ITI Scotland Limited

(A company limited by Guarantee and not having a share capital)

Directors' Report and Financial Statements

31 March 2011

Registered No: SC251900

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Directors & Advisors

Directors
P. Lewis (Chairman)
N. Francis
E. Mitchell

Secretary
J. McRoberts

Independent Auditors
KPMG LLP
191 West George Street
Glasgow
G2 2LJ

Bankers
Bank of Scotland
123 St. Vincent St.
Glasgow
G2 5EA

Solicitors
McGrigors
1 Earl Grey Street
Edinburgh
EH3 9AQ

Burness
50 Lothian Road,
Edinburgh
EH3 9WS

Shepherd & Wedderburn
155 St. Vincent St.
Glasgow
G2 5NR

Registered Office
Atrium Court
50 Waterloo Street.
Glasgow
G2 6HQ

Registered No: SC 251900

Directors' Report

The directors present their report and financial statements of the company, Registration Number SC 251900, for the year ended 31 March 2011.

Results

The profit for the year, after taxation, amounted to £nil (profit for the year ended 31 March 2010: £nil).

Principal activity

ITI Scotland Limited is a company limited by guarantee and does not have share capital. The liability of each member is limited to the sum of £1.

At 31 March 2011 the company had one member.

The company's principal activity during the year was the identification of global market opportunities within and across the areas of Energy, Life Sciences and Communications and Digital Media that fit well with the existing Scottish research and commercial capability. This is achieved by commissioning pre-competitive research programmes which will deliver economic benefit to Scotland. These programmes are designed to deliver new platform technologies upon which companies can develop their own products and services and new spin out companies can be launched.

Directors and their interests

The directors who served during the year, and changes during the year, were as follows:

	Date of appointment	Date of resignation
G. Kelly		30 March 2011
P. Lewis		
N. Francis		
E. Mitchell	25 October 2010	

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they 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 then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK 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.

Registered No: SC 251900

Directors' Report (continued)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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.

Disclosure of information to the auditors

The directors who held office at the date of approval of this directors' report confirm that;

- so far as they are aware, there is no relevant audit information of which the company's auditors are unaware; and
- each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of the information.

Payment policy

ITI Scotland is committed to paying its suppliers within 30 days, or as provided for under the terms of an agreed contract.

Auditors

PricewaterhouseCoopers LLP resigned as auditors and the Directors appointed KPMG LLP to fill the vacancy. A resolution to re-appoint them as auditors will be put to the Annual General Meeting.

Other Matters

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

On behalf of the board

Paul Lewis

P. Lewis
Director

28 June 2011

Registered No: SC 251900

Independent auditor's report
to the members of ITI Scotland Limited (continued)

We have audited the financial statements of ITI Scotland Limited for the year ended 31 March 2011 set out on pages 7 to 19. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 explained more fully in the Directors' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Other matter

The company has passed a resolution in accordance with section 506 of the Companies Act 2006 that the senior statutory auditor's name should not be stated.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report

to the members of ITI Scotland Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or the financial statements are not in
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

DJ Watt (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
191 West George Street
Glasgow
G2 2LJ
1 July 2011

Profit and loss account

for the year ended 31 March 2011

	Note	*2011* £	*2010* £
Turnover		157,750	89,874
Other operating income		9,141,745	25,298,243
		9,299,495	25,388,117
Programme expenses		(9,197,871)	(23,802,125)
Administrative expenses		(105,353)	(1,598,038)
		(9,303,224)	(25,400,163)
Operating loss	2	(3,729)	(12,046)
Other interest receivable		3,729	12,046
Profit on ordinary activities before taxation		-	-
Tax on profit on ordinary activities	5	-	-
Profit on ordinary activities after taxation		-	-

All recognised gains and losses are included in the profit and loss account.

The results above have been derived wholly from continuing activities.

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Balance Sheet

at 31 March 2011

	Note	*2011* £	*2010* £
Fixed assets			
Tangible assets	6	88,921	188,379
Current assets			
Investments	7	-	-
Debtors	8	1,541,371	4,450,085
Cash at bank and in hand		757,884	1,101,687
		2,299,255	5,551,772
Creditors: amounts falling due within one year	9	(2,321,458)	(5,573,975)
Net current liabilities		(22,203)	(22,203)
Total assets less current liabilities		66,718	166,176
Accruals and deferred income			
Deferred grants	10	(88,921)	(188,379)
Net Liabilities		(22,203)	(22,203)
Capital and reserves			
Profit and loss account	11	(22,203)	(22,203)

The financial statements have been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 relating to small companies and in accordance with the Financial Reporting for Smaller Entities (effective April 2008).

The financial statements on pages 7 to 19 were approved by the board of directors on 28 June 2011 and were signed on its behalf by:

Paul Lewis

P. Lewis
Director

28 June 2011

Statement of cash flows

for the year ended 31 March 2011

	Note	2011 £	2010 £
Net cash outflow from operating activities	13(a)	(409,176)	(534,073)
Returns on investments and servicing of finance	13(b)	3,729	12,046
Taxation		-	-
Capital expenditure	13(b)	61,644	716,499
(Decrease)/increase in cash		(343,803)	194,472

Reconciliation of net cash flow to movement in net funds

	2011 £	2010 £
Change in net funds resulting from cash flows		
Net funds at 1 April	1,101,687	907,215
Movement in net funds in the year	(343,803)	194,472
Net funds at 31 March	757,884	1,101,687

Notes to the financial statements

at 31 March 2011

1. Accounting policies

Basis of preparation

The financial statements are prepared on a going concern basis under the historical cost convention and in accordance with applicable accounting standards.

The validity of this assumption is dependent on the company continuing to receive financial support from its ultimate parent company, Scottish Enterprise, which has indicated its willingness to continue to support the company.

Turnover

Turnover represents the amount invoiced to third parties in respect of services provided and licence income, excluding value added tax.

Licence income is generated from licensing Intellectual Property (IP). It is credited to the profit and loss account on an accruals basis based on royalty periods completed in the financial year. Down payments under licences are credited to the profit and loss account on signature of the relevant agreement

Other operating income

Other operating income represents revenue grant funding receivable from Scottish Enterprise and European funding.

European funding is credited to the Profit and Loss account on the basis of amounts receivable in respect of expenditure incurred to 31 March each year on approved projects.

Research and development

Research and development expenditure is written off in the year in which it is incurred.

Operating Leases

Rentals paid under operating leases are charged to the profit and loss account in the year the costs are incurred.

Investments

Investments are stated in the balance sheet at the lower of cost and net realisable value. In accordance with group policy repayable grants are not capitalised. Where investments have been funded by loans from Scottish Enterprise, provisions to reduce the value of the investment to below cost are charged to the Income and Expenditure Account in the year the reduction arises.

Where investments have been funded by Scottish Enterprise, other than by way of a repayable loan, the accounting treatment is to capitalise the investment in the balance sheet and set up a provision to reflect the liability to repay the capital proceeds to Scottish Enterprise. All income generated from these investments is repayable to Scottish Enterprise. Any reduction in the value of the investment is matched through a corresponding reduction in the provision.

Interest income is recognised on an accrued basis. Income from unlisted investments is credited to the Income and Expenditure Account when it becomes due.

Notes to the financial statements

at 31 March 2011

1. Accounting policies (continued)

Fixed assets

All fixed assets are recorded at cost.

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life as follows:

IT equipment	-	over 3 years

Deferred Capital Grants

Funding received for capital expenditure is credited to deferred capital grants and is released to the profit and loss account in line with the estimated useful life of the assets.

Programme expenditure

The company invests significant sums in research programmes in conjunction with universities and other research providers. Each programme is entered into in the expectation of creating new platform technologies which will result in the creation of new Intellectual Assets which are capable of commercial exploitation.

Advances against programme expenditure are shown in debtors and charged to the profit and loss account as the related expenditure is incurred by the recipient of the funding.

Taxation

Current tax, including UK corporation 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.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Notes to the financial statements

at 31 March 2011

2. Operating loss

Operating loss is stated after charging/ (crediting):

	2011 £	*2010* £
Depreciation of owned fixed assets	80,912	357,417
Gain on sale of fixed assets	(43,098)	(364,663)
Auditors' remuneration - audit	9,863	10,323
- tax	7,715	-
Operating lease rentals – plant and machinery	-	183,493
– other	-	446,307
Research and development expenditure	9,197,871	21,001,852
Provision for investments	-	360,000
Release of deferred capital grants	(99,458)	(357,417)

3. Directors' emoluments

	2011 £	*2010* £
Directors' remuneration	-	8,723

None of the directors who served during the year were remunerated by the company. The directors are remunerated through Scottish Enterprise.

4. Staff costs

	2011 £	*2010* £
Wages and salaries	-	2,520,130
Social security costs	6,876	338,296
Pension costs (note 16)	-	210,049
	6,876	3,068,475

On 1 April 2010, the transfer of employees onto the Scottish Enterprise payroll was completed. Therefore the average monthly number of employees during the year was nil (2010: 34).

Notes to the financial statements

at 31 March 2011

5. Tax on profit on ordinary activities

	2011	2010
	£	£
(a) Tax on profit on ordinary activities		
The tax charge is made up as follows:		
Current tax:		
UK corporation tax on profits of the period	-	-
Tax on profit on ordinary activities	-	-

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is the same as (2010: same as) the standard rate of corporation tax of 28% (2010: 28%). The difference is as noted below:

	2011	2010
	£	£
Profit on ordinary activities	-	-
Profit on ordinary activities multiplied by standard rate of Corporation tax in UK of 28% (2010: 28%)	-	-
Expenses not deductible for tax purposes	40,236	352,363
Non-taxable income	(39,916)	(352,363)
Research & development credits	(320)	-
Total current tax	-	-

Notes to the financial statements

at 31 March 2011

6. Tangible assets

	IT equipment	*Total*
	£	*£*
Cost:		
At 1 April 2010	985,411	985,411
Disposals	(331,624)	(331,624)
At 31 March 2011	653,787	653,787
Depreciation:		
At 1 April 2010	797,032	797,032
Charge for year	80,912	80,912
Disposals	(313,078)	(313,078)
At 31 March 2011	564,866	564,866
Net book value:		
At 31 March 2011	88,921	88,921
Net book value:		
At 1 April 2010	188,379	188,379

Notes to the financial statements

at 31 March 2011

7. Investments

	Ordinary Shares £	*Convertible Loans* £	*Total* £
Cost:			
At 1 April 2010 and 31 March 2011	2,000	358,000	360,000
Depreciation:			
At 1 April 2010 and 31 March 2011	2,000	358,000	360,000
Net book value:			
At 31 March 2011 and at 1 April 2010	-	-	-

ITI Scotland entered into a back to back asset sale and purchase arrangement with a research provider, whereby ITI Scotland sold certain assets to the research provider in consideration of a convertible loan note of £358,000. ITI Scotland also purchased £2,000 of ordinary shares in the same research provider.

It is now apparent that the provider will not be able to repay this balance. The provider is in administration and ITI Scotland is currently waiting to see how much they will receive once the provider has been wound up. The remaining balance will then be formally written-off.

8. Debtors

	2011 £	*2010* £
Trade debtors	66,510	199,044
VAT	467,627	289,028
Other debtors and prepayments	-	90,614
Amounts due from Scottish Enterprise	-	1,358,981
Accrued income	1,007,234	2,512,418
	1,541,371	4,450,085

Notes to the financial statements

at 31 March 2011

9. Creditors: amounts falling due within one year

	2011	*2010*
	£	*£*
Trade creditors	1,283,810	73,562
Other taxes and social security costs	-	77,025
Other creditors	682,753	5,423,388
Amounts owed to Scottish Enterprise	354,895	-
	2,321,458	5,573,975

All sums due under the funding contract dated 17 July 2003 between ITI Scotland Limited and Scottish Enterprise are secured by a floating charge over all the assets of the company in favour of Scottish Enterprise.

10. Deferred capital grants

	2011	*2010*
	£	*£*
Balance as at 1 April	188,379	897,633
Received in period	-	179,792
Utilised in period	(99,458)	(889,046)
Balance as at 31 March	88,921	188,379

11. Movement in reserves

	2011	*2010*
	£	*£*
Balance as at 1 April	(22,203)	(22,203)
Profit for the year	-	-
Balance as at 31 March	(22,203)	(22,203)

Notes to the financial statements

at 31 March 2011

12. Other financial commitments

(a) Annual commitments under non-cancellable operating leases are as follows:

	Other *2011* £	*Other* *2010* £
Operating leases which expire:		
Within one year	-	5,670
In two to five years	-	-
In over five years	-	-
	-	5,670

(b) Other financial commitments.

The company has a number of continuing commitments under the terms of agreements with research providers. The total of these commitments is £43.7m, of which £6m is expected to arise within the next 12 months.

The cost of meeting these commitments is expected to be fully funded by Scottish Enterprise.

13. Notes to the statement of cash flows

(a) Reconciliation of operating loss to net cash inflow from operating activities

	2011 £	*2010* £
Operating loss	(3,729)	(12,046)
Depreciation of tangible fixed assets	80,912	357,417
Gain on sale of fixed assets	(43,097)	(364,663)
Decrease in debtors	2,908,712	1,202,495
Decrease in creditors	(3,252,517)	(1,008,023)
Decrease in deferred capital grant	(99,458)	(709,253)
Net cash outflow from operating activities	(409,177)	(534,073)

Notes to the financial statements

at 31 March 2011

13. Notes to the statement of cash flows (continued)

(b) Analysis of cash flows for headings netted in the statement of cash flows

	2011	*2010*
	£	£
Returns on investments and servicing of finance:		
Interest received	3,729	12,046

	2011	*2010*
	£	£
Capital expenditure:		
Payments to acquire tangible fixed assets	-	(179,792)
Receipts from sales of tangible fixed assets	61,644	896,291
	61,644	716,499

(c) Analysis of changes in net funds

	At 1 April 2010	*Cash flow*	*As at 31 March 2011*
	£	£	£
Cash at bank and in hand	1,101,687	(343,803)	757,884

14. Share Capital

The company does not have a share capital and is limited by guarantee. The liability of members is limited to £1 each. At 31 March 2011 the company had one member (2010: 1 member), Scottish Enterprise.

15. Capital commitments

The company had no capital commitments at 31 March 2011 (2010: £nil).

16. Pension commitments

On 1 April 2010, all ITI employees transferred over to Scottish Enterprise and all costs relating to the staff, including pension costs, can be found in the annual accounts of Scottish Enterprise.

Notes to the financial statements

at 31 March 2011

17. Related party transactions

During the year to 31 March 2011 the company entered into the following transactions: -

Related Party	Amount	Description	Relationship
Scottish Enterprise	£12,389,562	Funding received	Company member

All transactions were entered into in the normal course of business and the price charged was the normal market price. At the balance sheet date the amount due to Scottish Enterprise was £354,895. The balance due to Scottish Enterprise relating to the deferred grant can be found at note 10.

During the year to 31 March 2010 the company entered into the following transactions: -

Related Party	Amount	Description	Relationship
Scottish Enterprise	£27,000,000	Funding received	Company member
University of Edinburgh	£2,770,532	Research provider	Principal, Sir Tim O'Shea serves as an ITI Non-executive director.

In each case, the transactions were entered into in the normal course of business and the price charged was the normal market price. At the balance sheet date the amount due from Scottish Enterprise was £1,358,981 and to University of Edinburgh £19,858. The balance due to Scottish Enterprise relating to the deferred grant can be found at note 10.

18. Ultimate Parent Undertaking

ITI Scotland Limited is owned by Scottish Enterprise. Copies of the Scottish Enterprise financial statements can be obtained from Atrium Court, 50 Waterloo Street, Glasgow, G2 6HQ.