

**SOUTHAMPTON ASSET MANAGEMENT LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**31<sup>ST</sup> JULY 2004**

Registered Number 4367489



# **SOUTHAMPTON ASSET MANAGEMENT LIMITED**

## **DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

### **CONTENTS**

	<u>Page</u>
Directors' Report	1-2
Auditors' Report	3
Profit and Loss Account	4
Balance Sheet	5
Notes to the Accounts	6-10

## **SOUTHAMPTON ASSET MANAGEMENT LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31<sup>ST</sup> JULY 2004**

The Directors present their report and the audited financial statements of the Company for the year ended 31<sup>st</sup> July 2004.

#### **PRINCIPAL ACTIVITIES**

The Company operates as a holding company for investments in new technology arising from original research work at the University of Southampton.

#### **RESULTS**

The Company has had an outstanding year.

During the year, Offshore Hydrocarbon Mapping Limited (OHM) was floated on the Alternative Investment Market (AIM). At that time, the Company held 23.02% of OHM, 15,400 shares. After a 1:361 share split this equated to 5,559,400 shares. Due to oversubscription, 1,667,820 shares were released at an offer price of £1.74, realising a net surplus of £2.74m after stamp duty and brokerage, which has been gift-aided to the University of Southampton.

During the year, in return for intellectual property rights and cash, the Company received an allocation of shares in three new investments (2003:- four), and further funding rounds have successfully occurred in the case of three existing investments. Although this has had the effect of diluting the Company's proportion of each investment, a valuation using British Venture Capital Association (BVCA) rules shows a marked increase in valuation in each case.

Using British Venture Capital Association (BVCA) rules, at 31<sup>st</sup> July 2004, excluding share options (see note 6), these were valued at £11,910,773 (2003:- £2,162,502). It should be noted that BVCA valuations are indicative based upon the purchase price per share at the latest funding round, and that this price may not be sustained in future funding rounds.

The Company's profit for the year was £7,894 (2003:- deficit £(7,848)), and cumulative profit and loss account surplus, was £46 (2003:- deficit £(7,848)).

#### **AUDITORS**

Mazars LLP succeeded Mazars as the Independent Auditor to the Company on 31<sup>st</sup> August 2004. A resolution to appoint Mazars LLP as Auditor to the Company will be proposed at the next Annual General Meeting.

# **SOUTHAMPTON ASSET MANAGEMENT LIMITED**

## **DIRECTORS' REPORT FOR THE YEAR ENDED 31<sup>ST</sup> JULY 2004 (Continued)**

### **DIRECTORS AND DIRECTORS' INTERESTS**

The Directors who served since the date of the last report were as follows:

Mr. J. B. Boyer (Chairman) (appointed 10<sup>th</sup> June 2004)  
Prof. P. N. Bartlett  
Prof. R. S. J. Briggs  
Mr. R. J. Davies  
Dr. J. S. Fox  
Prof. P. J. Gregson (resigned 17<sup>th</sup> May 2004)  
Prof. J. K. Hammond  
Mr. D. R. Norwood (appointed 15<sup>th</sup> March 2004)  
Dr. T. Raven  
Dr. B. G. Smith (resigned 16<sup>th</sup> September 2003)  
Mr. N. J. Squibb  
Dr. C. J. Wright (resigned 15<sup>th</sup> March 2004)

None of the Directors held any beneficial interest in the shares of the Company, or other group companies.

### **POST BALANCE SHEET EVENT**

During October 2004, a capital restructuring of one of the Company's investments, SynAIRgen Limited, took place, and Southampton Asset Management Limited took up its outstanding options. SynAIRgen Limited was renamed SynAIRgen Research Limited. The assets of this Company were transferred to SynAIRgen plc, which floated on the Alternative Investment Market ("AIM"). Because of over-subscription, 400,000 SynAIRgen plc shares were sold for £520,000, realising a net profit of £492,400.

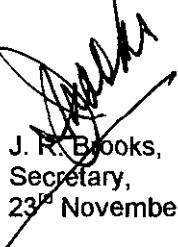
### **DIRECTORS' RESPONSIBILITIES**

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 of the Company for that period. In preparing these financial statements, the Directors are required to:-

- select suitable accounting policies and 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This report was approved by the Board of Directors on 23<sup>rd</sup> November 2004.

  
J. R. Brooks,  
Secretary,  
23<sup>rd</sup> November 2004

University of Southampton,  
Highfield,  
Southampton,  
SO17 1BJ

## **SOUTHAMPTON ASSET MANAGEMENT LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SOUTHAMPTON ASSET MANAGEMENT LIMITED**

We have audited the financial statements on pages 4 to 10. These financial statements have been prepared under the historical cost convention and the accounting policies set out on page 6.

This report is made solely to the Company's Members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's Members those matters that we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. Our responsibilities do not extend to any other information.

#### Basis of opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 31st July 2004 and of its result for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

**MAZARS LLP** *Mazars LLP*  
**CHARTERED ACCOUNTANTS**  
and Registered Auditors

8 New Fields,  
2 Stinsford Road  
Poole, Dorset  
BH17 0NF

23 November 2003

**SOUTHAMPTON ASSET MANAGEMENT LIMITED**

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31<sup>ST</sup> JULY 2004**

	Note	2004 £	2003 £
<b>TURNOVER</b>		-	-
Administrative expenses		(9,495)	(7,848)
<b>OPERATING LOSS ON ORDINARY ACTIVITIES</b>	2	(9,495)	(7,848)
Interest receivable		3,072	-
<b>OPERATING LOSS</b>		(6,423)	(7,848)
Net surplus on sale of investment	14	2,736,017	-
<b>PROFIT (LOSS) BEFORE GIFT AID AND TAXATION</b>		2,729,594	(7,848)
Amounts payable by gift aid		(2,721,700)	-
<b>PROFIT (LOSS) BEFORE TAXATION</b>		7,894	(7,848)
Taxation	5	-	-
<b>PROFIT (LOSS) AFTER TAXATION AND RETAINED PROFIT (LOSS) FOR THE YEAR</b>		7,894	(7,848)
<b>ACCUMULATED DEFICIT BROUGHT FORWARD</b>		(7,848)	-
<b>ACCUMULATED SURPLUS CARRIED FORWARD</b>		£146	£-

All activities of the Company are continuing operations.

The Company has no other gains or losses other than the above loss for the year.

The notes on pages 6 to 10 form part of these financial statements.

**SOUTHAMPTON ASSET MANAGEMENT LIMITED**

**BALANCE SHEET AS AT 31<sup>ST</sup> JULY 2004**

	Note	2004 £	2003 £
<b>FIXED ASSETS</b>			
Investments	1,6	3,763	2,439
		<hr/>	<hr/>
<b>CURRENT ASSETS</b>			
Debtors	7	223	100
Cash and Bank		14,260	-
		<hr/>	<hr/>
		14,483	100
<b>CREDITORS</b>			
Amounts falling due within one year	8	(18,100)	(10,287)
		<hr/>	<hr/>
<b>NET CURRENT LIABILITIES</b>		(3,617)	(10,187)
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		£146	£(7,748)
		<hr/>	<hr/>
<b>CAPITAL AND RESERVES</b>			
Called-up share capital	9	100	100
Profit and loss account		46	(7,848)
		<hr/>	<hr/>
<b>SHAREHOLDERS' FUNDS (DEFICIT)</b>	12	£146	£(7,748)
		<hr/>	<hr/>

These financial statements were approved by the Board of Directors on 23<sup>rd</sup> November 2004.

Dr. T. Raven, Director



The notes on pages 6 to 10 form part of these financial statements.

# **SOUTHAMPTON ASSET MANAGEMENT LIMITED**

## **NOTES TO THE ACCOUNTS – 31<sup>st</sup> JULY 2004**

### **1. ACCOUNTING POLICIES**

The following accounting policies have been applied consistently in dealing with items which are considered material to the Company's financial statements:-

(a) **Basis of preparation** - The financial statements are prepared in accordance with applicable accounting standards on a going concern basis and under the historical cost convention.

(b) **Investments** – Investment are stated at cost.

### **2. PROFIT (LOSS) BEFORE TAXATION**

	2004 £	2003 £
The profit (loss) before taxation is stated after charging:-		
Auditors' remuneration	£3,500	£800
	<hr/>	<hr/>
Auditors' remuneration – non-audit work	£575	£800
	<hr/>	<hr/>

### **3. DIRECTORS' EMOLUMENTS**

Directors' emoluments	£Nil	£Nil
	<hr/>	<hr/>

### **4. EMPLOYEES**

During the year, there were no employees (2003: Nil). The University of Southampton Group charged £650 (2003: £1,705) and Southampton Innovations Limited charged £3,323 (2003:- £4,543) payable in respect of administrative assistance provided.

Salaries	£Nil	£Nil
	<hr/>	<hr/>

### **5. TAXATION**

There is no charge to corporation tax for the year (2003: £nil)



# SOUTHAMPTON ASSET MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS – 31<sup>st</sup> JULY 2004

<b>6. FIXED ASSET INVESTMENTS</b>	<b>£</b>
At 31 <sup>st</sup> July 2003	2,439
Additions at cost	1,370
Disposals at cost	(46)
	<hr/>
As at 31 <sup>st</sup> July 2004	£3,763
	<hr/>

The above trade investments are all registered in England and Wales and operate wholly from the United Kingdom.

	Proportion of voting rights and share capital held excluding including future options future options		Business
Offshore Hydrocarbon Mapping Limited (formerly Active EM Limited) (financial year end 31 <sup>st</sup> August)	13.42%	not applicable	Offshore oil surveying
Capsant Neurotechnologies Limited (31 <sup>st</sup> December)	15.97%	21.22%	Neurological protection
Southampton Polypeptides Limited (31 <sup>st</sup> December)	26.30%	37.66%	Synthetic peptides
HepCgen Limited (31 <sup>st</sup> December)	14.32%	21.61%	Hepatitis C testing
Nanotecture Limited (31 <sup>st</sup> March)	21.49%	not applicable	Nanotechnology
SynAIRgen Limited (30 <sup>th</sup> June)	11.82%	27.21%	Respiratory disorders
Ilika Limited (30 <sup>th</sup> April)	19.26%	29.95%	Combinatorial chemistry
Shellform Technical Limited (31 <sup>st</sup> July)	2.00%	not applicable	Engineering

The results of the above investments have not been consolidated in the accounts of the Company because (a) the Company's policy is only to take up future options when further rounds of funding dilute the Company's proportion to less than 20% of each investment including any options taken up, and (b) the Boards of the above investments are also fully independent of the University of Southampton, the Company's Ultimate Holding Company.

## 7. DEBTORS

	2004 £	2003 £
Amounts owing by group undertakings	85	80
Other debtors	138	20
	<hr/>	<hr/>
	£223	£100
	<hr/>	<hr/>

# SOUTHAMPTON ASSET MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS – 31<sup>st</sup> JULY 2004 (continued)

### 8. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004 £	2003 £
Amounts owing to group undertakings	14,024	8,687
Other creditors	4,076	1,600
	<hr/>	<hr/>
	£18,100	£10,287
	<hr/>	<hr/>

### 9. CALLED-UP SHARE CAPITAL

	2004 £	2003 £
<i>Authorised:-</i>		
'A' Ordinary shares of £1	800	800
'B' Ordinary shares of £1	200	200
	<hr/>	<hr/>
	£1,000	£1,000
	<hr/>	<hr/>
<i>Allotted and called up:-</i>		
'A' Ordinary shares of £1	80	80
'B' Ordinary shares of £1	20	20
	<hr/>	<hr/>
	£100	£100
	<hr/>	<hr/>

The 'A' and 'B' Ordinary shares rank *pari passu* in all respects except:-

- Income – the 'B' shareholders shall not be entitled to any dividend or distribution which would otherwise be payable, or other distributable profits which have arisen in the Company or any asset of the Company, to the extent that the same forms part of, or is made out of, the 'A' Fund, and such dividend or profits may only be paid to the holders of the 'A' shares.
- Capital – on a winding up, reconstruction or other occasion on which there is any return or repayment of capital, including distributions *in specie* and including any such distribution as may be made by a liquidator under the Insolvency Act 1986, the holders of the 'A' shares shall be exclusively entitled to have distributed to them, or their nominees, either all the 'A' Fund or all the consideration (whether paid in cash, loan notes or securities) paid or payable by purchasers to the Company in respect of the 'A' Fund or, in the case of a transfer or sale of any part of the 'A' Fund where the Insolvency Act 1986 applies, such securities (whether shares, loan notes or debentures) or other consideration as may be due to the Company or the liquidator thereof in consideration of the transfer or sale of the 'A' Fund.

Subject to the above, in a winding up of the Company, the surplus assets shall be divided amongst the Members *pari passu*..

## **SOUTHAMPTON ASSET MANAGEMENT LIMITED**

### **NOTES TO THE ACCOUNTS – 31<sup>st</sup> JULY 2004 (continued)**

#### **10. ULTIMATE PARENT UNDERTAKING**

The Company's immediate parent undertaking is University of Southampton Holdings Limited, which holds 80% of the Company through ownership of all the issued "A" Ordinary Shares, and is registered in England.

The Company's ultimate parent undertaking is the University of Southampton, a body corporate incorporated by Royal Charter in England, which is the smallest and largest group for which group financial statements are prepared.

The group accounts of the University of Southampton and its subsidiary undertakings are available to the public and may be obtained from the University of Southampton, Highfield, Southampton, SO17 1BJ.

#### **11. CASH FLOW STATEMENT**

The financial statements of the University of Southampton for the year ended 31<sup>st</sup> July 2004 contain a consolidated statement of cash flows. The Company has taken advantage of the exemption granted by Financial Reporting Standard Number 1 whereby it is not required to publish its own cash flow statement.

#### **12. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	2004 £	2003 £
Profit for the year and addition (diminution) to shareholders' funds	7,894	(7,848)
Opening shareholders' funds (deficit)	(7,748)	100
	<hr/>	<hr/>
Closing shareholders' surplus (deficit) funds	£146	£(7,748)
	<hr/>	<hr/>

# **SOUTHAMPTON ASSET MANAGEMENT LIMITED**

## **NOTES TO THE ACCOUNTS – 31<sup>st</sup> JULY 2004 (continued)**

### **13. RELATED PARTY TRANSACTIONS**

During the year, the Company was charged by related parties as follows:-

	2004 £	2003 £
Southampton Innovations Limited (administration)	3,323	4,543
Southampton Innovations Limited (cost of shares in investment)	-	388
University of Southampton (administration)	650	1,705
University of Southampton (cost of shares in investment)	-	2,010
Chilworth Science Park Limited (cost of shares in investment)	-	42
	<hr/>	<hr/>
	£3,973	£8,688
	<hr/>	<hr/>

### **14. NET SURPLUS ON SALE OF INVESTMENT**

	2004 £	2003 £
Proceeds on sale of investment	2,835,294	-
Stamp duty and brokerage	(99,231)	-
	<hr/>	<hr/>
Net proceeds	2,736,063	-
Book cost	(46)	-
	<hr/>	<hr/>
Surplus	£2,736,017	£-
	<hr/>	<hr/>

### **15. POST BALANCE SHEET EVENT**

During October 2004, a capital restructuring of one of the Company's investments, SynAIRgen Limited, took place, and Southampton Asset Management Limited took up its outstanding options. SynAIRgen Limited was renamed SynAIRgen Research Limited. The assets of this Company were transferred to SynAIRgen plc, which floated on the Alternative Investment Market ("AIM"). Because of over-subscription, 400,000 SynAIRgen plc shares were sold for £520,000, realising a net profit of £492,400.