

The IP2IPO Group Limited

**Report and Financial Statements
For the year ended 31 December 2002**



Registered Number: 4204490

DIRECTORS' REPORT

For the year ended 31 December 2002

Report of the Directors

The directors present their report together with the audited financial statements for IP2IPO Group Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2002.

Principal activities and business review

IP2IPO Group Limited acts as a holding company and does not trade. The Company has two subsidiaries, IP2IPO Limited and IP2IPO Management Limited and the business of the Group is the commercialisation of intellectual property via the formation of long term partnerships with universities.

The Group was acquired, as part of the acquisition of the Beeson Gregory Group Limited (formerly Beeson Gregory Group Plc), by The Evolution Group Plc on 11 July 2002.

IP2IPO Limited's partnership with the University of Oxford entered into in December 2000 and which has a 15 year term, entitles the Group 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, the Group, entered into a second partnership with the University of Southampton alongside its existing partnership with the University of Oxford. The partnership with the University of Southampton, which has a term of 25 years and which covers the entire University, commits the Group to (i) invest £5 million in seed capital in University of Southampton spin out companies over a 4 year period in return for equity stakes in those companies and (ii) to provide technology commercialisation advice and expertise to the University. As part of the partnership, the Group 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 order to finance the entry into the University of Southampton partnership, IP2IPO Group Limited raised £3 million at a post-money valuation of £40 million in March 2002.

During 2002, five spin out companies were established in which the Group, through its subsidiaries, holds an equity stake as a result of the above partnerships: Zyentia Limited, Glycoform Limited, ACTIVEem Limited, Capsant Neurotechnologies Limited and Southampton Polypeptides Limited.

In the first quarter of 2003, two further spin out companies from the University of Southampton were established: Nanotecture Limited and HepcGen Limited (in which IP2IPO Management Limited invested, or subject to certain milestones being met, committed to invest £519,000). IP2IPO Limited also acquired a 20% interest in Vastox Limited, a spin out from the University of Oxford.

Results and dividends

During the year the Group made an overall loss after taxation of £1,559,000 (2001: loss for the period £237,000). The directors do not recommend the payment of a dividend (2001: £Nil).

Share capital

The Group issued 1,875,000 new ordinary shares with a par value of 10p at an issue price of £1.60 for cash on 17 April 2002.

DIRECTORS' REPORT (continued)
For the year ended 31 December 2002**Directors**

The directors of the Company, who served during the year, together with their dates of appointment and resignation are as shown below:

	Date of appointment	Date of resignation
Tony Bartlett		17 July 2002
Andrew Beeson	-	30 January 2003
Christopher Brooke	-	-
Charles Byford		26 August 2002
John Davies	-	-
Harry Fitzgibbons	-	-
Steven Lee	26 September 2002	-
David Norwood	-	-
William Richards	-	-
Bruce Smith	11 September 2002	-
Alex Snow	11 July 2002	-
Chris Wright	-	13 November 2002

The directors have no interests in the share capital of the Company.

The following directors have interests in the share capital and shares under option of the ultimate holding company, the Evolution Group Plc, and are also directors of The Evolution Group Plc: Andrew Beeson, David Norwood and Alex Snow. Their interests are disclosed in the financial statements of The Evolution Group Plc in accordance with the Companies Act 1985.

The other directors in office at the year end had no interests in the ordinary share capital of the ultimate parent company, The Evolution Group Plc.

No director in office at the year end had any shares under option of IP2IPO Group Limited, except those disclosed below:

Directors' shares under option of IP2IPO Group Limited

Date of grant	Note	At 1 January 2002	Granted during the year	Exercised during the year	Earliest exercise date ⁽ⁱ⁾	Expiry Date	Exercise price (p)	Market price at exercise date (p)	Cancelled during the year	At 31 December 2002
John Davies		-	212,800	-	2.08.02	14.01.12	141	-	-	212,800
Steven Lee		-	212,800	-	2.08.02	14.01.12	141	-	-	212,800

(i) The right to exercise the options ordinarily vests in respect of one third of the award in August 2002, 2003 and 2004. The vesting and exercise of the options is subject to the relevant option holder continuing to be an employee or director of a company in the same Group as the Company at the relevant time.

DIRECTORS' REPORT (continued)
For the year ended 31 December 2002

Directors' shares under option of The Evolution Group Plc

Date of grant	Note	At 1 January 2002(i)	Granted during the year	Exercised during the year	Earliest exercise date	Expiry Date	Exercise price (p)	Market price at exercise date (p)	Cancelled during the year	At 31 December 2002
John Davies	(1)	714,886	-	70,800	16.03.00	31.01.04	10.03	48.3	-	644,086
	(1)	30,000	-	30,000	16.03.00	31.01.04	10.03	53	-	-
	(2)	25,903	-	-	19.04.04	18.04.11	-	-	-	25,903

(i) The interests at 1 January 2002 in ordinary shares and shares under option have been restated to reflect the acquisition of the share capital of the Beeson Gregory Group Limited (formerly Beeson Gregory Group Plc) that occurred on 11 July 2002. On this date every one ordinary 5p share in Beeson Gregory Group Limited (formerly Beeson Gregory Group Plc) was exchanged for 1.77 1p shares in The Evolution Group Plc.

No options lapsed during the year to 31 December 2002.

All of the above are nil cost options.

Summary of schemes for Directors' options in the above table

1. These options were granted under the Beeson Gregory Group Index IT Scheme. No performance criteria are attached to the exercise of these options.
2. These options were granted under the Beeson Gregory Group Deferred Bonus Plan. No performance criteria are attached to the exercise of these options.

Company Secretary

	Date of appointment	Date of resignation
David Thomas	-	23 July 2002
Scrip Secretaries Limited	23 July 2002	-

DIRECTORS' REPORT (continued)
For the year ended 31 December 2002

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the independent auditors' report set out on Page 5, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the independent auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and Company as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the financial statements on pages 6 to 20 that:

- the Group and Company have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and
- all the accounting standards which they consider to be applicable have been followed, and
- the financial statements have been prepared on a going concern basis.

The directors have responsibility for ensuring that the Group and Company keep accounting records which disclose with reasonable accuracy the financial position of the Group and Company and which enable them to ensure the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and Company and to prevent and detect fraud and other irregularities.


Auditors

KPMG Audit Plc resigned as auditors of the Company on 14th October 2002 and were replaced by PricewaterhouseCoopers with effect from the same date.

Following the conversion of our auditors, PricewaterhouseCoopers to a limited liability partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 27th February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP as auditors.

PricewaterhouseCoopers LLP have indicated their willingness to continue in office, and pursuant to section 388 (3) (b) of the Companies Act 1985, special notice will be given of a resolution proposing to re-appoint PricewaterhouseCoopers LLP as the Company's auditors at the Annual General Meeting.

BY ORDER OF THE BOARD


for Scrip Secretaries Ltd

Scrip Secretaries Limited
24 April 2003

Independent auditors' report to the members of IP2IPO Group Limited

We have audited the financial statements on pages 6 to 20 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes which have been prepared under the historical cost and the accounting policies set out on pages 10 and 11.

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 and Group 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 and Group'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 and the Group at 31 December 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
United Kingdom
24 April 2003

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR/PERIOD ENDED 31 DECEMBER**

	Note	2002 £'000	2001 £'000
Administrative expenses	2	(845)	(376)
Other operating income	3	650	-
Provision against fixed asset investments	11	(1,537)	-
Operating loss		<u>(1,732)</u>	<u>(376)</u>
Interest receivable and similar income	6	173	50
Loss on ordinary activities before taxation		<u>(1,559)</u>	<u>(326)</u>
Tax on loss on ordinary activities	7	-	89
Loss on ordinary activities after taxation		<u>(1,559)</u>	<u>(237)</u>

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

All income is derived from continuing activities. There is no material difference between the result disclosed in the profit and loss account and the result on an historical cost basis.

The notes on pages 10 to 20 form an integral basis of these financial statements.

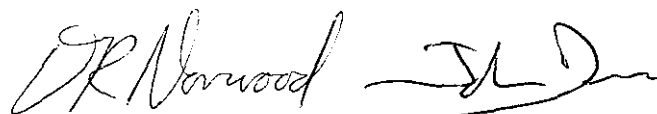
**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER**

	Note	2002 £'000	2001 £'000
Fixed assets			
Tangible fixed assets	9	47	20
Investments	11	<u>20,905</u>	<u>21,903</u>
		20,952	21,924
Current assets			
Debtors and prepayments	12	47	107
Cash at bank and in hand		<u>4,388</u>	<u>2,599</u>
		4,435	2,706
Creditors: Amounts falling due within one year	13	(73)	(659)
Net current assets		<u>4,362</u>	<u>2,047</u>
Creditors: Amounts falling due after more than one year	14	-	(1)
Net assets		<u>25,314</u>	<u>23,969</u>
Capital and reserves			
Called up ordinary share capital	15	2,528	2,341
Share premium account	16	24,582	21,865
Profit and loss account	16	(1,796)	(237)
Total equity shareholders' funds	17	<u>25,314</u>	<u>23,969</u>

A statement of movement in equity shareholders' funds is given in note 17

The notes on pages 10 to 20 form an integral part of these financial statements.

The financial statements on pages 6 to 20 were approved by the Board of Directors on 24 April 2003



David Norwood
Director

John Davies
Director

IP2IPO Group Limited

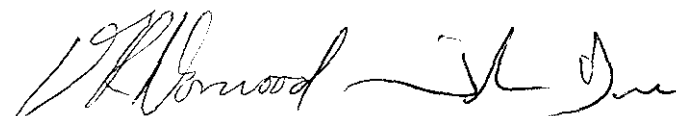
COMPANY BALANCE SHEET AS AT 31 DECEMBER

	Note	2002 £'000	2001 £'000
Fixed assets			
Investment in subsidiary undertakings	10	-	-
Current assets			
Debtors and prepayments	12	27,110	23,969
Net assets		<u>27,110</u>	<u>23,969</u>
Capital and reserves			
Called up ordinary share capital	15	2,528	2,341
Share premium account	16	24,582	21,865
Profit and loss account	16	-	(237)
Total equity shareholders' funds	17	<u>27,110</u>	<u>23,969</u>

A statement of movement in equity shareholders' funds is given in note 17.

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David Norwood
Director

John Davies
Director

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR/PERIOD ENDED 31 DECEMBER**

	Note	2002 £'000	2002 £'000	2001 £'000	2001 £'000
Net cash outflow from operating activities	18		(770)		(365)
Returns on investments and servicing of finance					
Interest received			173		50
Taxation			89		-
Capital expenditure & financial investment					
Purchase of tangible fixed assets		(50)		(23)	
Purchase of fixed asset investments		(557)		(21,919)	
Net cash outflow from capital expenditure and financial investments			(607)		(21,942)
Net cash outflow before financing			(1,115)		(22,257)
Financing					
Issue of ordinary shares		3,000		24,271	
Costs of shares issued		(96)		(65)	
Loan from group undertaking		-		650	
Net cash inflow from financing			2,904		24,856
Increase in cash in the year/period	19		1,789		2,599

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention, the accounting policies set out below and in accordance with the applicable accounting standards of the UK Accounting Standards Board and the pronouncements of its Urgent Issues Task Force (UITF).

Basis of consolidation

The Group's consolidated financial statements comprise the financial statements of the Company and its subsidiary undertakings made up to 31 December. An undertaking is regarded as a subsidiary undertaking if the Group has control over its operating and financial policies.

Comparatives

The comparative figures are for the financial period 24 April 2001 to 31 December 2001.

Depreciation

Tangible fixed assets are stated at historical cost less provision for any impairment in their values and are written down to their estimated residual values over their expected useful economic lives as follows:

Fixtures and fittings	Over 3 to 5 years
Computers, software and similar equipment	Over 3 to 5 years

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at historical cost less provision for any impairment in their value.

Fixed asset investments

The directors consider that in general the Group's fixed asset investments do not come within the Companies Act 1985 definition of associated undertakings, since the Group does not exercise significant influence over the operating and financial policies of the investees. The Companies Act 1985 requires investments where there is significant influence to be treated as associated undertakings and to be accounted for using the equity method of accounting.

The directors consider that as these investments are held as part of the Group's portfolio with a view to the ultimate realisation of capital gains, equity accounting would not give a true and fair view of the Group's interest in these investments. The treatment adopted is in accordance with the accounting for venture capital and investment trusts as laid out in Financial Reporting Standard ("FRS") 9 – Associates and Joint Ventures.

Fixed asset investments are stated at historical cost less provision for impairment in value, and are held for long-term investment purposes.

The effect of this departure on the financial statements is disclosed in note 11.

Basis for fixed asset investment provisions

Provisions for fixed asset investments have been calculated in accordance with British Venture Capital Association Guidelines ("BVCA"). Early stage investments are valued at cost less any provision considered necessary due to performance significantly below the expectation on which the investment was based. These provisions are made as a percentage of cost in 25% bands. Later stage investments continue to be valued at cost less provision until a third party valuation or earnings multiple basis becomes more applicable.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2002

Pension commitments

The Group makes defined contributions to employees' approved personal pension plans, and the costs of these are expensed when they are incurred.

Operating leases

Rentals applicable to 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

During the year the Group adopted Financial Reporting Standard 19 'Deferred Tax' (FRS 19). This standard addresses the recognition, on a full provision basis, of deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computations.

Deferred tax, provided at anticipated tax rates and on a non-discounted basis, is recognised in respect of all timing differences, arising from transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, which have occurred at the balance sheet date. Assets are recognised on this basis only to the extent that it is regarded as more likely than not that they will crystallise in the future.

Change in accounting policy

A change in accounting policy has arisen from the adoption in 2002 of FRS 19 'Deferred tax'. As explained in the accounting policy note above, deferred tax is now provided on a full provision basis in respect of timing differences that have originated but not reversed at the balance sheet date.

The change in accounting policy has not resulted in a prior year adjustment as no change in the opening deferred tax balance is required to be recognised under FRS19.

2. ADMINISTRATIVE EXPENSES

	2002 £'000	2001 £'000
Administrative expenses – staff costs		
Wages and salaries	449	166
Social security costs	51	18
Other pension costs	64	64
Total administrative expenses - staff costs	<u>564</u>	<u>248</u>
Administrative expenses – other		
Depreciation	23	3
Amortisation of acquisition costs	18	16
Statutory audit fees	8	5
Operating lease charges - leasehold properties	11	-
Other administrative expenses	221	104
Total administrative expenses – other	<u>281</u>	<u>128</u>
Administrative expenses -total	<u>845</u>	<u>376</u>

The statutory audit fees paid to the main auditors comprised £8,000 (2001: £5,000) in respect of the Group's audit. The audit fee in relation to the Company of £2,000 was borne by its subsidiary undertaking. Fees relating to the prior year were paid to the Group's previous auditors, KPMG Audit plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2002**3. OTHER OPERATING INCOME**

	2002 £'000	2001 £'000
Waiver of intercompany debt	<u>650</u>	<u>-</u>

The waiver relates to the waiver of intercompany indebtedness 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.

4. EMPLOYEES

During the year the Group had 6 employees (2001: 5). The Company had no employees (2001: nil).

Total staff costs for the year are highlighted below:

	2002 £'000	2001 £'000
Staff costs:		
Wages and salaries	449	166
Social security costs	51	18
Other pension costs	64	64
Total staff costs	<u>564</u>	<u>248</u>

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 £102,000 (2001: £42,000). The contribution to the money purchase scheme was £12,500 (2001: £6,000). During the year four directors were members of the money purchase scheme.

	2002 £'000	2001 £'000
Remuneration in respect of Directors:		
Aggregate emoluments	269	86
Contribution to money purchase pension schemes	33	13
Gains on exercise of share options	40	-
	<u>342</u>	<u>99</u>

The amount paid to Non Executive Directors was £21,527 (2001: £1,250).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2002

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2002 £'000	2001 £'000
Bank interest receivable	173	50
	<hr/>	<hr/>

7. TAXATION

	2002 £'000	2001 £'000
Current tax:		
Group relief receivable	-	(90)
Deferred tax:		
Current year movement	-	1
Tax on loss on ordinary activities	<hr/> -	<hr/> (89)

During the year the Group changed its accounting policy in respect of group relief. In accordance with the Group's accounting policy, no payment is to be received in relation to group relief surrendered.

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

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

	2002 £'000	2001 £'000
Loss on ordinary activities before tax	(1,559)	(326)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001: 30%)	(468)	(98)
Effects of:		
Costs not deductible for tax purposes	461	9
Non taxable income	(195)	-
Capital allowances for period in excess of depreciation	2	(1)
Group relief surrendered (not paid)	200	-
Current tax charge for the year/period	<hr/> -	<hr/> (90)

There is a potential deferred tax asset at 31 December 2002 of £462,000, relating to accelerated capital allowances and provisions against investments. This asset has not been recognised in the accounts due to current uncertainties as to how the group will utilise 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 2002**8. PROFIT/ (LOSS) FOR THE FINANCIAL YEAR**

As permitted by section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in these financial statements. The Company's profit for the financial year was £237,000 (2001: loss £237,000).

9. TANGIBLE FIXED ASSETS**(i) The Group:**

	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost			
At 1 January 2002	28	-	28
Additions	30	20	50
At 31 December 2002	<u>58</u>	<u>20</u>	<u>78</u>
Depreciation			
At 1 January 2002	(8)	-	(8)
Charge for the year	(19)	(4)	(23)
At 31 December 2002	<u>(27)</u>	<u>(4)</u>	<u>(31)</u>
Net book values			
At 31 December 2002	<u>31</u>	<u>16</u>	<u>47</u>
At 1 January 2002	<u>20</u>	<u>-</u>	<u>20</u>

(ii) The Company:

The Company does not own any fixed assets.

10. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS**The Company:**

The Company owned at the year end 100% of the ordinary share capital, being 100 ordinary shares of £1 each subscribed at par, of IP2IPO Limited. At the year end IP2IPO Limited owned 100% of the ordinary share capital of IP2IPO Management Limited. Both companies are registered in England and Wales.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2002

11. FIXED ASSET INVESTMENTS

(i) The Group:

	Oxford University Chemistry Investment	Oxford University Chemistry spin outs	Southampton University Spin outs	Other university spin outs	Acquisition costs	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 January 2002	19,036	854	-	1,775	254	21,919
Investment in spin out companies	(1,230)	1,237	520	-	-	527
Additions	-	-	-	-	30	30
At 31 December 2002	17,806	2,091	520	1,775	284	22,476
Amortisation of costs						
At 1 January 2002	-	-	-	-	(16)	(16)
Charge during the year	-	-	-	-	(18)	(18)
At 31 December 2002	-	-	-	-	(34)	(34)
Provisions						
At 1 January 2002	-	-	-	-	-	-
Provided in the year	-	-	-	(1,537)	-	(1,537)
At 31 December 2002	-	-	-	(1,537)	-	(1,537)
Net book values						
At 31 December 2002	17,806	2,091	520	238	250	20,905
At 1 January 2002	19,036	854	-	1,775	238	21,903

All fixed asset investments are unlisted.

The Group 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 was signed in December 2000 and the loan outstanding at the year end of £17.8 million is only repayable out of the proceeds of the sales of shares in spin out companies to IP2IPO Limited. The acquisition costs comprise payments to the University and related costs to secure these rights, and are amortised over the life of the agreement.

Through its partnership with University of Southampton, the Group owns a 20% interest in the capital of Southampton Asset Management Limited (the remaining shares in which are owned by the University of Southampton). The purpose of Southampton Asset Management Limited is to hold the University of Southampton's equity interests in spin out companies. The Group's interest in Southampton Asset Management Limited results in the Group receiving a directly owned stake in spin out companies equivalent to 20% of the stake to which Southampton Asset Management Limited is entitled. The Group has no participating influence in Southampton Asset Management Limited. Related costs to secure the university partnership are also included within acquisition costs and are amortised over the life of the investment period, that being 25 years.

Other university spin outs relate to those investments not included within the original partnerships between the Universities of Oxford and Southampton and were investments originally made by Beeson Gregory Technology Investments Limited and subsequently transferred to IP2IPO Limited in July 2001.

(ii) The Company:

The Company has no fixed asset investments.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2002

11. FIXED ASSET INVESTMENTS (continued)

(iii) Significant fixed asset investments

The Group has investments greater than 20% of the issued share capital in the following companies:

Company	Country of incorporation	Type of Share Held	% of issue held	Net Assets £'000 (1)	Loss before tax £'000 (1)
Novarc Limited	UK	Ordinary shares	31.30	£293	£(461)
Pharminox Limited	UK	Ordinary shares	21.90	£573	£(178)
Capsant Technologies Limited	UK	Ordinary shares	28.00	£308	£43
Southampton Polypeptides Limited	UK	Ordinary shares	36.29	£153	£0

(1) Unaudited management information for 12 months to 31 December 2002.

The effect of the departure from the Companies Act 1985 as described in note 1 to the financial statements is to reduce the loss before taxation by £ 1,117,000 (2001: £107,000) and increase net assets by £696,000 (2001: £521,000).

12. DEBTORS

	2002 £'000	2001 £'000
(i) The Group:		
Prepayments and accrued income	12	17
Taxation recoverable	-	90
Other debtors	35	-
	<u>47</u>	<u>107</u>
(ii) The Company:		
Amount due from subsidiary undertakings	27,110	24,207
Provision	-	(238)
	<u>27,110</u>	<u>23,969</u>

The amount due from subsidiary undertakings has no fixed repayment date.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2002

13. CREDITORS: Amounts falling due within one year

	2002 £'000	2001 £'000
The Group:		
Amount due to group undertaking	56	650
Accruals and deferred income	17	9
	<u>73</u>	<u>659</u>

The Company:

The Company has no creditors at 31 December 2002 or 2001.

14. CREDITORS: Amounts falling due after more than one year

Deferred Taxation	2002 £'000	2001 £'000
The Group:		
1 January / 24 April	(1)	-
Transfer to the profit and loss account	1	(1)
31 December	<u>-</u>	<u>(1)</u>
 The deferred taxation balance comprises		
Provisions and other timing differences	-	(1)
	<u>-</u>	<u>(1)</u>

The Company:

The Company has no creditors falling due after more than one year at 31 December 2002 or 2001.

15. CALLED UP SHARE CAPITAL

The Company:	2002 £'000	2001 £'000
Authorised:		
30 million ordinary shares of 10p each	<u>3,000</u>	<u>3,000</u>
Allotted, called up and fully paid:		
25,282,660 ordinary shares of 10p each	<u>2,528</u>	<u>2,341</u>

The Company issued 1,875,000 new ordinary shares with a par value of 10p at an issue price of £1.60 for cash on 17 April 2002.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2002

16. RESERVES

	Group		Company	
	Share premium account £'000	Profit and loss account £'000	Share premium account £'000	Profit and loss account £'000
At 1 January 2002	21,865	(237)	21,865	(237)
(Loss)/profit for the financial year	-	(1,559)	-	237
Issue of new ordinary shares (net of issue costs)	2,717	-	2,717	-
At 31 December 2002	24,582	(1,796)	24,582	-

17. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS FUNDS

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Equity shareholders' funds at 1 January 2002/ 24 April 2001	23,969	-	23,969	-
(Loss)/Profit for the financial year/period	(1,559)	(237)	237	(237)
Issue of ordinary share capital	187	2,341	187	2,341
Proceeds of shares issued	2,717	21,865	2,717	21,865
Net increase in equity shareholders' funds	1,345	23,969	3,141	23,969
Equity shareholders' funds at 31 December	25,314	23,969	27,110	23,969

18. RECONCILIATION OF OPERATING LOSS WITH NET CASH FLOW FROM OPERATING ACTIVITIES

	2002 £'000	2001 £'000
Operating loss	(1,732)	(376)
Depreciation of tangible fixed assets	23	3
Amortisation of acquisition costs	18	16
Increase in debtors	(30)	(17)
Increase in creditors	64	9
Provisions against fixed asset investments	1,537	-
Waiver of intercompany debt	(650)	-
Net cash outflow from operating activities	(770)	(365)

IP2IPO Group Limited

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2002

19. ANALYSIS OF CHANGES IN NET FUNDS

	1 January 2002 £'000	Cashflow £'000	31 December 2002 £'000
Cash at bank	2,599	1,789	4,388

20. MAJOR NON CASH TRANSACTIONS

Apart from the investments in Oxford University spin outs and the University of Southampton partnership as detailed in note 11 and the waiver of intercompany debt between the Group and Evolution Beeson Gregory Limited (formerly Beeson Gregory Limited) in note 3 there were no major non cash transactions.

21. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Under the terms of an agreement entered into during the year between two of the Group's subsidiaries, IP2IPO Limited and IP2IPO Management Limited and the University of Southampton and certain of the University of Southampton's subsidiaries, IP2IPO Limited agreed to make £5million available to IP2IPO Management Limited 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 2002 £520,000 had been invested in three spin-out companies formed during the year ended 31 December 2002 and the Group had a contingent liability of £145,000 representing amounts to be invested in university spin outs pending the meeting of certain investment milestones (2001:Nil).

22. LEASE COMMITMENTS

	Land and buildings	
	2002 £'000	2001 £'000
Within one year	-	-
Within two to five years	23	-
After five years	-	-
	<u>23</u>	<u>-</u>

23. POST BALANCE SHEET EVENTS

In the first quarter of 2003 two further spin out companies from the University of Southampton were established in which the Company's subsidiary, IP2IPO Management Limited, invested (or, subject to certain milestones being met, committed to invest) £519,000. IP2IPO Limited, also acquired a 20% interest in Vastox Limited, a spin out from the University of Oxford.

24. RELATED PARTY TRANSACTIONS

During the year/period the following transactions were with the following related companies:

Name of related party	Type of transaction	2002 £'000	2001 £'000
Evolution Beeson Gregory Limited (formerly Beeson Gregory Limited)	Recharge of expenses	785	326
Evolution Beeson Gregory Limited (formerly Beeson Gregory Limited)	Provision of accounting services	60	50
Evolution Beeson Gregory Limited (formerly Beeson Gregory Limited)	Loan	650	650

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2002

24. RELATED PARTY TRANSACTIONS (continued)

During the year the loan of £650,000 between IP2IPO Limited and Evolution Beeson Gregory Limited was waived at 31 December 2002.

During the year the following directors made the investments with the following spin out companies:

Director	Spin-out company	Number of shares held	% of issued share capital	2002 £'000	2001 £'000
John Davies	Pharminox	53	0.06	2	-
	Glycoform	31	0.03	1	-
	ActiveEM	9	0.01	1	-
Steven Lee	Glycoform	31	0.03	1	-
	Zyentia	3	0.03	1	-
	ActiveEM	9	0.01	1	-
David Norwood	Pharminox	265	0.3	10	-
Andrew Beeson	Zyentia	8	0.08	3	-
	Pharminox	266	0.3	10	-
	Inhibox	143	0.1	2	-
Bruce Smith	ActiveEM	279	0.4	30	-
	Capsant Neurotechnologies	4,000	2.7	30	-
Christopher Brooke	Pharminox	265	0.3	10	-
	Zyentia	13	0.13	5	-
	Glycoform	312	0.3	10	-
	Inibox	500	0.6	7	-
	ActiveEM	139	0.2	15	-
	Capsant Neurotechnologies	2,667	1.8	20	-
	Southampton Polypeptides	800	0.9	10	-

25. ULTIMATE HOLDING COMPANY

The ultimate holding company and the parent company of the largest group that presents group accounts is The Evolution Group Plc, a company incorporated in Great Britain and registered in England and Wales. The Evolution Group Plc and IP2IPO Group Limited statutory accounts are available from the Secretary, The Registry, Royal Mint Court, London, EC3N 4LB.