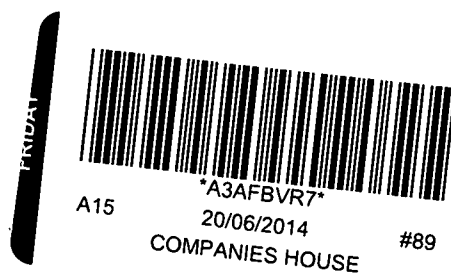




**(A Charitable Company Limited by Guarantee)**

**ANNUAL REPORT AND CONSOLIDATED FINANCIAL  
STATEMENTS**



**31st December 2013**

**Company Number: 01765239**

**Registered Charity Number: 290866**

# Lhasa Limited

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# Lhasa Limited

## MISSION STATEMENT

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### ***OBJECTIVES***

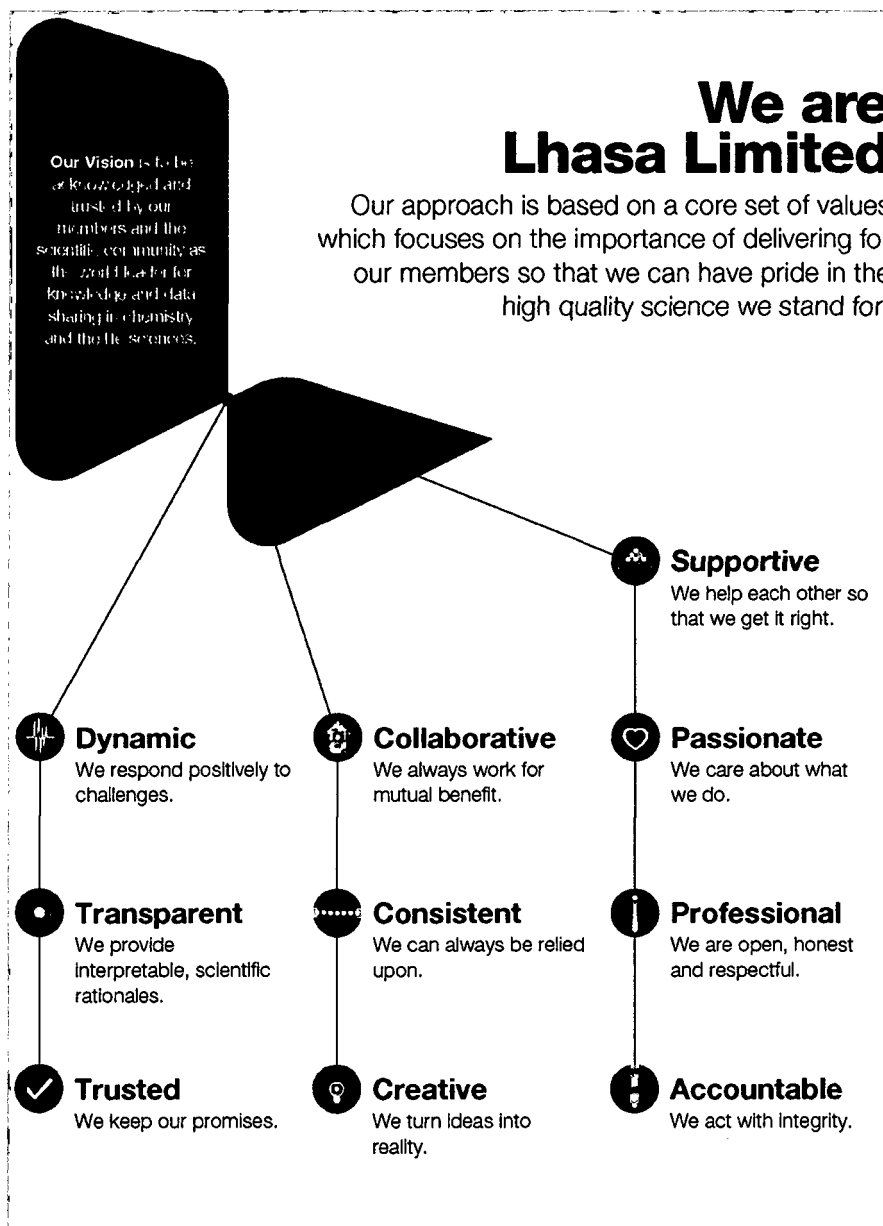
Lhasa Limited is a not-for-profit, charitable organisation whose objective is to promote scientific knowledge and understanding through the development of computer-aided reasoning and information systems in chemistry and the chemistry-related sciences.

### ***OUR MISSION***

Shared Knowledge, Shared Progress

### ***OUR VISION***

“To be acknowledged and trusted by our members and the scientific community as the world leader in knowledge and data sharing for chemistry and the life sciences”



shared knowledge • shared progress

Lhasa Limited  
Granary Wharf House  
2 Canal Wharf  
Leeds LS11 5PS  
United Kingdom  
Tel: + 44 (0) 113 394 6020  
Fax: + 44 (0) 113 394 6099  
Email: [marketing@lhasalimited.org](mailto:marketing@lhasalimited.org)  
Web: [www.lhasalimited.org](http://www.lhasalimited.org)

# Lhasa Limited

## OFFICERS AND PROFESSIONAL ADVISORS

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Chairman:	Dr N Greene
Deputy Chairman:	Dr DM Richardson
Chief Executive Officer:	Mr DK Watson
Company Secretary:	Dr JJ Langowski
Other Members:	Dr FH Allen Dr CJ Bowmer Mr MA Chatwin Dr S Glowienke (appointed 12 June 2013) Dr DR Hawkins Mr D Hollins Dr WE Lindup Prof P Willett Dr AGE Wilson
Registered Office:	Granary Wharf House 2 Canal Wharf Leeds LS11 5PS
Auditors:	Mazars LLP The Lexicon Mount Street Manchester M2 5NT
Bankers:	HSBC Bank 33 Park Row Leeds LS1 1LD  The Cooperative Bank 9 Prescott Street London E1 8BE
Solicitors:	Irwin Mitchell LLP 2 Wellington Place Leeds LS1 4BZ
Registered Charity Number:	290866
Company Number:	01765239

# Lhasa Limited

## DIRECTORS' AND TRUSTEES' REPORT

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The Board of Directors presents the report and financial statements of Lhasa Limited for the year ended 31 December 2013. The statements appear in the format required by the Statement of Recommended Practice for Accounting and Reporting by Charities. The report and statements also comply with the Companies Act 2006 (as amended August 2013) as Lhasa Limited was incorporated as a Company Limited by Guarantee on 27 October 1983. It has no share capital and is a registered charity. The guarantee of each member is limited to £10. The governing documents are the Memorandum and Articles of Association of the company and members of the Board of Trustees are the Directors of the company.

### 1. STRUCTURE GOVERNANCE AND MANAGEMENT

The Charity is governed by its Articles of Association (June 2010), its Memorandum of Association (June 2006) and its Codes of Practice (December 2008).

#### **GOVERNANCE**

The governing bodies consist of a Board of Directors, responsible for the governance of the Charity; a Scientific Advisory Board, responsible for scientific matters, and an Investment and Business Sub-Committee, responsible for working with our Investment Managers (Brewin Dolphin, Leeds), which reports to the Board of Directors. All of these bodies meet quarterly in Leeds.

#### **RECRUITMENT, INDUCTION AND TRAINING OF DIRECTORS**

In accordance with policy, Directors are recruited either by recommendation or *via* a recruitment process for their specific skills defined as a requirement by the Board of Directors. Upon approval, potential Directors are sent an induction pack covering their obligations under Charity and Company Law; Articles of Association; Memorandum of Association and Codes of Practice; company policies and a non-disclosure agreement. Potential Directors are invited to attend a maximum of two meetings as observers and after these two meetings the Board of Directors and the individual consider their suitability to act as a Director ahead of their formal acceptance to the post. Upon acceptance and appointment, Directors receive an induction to the business, covering key aspects of the organisation, its operations and salient Health and Safety information.

During 2013, the Company Administrator attended one governance seminar and the information derived from this was passed on to Directors and appropriate changes to governance procedures were adopted.

#### **MEMBERSHIP OF LHASA LIMITED**

As at the Annual General Meeting held on 12 June 2013, there were 262 members of which 126 were full members, 128 associate, 1 honorary and 7 affiliate members of Lhasa Limited. At the Ordinary General Meeting in December 2013, there were 272 members of which 131 were full, 133 associate, 1 honorary and 7 affiliate members. A list of Lhasa Limited member organisations can be found on the Lhasa Limited website ([www.lhasalimited.org](http://www.lhasalimited.org)).

#### **MANAGEMENT AND STAFFING**

Day to day management is delegated to the Chief Executive Officer who leads the management team based in Leeds. Key members of the management team are:

Chief Executive Officer	David Watson
Company Secretary	Jan Langowski
Financial Controller	Jennifer Horsley
Director of Science	Christopher Barber
Director of Operations	Charles McArdle
Director of Member Services	Scott McDonald

# Lhasa Limited

## DIRECTORS' AND TRUSTEES' REPORT

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The Chief Executive Officer formally reports to the Board of Directors through a quarterly report and by attendance at quarterly meetings of the Board of Directors. Progress is reviewed with the Chairman and Deputy Chairman monthly, via telephone conference.

At 31 December 2013, staff numbers stood at 84 against the 68 of the previous year.

### ***PUBLIC BENEFIT***

The Lhasa Limited Board of Directors holds in high regard the principle of public benefit and requires the Chief Executive Officer and staff of Lhasa Limited to pursue policies that demonstrate this. The Board of Directors, at its quarterly meetings, reviews ongoing charitable activities to ensure consistency with our charitable objects. The Board of Directors is aware of the Charity Commission's guidance on public benefit and has had regard to it in determining the charity's aims and objectives and in the way it carries out its activities.

The Charity is committed to the development and use of computer-aided reasoning and information systems for the advancement of chemistry and the life sciences. By performing research on chemical, toxicology, metabolism and degradation data, our scientists are able to provide members with software systems that allow them to make predictions about the safety of chemicals, thereby providing public benefit through:

- reducing the need for animal testing;
- improving the lengthy and costly process of developing new drugs;
- safeguarding human health from the adverse effects of chemicals.

The charitable aims of Lhasa Limited include the sponsorship of activities that advance scientific knowledge and understanding through the use of computer-aided reasoning in chemistry and the life sciences. The Charity directly promotes and encourages the use of our software for academic teaching and research by offering membership on significantly preferential terms. In addition, the Charity actively supports research through the teaching of the use of computer aided reasoning in toxicology and the sponsorship of:

- computational chemistry events;
- scientific symposia and academic prizes;
- research projects and scientific training to Ph.D. level.

As well as performing research and development ourselves, the Charity is committed to providing financial support for others to carry out their own research and to discuss their findings to further advance and refine the science. Specifically, the Charity provides support for research within academic institutions and the outcomes of this research and that of our own scientists, are disseminated through publications, talks and poster presentations at relevant scientific events all around the world.

The software developed by the Charity enables the scientific community to carry out research much more effectively, reducing animal use in experiments, helping to improve toxicological testing and improving the communication of knowledge about toxicology and metabolism. Members, academic scientists and government regulatory organisations benefit from the unique data and knowledge-sharing approach of Lhasa Limited, enhancing quality of life by assisting in the development of, and access to, safer chemical entities for the benefit of the public.

Our position as a charity, without a purely commercial outlook, makes it easier for organisations to donate their data, secure in the knowledge that it will only be used to promote scientific development to the benefit of all. In addition, our unique position is seen as key for sharing contributed data (for example our role in the eTOX and MIP DILI consortia where we hold the position of "honest broker"), which further expands the scope of scientific collaboration for the public benefit.

# Lhasa Limited

## DIRECTORS' AND TRUSTEES' REPORT

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Membership and software sponsorship fees are used to support the ongoing research and development carried out by the Charity. Through the generous funding of our main sponsors, Lhasa Limited is able to offer very low fees to academic organisations and public non-political bodies to ensure that its knowledge is available to the widest possible public audience. In addition, members contribute the results of their own research, thereby making scientific research publicly available that would not otherwise be accessible to the scientific community. The Charity therefore plays an invaluable role by bringing previously unpublished information into the public domain, and permitting the knowledge derived from this to be used by the scientific community for the public benefit.

### **RESERVES POLICY**

Lhasa Limited's reserves policy requires the retention of income sufficient to encompass:

1. The balance on tangible fixed assets for use by the Charity to avoid having to liquidate functional assets to release cash less all loans associated directly with these assets.
2. To cover 50% of the direct costs and support costs, agreed in the budget or at meetings of the Board of Directors.
3. Funds to enable designated expenses which are anticipated to be greater than £200,000 less any external funding of them.
4. The reserves policy is reviewed annually to take into consideration perceived risks and opportunities.

### **CURRENT POSITION**

Based upon the above our present position is:

	<b><u>Dec 2013</u></b>
	<b><u>£ 000's</u></b>
<b>Unrestricted Reserves</b>	<b>£7,079</b>
<b>Tangible Fixed Assets less associated loans</b>	<b>£4,430</b>
<b>Designated Spending</b>	<b><u>£ 0</u></b>
	<b><u>£4,430</u></b>
<b>Free Reserves</b>	<b>£2,649</b>
 <b>2014 Forecast Costs – 50%</b>	 <b>£2,943</b>

Free reserves are £294k less than 50% of forecasted costs for 2014, this is considered an acceptable position given the recent purchase of Granary Wharf House. In accordance to the policy we have designated funds equal to tangible fixed assets.

### ***Tangible fixed assets***

The movement in tangible fixed assets are set out in note 6.

### **INVESTMENT**

During 2012, in accordance with Charities Commission guidelines, the Board of Directors took the decision to review the investment policy of the Charity. At this time it was felt that the level of income derived from short term interest from monies held at the bank was so low that consideration should be given to investment of a proportion of the Charity's reserves. Following a formal tendering and interview process, Brewin Dolphin were appointed as investment managers for the Charity, reporting to the Board of Directors through an Investment and Business Sub-Committee (IBSC). A formal document outlining the investment principles of the charity were agreed by the Board of Directors at the December 2012 meeting.

# Lhasa Limited

## DIRECTORS' AND TRUSTEES' REPORT

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An initial investment of £750,000 was placed by Brewin Dolphin during the course of 2013 and this has so far met the initial objectives agreed by the IBSC and the Board of Directors.

It is the practice that the investment advisers attend regular meetings of the IBSC. Detailed written reports are produced on a quarterly basis which value the portfolio and record its respective performance statistics. An integral part of the regular meetings is detailed discussion on the content of the report with particular reference to the performance aspect.

Brewin Dolphin is remunerated by an investment management fee of 0.75% per annum. The fee is invoiced quarterly at a rate of 0.1875% of the funds under management at the end of the relevant quarter. VAT is charged in addition, but there are no commission charges levied.

As at 31 December 2013, the investment portfolio managed by Brewin Dolphin was valued at £825,824. The portfolio produces an annual estimated gross income of £23,433, which is equivalent to a gross yield of 2.8%.

The portfolio was initiated with an investment of £750,000 on 13 February 2013. Over the period 13 February 2013 to 31 December 2013 the most notable performance in markets came from equities. In the period to 31 December 2013 the FTSE All Share Index returned +11.36% and the FT World ex UK Index made a return of +10.06%. Both conventional and index linked treasury stocks made negative returns. The FTSE Government All Stocks made a return of -1.03% whereas the FTSE Index Linked Index returned -1.80%. Over the period 13 February 2013 to 31 December 2013 the portfolio made a total return of +11.33%, with the most relevant benchmark, the WMA Balanced Total Return Index, making a total return of +7.70%.

The benchmark which is used for performance comparison is the WMA Balanced Index. Essentially, a benchmark provides a yardstick against which we can discuss the composition, risks and performance of the portfolio. The portfolio will be managed to meet the needs of the Charity rather than to the strict requirements of the benchmark. The portfolio does diverge from the benchmark particularly in the area of fixed interest where corporate bond funds, structured products and zero dividend preference shares are held as alternatives to conventional investments in this area.

At the year-end, 5.48% of assets were invested in fixed interest securities. The portfolio had 70.13% of assets invested in equities, with 46.04% allocated to UK equities and 24.09% to overseas equities. The majority of the UK equity exposure is made up of direct equity holdings whereas the overseas exposure is gained via unit trusts. The remaining assets were broken down into 7.97% in structured products, 5.38% in zero dividend preference shares, 6.07% in absolute return funds, 4.43% in commercial property, and 0.54% held in cash.

The structure of the portfolio is in accordance with the Statement of Investment Principles and all quoted performance figures are on a total return basis (£).

### *Investment Policy*

Lhasa Limited receives income on an annual basis through membership subscriptions, sponsorships, grants and other sources. It plans activities over a three to five year time horizon and budgets to expend all anticipated income in each year, except for retaining a prudent amount in reserves, and provides for capital expenditure within the budget or through designated income funds. The only funds of Lhasa Limited that are not expendable within 12 months of receipt are reserves and any grants or sponsorships for activities over a longer period.

Lhasa Limited will review and determine its investment policy and attitude to risk each year in consultation with its Investment Manager having regards to its objectives and operating financial conditions. In recognition of its dual objectives (Income and real Growth) Lhasa Limited will make an

# Lhasa Limited

## DIRECTORS' AND TRUSTEES' REPORT

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allocation between these objectives with the intention that differing risk profiles and investment policies are adopted.

Lhasa Limited recognizes that risk can have many different meanings as well as being time dependent. To help clarify Lhasa Limited's attitude to risk a scale of 1 to 10 is being adopted with 1 being the lowest level of risk and would be consistent with deposits held in a major UK clearing bank. Conversely, 10 is the highest level of risk and is consistent with the most speculative types of investment where the return of capital is uncertain such as venture capital and distressed debt. 5 would be associated with blue chip UK equities paying an above average dividend.

Lhasa Limited has decided to split its funds available for investment into two, each with a different objective and attitude to risk:

- One part will target the production of income and will be consistent with a risk attitude that will be decided at the time of investment.
- One part will target growth over a number of years with the objective of protecting the capital value of the fund against inflation. Lhasa Limited recognizes that this will be invested in assets that will rise and fall in value in the short term but are most likely to show a positive return over an intermediate period of time. Lhasa Limited further recognizes that investments in this area will require a minimum time horizon of three years or more. Nevertheless, Lhasa Limited is keen to maintain the liquidity of its investments and so would not wish to invest in the most speculative instruments falling in the 10 region. Lhasa Limited is prepared to invest in Emerging Markets but will limit its exposure in accordance with the control ranges specified below.

A strategy has been adopted of limiting risk by matching, to a degree, the types of investments to the obligations or liabilities of the Fund. The balance between investing for growth and investing for income with the best fit or match to liabilities is a judgment requiring regular reappraisal, constrained only by the requirement to achieve an average risk rating of 4 from the different asset classes held in the portfolio.

The suitability of various types of investments has been considered, as has the need to diversify investments to reduce the risk of being invested in too narrow a range of assets. Lhasa Limited has chosen to delegate the day to day selection of securities to their Investment Manager, subject to the general requirements specified in the above, and the requirement that all investments should be made on recognized exchanges or easily liquidated. Lhasa Limited will periodically review with Brewin Dolphin the outlook for the markets in conjunction with the prevailing financial needs of the Charity.

These principles will be reviewed annually, together with the amount to be allocated to the two differing strategies, but discussed at least quarterly at the regular Review meetings between Brewin Dolphin and the IBSC. The Lhasa Limited Board also authorizes the Lhasa Limited Chief Executive Officer and/or Financial Controller to contact the financial adviser whenever necessary to discuss any appropriate matters relating to the management of the funds.

All investment advice given by Brewin Dolphin is confirmed in writing with the IBSC.

Lhasa Limited uses the APCIMS (now the WMA) balanced index as a benchmark of performance and would expect a level of performance of greater than 95% of that index. A performance below this level in two consecutive annual reviews would trigger a full review of the suitability of Brewin Dolphin as investment manager. Brewin Dolphin will be responsible for monitoring their own performance and formally reporting it (in actual and comparative terms) to the IBSC quarterly and the Board every 6 months.

# Lhasa Limited

## DIRECTORS' AND TRUSTEES' REPORT

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### *Summary*

Lhasa Limited	
Service	Discretionary
Investment Requirement	Income & Growth Return
Risk Profile	Diversified Risk
Investment Time Horizon	Long Term, 10 years +
Restrictions	None
Significant Holdings (over 10%)	None
Income	Income retained on portfolio
Other Significant Points	The Directors wanted and agreed to alternatives to gilts and other fixed interest because of a negative view on this area of investment

## 2. STRATEGIC REPORT

### *ACHIEVEMENTS AND PERFORMANCE*

#### *Membership*

In line with the improved sponsorship income, membership levels increased from 254 in 2012 to 272 in 2013.

#### *Vision*

Lhasa Limited's continuing participation in the IMI eTOX and IMI MIP-DILI (see page 10) projects is a clear indication of a growing acceptance of Lhasa Limited's role at the heart of knowledge and data sharing in our chosen field and as such, is in line both with our vision and our charitable objects. Furthermore, participation in projects of this type promotes further opportunities for the public to benefit from our activities as we widen our scope of influence.

#### *Company Objectives & Strategy*

The strategic plan first developed in October 2006 and reviewed/revised in detail annually, underwent a major review in 2011 leading to the publication of a 5 year plan which was reviewed and approved by the Board of Directors in June 2011. The Board of Directors reviews the Company Objectives at each Board Meeting in the light of the prevailing operating climate and changes are made to objectives and strategies as required.

All aspects of strategy are monitored throughout the year and formally reviewed quarterly by the internal Strategy Group in the light of new market and scientific information. Changes in tactics are managed operationally and any suggested changes to strategy are recommended to the Board of Directors. A full review of strategy is made annually by the Board of Directors and the review in December 2012 led to the following activities in pursuit of the strategy during the course of 2013.

# Lhasa Limited

## DIRECTORS' AND TRUSTEES' REPORT

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### *Research and Development*

Research and development of software, accumulated knowledge development and data management continued throughout the period, refining predictions and increasing the safety of member products delivered for public consumption.

The continued willingness of members to use Lhasa Limited as a vehicle for sharing proprietary data (secure in the knowledge that their confidentiality will not be compromised) has meant knowledge and data are continuously improved in pursuit of charitable aims, bringing more scientific research into the public domain and for the public benefit. In addition, strategic projects driven by individual members add further value when the outputs are incorporated in the software tools described below.

During 2013 Lhasa staff were successfully seconded to member sites with the express purpose of transferring knowledge to our software systems for the benefit of all members. The outputs from these secondments will be introduced to the software during 2014.

In pursuit of its longer term vision, the Lhasa Limited Research Group pursued their remit to focus on transformational science in order to increase the impact of our efforts in pursuit of our charitable objects. During 2013, several significant advances in the scientific approach to our existing software were proposed as a result of this research and, in addition, software that improves the efficiency of the creation of our expert rules has been developed and implemented. Directly as a result of this latter research and with the clear support of our members, new mutagenicity prediction software, Sarah was developed and launched to support members in the delivery of toxicological understanding in line with newly proposed, ICH M7 guidelines. This new software is significantly more scientifically transparent than other software available to members and may provide additional sponsorship income to mitigate the risk of competitive activity in our key use case.

### *Derek Nexus Toxicity Prediction*

The development of Derek Nexus continued as planned throughout the year. The main focus in this time was the complete review of the knowledge base to maximise the impact of predictions for key endpoints, with particular reference to mutagenicity in the light of the ICH M7 Guidelines. In addition to this, refinements were made to existing records as more/new data were made available by sponsors to assist with this development. During 2013, 86 new or enhanced alerts were added to the database (45 in 2012).

During 2013 it became clear that a competitor was planning to move into the expert systems field for mutagenicity prediction, thus effort continued throughout the year to characterise the domain of applicability for predictions and to implement a methodology to demonstrate the prediction of negative toxicity in order to increase the confidence in the use of the software and thus protect sponsorship income.

### *Meteor Nexus Metabolism Prediction*

Here too, the focus was on the growth and refinement of the biotransformation knowledge which led to 30 new or revised biotransformations being added to the knowledge (25 in 2012).

### *Vitic Toxicity Database*

The database was refined in line with member requests and current records updated. In excess of 22,000 new records were added (20,000 in 2012) with the continuing focus on complementing Derek Nexus knowledge and expanding the supporting data for predictions. The software is now being used as part of Lhasa Limited's contribution to the IMI eTOX project and MIP-DILI project, proving itself adaptable to the needs of these public projects, although significant additional work has been required to adapt to the changing requirements from these projects.

# Lhasa Limited

## DIRECTORS' AND TRUSTEES' REPORT

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### ***Zeneth***

The Chemical Degradation Prediction project initiated during 2008 was completed at the end of 2010 with the release of the first version of the software for general use. Throughout 2013 additional software sponsors have been acquired and the development of the software has continued in line with the collaborative principles of development of other Lhasa Limited software.

During 2013, 64 new or improved degradation pathways have been added to the software (90 in 2012).

### ***Strategic Projects***

During 2013 ongoing strategic projects were completed on schedule and additional research commissioned on projects funded directly by members, with outputs being made generally available to members in releases scheduled for 2013/2014. The value realised to members during 2013 of software releases was £143,212.

### ***Key Collaborations***

#### ***USA Food and Drug Administration Research Collaboration Agreement***

The FDA RCA (Research Collaboration Agreement) allowing the data shared by the FDA with Lhasa Limited to continue to aid the development of our Derek Nexus, Meteor and Vitic software progressed well during 2013. This project benefits the outputs of computer-aided reasoning in chemistry and the life sciences in accordance with our charitable objects. In addition, the development and subsequent launch of the mutagenicity prediction software, Sarah, benefited greatly from this collaboration.

#### ***OECD Toolbox Phase III***

Lhasa Limited, was again invited as part of a consortium to participate in an open tender by the European Chemical Hazards Agency (ECHA) in association with the Organisation of Economic Cooperative Development (OECD) to work on a follow on project which started in January 2014.

#### ***IMI - eTOX Project***

Working as part of a consortium of 15 European pharmaceutical companies and 14 SME/Academic partners, Lhasa Limited is providing database and toxicology skills with the objective of improving *in silico* prediction of toxicology and pharmacology. This project officially began in January 2010 and we are continuing to provide support for the programme, with a specific focus on our role as host of the public and confidential data that are being shared as the cornerstone of this project. This project was formally granted an extension during 2013 and will now continue to December 31<sup>st</sup> 2016.

#### ***IMI – MIP DILI Project***

Working as part of a consortium of 11 European pharmaceutical companies, 5 SME organisations and 9 universities, Our core role in the eTOX project led to a request for Lhasa Limited to participate in this project with the objective of improving *in vitro* prediction of toxicology and pharmacology associated with the liver. This project officially began in March 2012 and our role is to act as host of the public and confidential data that are being shared in this project. Our activities continued throughout 2013 and the first release of the database made in October.

#### ***Intermediates data sharing***

The Intermediates data sharing project initiated in 2006 produced its first release in June 2007 using the Vitic software. The project continues to add data records covering areas of interest to the participating members and enabling predictions to be made about production intermediates that improve the safety of products without the need for additional testing. During the latter part of 2011 the project was expanded to

# Lhasa Limited

## DIRECTORS' AND TRUSTEES' REPORT

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cover the provision and sharing of data for aryl boronic acids and aromatic amines, thus continuing to make available additional information vital for the understanding of the toxicity of intermediate impurities. This project continued to add to the database records during 2013.

### *Excipients data sharing*

This data sharing project began in 2008 following the selection of Lhasa Limited and our Vitic software by an industry group whose focus was the sharing of test data with the primary aim of reducing animal testing. Lhasa Limited continued to promote this group and has had further success in widening participation during 2013 as well as adding further records to the database.

### *Training*

As part of the Lhasa Limited service to its members, and in support of education of individual users at each of our member organisations 114 training sessions were given overall with 55 at member sites, 57 via the web and 2 in our offices in Leeds.

### *International Collaborative Group Meetings (ICGMs)*

The purpose of these meetings is to share knowledge and experience in chemistry and the life sciences as it applies to the future developments of the Charity's collaborative tools. Given the continued pressure on the economic climate it was decided to continue 'virtual' ICGMs, allowing members to provide their support for development of the science through regular seminars. During 2013 we delivered six virtual ICGM's and two 'live' ICGMs were held in the USA and Japan:

- The 34<sup>th</sup> ICGM was held at the Marriot Hotel, San Antonio (USA) following the Society of Toxicologists (SOT) Meeting on 14 March 2013. This was an afternoon session to enable members to attend directly after the SOT. There were 16 attendees present representing 10 members, 2 regulators and 3 consultants.
- The 35<sup>th</sup> ICGM was held at Kasumigaseki, Tokyo (Japan) on 3 December 2013. There were 38 attendees present, representing 23 members and 1 regulator.

### *Conferences*

Members of Lhasa Limited staff attended in excess of 30 international events in support of our aims, philosophy, services and charitable objects.

### *Publications*

A key part of the work of Lhasa Limited is the expansion in the understanding of toxicology and metabolism prediction. During 2013 this objective was achieved by the delivery of 19 presentations to conferences (including one co-authored), 4 principal publications (all co-authored), 9 posters (including 5 co-authored).

The Trustees and the Charity are working to further increase Lhasa Limited's contributions to the open scientific literature in future years, so as to better inform the wider scientific community of the Charity's high-quality scientific research activities.

### *Sponsorship*

During 2013 the Board of Directors approved a number of sponsorship activities in accordance with Lhasa Limited's charitable objects including:

- The 2013 Toxicology Module Prize in the School of Biomedical Sciences at the University of Leeds;
- The African Education Initiative in which the participation of 7 African students in the toxicology programme was enabled by Lhasa Limited sponsorship;

# Lhasa Limited

## DIRECTORS' AND TRUSTEES' REPORT

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- Continued funding of the Chemical Bioactivity Information Centre (formerly the Judson Foundation) for the promotion of the use of computer aided reasoning and toxicology in Africa;
- The sponsorship of a PhD student at the University of Cambridge looking at transporter mediated metabolism which is expected to conclude in 2014;
- A post-doctoral research project with the University of Copenhagen investigating reactivity models for metabolism prediction was completed during 2013 and resulted in SMARTCyp models which have been published;
- The sponsorship of a PhD student at the University of Bradford looking at the influence of formulation on toxicity.

In addition to those activities undertaken in 2013 the following previous commitments were continued:

- Knowledge Transfer Programme at the University of Surrey commencing in September 2008. During 2011 the Associate for this programme was replaced and the research transfer resumed with some excellent progress made in a very short time, making an important contribution to the Lhasa Limited knowledge development during 2012. This project successfully concluded in March 2013 and resulted in increasing the Lhasa Limited knowledge of artificial intelligence systems.
- (Short) Knowledge Transfer Programme at the University of Sheffield commenced in January 2011 applying and developing the knowledge gained within the PhD previously sponsored by Lhasa Limited. This project has made excellent progress during 2012 and has also made a contribution to Lhasa Limited knowledge development during 2012. This project successfully concluded in March 2013 with additional understanding of informatics systems integrated into the Lhasa Limited approach.

The cost of these charitable activities may be found within 'direct costs' in note 1.

### ***Organisational development***

The Aligning Processes with Customer Needs (APCN Project) initiated in September 2008 is now established as an ongoing process improvement methodology across the whole of the organisation covering all processes. Regular audits are in place to ensure continuous improvement across all key processes. Additional work took place in 2013 to further improve internal processes resulting in 10 new processes or process improvements being implemented.

### ***ISO 9001 (2008)***

In April 2013 Lhasa Limited achieved recognition under this quality standard based on the continuous improvement approach adopted under the APCN project. Working to this standard has significantly improved the efficiency of software delivery and knowledge development and so provides the opportunity to differentiate our software from that of competitors. This, in turn, mitigates the risk of loss of income from competitive activity.

### ***Member facing activity***

Lhasa Limited is justifiably proud of its record of supporting members. During 2013 we continued to provide first class account management and technical support, augmenting the team with the addition of 2 US based Account Managers to provide faster response to queries from members in that area. Following 3 months training at our offices in Leeds, the new team were in place in the US from December 1 2013.

During 2013, further scientific staff were recruited in order to grow our scientific development and to provide the resources to increase the scientific interaction with members with the purpose of better understanding their requirements and therefore enable medium and long term software development that meets their longer term strategic goals.

# Lhasa Limited

## DIRECTORS' AND TRUSTEES' REPORT

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### ***Research Group***

The Research Group formed towards the end of 2010 continued to provide valuable scientific insights in support of the strategic direction of Lhasa Limited. Since this time the group have focused on extending Lhasa Limited's understanding related to the application of computer aided reasoning on behalf of our members, providing new insights and presenting them at conferences and symposia during 2013. During the course of 2013 a number of initiatives were pursued in order to improve the understanding of the management of large datasets with the objective of increasing the efficiency of how Lhasa Limited accumulates knowledge in support of its charitable aims.

### ***Accommodation***

With the continued growth of Lhasa Limited the premises at Blenheim Terrace were no longer able to efficiently house the staff and accommodate project meetings and the search for new premises, begun in 2012, culminated in the identification and acquisition of Granary Wharf House, 2 Canal Wharf, Leeds, LS11 5PS. Subsequently, on December 31 2013 our premises at Blenheim Terrace were sold.

### ***LHASA SERVICES LIMITED***

From time to time, Lhasa Limited has been offered opportunities to undertake specific research that would be unlikely to be made available to the wider membership within a reasonable time after its completion. Whilst activities of this type could be described as contributing to the advancement of science, the Board of Directors felt it prudent to decline these opportunities as it was felt that their undertaking would not be compatible with the spirit of '*Shared Knowledge, Shared Progress*' and thus with Lhasa Limited's charitable objects.

In consideration of the potential positive impact on the Charity that undertaking research of this type would have, the Board of Directors decided to constitute Lhasa Services Limited as a wholly owned subsidiary, specifically to provide a service for members within the scientific remit of our charitable objects.

During 2013, very little activity took place as a result of the continued squeeze on investment capital within our membership owing to the prevailing economic climate and as such there was a small loss for 2013 to Lhasa Services Limited of £243 compared to the small profit of £1,648 in 2012.

## **3. FINANCIAL REVIEW**

### ***Funding Sources***

Lhasa Limited receives the bulk of its income from membership fees, software sponsorship fees and buying-in fees, with the aim of attracting significant income from the additional sponsorship of specific research and development projects. The results derived from these projects are incorporated into the software available to the whole Lhasa Limited membership.

Lhasa Limited is involved in several externally funded research projects. During 2013 the Charity continued its involvement with the IMI (Innovation in Medicine Initiative/EFPIA (European Federation of Pharmaceutical Industries and Associations) eTOX project attracting funding for the creation of a database for the sharing of toxicological data to encourage the development of new modelling techniques. During 2013 Lhasa Limited continued its participation in a further IMI (Innovation in Medicine Initiative) project, MIP-DILI, in which the Charity's expertise in data handling and management will be used to support investigations into improving the prediction of liver toxicity.

A further industry wide collaboration with our pharmaceutical members was investigated during 2013 and research and development of the GTI Purge Tool arising from this collaboration commenced early in 2014.

# Lhasa Limited

## DIRECTORS' AND TRUSTEES' REPORT

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### *Results for the year*

The surplus for the financial year 2013 was £776,749. As anticipated, incoming resources for the 2013 financial year increased as a number of new organisations bought into the Derek, Meteor, Vitic and Zeneth systems, offset by a significant increase in the amount of members reducing their sponsorship as the impact of mergers and site closures. The majority of existing customers renewed their membership and continued to licence the software. The income split for 2013 may be seen below:

Derek	54%
Meteor	13%
Vitic	12%
Zeneth	3%
Other	18%

The geographic split of income was:

Europe	50%
Americas	29%
Asia	21%

The significance of the percentage of income derived from the sponsorship of the Derek Nexus software system was discussed by the Board of Directors at its December meeting and added to the risk register for further consideration and action. The introduction of the new mutagenicity product, Sarah, in the latter part of 2013 is illustrative of the contingent actions suggested by the Board of Directors.

The value of the software systems owned and developed by Lhasa Limited has decreased during 2013 arising from lower capitalisation rates and partly as a result of the work delivered for the strategic projects eTOX and MIP-DILI and the development of Sarah. The capitalisation of staff effort expended in developing the database systems of £354,891 was offset by their depreciation charges during the year of £789,729.

The presentation of the accounts is in accordance with the Statement of Recommended Practice (SORP) "Accounting and Reporting by Charities" 2005 and as part of this process the main activities identified for the Charity have been each of the main databases. The notes to the financial statements on pages 22 to 35 indicate how the incoming resources totalling £6,397,320 (2012 £5,561,467) represent the commitment of the existing customers to the Charity and each of the databases.

The resources expended have been allocated on the same basis as income across the main activities, the allocation of the costs being based on the staff hours spent on each database together with the direct costs incurred.

The governance costs totalling £47,688 are detailed in note 2 on page 28 and include the management time incurred in assisting the Board of Directors to fulfil their duties.

The Charity has prepared a budget for the year ended 31 December 2014 which indicates a moderate surplus (£49,997) for the coming year. This budget is based on identified income sources.

The level of business and the Charity's year end position in 2013 were positive and very satisfactory.

### *Lhasa Services Limited*

During 2013, no income was received by this subsidiary owing to the negative effects of the economic climate as it directly impacted on our pharmaceutical membership.

# Lhasa Limited

## DIRECTORS' AND TRUSTEES' REPORT

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### 4. FUTURE PROSPECTS

#### *Income*

Income growth from core sponsorship declined slightly in 2013 to 5.6% (from 6.3% in 2012) against a forecast of 5% which, given the general economic situation and the continuing negative impact on research and development resources in the Charity's pharmaceutical membership base, represents an excellent performance.

To directly address growth rate (as described in the corresponding report for 2012) the charity has released and continues to develop, new software with an identified market to provide a broader base of support for member needs. The focus will remain on increasing membership and sponsorship of existing and new software alongside the further development of strategic, collaborative projects that meet our member's future needs in order to safeguard the longer term future of the Charity.

This approach, combined with other planned activity arising from the Charity's strategic plan, will underpin the continued success of the charity.

#### *Member services*

#### *Sales*

The sales team is now at full strength with 4 scientists wholly focused on working with prospective members to secure sponsorship of existing software.

#### *Business Development*

Two senior scientists working within our business development team provide project direction and support for our consortia developments and for our relationships with regulators in Europe, the USA and Japan.

#### *Marketing*

The focus of the Marketing group will continue in its strategic approach to deliver the three key themes previously identified:

- Attract new members:
  - Promoting Lhasa Limited in ways that will attract new members and additional income.
- Retain existing members:
  - Research the needs of existing members in relation to scientific and software development and customer support;
  - Monitor and respond to industry developments and competitor activity to ensure Lhasa Limited's science, software and services remain the preferred choice of current members.
- Improve operational performance in pursuit of the above:
  - Engage the employees of Lhasa Limited in working in ways that exemplify behaviours consistent with the company's values that in turn make the company's vision a reality.

#### *Account Management*

Continuing to build on their excellent reputation for technical support and service, the account management team based in the US and Europe, supported by our distributors in Japan and China, will provide our members with global coverage. This 6 strong group of highly qualified scientists will continue to proactively communicate with members in order to better understand their scientific needs and to provide market leading, tailored scientific and technical support.

# Lhasa Limited

## DIRECTORS' AND TRUSTEES' REPORT

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### **Operations**

The Operations team will focus on continuously improving the project delivery processes in support of the effective delivery of improvements to the software and services provided to members. The work of the Research Group mentioned above will be applied to the knowledge acquisition process in order to speed up the delivery of additional support for members. Synergies arising from the integration of the software, knowledge and data teams will be leveraged to increase the quality, accuracy and transparency of scientific interpretation that the Lhasa Limited software provides for members.

The continuous improvement ethos now firmly established across Operations under ISO 9001 (2008) will continue to provide the benefits for more efficient development of software and knowledge that has already delivered significant benefits during 2013.

### **Research**

The Research Group will continue to deliver the necessary capacity to investigate opportunities to develop computer-aided reasoning for the life sciences outside of the general improvements delivered *via* operational projects.

With the additional direction arising from a further review of Scientific Strategy in December 2013 a number of key scientific domains will continue to be supported *via* specific research projects:

- Novel approaches to the prediction of toxicology/metabolism/degradation with the objective of improving the accuracy and scope of applicability;
- Automation of the acquisition of new knowledge in support of expert development and curation;
- Increase the understanding and articulation of the chemistry/biology interface;
- Develop new approaches for the resolution of workflow challenges in safety assessment in the pharmaceutical/cosmetics/chemical/agrochemical markets.
- Specific research projects underpinning the longer term scientific objectives of the Charity.

## **5. RISK MANAGEMENT & REVIEW**

The Board of Directors is responsible for the management of risk by the Charity. Key controls for the management of risk include:

- Formal agendas for all Board of Directors activity and minutes;
- Comprehensive strategic planning, budgeting and management accounting;
- Established organisational structure and lines of reporting;
- Formal written policies;
- Clear authorisation and approval levels.

The Board of Directors has conducted a review of the major risks to which the Charity is exposed and systems have been established to mitigate those risks. During 2007 the Board of Directors approved the use of Charity Magique software which is used to further identify, manage and mitigate risks throughout the Charity's operations. In September 2012 Deborah Richardson took on responsibility for monitoring risk on behalf of the Board of Directors. An overview of key risks is presented at each quarterly Board of Directors meeting and the risk register is formally reviewed by the Board of Directors on an annual basis.

### **Corporate Risk**

The Board of Directors meet on a regular basis to review the performance of the Charity and its activities and are provided with financial management reports and forecasts which they use to ensure proper business controls are in place. Contractual and other legal arrangements are regularly reviewed by the

# Lhasa Limited

## DIRECTORS' AND TRUSTEES' REPORT

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management team and brought to the Board of Directors for their consideration and approval where appropriate before action.

As far as the Board of Directors is aware there are no instances of actual, suspected or alleged fraud that will affect the Charity.

### ***Financial Risk***

With the majority of income derived from overseas sources, the risk of currency fluctuation is mitigated by our policy not to retain significant currency holdings. The foreign exchange loss in the current year is £7,694 compared to a loss in the prior year of £19,360 reflecting the movement in the currency market.

### ***Data loss***

The risk of data loss is minimised by the implementation of procedures for regular back-ups and the storage of key data and software source code off-site. The company employs a full-time IT Manager who has implemented regular and stringent local and off-site back-up procedures for all crucial data. During 2013 this back up was augmented by the creation of a 'mirror' at our office in Poznan, Poland as part of our disaster recovery plan.

### ***Fraud***

To minimise risk from fraud, all key financial transactions greater than £50,000 are pre-approved by the Chairman/Deputy Chairman through regular telephone conversations and these require further authorisation from one director and either the Chief Executive Officer, the Director of Operations, the Director of Science, the Company Secretary or one other Director. All signatories have clear and communicated authorisation levels.

### ***Competitive Risk***

In August 2007 it was reported that an organisation calling itself Lhasa LLC was exhibiting at a stand at the American Chemical Society Conference and offering software to predict toxicology, DEREK. Investigations revealed that this company was constituted in the state of Massachusetts in 2004 under licence from Harvard University and was offering software based on the original collaboration that evolved into Lhasa Limited. In order to mitigate this risk, contact was established with both Harvard and Lhasa LLC but discussions did not end in a resolution. The Board of Directors took the decision to monitor this risk and there was no evidence of activity by Lhasa LLC in any of Lhasa Limited's core markets. In November 2012 it was discovered that Harvard University was offering the software for tender. The Board of Directors reviewed this change in circumstances and again agreed to monitor this risk. No further action was required in 2013.

In November 2011 an organisation called LASA was identified as a potential conflict to the Lhasa Limited brand. However it was felt that, as they provided strategic and independent advice on welfare rights, voluntary sector ICT support services and policy development support, they were not operating in the same target market and therefore offered no competitive risk. Nevertheless contact was made to ensure their awareness of our prior art on the brand identity. No further action was required in 2013.

A company called Lhasa Limited, offering legal services, was registered in Christchurch, New Zealand in August 2012. This was brought to the attention of the Board of Directors at the December 2012 meeting and it was indicated that, unless the company operates in a similar field to us and there is likely to be conflict between us, there is nothing we can do to stop it trading under the name Lhasa Limited. To prevent this, we would have to prove that we have a reputation and goodwill in New Zealand and currently we do not have any registered trade mark protection for the name Lhasa in New Zealand. No further action was required in 2013.

# Lhasa Limited

## DIRECTORS' AND TRUSTEES' REPORT

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### ***Key Risks***

The primary risks for Lhasa Limited are managed and mitigated through the application of Board of Director approved strategies and monitored using the Charity Magique software system.

The key risks for the charity as identified by the Board of Directors are:

- The long term demand for the charity's activities may diminish
- The charity may be constrained by its physical and geographical location
- Heavy reliance on revenue from a single product, Derek, leads to extreme vulnerability if Derek revenue falls
- Key people leave the organisation
- Interruption to the business
- Failure to innovate in product software
- Impact of new technology may damage competitiveness
- Technological advances by competitors erode our market share

### ***STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS***

The Directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the Directors have confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

### ***AUDITORS***

A resolution to appoint Mazars LLP will be put to the annual general meeting.

**This report was approved by the Board of Directors on 7 May 2014 and signed on its behalf.**

Nigel Greene  
CHAIRMAN



By order of the Board

# Lhasa Limited

## STATEMENT OF TRUSTEES' RESPONSIBILITIES

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

Company law requires the Trustees to prepare financial statements for each financial year. Under that law the Trustees have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Trustees 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 those financial statements, the Trustees are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Trustees 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 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.

# Lhasa Limited

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LHASA LIMITED

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We have audited the financial statements of Lhasa Limited for the year ended 31 December 2013 which comprise the Consolidated Statement of Financial Activities, the Consolidated and Charity Balance Sheets, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### **Respective responsibilities of trustees and auditor**

As explained more fully in the Trustees' Responsibilities Statement set out on page 20, the trustees (who are also the directors of the charitable company for the purposes of company law) 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. This report is made solely to the charity'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 charity'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 charity and the charity's members as a body for our audit work, for this report, or for the opinions we have formed.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on the financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent charitable company's affairs as at 31 December 2013 and of the group's incoming resources and application of resources, including its income and expenditure, 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.

### **Opinion on the other matter prescribed by the Companies Act 2006**

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

# Lhasa Limited

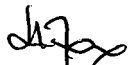
## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LHASA LIMITED

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### 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 agreement with the accounting records and returns; or
- certain disclosures of trustees' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Janine Fox (Senior Statutory Auditor)  
for and on behalf of Mazars LLP  
Chartered Accountants and Statutory Auditor  
The Lexicon  
Mount Street  
Manchester  
M2 5NT

Date 16 May 2014

# Lhasa Limited

## CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES (INCORPORATING AN INCOME AND EXPENDITURE ACCOUNT)

For the year ended 31 December 2013

	Notes	Unrestricted Funds £	Restricted Funds £	Total 2013 £	Total 2012 £
<b>INCOMING RESOURCES</b>					
Incoming resources from generated funds:					
Investment income		65,050	-	65,050	57,504
Incoming resources from charitable activities	1	5,908,743	-	5,908,743	5,503,963
Other incoming resources	4	423,527	-	423,527	-
<b>TOTAL INCOMING RESOURCES</b>		<b>6,397,320</b>	<b>-</b>	<b>6,397,320</b>	<b>5,561,467</b>
<b>RESOURCES EXPENDED</b>					
Costs of generating funds:					
Investment management costs	2	4,938	-	4,938	-
Resources expended on charitable activities	2	5,635,655	-	5,635,655	5,095,449
Governance costs	2,3	47,688	-	47,688	44,570
<b>TOTAL RESOURCES EXPENDED</b>	<b>2</b>	<b>5,688,281</b>	<b>-</b>	<b>5,688,281</b>	<b>5,140,019</b>
<b>NET INCOMING RESOURCES</b>	<b>4</b>	<b>709,039</b>	<b>-</b>	<b>709,039</b>	<b>421,448</b>
Gain on investment assets		67,467	-	67,467	-
<b>NET INCOMING FUNDS</b>		<b>776,506</b>	<b>-</b>	<b>776,506</b>	<b>421,448</b>
Total funds brought forward at 1 January 2013		6,302,725	-	6,302,725	5,881,277
<b>TOTAL FUNDS CARRIED FORWARD</b>					
<b>AT 31 DECEMBER 2013</b>		<b>7,079,231</b>	<b>-</b>	<b>7,079,231</b>	<b>6,302,725</b>

The net income for the year arises from the company's continuing operations.

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the Statement of Financial Activities.

# Lhasa Limited

## CONSOLIDATED AND CHARITY BALANCE SHEET As at 31 December 2013

Company Registration No. 017652369

	Notes	Group 2013 £	2012 £	Charity 2013 £	2012 £
<b>FIXED ASSETS</b>					
Tangible	6	4,429,631	3,599,124	4,429,631	3,599,124
Investments	7	825,824	-	825,825	1
		<u>5,255,455</u>	<u>3,599,124</u>	<u>5,255,456</u>	<u>3,599,125</u>
<b>CURRENT ASSETS</b>					
Debtors	8	1,988,778	1,865,929	1,988,758	1,859,421
Cash at bank		3,354,590	4,633,871	3,354,143	4,633,718
		<u>5,343,368</u>	<u>6,499,800</u>	<u>5,342,901</u>	<u>6,493,139</u>
<b>CREDITORS: Amounts falling due within one year</b>	9	824,547	878,330	823,837	871,669
Deferred income	10	2,695,045	2,592,633	2,695,045	2,592,633
		<u>3,519,592</u>	<u>3,470,963</u>	<u>3,518,882</u>	<u>3,464,302</u>
<b>NET CURRENT ASSETS</b>		<u>1,823,776</u>	<u>3,028,837</u>	<u>1,824,019</u>	<u>3,028,837</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>7,079,231</u>	<u>6,627,961</u>	<u>7,079,475</u>	<u>6,627,962</u>
<b>CREDITORS: Amounts falling due after more than one year</b>	11	-	325,236	-	325,236
<b>NET ASSETS</b>		<u>7,079,231</u>	<u>6,302,725</u>	<u>7,079,475</u>	<u>6,302,726</u>
<b>FUNDS</b>					
Accumulated restricted funds	13,14	-	-	-	-
Accumulated unrestricted funds					
- designated funds	13,14	4,429,631	5,853,028	4,429,631	5,853,028
- general funds	13,14	2,649,600	449,697	2,649,844	449,698
<b>TOTAL FUNDS</b>		<u>7,079,231</u>	<u>6,302,725</u>	<u>7,079,475</u>	<u>6,302,726</u>

The financial statements were approved by the Board of Directors and authorised for issue on 7 May 2014 and are signed on its behalf by:



Dr N Greene  
CHAIRMAN

# Lhasa Limited

## CONSOLIDATED CASHFLOW STATEMENT

As at 31 December 2013

	Notes	2013 £	2012 £
Net cashflow from operations	15a	1,157,390	1,623,112
Returns on investments and servicing of finance	15b	65,050	57,504
Capital expenditure and financial investment	15b	(2,122,639)	(741,503)
		<u>          </u>	<u>          </u>
CASH (OUTFLOW)/INFLOW BEFORE FINANCING		(900,199)	939,113
		<u>          </u>	<u>          </u>
Financing	15b	(379,082)	(53,846)
		<u>          </u>	<u>          </u>
(DECREASE)/INCREASE IN CASH IN THE PERIOD		(1,279,281)	885,267
		<u>          </u>	<u>          </u>

### RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

		2013 £	2012 £
(Decrease)/Increase in cash in the year		(1,279,281)	885,267
Movement on bank loan	15c	379,082	53,846
		<u>          </u>	<u>          </u>
Change in net funds resulting from cash flows		(900,199)	939,113
		<u>          </u>	<u>          </u>
MOVEMENT IN NET FUNDS IN THE YEAR		(900,199)	939,113
		<u>          </u>	<u>          </u>
NET FUNDS AT 1 JANUARY 2013	15c	4,254,789	3,315,676
		<u>          </u>	<u>          </u>
NET FUNDS AT 31 DECEMBER 2013	15c	3,354,590	4,254,789
		<u>          </u>	<u>          </u>

# Lhasa Limited

## ACCOUNTING POLICIES

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### BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and the Statement of Recommended Practice: Accounting and Reporting by Charities issued in March 2005 ('SORP').

### GOING CONCERN

Having reviewed the current working capital position, the forecast trading and capital commitment spend, the directors believe that there are no apparent reasons that the charity will not continue to operate for the foreseeable future and as such the financial statements have been prepared on the basis that Lhasa Limited is and will continue to be a going concern.

### BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of those undertakings which are owned by Lhasa Limited. Group turnover excludes transactions between group undertakings, intra group sales being eliminated on consolidation. All subsidiary company accounting periods are co-terminous with the parent company.

A separate statement of financial activities and income and expenditure account are not presented for Lhasa Limited as permitted by Section 408 of the Companies Act 2006 and paragraph 397 of the SORP.

### FUND ACCOUNTING

Unrestricted funds are available for use at the discretion of the directors in furtherance of the general objectives of the charity.

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by donors. They include income received under contracts with members in respect of special projects where use of the income is restricted to that project. On completion of a project, the resulting data or software becomes available to the general membership and so there is no longer any restriction on the assets. At this point the value of the income relating to the completed projects is transferred from restricted to unrestricted funds.

### INCOMING RESOURCES

Income comprises:

#### *Buying in fees*

This is a one-off payment by a sponsor to buy into an existing Lhasa Limited software development project. This takes account of the investment already made in the project by the existing sponsors. This income is recognised once access to the relevant database has been granted.

#### *Computer software sponsorship and licence fees*

This is an annual fee made by an organisation to fund ongoing software development projects. This income is recognised on an accruals basis in line with the period of service provided.

#### *Subscriptions*

This is an annual fee payable by an organisation to become a member of Lhasa Limited and to have access to software developed by Lhasa Limited. This income is recognised on an accruals basis in line with the period of membership.

# Lhasa Limited

## ACCOUNTING POLICIES

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### *Project sponsorship*

This is income received from sponsors for specific projects. Once a contract has been entered into the income is recognised in restricted funds as it becomes receivable. On completion of projects, once software is available to the general membership and there is no longer any restriction on the assets, the value of the income relating to the completed projects is transferred from restricted to unrestricted funds.

The percentage of income arising from outside the UK was 91% (2012: 89%).

### RESEARCH AND DEVELOPMENT

Expenditure, including direct staff costs, attributable to the computer software is capitalised. All other expenditure on research and development is written off in the year in which it is incurred.

### FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the date ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating surplus or deficit for the year.

### RESOURCES EXPENDED

All expenditure is accounted for on an accruals basis and has been classified under headings that aggregate all costs related to that activity. Where costs cannot be directly allocated to activities they have been allocated to activities on a basis consistent with the use of resources.

Direct costs, including directly attributable salaries, are allocated on an actual basis to the key strategic areas of activity. Support costs are allocated on an actual basis to the key strategic areas of activity with any unallocated support costs being apportioned on an income received basis for each strategic area of activity.

Governance costs include the cost of governance arrangements which relate to the general running of the charity. These activities provide the governance infrastructure which allows the charity to operate and to generate the information required for public accountability. They include the strategic planning processes that contribute to future development of the charity.

### TANGIBLE FIXED ASSETS

Fixed assets are stated at cost less accumulated depreciation.

Expenditure, including direct staff costs, attributable to project sponsorship is either capitalised if attributable to the computer software or prepaid until the information is available to add to the software.

Assets with a cost in excess of £500 intended to be of ongoing use to Lhasa Limited in carrying out its activities are capitalised as fixed assets.

Depreciation is provided on all tangible fixed assets other than freehold land at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life at the following rates:

Freehold properties	2%
Freehold property refurbishment	10%
Fixtures and fittings	20%
Computer hardware	25%
Computer Software	20%
Office equipment	20%

# Lhasa Limited

## ACCOUNTING POLICIES

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### FIXED ASSET INVESTMENTS

Listed investments are revalued to open market value on an annual basis in accordance with the Statement of Recommended Practice: Accounting and Reporting by Charities. Any gains or losses on revaluation are taken to the Statement of Financial Activities.

### RETIREMENT BENEFITS

The charitable company participates in the Universities Superannuation Scheme. This is a multi-employer scheme for which it is not possible to separately identify the charity's share of the underlying assets and liabilities attributable to the scheme.

The pension charge represents contributions payable by the charity to the fund in respect of the year, as disclosed in note 18.

### TAXATION

As a charity Lhasa Limited is exempt from tax on income and gains to the extent that these are applied to its charitable objects. No tax charges have arisen in the charity.

### OPERATING LEASES

Rentals paid under operating leases are charged to the statement of financial activities on a straight line basis over the term of the lease.

# Lhasa Limited

## NOTES TO THE FINANCIAL STATEMENTS

1	INCOMING RESOURCES FROM CHARITABLE ACTIVITIES	2013	2012
		£	£
	A geographical analysis of incoming resources is as follows:		
	Europe	2,918,956	2,862,061
	Americas	1,735,934	1,486,070
	Asia	1,253,853	1,155,832
		<u>5,908,743</u>	<u>5,503,963</u>
2	RESOURCES EXPENDED	2013	2012
		£	£
	Costs of generating funds:		
	Investment management costs	4,938	-
	Charitable activities		
	- Direct costs	4,415,553	3,963,530
	- Support costs	1,220,102	1,131,919
		<u>5,635,655</u>	<u>5,095,449</u>
	Governance costs	47,688	44,570
		<u>5,688,281</u>	<u>5,140,019</u>
All support costs are allocated on the basis of incoming resources, with the exception of recruitment of direct staff which are based on the hours spent on each database.			
Support costs include:			
		2013	2012
		£	£
	Employee related costs	475,198	518,812
	Premises costs	130,412	123,324
	IT costs	93,386	109,444
	Other costs	521,106	380,339
		<u>1,220,102</u>	<u>1,131,919</u>

# Lhasa Limited

## NOTES TO THE FINANCIAL STATEMENTS

3	ANALYSIS OF GOVERNANCE COSTS	2013 £	2012 £
	Audit	14,476	10,539
	Cost of AGMs and Board of Directors expenses	33,212	34,031
		<u>47,688</u>	<u>44,570</u>
4	NET INCOMING RESOURCES	2013 £	2012 £
	These are stated after charging:		
	Auditors' remuneration	14,476	10,539
	Depreciation	957,302	1,030,344
	Exchange losses	7,694	19,630
	Operating lease rentals:		
	Property lease costs	8,248	-
	(Profit) on disposal of fixed assets	(423,527)	-
		<u>(423,527)</u>	<u>-</u>

# Lhasa Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 5 REMUNERATION

No directors' remuneration was paid in either year. Directors' expenses totalling £11,799 (2012: £8,296) were incurred by the charity for 8 directors (2012 – 8 directors).

The average number of employees in the year, analysed by category, is as follows:

	2013	2012
Administration and Customer Support	19	14
Database and Knowledge Base	29	26
Marketing	2	2
Project Management	5	5
Sales	5	4
Business Development	1	2
Software Development	15	10
Research	8	5
	<u>84</u>	<u>68</u>

Wages and salaries paid to these employees was:

	2013 £	2012 £
Wages and salaries	3,177,032	3,033,415
Social security	269,126	235,868
Pension	407,560	387,565
	<u>3,853,718</u>	<u>3,656,848</u>

Employees received emoluments of more than £60,000 as follows:

	2013	2012
£70,000 - £80,000	1	1
£80,000 - £90,000	1	1
£90,000 - £100,000	-	1
£100,000 - £110,000	1	-

Pension contributions in respect of the above higher paid staff were £24,052 (2012: £28,305).

# Lhasa Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 6 TANGIBLE FIXED ASSETS - GROUP AND CHARITY

	Freehold Land and Buildings £	Computer hardware £	Computer Software £	Office Equipment £	Total £
<b>Cost</b>					
At 1 January 2013	2,119,017	398,592	8,462,496	68,024	11,048,129
Additions	2,623,475	64,561	354,891	6,459	3,049,386
Disposals	(2,119,017)	(196,630)	-	(23,600)	(2,339,247)
	<u>2,623,475</u>	<u>266,523</u>	<u>8,817,387</u>	<u>50,883</u>	<u>11,758,268</u>
<b>Depreciation</b>					
At 1 January 2013	750,218	317,898	6,326,251	54,638	7,449,005
Provided in year	118,394	45,958	789,729	3,221	957,302
Disposals	(861,700)	(196,630)	-	(19,340)	(1,077,670)
	<u>6,912</u>	<u>167,226</u>	<u>7,115,980</u>	<u>38,519</u>	<u>7,328,637</u>
<b>Net book value</b>					
At 31 December 2013	<u>2,616,563</u>	<u>99,297</u>	<u>1,701,407</u>	<u>12,364</u>	<u>4,429,631</u>
At 31 December 2012	<u>1,368,799</u>	<u>80,694</u>	<u>2,136,245</u>	<u>13,386</u>	<u>3,599,124</u>
<b>Computer software</b>					
	Derek £	Meteor £	Vitic £	Zeneth £	Total £
<b>Cost</b>					
At 1 January 2013	4,448,675	2,357,974	1,419,131	236,716	8,462,496
Additions	198,457	53,223	64,514	38,697	354,891
	<u>4,647,132</u>	<u>2,411,197</u>	<u>1,483,645</u>	<u>275,413</u>	<u>8,817,387</u>
<b>Depreciation</b>					
At 1 January 2013	3,306,586	1,850,068	1,094,455	75,142	6,326,251
Provided in year	404,171	198,931	135,858	50,769	789,729
	<u>3,710,757</u>	<u>2,048,999</u>	<u>1,230,313</u>	<u>125,911</u>	<u>7,115,980</u>
<b>Net book value</b>					
At 31 December 2013	<u>936,375</u>	<u>362,198</u>	<u>253,332</u>	<u>149,502</u>	<u>1,701,407</u>
At 31 December 2012	<u>1,142,089</u>	<u>507,906</u>	<u>324,676</u>	<u>161,574</u>	<u>2,136,245</u>

# Lhasa Limited

## NOTES TO THE FINANCIAL STATEMENTS

7	INVESTMENTS	Group		Charity	
		2013	2012	2013	2012
		£	£	£	£
	Unlisted fixed asset investments:				
	Investment in subsidiary undertaking	-	-	1	1
	Listed fixed asset investments:				
	Share portfolio	825,824	-	825,824	-

The investment in subsidiary undertaking represents an investment in Lhasa Services Limited, a wholly owned subsidiary of Lhasa Limited.

The wholly owned subsidiary Lhasa Services Limited is incorporated in the United Kingdom. Lhasa Services Limited is exempt from audit by virtue of s479 of Companies Act 2006.

The charity owns the entire share capital of £1 ordinary shares. A summary of the trading results is shown below:

	2013	2012
	£	£
Turnover	-	10,007
Cost of sales	-	(782)
Gross profit	-	9,225
Net operating expenses	(243)	(7,577)
(Loss)/profit on ordinary activities	(243)	1,648

The assets and liabilities of the subsidiary were:

Current assets	467	10,146
Current liabilities	(710)	(10,145)
Total net (liabilities)/assets	(243)	1
Aggregate share capital and reserves	1	1

# Lhasa Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 7 INVESTMENTS (CONTINUED)

The share portfolio comprises the following movements:

	2013 £	2012 £
Market value at 1 Jan 2013	-	-
Additions	789,404	-
Disposals	(31,047)	-
Unrealised gain on investments	65,068	-
Realised gain on investments	2,399	-
Market value at 31 Dec 2013	825,824	-
Historical cost at 31 Dec 2013	759,274	-

The cost and market value of the investments listed on a recognised Stock Exchange were £759,274 (2012: £nil) and £825,824 (2012: £nil) respectively.

The investments are held:	£	£
In the UK	709,654	-
Outside the UK	116,170	-
	825,824	-

No investments have a market value at 31 December 2013 exceeding 5% of the value of the portfolio.

### 8 DEBTORS

	Group		Charity	
	2013 £	2012 £	2013 £	2012 £
Trade debtors	1,839,455	1,745,599	1,839,455	1,736,242
Prepayments and accrued income	114,187	106,080	114,167	106,080
Other debtors	20,984	4,337	20,984	4,337
Other Tax and Social Security	14,152	9,913	14,152	9,278
Group undertaking	-	-	-	3,484
	1,988,778	1,865,929	1,988,758	1,859,421

# Lhasa Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 9 CREDITORS: amounts falling due within one year

	Group		Charity	
	2013	2012	2013	2012
	£	£	£	£
Trade creditors	95,358	93,753	95,358	89,943
Bank loan	-	53,846	-	53,846
Other tax and social security	88,807	66,223	88,807	66,223
Other creditors	406,260	389,568	406,260	389,568
Accruals	234,122	274,940	233,412	272,089
	<u>824,547</u>	<u>878,330</u>	<u>823,837</u>	<u>871,669</u>

The bank loan was secured on the freehold land and buildings (note 11).

### 10 DEFERRED INCOME – GROUP AND COMPANY

Deferred income in the year relates to monies invoiced in the year for subscriptions, knowledge contributions and licences which relate to subsequent years.

	2013	2012
	£	£
Deferred income as at 1 January 2013	2,592,633	2,445,983
Invoiced during year	4,762,275	4,460,123
Deferred income as at 31 December 2013	<u>(2,695,045)</u>	<u>(2,592,633)</u>
Income for the year	<u>4,659,863</u>	<u>4,313,473</u>

### 11 CREDITORS: Amounts falling due after more than one year

	Group		Charity	
	2013	2012	2013	2012
	£	£	£	£
Bank loan	-	325,236	-	325,236
	<u>-</u>	<u>325,236</u>	<u>-</u>	<u>325,236</u>

Included within creditors above are amounts falling due after more than five years as follows:

Bank loan	-	109,852
	<u>-</u>	<u>109,852</u>

The bank loan was secured with a first legal charge over the property 22-23 Blenheim Terrace, Woodhouse Lane, Leeds LS2 9HD with a maximum loan limit of £700,000 with equal repayments ending January 2020. The property was sold during the year, and the bank loan satisfied in full.

No interest was payable on the loan during the year.

# Lhasa Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 12 ANALYSIS OF ASSETS BETWEEN FUNDS – GROUP

	Unrestricted Fund £	Restricted Fund £	Total £
Fixed assets	5,255,455	-	5,255,455
Debtors	1,988,778	-	1,988,778
Cash at bank	3,354,590	-	3,354,590
Creditors falling due within one year	(824,547)	-	(824,547)
Deferred income	(2,695,045)	-	(2,695,045)
	<u>7,079,231</u>	<u>-</u>	<u>7,079,231</u>
At 31 December 2013	7,079,231	-	7,079,231

### 13 RESERVES – GROUP

	Unrestricted Funds – designated £	Unrestricted Funds – general £	Restricted Funds £	Total £
At 1 January 2013	5,853,028	449,697	-	6,302,725
Net movement in funds	(1,423,397)	2,199,903	-	776,506
	<u>4,429,631</u>	<u>2,649,600</u>	<u>-</u>	<u>7,079,231</u>
At 31 December 2013	4,429,631	2,649,600	-	7,079,231

Transfers during the year relate to the designation of funds as per the reserves policy.

#### DESIGNATED FUNDS

	2013 £
Fixed asset fund	4,429,631

# Lhasa Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 14 RESERVES - CHARITY

	Unrestricted Funds – designated £	Unrestricted Funds – general £	Restricted Funds £	Total £
At 1 January 2013	5,853,028	449,698	-	6,302,726
Net movement in funds	(1,423,397)	2,200,146	-	776,749
At 31 December 2013	4,429,631	2,649,844	-	7,079,475

The financial activities shown in the consolidated statement includes those of the charity and its wholly owned subsidiary Lhasa Services Limited.

A summary of the financial activities undertaken by the charity is set out below:

	2013 £	2012 £
Total incoming resources	6,397,320	5,554,944
Investment management fees	(4,938)	-
Total expenditure on charitable activities	(5,635,412)	(5,090,574)
Governance costs	(47,688)	(44,570)
Net incoming resources	709,282	419,800
Gain on investments	67,467	-
Net incoming funds	776,749	419,800
Total funds brought forward	6,302,726	5,882,926
Total funds carried forward	7,079,475	6,302,726
Represented by:		
Accumulated restricted funds	-	-
Accumulated unrestricted funds – designated	4,429,631	5,853,028
Accumulated unrestricted funds – general	2,649,844	449,698
	7,079,475	6,302,726

# Lhasa Limited

## NOTES TO THE FINANCIAL STATEMENTS

15	CASH FLOWS	2013 £	2012 £
a	RECONCILIATION OF NET INCOMING RESOURCES TO NET CASH INFLOW FROM OPERATIONS		
	Net incoming resources	776,506	421,448
	Investment income	(65,050)	(57,504)
	Depreciation	957,302	1,030,344
	Profit on disposal of fixed assets	(423,527)	-
	Increase in debtors	(122,849)	(118,850)
	Increase in creditors	102,475	347,674
	Unrealised gain on investments	(65,068)	-
	Realised gain on investments	(2,399)	-
		<u>1,157,390</u>	<u>1,623,112</u>
b	ANALYSIS OF CASHFLOWS FOR HEADINGS NETTED IN THE CASHFLOW		
	<b>Returns on investments and servicing of finance</b>		
	Interest received	65,050	57,504
		<u>65,050</u>	<u>57,504</u>
	<b>Net cash inflow for returns on investments and servicing of finance</b>	<u>65,050</u>	<u>57,504</u>
	<b>Capital expenditure and financial investment</b>		
	Purchase of tangible fixed assets	(2,694,495)	(49,826)
	Purchase of investments	(789,404)	-
	Internally developed software	(354,891)	(691,677)
	Receipts from sale of tangible fixed assets	1,685,104	-
	Receipts from sale of investments	31,047	-
		<u>(2,122,639)</u>	<u>(741,503)</u>
	<b>Net cash outflow for capital expenditure and financial investment</b>	<u>(2,122,639)</u>	<u>(741,503)</u>
	<b>Financing</b>		
	Repayment of bank loan	(379,082)	(53,846)
		<u>(379,082)</u>	<u>(53,846)</u>
	<b>Net cash outflow from financing</b>	<u>(379,082)</u>	<u>(53,846)</u>

# Lhasa Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 15 CASHFLOWS (continued)

#### c ANALYSIS OF NET FUNDS

	At 1 January 2013 £	Cashflow £	At 31 December 2013 £
Cash at bank and in hand	4,633,871	(1,279,281)	3,354,590
Debt due within one year: Bank Loan	(53,846)	53,846	-
Debt due in more than one year: Bank loan	(325,236)	325,236	-
	<u>4,254,789</u>	<u>(900,199)</u>	<u>3,354,590</u>

### 16 OPERATING LEASE COMMITMENTS

At 31 December 2013 the company had annual commitments under non-cancellable operating leases in respect of assets as follows:

	Land & Buildings		Other	
	2013 £	2012 £	2013 £	2012 £
Operating leases which expire:				
within one year	8,248	-	-	-
in the second to fifth year	-	-	-	-
after five years	-	-	-	-
	<u>8,248</u>	<u>-</u>	<u>-</u>	<u>-</u>

### 17 LIABILITY OF MEMBERS

Lhasa Limited is a company limited by guarantee. The company has 272 members and joint liability under guarantee is limited to £10 per member.

# Lhasa Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 18 PENSION FUND

Employees of this company together with other University entities may, if eligible, join the Universities Superannuation Scheme. This is a defined benefit scheme and the rules require a full actuarial valuation of the Fund at intervals of not less than three years and six months. The assets of the Scheme are held in a separate Trustee administered fund. The Universities Superannuation Scheme is a multi-employer scheme for which it is not possible to separately identify the share of the total underlying assets and liabilities attributable to this particular company.

The latest actuarial valuation of the Universities Superannuation Scheme was carried out as at 31 March 2011. The valuation at 31 March 2011 shows that the market value of the total assets held by the University Scheme was £32,433.5m and that the actuarial valuation of these assets represented 92% of the amount of the liabilities of the scheme. Contributions by participating employers are at the rate of 16% of salaries.

The basis of the valuation was from the long term yield on Government bonds in the market at the valuation date and the significant assumptions underlying the valuation were that the investment return would be 6.1% a year for past service and 6.1% for future service, that salary increases would be 4.4% a year plus short-term general pay growth at 3.65% a year and that pensions in payment and in deferment would increase by 3.4% a year for the 3 years following the valuation then 2.6% a year thereafter.

During the year the company made contributions for the year, in respect of its eligible employees, totalling £407,560 (2012: £387,565).

Pension contributions were made in respect of 84 (2012: 68) employees in the year.

### 19 RELATED PARTY TRANSACTIONS

The company has taken advantage of exemptions under FRS 8 for disclosing intra group transactions with its wholly owned subsidiary.