

IP2IPO Limited

**Report and Financial Statements
For the year ended 31 December 2003**

Registered Number: 04072979



DIRECTORS' REPORT

For the year ended 31 December 2003

The directors present their report together with the audited financial statements for the year ended 31 December 2003.

Principal activities and business review

The Company is a wholly owned subsidiary of IP2IPO Group plc. Its business is the commercialisation of intellectual property via the formation of long term partnerships with universities. The Company has two subsidiaries: IP2IPO Management Limited and IP2IPO Management II Limited.

IP2IPO Limited's partnership with the University of Oxford, entered into in December 2000, has a 15 year term and entitles the Company to 50% of the University of Oxford's equity in spin out companies based on intellectual property created at the University's Chemistry Department and 50% of the University of Oxford's licence fees or royalties derived from intellectual property arising at the Chemistry Department.

In March 2002, IP2IPO Limited, through its subsidiary IP2IPO Management Limited, entered into a second partnership with the University of Southampton. The partnership has a 25 year term and commits IP2IPO Management Limited to (i) invest £5 million in seed capital in University of Southampton spin out companies over a four year period in return for equity stakes in those companies and (ii) commits IP2IPO Limited to provide technology commercialisation advice and expertise to the University. As part of the partnership, IP2IPO Limited received a 20% non-participating interest in Southampton Asset Management Limited, a company set up to hold the University of Southampton's equity stakes in spin out companies formed since the commencement of the partnership.

In May 2003, IP2IPO Limited, through its subsidiary IP2IPO Management II Limited entered into a third partnership with King's College London ("KCL"). The partnership with KCL, which has a term of 25 years and which covers the entire University, commits IP2IPO Management II Limited to (i) invest £5 million in seed capital in KCL spin out companies over a five year period in return for equity stakes in those companies, (ii) to help identify and progress intellectual commercialisation opportunities and (iii) to supply a total of £250,000 over 5 years to augment KCL's existing IP protection capabilities. As part of the partnership, IP2IPO Limited receives 20% of KCL's interest in spin out companies and technology licences.

In October 2003, IP2IPO limited entered into a fourth partnership with the Centre for Novel Agricultural Products ("CNAP"), a department of York University. A new company, Amaethon Limited, has been formed to commercialise CNAP's research through the formation of spin out companies and technology licences. CNAP has granted Amaethon Limited exclusive rights over CNAP's research for 25 years. The partnership commits IP2IPO Limited to (i) invest £1.15 million over three years in Amaethon Limited in return for a one third equity stake in the company, (ii) invest £750k directly in spin out companies, in return for equity stakes in those companies and (iii) provide expertise and assistance to Amaethon Limited.

During 2003, six spin out companies were established in which the Company and/or its subsidiary hold an equity stake as a result of the above partnerships: HepCgen Limited, Nanotecture Limited, ReOx Limited, Stratophase Limited, SynAIRgen Limited and VASTox Limited.

DIRECTORS' REPORT (continued)
For the year ended 31 December 2003

Results and dividends

The results for the year are set out in the profit and loss account on page 5. The directors do not recommend the payment of a dividend (2002: nil)

Directors

The directors who held office during the period are given below:

John Davies
Steven Lee
David Norwood
Alex Snow

Andrew Beeson resigned as a director of the Company on 31 January 2003.

None of the directors had any interest in the shares of the Company at 31 December 2003 or at any time during the year ended on that date.

The Company is a wholly owned subsidiary of a company incorporated in the United Kingdom and, as permitted by statutory instrument, no disclosure is made of any interests of the directors in the shares or share options of the company.

Post balance sheet events

Details of significant events that have occurred since 31 December 2003 are set out in note 19 to the accounts.

Share capital

The authorised share capital of the Company was increased by 49,900 ordinary shares of £1 each on 17 September 2003. On the same date, the Company issued 40,000 shares with a par value of £1 at an issue price of £100. These shares were allotted to IP2IPO Group plc and were settled for cash consideration.

DIRECTORS' REPORT (continued)
For the year ended 31 December 2003

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each year that 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.

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2003. The directors also confirm that applicable accounting standards have been followed.

The directors are also responsible for keeping accounting records that 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 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD

A handwritten signature in black ink, appearing to read 'D. Norwood', written in a cursive style.

David Norwood

30 June 2004

Independent auditors' report to the members of IP2IPO Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Reading

30th June 2004

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2003**

	Note	2003 £'000	2002 £'000
Turnover	2	222	-
Administrative expenses		(1,170)	(845)
Other operating income	3	-	650
Provision against fixed asset investments	11	(109)	(1,537)
Operating loss		(1,057)	(1,732)
Interest receivable and similar income	7	474	173
Loss on ordinary activities before taxation	4	(583)	(1,559)
Tax on loss on ordinary activities	8	-	-
Loss on ordinary activities after taxation	16	(583)	(1,559)

All results are derived entirely from continuing activities.

The Company has no recognised gains and losses other than the losses above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the loss for the years stated above, and their historical cost equivalents.

BALANCE SHEET
AS AT 31 DECEMBER 2003

	Note	2003 £'000	2002 £'000
Fixed assets			
Intangible fixed assets	9	12	-
Tangible fixed assets	10	27	47
Investments			
Equity rights	11	17,556	18,056
Equity investments	11	4,008	2,329
		<u>21,564</u>	<u>20,385</u>
		<u>21,603</u>	<u>20,432</u>
Current assets			
Debtors	12	1,965	567
Cash at bank and in hand		<u>38,245</u>	<u>4,388</u>
		<u>40,210</u>	<u>4,955</u>
Creditors: Amounts falling due within one year	13	<u>(774)</u>	<u>(73)</u>
Net current assets		39,436	4,882
Total assets less current liabilities		61,039	25,314
Creditors: Amounts falling due after one year	14	(59,419)	(27,110)
Net assets / (liabilities)		<u>1,621</u>	<u>(1,796)</u>
Capital and reserves			
Called up share capital	15	40	-
Share premium account	16	3,960	-
Profit and loss account (deficit)	16	(2,379)	(1,796)
Total equity shareholders' funds / (deficit)	17	<u>1,621</u>	<u>(1,796)</u>

The financial statements on pages 5 to 19 were approved by the Board of Directors on 30 June 2004.



John Davies
Finance Director

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2003

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention, in accordance with the Companies Act 1985, and applicable accounting standards. A summary of the more important accounting policies which have been applied consistently throughout the year is set out below.

The accounts have been prepared on a going concern basis as the Company's immediate parent undertaking, IP2IPO Group plc, has confirmed its intention to continue its financial support of the Company so as to ensure that it is able to meet its liabilities as they fall due for at least a period of twelve months after the date of approval of these financial statements.

Consolidated accounts

The Company has taken the exemption under section 228 of the Companies Act 1985 from publishing consolidated financial statements as it and its investments are included by full consolidation in the consolidated financial statements of IP2IPO Group plc, which is registered in England and Wales.

Turnover

Turnover, comprising fees for various advisory services, is recognised in the profit and loss account when the related services are performed and when considered recoverable. All turnover is generated within the United Kingdom and is in sterling and is stated exclusive of value added tax.

Intangible fixed assets – intellectual property rights

Intangible fixed assets are stated at historical cost less amortisation and provision for any impairment. Historical cost comprises the purchase price together with any incidental costs of acquisition. Amortisation is calculated so as to write off the cost of intangible fixed assets on a straight line basis over their expected useful economic lives. In the case of intellectual property rights this period is considered to be to the expiry of the related patents which is twenty years.

Tangible fixed assets

Tangible fixed assets are stated at historical cost less depreciation and provision for any impairment. Historical cost comprises the purchase price together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost, less estimated residual values, of tangible fixed assets on a straight line basis over their expected useful economic lives. The annual depreciation charge is based on the following expected useful economic lives:

Fixtures and fittings	Over 3 to 5 years
Computer equipment	Over 3 to 5 years

Equity rights and acquisition costs

Equity rights represent sums paid to the University of Oxford between December 2000 and June 2001. The equity rights are only realised by the receipt of shares in spin out companies from the University of Oxford chemistry department. Accordingly, the equity rights are held at cost, less any reduction on account of the acquisition of the interests in spin out companies, less any impairment in value.

Equity rights are treated in the balance sheet as a financial asset.

The directors review the carrying value of the University of Oxford chemistry department equity rights at each period end by reference to the rate at which relevant spin out companies are created, the pipeline of future opportunities at the time, historic cost of the Group's interest in such spin-out companies, overall market conditions and the remaining life of the Partnership.

The acquisition costs comprise related costs to secure the equity rights and other university partnership arrangements. These costs are amortised over the life of the Partnership, or in respect of

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2003

the University of Oxford Partnership, the shorter of the Partnership period and the period over which the equity rights are realised.

The life of the Partnership with the University of Oxford is 15 years. The lives of the partnerships with the University of Southampton, University of York and King's College London are all 25 years.

Equity investments

Equity investments are stated at historic cost less provision for impairment in value, and are held for long term investment purposes.

Provisions are based upon an assessment of events or changes in circumstances that indicate that an impairment has occurred such as the performance and/or prospects (including the financial prospects) of the investee company being significantly below the expectations on which the investment was based, a significant adverse change in the markets in which the investee company operates or a deterioration in general market conditions.

Pension commitments

The Group makes defined contributions to employees' approved personal pension plans. Contributions are charged to the profit and loss account in the period in which payments are payable to the pension funds.

Operating leases

Costs in respect of operating leases, where substantially all the benefits and risks of ownerships remain with the lessor, are charged to the profit and loss account on a straight line basis over the lease term.

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 substantially enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted.

Related party transactions

In accordance with FRS 8 "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 FRS 8 paragraph 3 (a).

Cash flow statement

The Company has taken advantage of the exemption conferred upon it by FRS 1 "Cash Flow Statements" (Revised 1996) not to prepare a cash flow statement whereby the cash flows of the Company are incorporated into those of the ultimate parent undertaking and these financial statements are publicly available.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2003

2. TURNOVER AND LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

The Company's turnover and loss on ordinary activities before taxation are derived from its principal activity within the United Kingdom.

3. OTHER OPERATING INCOME

	2003 £'000	2002 £'000
Waiver of loan	-	650

The waiver relates to the waiver of a loan between the Company and Evolution Beeson Gregory Limited (formerly Beeson Gregory Limited). The balance of £650,000 was waived in accordance with a Deed of Waiver on 31 December 2002. The loan had originally been made to fund a contingent commitment to provide further funding to an investment in Novarc Limited that existed when the Company acquired its interest in Novarc Limited from Beeson Gregory Technology Investments Limited. Following the payment of £650,000 to Novarc Limited this investment was fully written down in the year ended 31 December 2002 and Evolution Beeson Gregory Limited agreed to waive the original loan to the Company.

4. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2003 £'000	2002 £'000
Loss on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets	25	23
Amortisation of acquisition costs	20	18
Provision against fixed asset investments	109	1,537
Auditors remuneration – audit services	30	8
Auditors remuneration – non audit services	10	-
Operating lease charges - leasehold properties	23	11

5. DIRECTORS' EMOLUMENTS

The aggregate emoluments of the directors of the Company computed in accordance with Schedule 6 of the Companies Act 1985 are shown below. The highest paid director had aggregate emoluments of £100,000 (2002: £102,000) and contribution to the money purchase scheme of £10,500 (2002: £12,500). During the year three directors were members of the money purchase scheme.

	2003 £'000	2002 £'000
Remuneration in respect of directors:		
Aggregate emoluments	282	269
Contributions to money purchase pension schemes	25	33
	307	342

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2003

6. EMPLOYEES

During the year the Company had 8 employees all of whom were involved in management and administration activities (2002: 6 employees).

Total staff costs for the year are highlighted below:

	2003 £'000	2002 £'000
Wages and salaries	511	449
Social security costs	62	51
Pension costs	44	64
	<u>617</u>	<u>564</u>

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2003 £'000	2002 £'000
Bank interest receivable	<u>474</u>	<u>173</u>

8. TAX ON LOSS ON ORDINARY ACTIVITIES

	2003 £'000	2002 £'000
Current tax:		
Group relief receivable	-	1
Deferred tax:		
Current year movement	-	(1)
Tax on loss on ordinary activities	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2003

8. TAXATION (continued)

The tax assessed for the year is higher than the standard rate of corporation tax in the UK (30%).

Factors affecting the current tax charge for the year are explained below:

	2003	2002
	£'000	£'000
Loss on ordinary activities before tax	(583)	(1,559)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	(175)	(468)
Effects of:		
Costs not deductible for tax purposes	11	461
Non taxable income	-	(195)
Capital allowances for period in excess of depreciation	4	2
Group relief surrendered (not paid)	-	201
Losses carried forward to future periods	127	-
Other short term timing differences	33	-
Current tax charge for the year	<u>-</u>	<u>-</u>

There is a potential deferred tax asset at 31 December 2003 of £1,091,000 (2002: £462,000), relating to accelerated capital allowances and provisions against investments. This asset has not been recognised in the financial statements due to current uncertainties surrounding the reversal of the underlying timing differences. The deferred tax asset would be recovered if there were future taxable profits from which the reversal of the underlying timing could be deducted.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2003

9. INTANGIBLE FIXED ASSETS

	Intellectual property rights £'000	Total £'000
Cost		
At 1 January 2003	-	-
Additions	12	12
At 31 December 2003	12	12
Aggregate amortisation		
At 1 January 2003 and 31 December 2003	-	-
Net book value		
At 31 December 2003	12	12
At 31 December 2002	-	-

The rights over intellectual property to which the intangible fixed assets relate were acquired in December 2003 and accordingly no charge for amortisation has been made in the current year.

10. TANGIBLE FIXED ASSETS

	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost			
At 1 January 2003	58	20	78
Additions	5	-	5
At 31 December 2003	63	20	83
Accumulated depreciation			
At 1 January 2003	27	4	31
Charge for the year	19	6	25
At 31 December 2003	46	10	56
Net book value			
At 31 December 2003	17	10	27
At 31 December 2002	31	16	47

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2003

11. FIXED ASSET INVESTMENTS

EQUITY RIGHTS

	Oxford University Chemistry Investment	Acquisition costs	Total
	£'000	£'000	£'000
Cost			
At 1 January 2003	17,806	284	18,090
Investment in spin out companies	(550)	-	(550)
Additions	-	70	70
At 31 December 2003	17,256	354	17,610
Amortisation of costs			
At 1 January 2003	-	(34)	(34)
Charge for the year	-	(20)	(20)
At 31 December 2003	-	(54)	(54)
Net book values			
At 31 December 2003	17,256	300	17,556
At 31 December 2003	17,806	250	18,056

The University of Oxford Chemistry Department Equity Rights

The Company has the right to 50% of the University of Oxford's shareholdings in companies spun out of its chemistry department for 15 years up to 2015, at a price equivalent to that subscribed by external investors. It also has the right to 50% of the royalties due to the University under licences of intellectual property generated by the chemistry department, entered into during the same period.

This agreement with the University of Oxford was signed in December 2000 and the equity rights remaining at the year end of £17.3 million will only be realised by the receipt of shares in spin out companies from the University of Oxford chemistry department. In the event that the equity rights are fully realised prior to November 2015, then IP2IPO Limited will be entitled to acquire the shares in spin out companies from the chemistry department to which it is entitled under the terms of the agreement at par value. In the event that the value of shares received in spin out companies is insufficient to utilise the £17.3 million by March 2016, the remaining asset will be written off.

Realisation of the equity rights in the way described above, depends upon:

- The availability and quality of research from the chemistry department at the University of Oxford, which will provide a continued pipeline of IP spin out opportunities from the University of Oxford chemistry department over the remaining period of the agreement to March 2016;
- The valuation and volume of successful IP spin out opportunities arising from the chemistry department, which will allow the utilisation of the equity rights within the remaining time frame of the agreement;
- Market conditions in general including the availability of external funds to invest in the spin out companies, which will be largely dependent upon the appetite for investment in the life science sector and other sectors; and,
- The availability and skill of IP2IPO staff to negotiate with the academics and the University of Oxford to successfully convert the IP opportunities to spin out companies.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2003

11. FIXED ASSET INVESTMENTS (continued)

There is no certainty that individual spin out companies will prove to be successful or generate a return on investment for the Company.

The directors have reviewed the carrying value of the equity rights as at 31 December 2003. Based on the rate at which spin out companies from the University of Oxford chemistry department have been created to date, the remaining life of the partnership, the rate at which spin out companies from University of Oxford chemistry department are anticipated to be created in the future, the size of IP2IPO Limited's stake in such companies and the continued prestige of the department of chemistry, the directors continue to believe that the equity rights will be realised in full.

Acquisition costs

The acquisition costs comprise related costs to secure the equity rights and other university partnerships. These costs are amortised over the life of the partnership, or in respect of the University of Oxford partnership, the shorter of the life of the partnership and the period in which the equity rights are realised.

The life of the partnership with the University of Oxford chemistry department is 15 years. The lives of the partnerships with the University of Southampton, King's College London and University of York are all 25 years.

EQUITY INVESTMENTS

	University of Oxford spin outs £'000	Amaethon Limited £'000	Other university spin outs £'000	Total £'000
Cost				
At 1 January 2003	2,091	-	1,775	3,866
Investment in spin out companies	581	1,150	51	1,782
At 31 December 2003	2,672	1,150	1,826	5,648
Provision for impairment				
At 1 January 2003	-	-	1,537	1,537
Charge for the year	-	-	109	109
At 31 December 2003	-	-	1,646	1,646
Net book values				
At 31 December 2003	2,672	1,150	182	4,002
At 31 December 2003	2,091	-	238	2,329

University of Oxford spin outs

During the year ended 31 December 2003, there were investments in the University of Oxford spin out companies with a value of £581,000, being an investment in ReOx Limited valued at £556,000 and an investment in VASTox Limited of £25,000.

At the year end the directors have undertaken a review of the carrying values of these investments and concluded that there is no indication of impairment.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2003

11. FIXED ASSET INVESTMENTS (continued)

Amaethon Limited

Under the terms of the partnership with the Centre for Novel Agricultural Products ("CNAP"), a specialist division of the University of York, a commercialisation company, Amaethon Limited, has been set up which will hold all the University of York's interest in spin out companies and licenses based on CNAP's intellectual property. The Company has committed to invest £1.15 million in Amaethon Limited over a three year period and in return has received a 33% interest in the equity share capital of this company, with the University owning the remaining shares. At 31 December 2003 the Company has made payments in respect of this investment totalling £383,000, with the balance due in two further equal tranches of £383,000 in 2004 and 2005. £50,000 of each of the remaining tranches is fully committed while the other £333,000 depends upon Amaethon Limited achieving certain milestones. The directors consider that these milestones will be achieved and accordingly have accrued for the total consideration payable.

At the year end the directors have undertaken a review of the carrying value of this investment and concluded that there is no indication of impairment.

Other University spin outs

Other university spin outs relate to those investments not included within the partnerships with the Universities of Oxford, Southampton, York and King's College London. These investments were originally made by Beeson Gregory Technology Investments Limited and subsequently transferred to the Company in July 2001. During the year ended 31 December 2003, there was a further investment of £51,000 in Novarc Limited.

At the year end the directors have undertaken a review of the carrying values of these investments and concluded that a further provision of £109,000 is required.

Significant equity investments

At 31 December 2003 the Company has investments where it holds 20% or more of the issued share capital in the following companies:

Company	Country of incorporation	Type of share held	% of issue held	Net Assets £'000	Loss before tax £'000	Date of unaudited management information
Amaethon Limited	UK	Ordinary shares	33.33	-	-	-
Novarc Limited	UK	Ordinary shares	30.78	754	(962)	31/12/03
Pharminox Limited	UK	Ordinary shares	21.98	564	(226)	31/12/03
Southampton Asset Management Limited	UK	Ordinary shares	20.00	-	-	-
VASTox Limited	UK	Ordinary shares	20.00	-	-	-

VASTox Limited has not filed annual accounts as at the date of these accounts and accordingly no financial information is presented in respect of this company.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2003

11. FIXED ASSET INVESTMENTS (continued)

Southampton Asset Mangement Limited and Amaethon Limited hold investments in spin out companies from Southampton University and York University's CNAP division respectively. The Company's indirect investments in spin out companies is included within Equity investments as this reflects the structure of the agreements with Southampton University and York University. Accordingly no disclosure is made above of the net assets and profit or loss of these companies and the Company's interest in them is effectively already included within Equity Investments.

12. DEBTORS

	2003 £'000	2002 £'000
Trade debtors	72	-
Amounts due from group undertakings	1,795	520
Other debtors	36	35
Other tax recoverable	33	-
Prepayments and accrued income	36	12
	<u>1,972</u>	<u>567</u>

Amounts due from group undertakings are unsecured, interest free and have no fixed date of repayment.

13. CREDITORS: Amounts falling due within one year

	2003 £'000	2002 £'000
Group		
Trade creditors	255	-
Amounts due to Evolution Beeson Gregory Limited	4	56
Other tax and social security	36	-
Other creditors (see note 14)	383	-
Accruals and deferred income	96	17
	<u>774</u>	<u>73</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2003

14. CREDITORS: Amounts falling after one year

	2003 £'000	2002 £'000
Amounts due to group undertakings	59,036	27,110
Other creditors	383	-
	<u>59,419</u>	<u>27,110</u>

Other creditors relates to the deferred consideration due to Amaethon Limited in respect of the Company's investment in this company. The Company has agreed to invest a total of £1,150,000 in Amaethon Limited over a period of three years in return for a 33% interest in the equity share capital of this company. At 31 December 2003, £383,000 of this investment has been paid to Amaethon Limited, and the balance of £766,000 is due in two equal tranches in 2004 and 2005. These amounts are unsecured and interest free. See note 11 for further details.

Amounts due to group undertakings are unsecured, interest free, and have no fixed date of repayment.

15. CALLED UP SHARE CAPITAL

	2003 £'000	2002 £'000
Authorised:		
50,000 ordinary shares of £1 each (2002: 100)	<u>50</u>	<u>-</u>
Allotted, called up and fully paid:		
40,100 ordinary shares of £1 each (2002: 100)	<u>40</u>	<u>-</u>

On 17 September 2003, the authorised share capital of the Company was increased by 49,900 ordinary shares of £1.

On 17 September 2003, the Company issued 40,000 new ordinary shares with a par value of £1 at an issue price of £100 to IP2IPO Group plc, its immediate parent company, in consideration for cash for a reduction of £4 million in the amount owed to IP2IPO Group plc.

16. RESERVES

	Share premium account £'000	Profit and loss account £'000
At 1 January 2003	-	(1,796)
Loss for the financial year	-	(583)
Issue of shares	3,960	-
At 31 December 2003	<u>3,960</u>	<u>(2,379)</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2003

17. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	2003 £'000	2002 £'000
Loss for the financial year	(583)	(1,559)
Net proceeds of shares issued	4,000	-
Net increase / (decrease) in equity shareholders' funds	<u>3,417</u>	<u>(1,559)</u>
Equity shareholders' deficit at 1 January	(1,796)	(237)
Equity shareholders' funds / (deficit) at 31 December	<u>1,621</u>	<u>(1,796)</u>

18. CAPITAL COMMITMENTS

Under the terms of an agreement entered into during the year ended 31 December 2002 between IP2IPO Limited, IP2IPO Management Limited, the University of Southampton and certain of the University of Southampton's subsidiaries, IP2IPO Limited agreed to make £5 million available for the purposes of making investments in University of Southampton spin out companies over a period of four years commencing in April 2002. Of this amount, at 31 December 2003, £1,797,000 has been invested in seven spin out companies from the university: ACTIVEem Limited, Capsant Neurotechnologies Limited, HepCgen Limited, Nanotecture Limited, Southampton PolyPeptides Limited, Stratophase Limited and SynAIRgen Limited. At the year end, IP2IPO Management Limited had committed to invest a further £162,000 pending the meeting of further investment milestones (all of which was duly invested in the post balance sheet period).

Under the terms of an agreement entered into during the year between IP2IPO Limited, IP2IPO Management II Limited and King's College London ("KCL") and KCL Enterprises Limited, IP2IPO Limited agreed to make £5 million available to KCL for the purposes of making investments in spin out companies over a period of five years commencing in May 2003. At 31 December 2003, all of this amount was still available under the terms of the agreement. In addition, IP2IPO Limited has committed to make a £250,000 payment to KCL over a five year period. Under the agreement of this agreement, KCL can require the Company to make a further £5 million available for investments in spin out companies on the tenth anniversary of the partnership.

In October 2003, IP2IPO Limited entered into an agreement with the University of York. The agreement relates to a new specialist research centre within the University of York: the Centre for Novel Agricultural Products ("CNAP"). IP2IPO Limited has committed to invest up to a total of £750,000 over three years in spin out companies based on CNAP's intellectual property. This amount may be increased at IP2IPO Limited's option. No investments have been made in spin out companies by the Company at the year end.

19. POST BALANCE SHEET EVENTS

Subsequent to 31 December 2003, a spin out company from the University of Oxford, Oxford Medical Diagnostics Limited, was established in which the Company invested £300,000.

In addition, the Company acquired shares in two spin out companies from King's College London and one from the University of Southampton: Phonologica Limited, Proximagen Limited and Ilika Limited respectively. The Company acquired shares in these companies for nominal value.

The following directors made the following investments subsequent to the year end.

Director	Spin out company	Number of shares	Cost £'000
Andrew Beeson	Capsant Neurotechnologies Limited	496	10
	Phonologica Limited	2,000	10
John Davies	Capsant Neurotechnologies Limited	49	1
	Phonologica Limited	200	1
	Proximagen Limited	200	1

On 11 March 2004, Offshore Hydrocarbon Mapping plc, formerly known as ACTIVEem Limited, a spin out company from the University of Southampton which has developed geophysical surveying technology for the offshore oil industry, announced its flotation on the Alternative Investment Market of the London Stock Exchange, raising £10.8 million at a placing price of £1.70 per share. At the placing price, Offshore Hydrocarbon Mapping plc was capitalised at £49.3 million.

20. FINANCIAL COMMITMENTS

At 31 December 2003 the Company had annual commitments under non-cancellable operating leases expiring as follows:

	Land and buildings	
	2003	2002
	£'000	£'000
Within two to five years	<u>23</u>	<u>23</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2003

21. RELATED PARTY TRANSACTIONS

During the year the Company incurred the following charges payable to the following related companies:

Name of related party	Type of transaction	2003 £'000	2002 £'000
Evolution Group Services Limited	Recharge of expenses	112	785
Evolution Group Services Limited	Provision of accounting services	12	60
Evolution Beeson Gregory Limited	Loan waiver	-	650

The following directors had the following investments in spin out companies at 31 December 2003:

Director	Spin out company	Number of shares held at 1 January 2003	Number of shares acquired during the year	Number of shares held at 31 December 2003	% of issued share capital held at 31 December 2003	Cost of investment at 31 December 2003 £'000
John Davies	Pharminox	53	-	53	0.06	2
	Glycoform	31	-	31	0.03	1
Steven Lee	ReOx	-	200	200	0.02	1
	Zyentia	3	-	3	0.03	1
	Glycoform	31	-	31	0.03	1
David Norwood	Pharminox	265	-	265	0.3	10
Andrew Beeson	Inhibox	143	-	143	0.1	2
	Pharminox	266	-	266	0.3	10
	Zyentia	8	-	8	0.08	3

22. IMMEDIATE AND ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The directors regard IP2IPO Group plc as the immediate and ultimate parent company and controlling party. Copies of the ultimate parent company's financial statements may be obtained from the Secretary of IP2IPO Group plc, 59 St Aldates, Oxford, OX1 1ST.