

REGISTERED NUMBER: 02060639 (England and Wales)

**Report of the Directors and
Financial Statements for the Year Ended 31 December 2020
for
IP2IPO Innovations Limited**



JP2IPO Innovations Limited (Registered number: 02060639)

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for the Year Ended 31 December 2020**

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IP2IPO Innovations Limited

**Company Information
for the Year Ended 31 December 2020**

DIRECTORS:

D G Baynes
G S Smith
M C N Townend
C E Glasson

SECRETARY:

IP2IPO Services Limited

REGISTERED OFFICE:

The Walbrook Building
25 Walbrook
London
EC4N 8AF

REGISTERED NUMBER:

02060639 (England and Wales)

AUDITORS:

Moore Northern Home Counties Limited
Nicholas House
River Front
Enfield
Middlesex
EN1 3FG

IP2IPO Innovations Limited (Registered number: 02060639)

**Report of the Directors
for the Year Ended 31 December 2020**

The directors present their report with the financial statements of the company for the year ended 31 December 2020.

DIVIDENDS

No dividends will be distributed for the year ended 31 December 2020 (year ended 31 December 2019: £nil).

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2020 to the date of this report.

D G Baynes
G S Smith
M C N Townsend

Other changes in directors holding office are as follows:

C E Glasson - appointed 26 March 2020

POLITICAL DONATIONS AND EXPENDITURE

During the year ended 31 December 2020, the Company made no political or charitable donations (year ended 31 December 2019: £nil).

GOING CONCERN

Notwithstanding net liabilities of £209,429,369 as at 31 December 2020, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

After reviewing the cash flow forecasts for a period of at least 12 months, the directors are satisfied that taking account of reasonably possible downsides, including the potential impact of COVID-19, the Company will have sufficient funds to meet its liabilities as they fall due for that period. For this reason, the directors consider it appropriate to adopt the going concern basis in preparing these financial statements

The directors have considered the impact of the ongoing COVID-19 pandemic and potential implications on future operations. Whilst there are significant wider market uncertainties which may impact the Company, the directors do not believe this will impact the ability of the Company to continue as a going concern for at least the next 12 months.

Those forecasts are dependent on Touchstone Innovations Limited, a consolidated subsidiary of IP Group plc, not seeking repayment of the amounts currently due to the company, which at 31 December 2020 amounted to £410,547,239, and providing additional financial support during that period. Touchstone Innovations Limited has indicated via a letter of support its intention to continue to make available such funds as are needed by the Company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

FUTURE OUTLOOK

Notwithstanding the potential impact of Covid-19, the directors believes that the Company will continue to operate satisfactorily for the foreseeable future.

IP2IPO Innovations Limited (Registered number: 02060639)

**Report of the Directors
for the Year Ended 31 December 2020**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Report of the Directors 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), including FRS 101 Reduced Disclosure Framework.

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 accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping 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.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

The auditors, Moore Northern Home Counties Limited, is deemed to have been appointed in accordance with section 487 of the Companies Act 2006.

ON BEHALF OF THE BOARD:

Chris Glasson

C E Glasson - Director

30 April 2021

**Report of the Independent Auditors to the Members of
IP2IPO Innovations Limited (Registered number: 02060639)**

Opinion

We have audited the financial statements of IP2IPO Innovations Limited (the 'company') for the year ended 31 December 2020 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework'.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

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 directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Report of the Independent Auditors to the Members of
IP2IPO Innovations Limited (Registered number: 02060639)**

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit in respect of fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses to those assessed risks; and to respond appropriately to instances of fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both management and those charged with governance of the company.

Our approach was as follows:

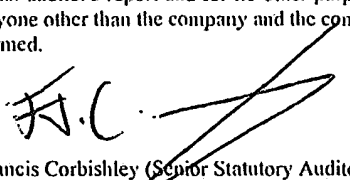
- We obtained an understanding of the legal and regulatory requirements applicable to the company and considered that the most significant are the Companies Act 2006, UK financial reporting standards as issued by the Financial Reporting Council, and UK taxation legislation.
- We obtained an understanding of how the company complies with these requirements by discussions with management and those charged with governance.
- We assessed the risk of material misstatement of the financial statements, including the risk of material misstatement due to fraud and how it might occur, by holding discussions with management and those charged with governance.
- We inquired of management and those charged with governance as to any known instances of non-compliance or suspected non-compliance with laws and regulations.

Based on this understanding, we designed specific appropriate audit procedures to identify instances of non-compliance with laws and regulations. This included making enquiries of management and those charged with governance and obtaining additional corroborative evidence as required.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.



Francis Corbishley (Senior Statutory Auditor)
for and on behalf of Moore Northern Home Counties Limited
Nicholas House
River Front
Enfield
Middlesex
EN1 3FG

30 April 2021

IP2IPO Innovations Limited (Registered number: 02060639)

**Statement of Comprehensive Income
for the Year Ended 31 December 2020**

	Notes	2020 £	2019 £
TURNOVER	3	1,340,088	1,978,841
Cost of sales		<u>(594,999)</u>	<u>(751,579)</u>
GROSS PROFIT		745,089	1,227,262
Administrative expenses		(1,093,497)	(2,990,144)
Change in fair value of investments	11	<u>(214,239)</u>	<u>(58,511)</u>
OPERATING LOSS		(562,647)	(1,821,393)
Impairment of share in group undertakings	5	-	(111,500,000)
Gain on release of loan obligation	5	-	605,468
Loss on sale of investments	5	<u>-</u>	<u>(25,333)</u>
		(562,647)	(112,741,258)
Interest receivable and similar income		<u>22,774</u>	<u>35,219</u>
		(539,873)	(112,706,039)
Interest payable and similar expenses	6	<u>(1,911,349)</u>	<u>(2,086,850)</u>
LOSS BEFORE TAXATION	7	(2,451,222)	(114,792,889)
Tax on loss	9	<u>(35,865)</u>	<u>204,432</u>
LOSS FOR THE FINANCIAL YEAR		(2,487,087)	(114,588,457)
OTHER COMPREHENSIVE INCOME		<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>(2,487,087)</u>	<u>(114,588,457)</u>

The notes on pages 9 to 18 form part of these financial statements

IP2IPO Innovations Limited (Registered number: 02060639)

Balance Sheet
31 December 2020

	Notes	2020 £	2019 £
FIXED ASSETS			
Tangible assets	10	-	-
Investments	11	<u>322,510,441</u>	<u>321,391,346</u>
		322,510,441	321,391,346
CURRENT ASSETS			
Debtors: amounts falling due within one year	12	173,192	958,698
Debtors: amounts falling due after more than one year	12	19,236,130	16,370,735
Cash at bank		<u>20,013,114</u>	<u>25,248,843</u>
		39,422,436	42,578,276
CREDITORS			
Amounts falling due within one year	13	<u>531,472,837</u>	<u>521,804,400</u>
NET CURRENT LIABILITIES		(492,050,401)	(479,226,124)
TOTAL ASSETS LESS CURRENT LIABILITIES		(169,539,960)	(157,834,778)
CREDITORS			
Amounts falling due after more than one year	14	<u>39,889,409</u>	<u>49,121,627</u>
NET LIABILITIES		(209,429,369)	(206,956,405)
CAPITAL AND RESERVES			
Called up share capital	17	1,250,658	1,250,658
Share premium		18,095,733	18,095,733
Retained earnings		<u>(228,775,760)</u>	<u>(226,302,796)</u>
SHAREHOLDERS' FUNDS		(209,429,369)	(206,956,405)

The financial statements were approved by the Board of Directors on 30 April 2021 and were signed on its behalf by:

Chris Glasson

C E Glasson - Director

IP2IPO Innovations Limited (Registered number: 02060639)

Statement of Changes in Equity
for the Year Ended 31 December 2020

	Called up share capital £	Retained earnings £	Share premium £	Total equity £
Balance at 1 January 2019	1,250,658	(111,848,433)	18,095,733	(92,502,042)
Changes in equity				
Total comprehensive income	-	(114,588,457)	-	(114,588,457)
Share based payments charge	-	134,094	-	134,094
Balance at 31 December 2019	<u>1,250,658</u>	<u>(226,302,796)</u>	<u>18,095,733</u>	<u>(206,956,405)</u>
Changes in equity				
Total comprehensive income	-	(2,487,087)	-	(2,487,087)
Share based payments charge	-	14,123	-	14,123
Balance at 31 December 2020	<u>1,250,658</u>	<u>(228,775,760)</u>	<u>18,095,733</u>	<u>(209,429,369)</u>

The notes on pages 9 to 18 form part of these financial statements

IP2IPO Innovations Limited (Registered number: 02060639)

**Notes to the Financial Statements
for the Year Ended 31 December 2020**

1. STATUTORY INFORMATION

IP2IPO Innovations Limited is a private company, limited by shares, registered in England and Wales. The Company's registered number and registered office address can be found on the Company Information page.

IP2IPO Innovations Limited acts as a technology transfer business taking the inventions from Imperial College London, Oxford University, University College London and Cambridge University, and commercialising them either through licensing or by forming a technology company.

2. ACCOUNTING POLICIES

Basis of preparation

The Financial Statements of IP2IPO Innovations Limited (the "Company") are for the year ended 31 December 2020. The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. These financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures: a Cash Flow Statement and related notes; disclosures in respect of transactions with wholly owned subsidiaries; disclosures in respect of capital management; the effects of new but not yet effective IFRSs; and disclosures of transactions with a management entity that provides key management personnel services to the Company. The Company has also applied the exemption from the requirements of IFRS 7 Financial Instruments: Disclosures, the equivalent disclosures are included in the IP Group plc consolidated financial statements.

Changes in accounting policies

(i) New standards, interpretations and amendments effective from 1 January 2020

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2020 that have had a material impact on the Company's financial statements.

(ii) New standards, interpretations and amendments not yet effective

No new standards, interpretations and amendments not yet effective are expected to have a material effect on the Company's future financial statements.

Going concern

Notwithstanding net liabilities of £209,429,369 as at 31 December 2020, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

After reviewing the cash flow forecasts for a period of at least 12 months, the directors are satisfied that taking account of reasonably possible downsides, including the potential impact of COVID-19, the Company will have sufficient funds to meet its liabilities as they fall due for that period. For this reason, the directors consider it appropriate to adopt the going concern basis in preparing these financial statements.

The directors have considered the impact of the ongoing COVID-19 pandemic and potential implications on future operations. Whilst there are significant wider market uncertainties which may impact the Company, the directors do not believe this will impact the ability of the Company to continue as a going concern for at least the next 12 months.

Those forecasts are dependent on Touchstone Innovations Limited, a consolidated subsidiary of IP Group plc, not seeking repayment of the amounts currently due to the company, which at 31 December 2020 amounted to £410,547,239, and providing additional financial support during that period. Touchstone Innovations Limited has indicated via a letter of support its intention to continue to make available such funds as are needed by the Company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

2. ACCOUNTING POLICIES - continued

Turnover

Portfolio return and revenue

Change in fair value

Change in fair value of equity and debt investments represents revaluation gains and losses on the Company's portfolio of investments. Gains on disposal of equity investments represent the difference between the fair value of consideration received and the carrying value at the start of the accounting period on the disposal of equity investments. Change in fair value of Limited Partnership investments represents revaluation gains and losses on the Company's investments in Limited Partnership funds. Changes in fair values of assets do not constitute revenue.

Revenue from services and other income

All revenue from services is generated from within the United Kingdom and is stated exclusive of value added tax. Revenue is recognised when the Company satisfies its performance obligations, in line with IFRS 15. Revenue from services and other income comprises:

Licence & Royalty income

The Company's IP licenses typically constitute separate performance obligations, being separate from other promised goods or services. Revenue is recognised in line with the performance obligations included in the license, which can include sales-based, usage-based or milestone-based royalties.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are held at cost less any provision for impairment.

Equity investments

Fair value is the underlying principle and is defined as "the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date" (IPEV guidelines, December 2018).

Where the equity structure of a portfolio company involves different class rights in a sale or liquidity event, the Company takes these different rights into account when forming a view on the value of its investment.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2020

2. ACCOUNTING POLICIES - continued

Valuation techniques used

The fair value of unlisted securities is established using appropriate valuation techniques in line with IPEV guidelines. The selection of appropriate valuation techniques is considered on an individual basis in light of the nature, facts and circumstances of the investment and in the expected view of market participants. The Company selects valuation techniques which make maximum use of market-based inputs. Techniques are applied consistently from period to period, except where a change would result in better estimates of fair value. Multiple valuation techniques may be used so that the results of one technique may be used as a cross check/corroboration of an alternative technique.

Valuation techniques used include:

- Quoted investments: the fair values of quoted investments are based on bid prices in an active market at the reporting date.
- Milestone approach: an assessment is made as to whether there is an indication of change in fair value based on a consideration of the relevant milestones typically agreed at the time of making the investment decision.
- Scenario analysis: a forward-looking method that considers one or more possible future scenarios. These methods include simplified scenario analysis and relative value scenario analysis, which tie to the fully diluted ("post-money") equity value, as well as full scenario analysis via the use of the probability-weighted expected return method (PVERM).
- Current value method: the estimation and allocation of the equity value to the various equity interests in a business as though the business were to be sold on the Measurement Date.
- Discounted cash flows: deriving the value of a business by calculating the present value of expected future cash flows.
- Multiples: the application of an appropriate multiple to a performance measure (such as earnings or revenue) of the Investee Company in order to derive a value for the business.

The fair value indicated by a recent transaction is used to calibrate inputs used with valuation techniques including those noted above. At each measurement date, an assessment is made as to whether changes or events subsequent to the relevant transaction would imply a change in the investment's fair value. The Price of a Recent Investment is not considered a standalone valuation technique (see further considerations below). Where the current fair value of an investment is unchanged from the price of a recent financing, the Company refers to the valuation basis as 'Recent Financing'.

Price of recent investment as an input in assessing fair value

The Company considers that fair value estimates which are based primarily on observable market data will be of greater reliability than those based on assumptions. Given the nature of the Company's investments in seed, start-up and early-stage companies, where there are often no current and no short-term future earnings or positive cash flows, it can be difficult to gauge the probability and financial impact of the success or failure of development or research activities and to make reliable cash flow forecasts. Consequently, in many cases the most appropriate approach to fair value is a valuation technique which is based on market data such as the price of a recent investment, and market participant assumptions as to potential outcomes.

Calibrating such scenarios or milestones may result in a fair value equal to price of recent investment for a limited period of time. Often qualitative milestones provide a directional indication of the movement of fair value.

In applying a calibrated scenario or milestone approach to determine fair value consideration is given to performance against milestones that were set at the time of the original investment decision, as well as taking into consideration the key market drivers of the investee company and the overall economic environment. Factors that the Company considers include, inter alia, technical measures such as product development phases and patent approvals, financial measures such as cash burn rate and profitability expectations, and market and sales measures such as testing phases, product launches and market introduction.

Where the Company considers that there is an indication that the fair value has changed, an estimation is made of the required amount of any adjustment from the last price of recent investment.

Where a deterioration in value has occurred, the Company reduces the carrying value of the investment to reflect the estimated decrease. If there is evidence of value creation the Company may consider increasing the carrying value of the investment; however, in the absence of additional financing rounds or profit generation it can be difficult to determine the value that a market participant may place on positive developments given the potential outcome and the costs and risks to achieving that outcome and accordingly caution is applied.

2. ACCOUNTING POLICIES - continued

Limited Liability Partnerships

The Company has an 8.3% interest in the total capital commitments of Apollo Therapeutics LLP ("Apollo"), a £40.0m venture between AstraZeneca, GlaxoSmithKline, Johnson & Johnson and the technology transfer offices of Imperial College London, University College London (via UCL Business plc) and the University of Cambridge (via Cambridge Enterprise Limited). The venture supports the translation of academic therapeutic science into innovative new medicines by combining the skills of the university academics with industry expertise at an early stage.

Investments in these Limited and Limited Liability Partnerships are recognised at fair value through profit and loss in accordance with IFRS 9.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowing using the effective interest rate method.

Financial liabilities

The LLP provides for liabilities in respect of revenue sharing with Imperial College London, arising under the Technology Pipeline Agreement ("TPA"), and other parties. The liability for revenue-share, based on fair value, on the future realisation of quoted and unquoted investments is recognised as part of the movement in fair value through profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and short-term deposits held with financial institutions with an original maturity of three months or less.

Debtors

Debtors are measured at transaction price, less any impairment.

Creditors

Trade creditors are measured at the transaction price. Other financial liabilities are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax

Provision is made in full for deferred tax liabilities that arise from timing differences where transactions or events, that result in an obligation to pay more tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised to the extent that it is considered more likely than not that they will be recoverable. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2020

2. ACCOUNTING POLICIES - continued

Employee benefits

(i) Pension obligations

The Company operates a company defined contribution pension scheme for which all employees are eligible. The assets of the scheme are held separately from those of the Company in independently administered funds. The Company currently makes contributions on behalf of employees to this scheme or to employee personal pension schemes on an individual basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

(ii) Share-based payments

The Company engages in equity-settled share-based payment transactions in respect of services receivable from employees, by granting employees conditional awards of ordinary shares subject to certain vesting conditions.

Conditional awards of shares are made pursuant to the Company's Long-Term Incentive Plan ("LTIP") awards and/or the Group's Annual Incentive Scheme ("AIS"). The fair value of the shares is estimated at the date of grant, taking into account the terms and conditions of the award, including market-based performance conditions.

The fair value at the date of grant is recognised as an expense over the period that the employee provides services, generally the period between the start of the performance period and the vesting date of the shares. The corresponding credit is recognised in retained earnings within total equity. The fair value of services is calculated using the market value on the date of award and is adjusted for expected and actual levels of vesting. Where conditional awards of shares lapse the expense recognised to date is credited to the statement of comprehensive income in the year in which they lapse.

Where the terms for an equity-settled award are modified, and the modification increases the total fair value of the share-based payment, or is otherwise beneficial to the employee at the date of modification, the incremental fair value is amortised over the vesting period.

Related party transactions

In accordance with IAS 24 "Related Parties Disclosures", the Company discloses details of material transactions between the reporting entity and related parties. However, transactions between the Company and other Group companies have not been disclosed in accordance with the exemption in IAS 24 paragraph.

3. TURNOVER

For the year ended 31 December 2020 and the period ended 31 December 2019, the Company's turnover and loss for the financial year was derived from its principal activity. For management purposes, the Company has one business stream, which encompasses technology transfer, company incubation and early stage venture capital. The Company operates exclusively in the United Kingdom and therefore no additional disclosures are given.

4. EMPLOYEES AND DIRECTORS

	2020	2019
	£	£
Wages and salaries	65,293	347,059
Social security costs	7,814	66,750
Other pension costs	<u>6,862</u>	<u>29,373</u>
	<u>79,969</u>	<u>443,182</u>

The average number of employees during the year was as follows:

	2020	2019
Management and administration	<u>1</u>	<u>6</u>

	2020	2019
	£	£
Directors' remuneration	<u>-</u>	<u>-</u>

The directors were remunerated for their services to other group companies within the group headed by the Company's ultimate parent, IP Group plc. The directors of the company chose to waive any remuneration during the year ended 31 December 2020, for their services to this entity.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2020

5. EXCEPTIONAL ITEMS

	2020	2019
	£	£
Impairment of share in group undertakings	-	(111,500,000)
Gain on release of loan obligation	-	605,468
Loss on sale of investments	-	(25,333)
	<u>-</u>	<u>(110,919,865)</u>

The 2019 impairment of share in group undertakings relates to the Company's investment in Touchstone Innovations Businesses LLP. The underlying assets in the subsidiary are measured at fair value and the valuation investment policies of assets are disclosed in the group accounts of IP Group plc. The directors have considered the fair value of the subsidiary's net assets as compared with the cost and have calculated the impairment accordingly.

The 2019 gain on release of loan obligation relates to amounts owed to Touchstone Innovations Investment Management Limited of £605,468.

6. INTEREST PAYABLE AND SIMILAR EXPENSES

	2020	2019
	£	£
Bank loan interest	1,915,963	2,055,001
Interest on lease liabilities	(4,614)	31,849
	<u>1,911,349</u>	<u>2,086,850</u>

7. LOSS BEFORE TAXATION

The loss before taxation is stated after charging:

	2020	2019
	£	£
Premises costs	473,966	256,274
Legal and professional fees	147,214	515,310
Depreciation	<u>252,339</u>	<u>410,172</u>

Current year premises costs include dilapidations costs of £357,560 relating to the termination of the Company's lease on 52 Princes Gate.

8. AUDITORS' REMUNERATION

	2020	2019
	£	£
Fees payable to the Company's auditors for the audit of the Company's financial statements	<u>10,000</u>	<u>10,000</u>

9. TAXATION

Analysis of tax expense/(income)

	2020	2019
	£	£
Current tax:		
Tax	<u>35,865</u>	<u>(204,432)</u>
Total tax expense/(income) in statement of comprehensive income	<u>35,865</u>	<u>(204,432)</u>

Notes to the Financial Statements - continued
for the Year Ended 31 December 2020

9. TAXATION - continued

Factors affecting the tax expense

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	2020 £	2019 £
Loss before income tax	<u>(2,451,222)</u>	<u>(114,792,889)</u>
Loss multiplied by the standard rate of corporation tax in the UK of 19% (2019 - 19%)	(465,732)	(21,810,649)
Effects of:		
Expenses not deductible for tax purposes	40,705	21,629,671
R&D expenditure credits	(9,804)	-
Adjustments to tax charge in respect of previous periods	72,327	(90,206)
Deferred tax not recognised	477,890	66,752
Share options deduction	(1,548)	-
Transferred in from LLP	<u>(77,973)</u>	<u>-</u>
Tax expense/(income)	<u>35,865</u>	<u>(204,432)</u>

There is a potential deferred tax asset at 31 December 2020 of £19,832,908 (2019: £17,128,570), relating to losses of £86,736,643 (2019: £82,057,310), capital losses of £17,128,263 (2019: £17,982,286), short term timing differences of £234,195 (2019: £369,595) and fixed asset timing differences of £284,625 (2019: £347,104).

The deferred tax asset would be recovered if there were future taxable profits from which the reversal of the underlying timing differences could be deducted.

10. TANGIBLE FIXED ASSETS

	Fixtures and fittings £
Cost	
At 1 January 2020	1,381,637
Disposals	<u>(1,381,637)</u>
At 31 December 2020	-
Depreciation	
At 1 January 2020	1,381,637
Eliminated on disposal	<u>(1,381,637)</u>
At 31 December 2020	-
Net book value	
At 31 December 2020	<u>-</u>
At 31 December 2019	<u>-</u>

Notes to the Financial Statements - continued
for the Year Ended 31 December 2020

11. INVESTMENTS

	Shares in group undertakings £	Limited Participation Interest £	Unlisted investments £	Totals £
Cost				
At 1 January 2020	319,590,760	1,716,159	84,427	321,391,346
Additions	-	1,333,334	-	1,333,334
Fair value movements	-	(238,283)	24,044	(214,239)
At 31 December 2020	319,590,760	2,811,210	108,471	322,510,441
Net book value				
At 31 December 2020	319,590,760	2,811,210	108,471	322,510,441
At 31 December 2019	319,590,760	1,716,159	84,427	321,391,346

Limited participation interest relates to the Company's 8.3% interest in the total capital commitments of Apollo Therapeutics LLP. Further commitments of £0.3m remain related to the limited participation interest in Apollo Therapeutics LLP.

The subsidiary undertakings in which the Company's interest at year end is more than 50% are as follows:

Subsidiary undertakings	Country of incorporation	Principal activity Investment holding vehicle	Class and percentage of shares held Partnership interest of 88.5%
Touchstone Innovations Businesses LLP	England & Wales		

12. DEBTORS

	2020 £	2019 £
Amounts falling due within one year:		
Trade debtors	100,461	408,174
Operating lease asset	-	362,090
Other debtors	30,677	19,014
R&D tax credit receivable	22,091	-
VAT	7,023	132,872
Prepayments	12,940	36,548
	173,192	958,698
Amounts falling due after more than one year:		
Amounts owed by group undertakings	19,236,130	16,370,735
Aggregate amount	19,409,322	17,329,433

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2020 £	2019 £
Bank loans and overdrafts (see note 15)	9,416,667	9,416,667
Operating lease commitments (see note 15)	-	371,029
Trade creditors	424,700	964,674
Amounts owed to group undertakings	520,033,462	509,087,802
Social security and other taxes	1,899	1,602
Payable to Imperial College under revenue share obligation	538,166	317,677
Accruals and deferred income	1,057,943	1,644,949
	531,472,837	521,804,400

Notes to the Financial Statements - continued
for the Year Ended 31 December 2020

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2020	2019
	£	£
Bank loans (see note 15)	39,847,197	49,078,831
University Challenge Seed Fund	582	1,166
Revenue share liability	41,630	41,630
	<u>39,889,409</u>	<u>49,121,627</u>

15. FINANCIAL LIABILITIES - BORROWINGS

	2020	2019
	£	£
Current:		
Bank loans	9,416,667	9,416,667
Operating lease commitments (see note 16)	-	371,029
	<u>9,416,667</u>	<u>9,787,696</u>
Non-current:		
Bank loans	<u>39,847,197</u>	<u>49,078,831</u>

Terms and debt repayment schedule

	1 year or less	1-2 years	2-5 years	More than 5 years	Totals
	£	£	£	£	£
Bank loans	<u>9,416,667</u>	<u>9,416,667</u>	<u>27,081,243</u>	<u>3,349,287</u>	<u>49,263,864</u>

£5,903,093 of cash is being held by the Company as security for the bank loan.

16. LEASING AGREEMENTS

Minimum lease payments fall due as follows:

	Non-cancellable operating leases
	2020
	£
Within one year	<u>-</u>
	<u>371,029</u>

During the year, the Company terminated the 52 Princes Gate property lease.

17. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:				
Number:	Class:	Nominal value:	2020	2019
			£	£
1,250,658	Ordinary shares	1	<u>1,250,658</u>	<u>1,250,658</u>

18. RELATED PARTY DISCLOSURES

As the Company is a wholly owned subsidiary of IP Group plc, the Company has taken advantage of the exemption contained in IAS24 and has therefore not disclosed transactions or balances with entities which form part of the IP Group plc group.

19. IMMEDIATE AND ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The immediate parent company is Touchstone Innovations Limited and the ultimate controlling party is considered to be IP Group plc. The immediate and ultimate parent companies were incorporated in the United Kingdom. The results of the Company are consolidated in the group accounts of the ultimate parent company's financial statements. Copies of the ultimate parent company's financial statements may be obtained from the Secretary of IP Group plc, The Walbrook Building, 25 Walbrook, London, EC4N 8AF.

20. SHARE-BASED PAYMENT TRANSACTIONS

Long-Term Incentive Plan ("LTIP")

Awards under the LTIP take the form of conditional awards of ordinary shares of 2p each in the Group which vest over the prescribed performance period to the extent that performance conditions have been met. The Remuneration Committee imposes objective conditions on the vesting of awards and these take into consideration the guidance of the Group's institutional investors from time to time.

The 2020 LTIP awards were made on 19 June 2020. The awards will ordinarily vest on 31 March 2023, to the extent that the performance conditions have been met. The awards are based on the performance of the Group's Hard NAV and Total Shareholder Return ("TSR"). Both performance measures are combined into a matrix format to most appropriately measure performance relative to the business, as shown in the Directors' Remuneration Report within the Group's 2020 Annual Report and Accounts. The total award is subject to an underpin based on the relative performance of the Group's TSR to that of the FTSE 250 index, which can reduce the awards by up to 50%. The 2020 LTIP matrix is designed such that up to 100% of the award (prior to the application of the underpin) will vest in full in the event of both Hard NAV increasing by 15% per year on a cumulative basis, from 1 January 2020 to 31 December 2022, and TSR increasing by 15% per year on a cumulative basis from the date of award to 31 March 2023, using an industry-standard average price period at the beginning and end of the performance period. Further, the matrix is designed such that 30% of the award shall vest (again prior to the application of the underpin) if the cumulative increase is 8% per annum for both measures over their respective performance periods ("threshold performance"). A straight-line sliding scale is applied for performance between the distinct points on the matrix of vesting targets.

Former Touchstone LTIP

Also in 2017, as a result of the combination with Touchstone, award holders under existing Touchstone long term incentive share schemes were entitled to receive 2.2178 new IP Group shares in exchange for each Touchstone share, an exchange ratio set out in the Offer Document for the acquisition (the "Exchange Ratio").

2016 schemes:

It was proposed that given the short period of time since grant, awards would not become exercisable in connection with the Offer and therefore that no progress towards meeting performance targets had been made. Instead award holders were offered the opportunity to release their awards in exchange for the grant of a replacement award of equivalent value over shares in IP Group and the exercise price was set at 3.33 pence divided by the Exchange Ratio. The vesting dates on the replacement awards remained the same as the original award being 1 December 2020, 1 December 2021 and 1 December 2022. The replacement awards are subject to performance conditions adjusted from those attaching to the original Touchstone award as follows: a) the Net Asset Value ("NAV") condition will be adjusted to reflect Touchstone's portfolio being part of the enlarged group following the acquisition and b) the Total Shareholder Return ("TSR") condition will be adjusted so that TSR shall be measured by reference to the performance of IP Group shares over the performance period with the starting share price for such purpose being adjusted by dividing the existing starting share price of 290 pence by the exchange ratio detailed above. The TTO specific targets remain the same.

2006 schemes:

Holders of 2006 Touchstone awards were offered the opportunity to release each of their awards in exchange for the grant of a replacement award of equivalent value over shares in IP Group. The exercise period and time-based vesting provisions for the replacement awards remained the same as the original Touchstone awards but the shareholder return performance condition will be updated by reference to the Exchange Ratio. Awards under the 2006 scheme were exercisable to some extent at the time of the grant of replacement awards, subject to meeting the applicable vesting conditions.

21. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events subsequent to the period end.