt was redeemed by the allotment of the new shares to the University of Manchester.

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Directors' report *(continued)*

Directors and directors' interests

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

Mr RJ Pannone	(appointed 16 August 1999, resigned 4 May 2000)
Dr J L Gordon	(appointed 18 August 1999)
Dr MA Smith	(appointed 5 November 1999)
Dr MJ Morgan	(appointed 8 November 1999)
CG Kenyon	(appointed 15 September 2000)

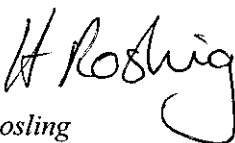
None of the directors who held office at the end of the financial year had any disclosable interest in any group company.

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.

Auditors

During the year KPMG were appointed as first auditors of the company. In accordance with section 385 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 Innovation Holdings Limited

(formerly Manchester Innovation 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 group and of the profit or loss of the group for that period. In preparing these 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 and group 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 the group 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 group and to prevent and detect fraud and other irregularities.



St James' Square
Manchester M2 6DS

Auditors' report to the members of Manchester Innovation Holdings Limited (formerly Manchester Innovation Limited)

We have audited the financial statements on pages 5 to 37.

Respective responsibilities of 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 group 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 group'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 affairs of the company and the group as at 31 July 2000 and of the loss of the group 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 Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Consolidated profit and loss account

for the year ended 31 July 2000

	Note	2000 £	1999 £
Turnover	2	4,885,373	4,683,845
Cost of sales		(2,344,976)	(2,630,076)
Gross profit		2,540,397	2,053,769
Administrative expenses	3	(3,786,938)	(3,420,924)
Exceptional costs	3	(735,000)	-
Operating loss	2	(1,981,541)	(1,367,155)
Profit on disposal of subsidiary undertakings	11	85,839	2,184,650
Deed of Covenant to the University of Manchester		-	(300,000)
Other interest receivable and similar income	6	115,720	167,478
Interest payable and similar charges	7	(19,982)	(75,434)
(Loss)/profit on ordinary activities before taxation		(1,799,964)	609,539
Tax on (loss)/profit on ordinary activities	8	131,174	(206,735)
(Loss)/profit on ordinary activities after taxation		(1,668,790)	402,804
Minority interests		44,243	5,813
Retained (loss)/profit for the financial year		(1,624,547)	408,617

The group has no recognised gains or losses other than the (loss)/profit in the current and preceding year and therefore no statement of total recognised gains and losses has been presented.

Manchester Innovation Holdings Limited


(formerly Manchester Innovation Limited)

Consolidated balance sheet

at 31 July 2000

	Note	2000 £	1999 £
Fixed assets			
Tangible assets	9	12,226,462	12,038,331
Investments	10	2,851	422,850
		<hr/>	<hr/>
		12,229,313	12,461,181
Current assets			
Stocks and work in progress	12	77,794	104,507
Debtors	13	2,109,733	1,503,564
Cash at bank and in hand		955,933	3,842,909
		<hr/>	<hr/>
		3,143,460	5,450,980
Creditors: amounts falling due within one year	14	(5,986,626)	(6,498,756)
		<hr/>	<hr/>
Net current liabilities		(2,843,166)	(1,047,776)
		<hr/>	<hr/>
Total assets less current liabilities		9,386,147	11,413,405
Creditors: amounts falling due after more than one year	15	(10,465,710)	(10,824,178)
		<hr/>	<hr/>
Net (liabilities)/assets		(1,079,563)	589,227
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	18	1,500,101	-
Other reserves	18	-	1,500,101
Profit and loss account	19	(3,004,646)	(1,405,099)
		<hr/>	<hr/>
Shareholder's funds		(1,504,545)	95,002
Minority interests (equity and non equity)	21	424,982	494,225
		<hr/>	<hr/>
Total funds	20	(1,079,563)	589,227
		<hr/>	<hr/>

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


Dr MA Smith
 Director

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Company balance sheet

at 31 July 2000

	Note	£	2000 £
Fixed assets			
Investments	10		1,500,101
Current assets			
Debtors	13	-	
Creditors: amounts falling due within one year	14	(316,450)	
Net current liabilities			(316,450)
Net assets			1,183,651
Capital and reserves			
Called up share capital	18		1,500,101
Profit and loss account	19		(316,450)
Equity shareholder's funds			1,183,651

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


Dr MA Smith
 Director

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Consolidated cash flow statement for the year ended 31 July 2000

	Note	2000 £	1999 £
Cash outflow from operating activities		(2,371,916)	(669,169)
Returns on investment and servicing of finance	23	95,738	92,044
Taxation		(74,054)	-
Capital expenditure	23	(580,546)	3,497,367
Acquisitions and disposals	23	85,838	2,279,885
 Cash (outflow)/inflow before management of liquid resources and financing		 (2,844,940)	 5,200,127
Management of liquid resources and financing	23	32,599	(224,379)
 (Decrease)/increase in cash in the year		 (2,812,341)	 4,975,748
 Reconciliation of operating loss to operating cash flows <i>for the year ended 31 July 2000</i>			
Operating loss		(1,981,541)	(1,367,155)
Loss on disposal of fixed assets		-	1,609
Depreciation charges		439,045	280,281
Provision against investments		420,000	-
Release of deferred income		(403,544)	(174,286)
(Increase)/decrease in stocks		(26,713)	144,216
(Increase) in debtors		(606,219)	(678,146)
(Decrease)/increase in creditors		(212,944)	1,124,312
 Net cash (outflow) from operating activities		 (2,371,916)	 (669,169)
 Reconciliation of net cash flow to movement in net funds <i>for the year ended 31 July 2000</i>			
(Decrease)/increase in cash in the year		(2,812,341)	4,975,748
Cash inflow from increase in debt and lease financing	23	(46,630)	-
Cash outflow from repayment of finance leases	23	14,031	224,379
 Movement in net (debt)/funds resulting from cash flows	24	 (2,844,940)	 5,200,127
Movement in cash on disposal of subsidiary undertaking	11	-	(221,700)
 Movement in net (debt)/funds for the year	24	 (2,844,940)	 4,978,427
Net funds/(debt) at the start of the year		3,567,114	(1,411,313)
 Net funds at the end of the year	24	 722,174	 3,567,114

Included in the reconciliation of operating loss to operating cash flows are the exceptional costs of £735,000 as set out in note 3.

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

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

	Group		Company
	2000	1999	2000
	£	£	£
(Loss)/profit for the financial year	(1,668,790)	402,804	(316,450)
Share capital issued	-	-	1,500,201
	<hr/>	<hr/>	<hr/>
Net (reduction in)/addition to shareholder's funds	(1,668,790)	402,804	1,183,751
Opening shareholder's funds	589,327	186,523	-
	<hr/>	<hr/>	<hr/>
Closing shareholder's funds	(1,079,463)	589,327	1,183,751
	<hr/>	<hr/>	<hr/>

Manchester Innovation Holdings Limited

(formerly Manchester Innovation 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 group'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.

Notwithstanding the deficiency of net assets, the directors have adopted the going concern basis in the preparation of these financial statements. The group's parent, the University of Manchester, has injected additional share capital into the company since the year end (see note 26). In addition the directors have prepared the cashflow projections going forward, and are confident in the future prospects of the group.

Having considered all of the above they consider it remains appropriate to prepare the financial statements on the going concern basis.

Basis of consolidation

The group financial statements consolidate those of Manchester Innovation Holdings Limited and all its subsidiary undertakings. These financial statements are made up to 31 July 2000.

In preparing these financial statements, the directors have adopted the provisions of merger accounting. Under these rules, the shares issued as consideration for the merger are recorded at the nominal amount in the books of the "acquiring" company thus ignoring any fair values and the net assets of the companies are combined using existing book values. The consolidated profit and loss account includes the results of each company which is a party to the merger for the entire period, regardless of the date of the merger, as well as for the corresponding amounts recorded by each of the companies.

In the company's financial statements, 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.

In accordance with Section 230(4) of the Companies Act 1985 Manchester Innovation Holdings Limited is exempt from the requirement to present its own profit and loss account. The amount of the loss for the financial year dealt with in the financial statements of Manchester Innovation Holdings Limited is disclosed in note 19 to these financial statements.

Investments

Where the directors consider that the company is not in a position to exercise significant influence over its investments these undertakings are stated at cost less any provisions made. 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.

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes (continued)

1 Accounting policies (continued)

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. Other related party transactions are set out in note 25.

Leases

Where the group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Fixed assets and depreciation

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

Plant and equipment	-	3 years
Fixtures, fittings scientific and office equipment	-	3-10 years
Long leasehold property	-	over the life of the lease
Buildings	-	over 50 years

Intangible assets

The group owns a number of trademarks, patents and copyrights. It is group policy not to capitalise these assets.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Long term contracts

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at a cost appropriate to their stage of completion plus attributable profits. Provision is made for any losses which are foreseen.

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes *(continued)*

1 Accounting policies *(continued)*

Long term contracts (continued)

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Grants

Capital based grants are included within accruals and deferred income in the balance sheet, and are credited to the operating result over the estimated useful economic lives of the assets to which they relate.

Revenue based grants are credited to the operating result against estimated costs to which they relate.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Pension costs

The group operates two pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the group, being invested with insurance companies. Contributions to the schemes are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives within the group.

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.

Cash and liquid resources

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market.

Turnover

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

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes (continued)

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

Turnover and (loss)/profit on ordinary activities before taxation are wholly attributable to the group's principal activities.

The geographical analysis of turnover is as follows:

	2000 £	1999 £
United Kingdom	4,579,361	3,994,182
Other European Countries	28,950	122,749
North America	273,618	551,679
Rest of World	3,444	15,235
	<u>4,885,373</u>	<u>4,683,845</u>

An analysis of continued and discontinued operations is as follows:

	2000 £	1999 £
Continuing operations		
Turnover	4,885,373	3,737,274
Cost of sales	(2,344,976)	(2,297,342)
	<u>2,540,397</u>	<u>1,439,932</u>
Gross profit		
Administrative expenses	(3,786,938)	(2,694,493)
Exceptional costs	(735,000)	-
	<u>(1,981,541)</u>	<u>(1,254,561)</u>
Operating loss		

	2000 £	1999 £
Discontinued operations		
Turnover	-	946,571
Cost of sales	-	(332,734)
	<u>-</u>	<u>613,837</u>
Gross profit		
Administrative expenses	-	(726,431)
	<u>-</u>	<u>(112,594)</u>
Operating loss		

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes (continued)

3 (Loss)/profit on ordinary activities before taxation

	2000 £	1999 £
<i>(Loss)/profit on ordinary activities before taxation is stated:</i>		
<i>after charging:</i>		
Auditors' remuneration		
Audit (consolidated)	28,000	26,250
Other services (consolidated)	7,350	6,500
Audit (parent company)	1,450	-
Other services (parent company)	-	-
Depreciation and other amounts written off tangible fixed assets:		
Owned assets	428,179	280,281
Under hire purchase and finance leases	10,866	-
Loss on disposal of tangible fixed assets	-	1,609
Exceptional costs (see below)	735,000	-
<i>after crediting:</i>		
Government revenue based grants	403,544	174,286

The total amount charged to revenue for the hire of plant and machinery amounted to £4,327 (1999: £4,876). This comprises rentals payable under operating leases as well as depreciation on plant and machinery held under finance leases together with the related finance charges.

Exceptional costs:

During the year, the group settled a legal case which had been ongoing since January 1993. The costs for settling the case were £315,000.

The directors have provided against the cost of one of the company's investments. The total charge is £420,000.

There is no effect on the minority interests arising from these exceptional costs.

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes (continued)

4 Remuneration of directors

	2000 £	1999 £
Directors' emoluments:		
As directors	71,024	-
Fees	4,470	13,542
	<u>75,494</u>	<u>13,542</u>

5 Staff numbers and costs

The average number of persons employed by the group (including directors) during the year was 59 (1999: 63).

The aggregate payroll costs of the group were as follows:

	2000 £	1999 £
Wages and salaries	1,616,044	1,827,817
Social security costs	145,947	158,327
Other pension costs (note 22)	72,516	97,129
	<u>1,834,507</u>	<u>2,083,273</u>

6 Other interest receivable and similar income

	2000 £	1999 £
Bank interest receivable	115,720	145,961
Dividends receivable	-	21,517
	<u>115,720</u>	<u>167,478</u>

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes (continued)

7 Interest payable and similar charges

	2000 £	1999 £
On bank loans and overdrafts wholly repayable within five years	6,494	75,434
Finance charges payable in respect of hire purchase contracts wholly repayable within five years	1,769	-
Other interest wholly repayable within five years	11,719	-
	<u>19,982</u>	<u>75,434</u>

8 Taxation

	2000 £	1999 £
UK corporation tax at 30% (1999:30%) on the (loss)/profit for the year on ordinary activities	-	206,735
Adjustment relating to an earlier year	(131,174)	-
	<u>(131,174)</u>	<u>206,735</u>

There is no charge to UK corporation tax in the current year due to the incidence of group losses.

Details of the amounts provided and unprovided for deferred taxation are set out in note 16.

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes (continued)

9 Tangible fixed assets

	Long leasehold property	Freehold buildings	Plant and equipment	Fixtures, fittings, scientific and office equipment	Total
	£	£	£	£	£
Group					
Cost					
At beginning of year	900,000	10,956,926	17,745	608,836	12,483,507
Additions	-	134,103	-	494,143	628,246
Disposals	-	-	-	(1,243)	(1,243)
At end of year	900,000	11,091,029	17,745	1,101,736	13,110,510
Depreciation					
At beginning of year	27,000	130,212	13,025	274,939	445,176
Charge for year	12,000	220,118	1,776	205,151	439,045
On disposals	-	-	-	(173)	(173)
At end of year	39,000	350,330	14,801	479,917	884,048
Net book value					
At 31 July 2000	861,000	10,740,699	2,944	621,819	12,226,462
At 31 July 1999	873,000	10,826,714	4,720	333,897	12,038,331

Included in the net book value of fixtures and fittings is £32,599 (1999: £nil) in respect of assets held under hire purchase contracts. Depreciation for the year on these assets was £10,866 (1999: £nil).

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes *(continued)*

10 Fixed asset investments

Group	Other investments £
<i>Cost</i>	
At beginning of year	554,100
Additions	1
At end of year	<u>554,101</u>
<i>Provisions</i>	
At beginning of year	131,250
Charge for year	420,000
At end of year	<u>551,250</u>
<i>Net book value</i>	
At 31 July 2000	<u>2,851</u>
At 31 July 1999	<u>422,850</u>

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes (continued)

10 Fixed asset investments (continued)

Group	Country of registration	Principal activity	Class of shares held	Percentage of shares held
Other investments				
SensAlyse Holdings Limited	England and Wales	Development of BioSensors	Ordinary shares	41%
			Preference shares	51.5%
Semantic Technologies Limited	England and Wales	Development and sale of medical software	Preferred ordinary shares	48.1%
			Preference shares	39.5%
Neutec Pharma plc	England and Wales	Development of therapeutics	Ordinary shares	14.5%
Sensor Developments Limited	England and Wales	Dormant	Ordinary shares	20%
Matrix Therapeutics Limited	England and Wales	Development of medical technology	Ordinary shares	50%

In the opinion of the directors, the investments in, and the amounts due from the company's investments are worth at least the amounts at which they are stated in the balance sheet.

The above investments have not been accounted for under the equity method of accounting because, in the opinion of the directors, the company does not have any significant influence over their activities.

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes (continued)

10 Fixed asset investments (continued)

Company

Shares in
subsidiary
undertakings
£

Cost and net book value

At time of merger and at the year end

1,500,101

The company owns the entire ordinary share capital of three subsidiary undertakings: Manchester Innovation Limited (formerly known as Vuman Limited), Manchester Technology Developments Limited and Manchester Incubator Company Limited (formerly Manchester Biotech Limited). Each of these companies has subsidiaries in their own right. Details are as follows:

■ Manchester Innovation Limited (formerly known as Vuman Limited)

This company provides the means for the resources, projects and expertise of the University of Manchester to be exploited commercially for the benefit of the University. The ordinary share capital of this company is £1,500,000.

The subsidiary undertakings of Manchester Innovation Limited are as follows:

	Principal activity	Called up share capital (ordinary shares)	Percentage of ordinary shares held %
Flow Science Limited	Business consultancy in respect of fluid flow engineering	10,000	100
Vuman Lasers Limited	Receives royalty payments in respect of lasers previously sold by the company	50,000	100
Vuman Technology Services Limited	Technology identification and exploitation	1	100
Vuman Computer Systems Limited	Dormant	100,000	100

With the exception of Flow Science Limited, full provision has been made against these investments in Manchester Innovation Limited.

All of the above companies are registered in England and Wales.

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes *(continued)*

10 Fixed asset investments *(continued)*

■ Manchester Technology Developments Limited

The company is a holding company for its immediate subsidiaries which are engaged in the provision of consultancy, scientific services and supplies. The ordinary share capital of this company is £1.

The subsidiary undertakings of Manchester Technology Developments Limited are as follows:

	Principal activity	Called up share capital (ordinary shares)	Percentage of ordinary shares held %
Manchester Informatics Limited	Computer consultancy	100	100
Psyman Human Factors Limited	Consultancy in human factor engineering	1	100
CFAS Limited	Audit of primary school tests	2	100
Visual Automation Limited	Image analysis	2	100
Agency Data Systems Limited	Dormant	1	100
Control Technology Centre Limited	Control technology	2	100
Internet Facilitators Limited	Internet service providers	1	100
Manpharm Limited	Pharmaceutical research	1	100
Vuman Inc	Computer software	\$100	100

With the exception of Vuman Inc, which is incorporated in the United States of America, the above companies are registered in England and Wales.

Both of these companies are consolidated into these financial statements.

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes *(continued)*

10 Fixed asset investments *(continued)*

■ Manchester Incubator Company Limited (formerly Manchester Biotech Limited)

The company's principal activity is to initiate and support biotechnology ventures. The ordinary share capital of this company is £100.

The subsidiary undertaking of Manchester Incubator Company Limited (formerly Manchester Biotech Limited) is as follows:

	Principal activity	Called up share capital (ordinary shares)	Percentage of ordinary shares held %
Sagitus Solutions Limited	Biotechnology research	100	62

The above companies are registered in England and Wales.

Both of these companies are consolidated into these financial statements.

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes (continued)

10 Fixed asset investments (continued)

On 16 December 1999, the company acquired the entire ordinary share capital of the following:

- Manchester Innovation Limited (formerly known as Vuman Limited);
- Manchester Technology Developments Limited; and
- Manchester Incubator Company Limited (formerly Manchester Biotech Limited).

This transaction was effected via a share for share exchange and the directors have applied the provisions of merger accounting under schedule 13 of the Companies Act. The effect of this is to present the new combined group as one for both the year ended 31 July 2000 and for the preceding year. Details relating to this merger are as follows:

Turnover for the year ended 31 July 2000 was £4,885,373 as set out on page 5. This is analysed as follows:

	From 1 August 1999 to 15 December 1999 £	From 16 December 1999 to 31 July 2000 £
Manchester Innovation Holdings Limited	-	-
Manchester Innovation Limited Group	868,842	1,448,070
Manchester Technology Developments Limited Group	446,150	743,581
Manchester Incubator Company Limited Group	517,024	861,706
	<u>1,832,016</u>	<u>3,053,357</u>

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes (continued)

10 Fixed asset investments (continued)

The reported loss (before minority interests) for the year ended 31 July 2000 is £1,668,790 as set out on page 5. This is analysed as follows:

	From 1 August 1999 to 15 December 1999	From 16 December 1999 to 31 July 2000
	£	£
Manchester Innovation Holdings Limited	(544)	(315,906)
Manchester Innovation Limited Group	(45,698)	(76,161)
Manchester Technology Developments Limited Group	22,386	(382,691)
Manchester Incubator Company Limited Group	(326,316)	(543,860)
	<u>(350,172)</u>	<u>(1,318,618)</u>

The net assets/(liabilities) at 16 December 1999 were as follows:

	£
Manchester Innovation Holdings Limited	1,499,657
Manchester Innovation Limited Group	(839,398)
Manchester Technology Developments Limited Group	(109,694)
Manchester Incubator Company Limited Group	(811,386)
	<u>(260,821)</u>

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes *(continued)*

10 Fixed asset investments *(continued)*

Turnover for the year ended 31 July 1999 was £4,683,845 as set out on page 5. This is analysed as follows:

	£
Manchester Innovation Holdings Limited	-
Manchester Innovation Limited Group	3,127,280
Manchester Technology Developments Limited Group	1,146,908
Manchester Incubator Company Limited Group	409,657
	<hr/>
	4,683,845
	<hr/>

The reported profit (before minority interests) for the year ended 31 July 1999 was £402,804 as set out on page 5. This is analysed as follows:

	£
Manchester Innovation Holdings Limited	-
Manchester Innovation Limited Group	(222,822)
Manchester Technology Developments Limited Group	982,336
Manchester Incubator Company Limited Group	(356,710)
	<hr/>
	402,804
	<hr/>

No fair value adjustments were booked at the time of the merger and there have been no adjustments to consolidated reserves.

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes (continued)

11 Disposals

	2000	Group 1999
	£	£
Profit on deemed disposal of SensAlyse Limited	-	487,324
Profit on disposal of Kestra Limited	85,839	880,768
Profit on disposal of Medeval Limited	-	816,558
	<u>85,839</u>	<u>2,184,650</u>

Details relating to these disposals are as follows:

■ Deemed disposal of SensAlyse Limited

On 11 November 1998, the group completed the deemed disposal of the investment in SensAlyse Limited in exchange for the shares in SensAlyse Holdings Limited. Manchester Technology Developments Limited's interest in SensAlyse Limited was 100% of the ordinary shares and this was exchanged for a 41% ordinary shareholding in SensAlyse Holdings Limited. The net unrealised gain arising on this deemed disposal was £487,324.

■ Disposal of Kestra Limited

On 1 April 1999, the group completed the sale of Kestra Limited. The disposal is analysed as follows:

	£
Net liabilities disposed of:	230,563
Net consideration received from purchaser	<u>650,205</u>
Profit on disposal	<u>880,768</u>

In connection with the disposal of Kestra Limited, 10% of the proceeds from this sale was retained. The retention was received in the current year and can be analysed as follows:-

	£
Net retention received	96,552
Less: net costs associated with disposal	(10,713)
Profit on disposal	<u>85,839</u>

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes (continued)

11 Disposals (continued)

■ Disposal of Medeval Limited

On 13 October 1998, the group completed the sale of Medeval Limited. The disposal is analysed as follows:

	£
Net assets disposed of:	
Fixed assets	802,400
Investments	7,500
Stock	56,000
Debtors	1,540,000
Bank and cash	221,700
Creditors	(1,814,478)
	<hr/>
	813,122
Satisfied by cash received	1,629,680
	<hr/>
Profit on disposal	816,558
	<hr/>

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes (continued)

12 Stocks

	Group	
	2000	1999
	£	£
Contracts in progress	77,794	104,507

13 Debtors

	Group		Company
	2000	1999	2000
	£	£	£
Trade debtors	538,715	398,581	-
Amounts owed by University of Manchester	1,238,147	95,813	-
Other debtors	234,252	243,400	-
Prepayments and accrued income	98,619	765,770	-
	2,109,733	1,503,564	-

All debtors fall due within one year.

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes (continued)

14 Creditors: amounts falling due within one year

	Group 2000 £	1999 £	Company 2000 £
Bank loans and overdrafts (see note 15)	201,160	275,795	-
Trade creditors	488,053	347,378	-
Obligations under finance leases and hire purchase contracts (see note 15)	14,488	-	-
Amounts owed to group undertakings	-	-	315,000
Amounts owed to University of Manchester	3,710,442	3,836,580	-
Corporation tax	1,507	206,735	-
Taxation and social security	172,632	184,227	-
Other creditors	304,648	214,352	-
Accruals	804,256	1,097,284	1,450
Deferred income (see note 15)	289,440	336,405	-
	<u>5,986,626</u>	<u>6,498,756</u>	<u>316,450</u>

15 Creditors: amounts falling due after more than one year

	Group 2000 £	1999 £
Other creditors	-	20,000
Deferred income (see below)	10,447,599	10,804,178
Obligations under finance leases and hire purchase contracts (see below)	18,111	-
	<u>10,465,710</u>	<u>10,824,178</u>

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes (continued)

15 Creditors: amounts falling due after more than one year (continued)

Creditors payable by instalments

	Instalments payable within one year		Instalments payable within two to five years		Total	
	2000	1999	2000	1999	2000	1999
	£	£	£	£	£	£
Group						
Bank loans and overdrafts	201,160	275,795	-	-	201,160	275,795
Obligations under finance leases and hire purchase contracts	14,488	-	18,111	-	32,599	-
	<u>215,648</u>	<u>275,795</u>	<u>18,111</u>	<u>-</u>	<u>233,759</u>	<u>275,795</u>

Deferred income

	Government capital grants	Service charge	Lease premium	Other capital grant	2000 Total	1999 Total
	£	£	£	£	£	£
Group						
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 profit and loss account	(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
	£	£
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>

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes (continued)

16 Provisions for liabilities and charges

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

Group	Amounts provided		Amounts not provided	
	2000	1999	2000	1999
	£	£	£	£
Difference between accumulated depreciation and capital allowances	-	-	(390,578)	(755,646)
Other timing differences	-	-	592,883	602,455
	<u>-</u>	<u>-</u>	<u>(202,305)</u>	<u>(153,191)</u>

There are no amounts for provided or unprovided deferred taxation in the company.

17 Commitments

	Group	
	2000	1999
	£	£
Authorised and contracted	-	103,000
	<u>-</u>	<u>103,000</u>

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes (continued)

18 Called up share capital and other reserves

	2000 £	1999 £
Authorised		
1,500,101 ordinary shares of £1 each	1,500,101	-
Allotted and called up		
1,500,101 ordinary shares of £1 each	1,500,101	-

As a result of the introduction of merger accounting in the preparation of these financial statements, the results and net assets/(liabilities) of the combined group have been presented for the current and previous years. Because the merger was not effected until 16 December 1999, the share capital used as the consideration for the merger was credited to other reserves at 31 July 1999 and has then been transferred to share capital on 16 December 1999.

19 Profit and loss account

	Group 2000 £	1999 £	Company 2000 £
At beginning of year	(1,405,099)	(1,838,716)	-
Retained (loss)/profit for the year	(1,668,790)	402,804	(316,450)
Minority interests	44,243	5,813	-
Non-finance costs	25,000	25,000	-
At end of year	(3,004,646)	(1,405,099)	(316,450)

20 Analysis of shareholder's funds

	Group 2000 £	1999 £	Company 2000 £	1999 £
Equity shareholder's funds	(1,669,635)	27,639	1,183,751	-
Non-equity shareholder's funds	590,072	561,588	-	-
	(1,079,563)	589,227	1,183,751	-

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes *(continued)*

21 Minority interests

	2000 £	1999 £
At beginning of year	494,225	525,038
Net share of loss for the year	(44,243)	(5,813)
Non-equity finance costs	(25,000)	(25,000)
	<hr/>	<hr/>
At end of year	424,982	494,225
	<hr/>	<hr/>
Analysed as:		
Equity minority interests	(100,018)	(30,775)
Non-equity minority interests	525,000	525,000
	<hr/>	<hr/>
	424,982	494,225
	<hr/>	<hr/>

The non-equity minority interests include preference shares in Manchester Technology Developments Limited. The preference shareholders rank above the ordinary shareholders in the event of a winding up of that company or other return of capital.

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes (continued)

22 Pension schemes

The group operates two pension schemes. Details are as follows:

Vuman Limited Group Pension Scheme

The majority of employees are members of the Vuman Limited Group Pension Scheme. The scheme is an externally funded defined benefit scheme.

The Vuman Limited Group Pension Scheme is valued every three years by a professionally qualified actuary. The assets of the scheme are held in separate trustee administered funds. The latest full actuarial valuation of the scheme was as at 1 September 1999 based on the "Projected Unit Method" modified by the use of a 20 year control period. The most significant assumptions underlying the valuation are a future yield of 8% per annum and future salary increases of 6% per annum.

The total scheme cost, inclusive of death in service costs, represents a regular cost of 13% of pensionable salaries, being employer's contributions. The administration charges represent 6% of the combined employee and employer contributions.

At 1 September 1999 the market value of the fund's assets was £1,498,000 and the actuarial value of the assets was sufficient to cover 98% of the benefits which had accrued to members after allowing for expected future increases in earnings of 6% per annum to normal retirement date. The employer's contribution rate over the average remaining services lives of the members of the scheme takes account of the deficit disclosed by the valuation.

UMSS Limited Group Pension Scheme

The group also 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 principal employer is currently enjoying a contribution holiday.

In total, the contributions paid by the group during the year were £72,516 (1999: £97,129). There were no accrued or prepaid contributions at the end of either the current or preceding year.

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes (continued)

23 Analysis of items netted in the cash flow statement

	2000 £	1999 £
Returns on investment and servicing of finance		
Interest received	115,720	145,961
Dividends received	-	21,517
Interest paid	(19,982)	(75,434)
Net cash inflow from returns on investment and servicing of finance	95,738	92,044
Capital expenditure		
Purchase of tangible fixed assets	(581,616)	(4,954,018)
Sale of tangible fixed assets	1,070	77,932
Grant received	-	8,373,453
Net cash (outflow)/inflow from capital expenditure and financial investment	(580,546)	3,497,367
Acquisitions and disposals		
Purchase of investment	(1)	-
Disposal of subsidiary undertakings	85,839	1,629,680
Disposal of associated undertaking	-	650,205
Net cash inflow from acquisitions and disposals	85,838	2,279,885
Financing		
Capital repayment of finance leases	(14,031)	(224,379)
New finance leases	46,630	-
Net cash (outflow) from financing	32,599	(224,379)

24 Analysis of net funds

	At 31 July 1999 £	Movement £	At 31 July 2000 £
Cash at bank and in hand	3,842,909	(2,886,976)	955,933
Bank overdraft	(275,795)	74,635	(201,160)
	3,567,114	(2,812,341)	754,773
Finance leases	-	(32,599)	(32,599)
Total	3,567,114	(2,844,940)	722,174

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes (continued)

25 Related party transactions

With the University of Manchester

During the year these were the following transactions with the University of Manchester:

	2000 £	1999 £
Sales	1,631,380	1,012,771
Purchases	604,057	963,042

The balances outstanding at the year end were as follows:

Debtors	1,238,147	95,813
Creditors	3,710,442	3,836,580

With the pension fund

During the previous year, a loan was made to the Vuman Limited Group Pension Scheme. The balance outstanding at the year end was £30,950 (1999: £41,000).

With other related parties

During the year there were the following transactions in the books of Manchester Incubator Company Limited (formerly Manchester Biotech Limited) between this company and its 62% owned subsidiary undertaking, Sagitus Solutions Limited:

	2000 £	1999 £
Sales (including re-charges)	125,924	-

At the year end, there were the following balances in the books of Manchester Incubator Company Limited (formerly Manchester Biotech Limited):

	2000 £	1999 £
Debtors	-	93,670
Creditors	62	62

At the year end, Manchester Incubator Company Limited (formerly Manchester Biotech Limited) has made a provision against its debtor balance with Sagitus Solutions Limited for £336,020 being the total amount (1999: £nil).

Manchester Innovation Holdings Limited

(formerly Manchester Innovation Limited)

Notes *(continued)*

25 **Related party transactions *(continued)***

In addition to the above, during the year ended 31 July 2000, Manchester Incubator Company Limited (formerly Manchester Biotech Limited) transferred an asset to Sagitus Solutions Limited which had a cost in the company's books of £140,896.

26 **Post balance sheet events**

On 15 March 2001 Manchester Innovation Holdings Limited ("MIHL") acquired the debt owed by Manchester Incubator Company Limited (formerly Manchester Biotech Limited) to the University of Manchester. On the same date the authorised share capital of MIHL was increased by 3,392,990 ordinary shares of £1 each and the debt was redeemed by the allotment of the new shares to the University of Manchester.

27 **Ultimate parent undertaking**

The company is a wholly owned subsidiary of the University of Manchester which is established by Royal Charter. The financial statements of the University of Manchester include the results of both Manchester Innovation Holdings Limited and its group.