

**THIS DOCUMENT IS IMPORTANT.** If you are in any doubt about the contents of this document, you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

This document, which comprises a prospectus, has been drawn up in accordance with the Public Offers of Securities Regulations 1995 (as amended) ("the POS Regulations") and the rules of the Alternative Investment Market of the London Stock Exchange plc ("AIM"). A copy of this document has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2) of the POS Regulations.

The Directors of IP2IPO Group plc ("the Company"), whose names appear on page 5 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and this document makes no omission likely to affect the import of such information.

**Application has been made for the whole of the issued and to be issued ordinary share capital of the Company immediately following the Placing ("Ordinary Shares"), to be admitted to AIM. It is expected that dealings in the Ordinary Shares will commence on AIM on 15 October 2003.**

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority.

A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

**London Stock Exchange plc has not itself examined or approved the contents of this document.**

The whole of the text of this document should be read. Your attention is particularly drawn to the section entitled "Risk Factors" in Part II of this document.

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## **IP2IPO Group plc**

*(Incorporated in England and Wales with registered number 04204490)*

**Placing by**

**KBC Peel Hunt Ltd**

**of 17,210,000 Ordinary Shares of 10p each at a price of  
275p per Ordinary Share**

**and**

**Admission to the Alternative Investment Market**

**Nominated Adviser and Broker**

**KBC Peel Hunt Ltd**



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COMPANIES HOUSE**

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KBC Peel Hunt Ltd, which is a member of the London Stock Exchange plc and is regulated by the Financial Services Authority, has agreed to act as the nominated adviser and broker to the Company. Persons receiving this document should note that, in connection with the Placing and Admission, KBC Peel Hunt Ltd is acting exclusively for the Company and no-one else and will not be responsible to anyone, other than the Company, for providing the protections afforded to customers of KBC Peel Hunt Ltd or for advising any other person on the transactions and arrangements described in this document.

This document does not constitute an offer to sell or the solicitation of an offer to buy or subscribe for Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful and, in particular, is not for distribution in or into the United States, Canada, Australia, the Republic of Ireland or Japan. The Ordinary Shares have not been and will not be registered under the applicable securities laws of the United States, Canada, Australia, the Republic of Ireland or Japan. The distribution of this document in other jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

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## DEFINITIONS

<b>£5m King's Fund</b>	the £5 million which IP2IPO Limited has committed towards making seed capital investments in King's College London spin-out companies pursuant to the terms of the King's College London Partnership
<b>£5m Southampton Fund</b>	the £5 million which IP2IPO Limited has committed towards making seed capital investments in University of Southampton spin-out companies pursuant to the terms of the University of Southampton Partnership
<b>Act</b>	the Companies Act 1985, as amended
<b>Admission</b>	the admission of the issued Ordinary Shares (including the Placing Shares) to trading on AIM becoming effective in accordance with the AIM Rules
<b>AIM</b>	the Alternative Investment Market of the London Stock Exchange
<b>AIM Rules</b>	the rules issued by the London Stock Exchange governing the admission to trading on, and the operation of, AIM
<b>Articles</b>	the articles of association of the Company
<b>Board or Directors</b>	the board of directors of IP2IPO
<b>CREST</b>	the relevant system (as defined in the CREST Regulations) operated by CRESTCo Limited in accordance with which securities may be held and transferred in uncertificated form
<b>CREST Regulations</b>	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended
<b>Evolution</b>	The Evolution Group plc, a company incorporated in England and Wales with registered number 03359425
<b>Evolution Beeson Gregory</b>	Evolution Beeson Gregory Limited, a company incorporated in England and Wales with registered number 02316630, being a wholly owned subsidiary of Evolution
<b>Group</b>	the Company, IP2IPO Limited, IML and IM2
<b>IP</b>	intellectual property
<b>IPR</b>	intellectual property rights
<b>IP2IPO or the Company</b>	IP2IPO Group plc, a company incorporated in England and Wales with registered number 04204490
<b>IP2IPO Limited</b>	IP2IPO Limited, a company incorporated in England and Wales with registered number 04072979, being a wholly owned subsidiary of the Company
<b>IP2IPO Management Limited or IML</b>	IP2IPO Management Limited, a company incorporated in England and Wales with registered number 04368104, being a wholly owned subsidiary of IP2IPO Limited
<b>IP2IPO Management II Limited or IM2</b>	IP2IPO Management II Limited, a company being incorporated in England and Wales with registered number 04709243, being a wholly owned subsidiary of IP2IPO Limited
<b>KBC Peel Hunt</b>	KBC Peel Hunt Ltd
<b>KCLE</b>	King's College London Enterprises Limited, a company incorporated in England and Wales with registered number 02714181, being a wholly owned subsidiary of King's College London
<b>King's College London or KCL</b>	King's College London, a body corporate incorporated by Royal Charter

<b>King's College London Partnership or KCL Partnership</b>	the arrangements entered into on 14 May 2003 between King's College London (1), KCLE (2), IP2IPO Limited (3) and IM2 (4), further details of which are summarised in paragraph 10.3 of Part IV of this document
<b>London Stock Exchange</b>	London Stock Exchange plc
<b>Option Agreements</b>	the various agreements entered into with certain Directors and employees of the Group whereby those employees can acquire Ordinary Shares, further details of which are set out in paragraph 4 of Part IV of this document
<b>Ordinary Shares</b>	ordinary shares of 10p each in the capital of the Company
<b>Partner</b>	each of the University of Oxford, the University of Southampton, King's College London and the University of York
<b>Partnership</b>	a long-term arrangement made by the Group with a university including, where relevant, the University of Oxford Partnership, the University of Southampton Partnership, the King's College London Partnership and the University of York Partnership
<b>Placing</b>	the conditional placing of the Placing Shares at the Placing Price by KBC Peel Hunt on behalf of and as agent for the Company and the <i>Selling Shareholders</i> , pursuant to the terms and conditions of the Placing Agreement and the Sale Share Agreements
<b>Placing Agreement</b>	the agreement dated 10 October 2003 and between the Company (1), the Directors (2), and KBC Peel Hunt (3) relating to the Placing, details of which are set out in paragraph 10.5(c) of Part IV of this document
<b>Placing Price</b>	275p per Placing Share
<b>Placing Shares</b>	the Sale Shares and the 11,450,000 new Ordinary Shares which are the subject of the Placing
<b>Sale Shares</b>	5,760,000 existing Ordinary Shares to be sold by the <i>Selling Shareholders</i> at the Placing Price pursuant to the Sale Share Agreements
<b>Sale Share Agreements</b>	the agreements dated 10 October 2003 and made between each of the beneficial owners of the Sale Shares (1), the Company (2) and KBC Peel Hunt (3) relating to the sale of the Sale Shares pursuant to the Placing, details of which are set out in paragraph 10.5(d) of Part IV of this document
<b>Selling Shareholders</b>	Evolution, Top Technology Ventures IV L.P., Nordea Bank Danmark A/S and Unibank A/S being existing shareholders in the Company and sellers of the Sale Shares pursuant to the Placing
<b>University of Oxford</b>	The Chancellor, Masters and Scholars of the University of Oxford
<b>University of Oxford Partnership</b>	the arrangements entered into on 14 December 2000 (as subsequently varied) between University of Oxford and IP2IPO Limited (and others), further details of which are summarised in paragraph 10.1 of Part IV of this document
<b>University of Southampton Partnership</b>	the arrangements entered into on 20 March 2002 between University of Southampton (1), University of Southampton Holdings Limited (2), IP2IPO Limited (3), IML (4) and Southampton Asset Management Limited (5), further details of which are summarised in paragraph 10.2 of Part IV of this document
<b>University of York Partnership</b>	the conditional arrangements entered into on 19 September 2003 between University of York (1), IP2IPO Limited (2) and Amaethon Limited (3), further details of which are summarised in paragraph 10.4 of Part IV of this document

## DIRECTORS, SECRETARY AND ADVISERS TO THE COMPANY

<b>Directors</b>	<p>Dr Bruce Gordon Smith, CBE (<i>Non-executive Chairman</i>)</p> <p>David Robert Norwood (<i>Chief Executive Officer</i>)</p> <p>John Quantrill Davies (<i>Chief Financial Officer</i>)</p> <p>Dr Steven Koon Ching Lee (<i>Director of Life Sciences</i>)</p> <p>Andrew Nigel Wendover Beeson (<i>Non-executive Director</i>)</p> <p>Christopher Roger Ettrick Brooke (<i>Non-executive Director</i>)</p> <p>Harry Edward Fitzgibbons, CVO (<i>Non-executive Director</i>)</p> <p>Professor William Graham Richards, CBE (<i>Non-executive Director</i>)</p> <p>Alexander Charles Wallace Snow (<i>Non-executive Director</i>)</p> <p>all of whose business address is at 59 St Aldates, Oxford, OX1 1ST</p>
<b>Company Secretary</b>	Nigel Raymond Gordon
<b>Registered Office</b>	<p>9th Floor</p> <p>100 Wood Street</p> <p>London EC2V 7AN</p>
<b>Nominated Adviser and Broker</b>	<p>KBC Peel Hunt Ltd</p> <p>111 Old Broad Street</p> <p>London EC2N 1PH</p>
<b>Auditor and Reporting Accountants to the Company</b>	<p>PricewaterhouseCoopers LLP</p> <p>1 Embankment Place</p> <p>London WC2N 6RH</p>
<b>Solicitors to the Company</b>	<p>Masons</p> <p>30 Aylesbury Street</p> <p>London EC1R 0ER</p>
<b>Solicitors to the Placing</b>	<p>Nabarro Nathanson</p> <p>Lacon House</p> <p>84 Theobald's Road</p> <p>London WC1X 8RW</p>
<b>Principal Bankers</b>	<p>Barclays Bank Plc</p> <p>54 Lombard Street</p> <p>London EC3P 3AH</p>
<b>Registrars</b>	<p>Capita IRG Plc</p> <p>The Registry</p> <p>34 Beckenham Road</p> <p>Beckenham</p> <p>Kent BR3 4TU</p>

## **PLACING STATISTICS**

Placing Price	275 pence
Number of new Ordinary Shares to be placed on behalf of the Company	11,450,000
Number of existing Ordinary Shares to be placed on behalf of the Selling Shareholders	5,760,000
Market capitalisation at the Placing Price on Admission	£111.76 million
Number of Ordinary Shares in issue on Admission	40,638,910
Percentage of enlarged issued share capital subject to the Placing	42.35%
Gross proceeds of the Placing available to the Company	£31.49 million
Net proceeds of the Placing available to the Company	£30.00 million

## **EXPECTED TIMETABLE**

Admission and dealings in the Ordinary Shares to commence on AIM	15 October 2003
CREST accounts credited by	15 October 2003
Despatch of definitive share certificates (where applicable) by	29 October 2003

## KEY INFORMATION

The following summary should be read in conjunction with the full text of this document from which it is derived.

- The Group's business is to create value for its shareholders through the commercialisation of university IP.
- The Group has entered into long-term arrangements with four UK universities:
  - the University of Oxford's chemistry department (until 2015);
  - the University of Southampton (until 2027);
  - King's College London (until 2028); and
  - a specialist research centre within the University of York (until 2028), conditional upon Admission.
- The Directors believe that the Group will generate its most significant revenues from the realisation of equity shareholdings in spin-out companies and from income received from licences.
- The Group has interests in a number of spin-out companies formed pursuant to the Partnerships and has identified a number of promising commercialisation opportunities from the research carried out by the Group's Partners.
- The Company wishes to raise £30.0 million (after expenses) to:
  - enable it to further develop its existing Partnerships;
  - fund certain IP licensing opportunities; and
  - fund the future working capital requirements of the Group.

# **PART I**

## **INFORMATION ABOUT THE GROUP**

### **Introduction**

The major UK universities have a reputation for world class research. The UK has around 1 per cent. of the world's population but produces 8 per cent. of the world's science papers. UK scientists receive, on average, about 10 per cent. of internationally recognised science prizes and have won over 90 Nobel prizes, the second highest number of any country. The UK university sector as a whole received £14.5 billion of funding in 2001/02, £3 billion of which was dedicated research funding.

Although IP developed by the UK's leading universities has led to the creation of companies worth, in aggregate, many billions of pounds, it is only relatively recently that UK universities themselves have begun to assert ownership over and to protect or otherwise commercialise their IP assets. Today, university IP ownership is widespread and the commercialisation of these IP assets has become important for universities, government policy and academic inventors.

The Directors believe that the environment described above has created an opportunity for a substantial and profitable business directed at partnering with universities to provide them with investment and technology transfer expertise in return for receiving equity interests in university spin-out companies and revenue from licence income derived from the development of university generated IP.

### **IP2IPO Business Model**

The Group's business is to create value for its shareholders through the commercialisation of university IP. The principal components of the Group's business model are:

- the entry into long-term arrangements with universities under which the Group receives a significant interest in spin-out companies and/or income derived from the licensing of IP;
- working with universities to develop and improve the processes by which they seek to commercialise their IP; and
- working with spin-out companies, in which the Group has an interest, in order to improve their prospects of success.

The Directors believe that the Group's business model has a number of important advantages. First, the Partnerships which the Group has entered into are long-term, varying in term from 15 to 25 years. A second key advantage is that the Group's business model is sufficiently flexible to permit the Group to create value in two different ways: the formation of spin-out companies and the licensing of IP. Thirdly, the Group's business model enables it to benefit from the considerable investment in university infrastructure as well as *the resources which universities devote to the creation, management and protection of IP. This means that the Group is able to focus on creating value from IP without bearing the full costs of creating and protecting this IP itself, which are borne primarily by the university or its spin-out companies.*

### **Background to IP2IPO**

In December 2000, Evolution Beeson Gregory (then known as Beeson Gregory Limited) entered into the University of Oxford Partnership, the first of its kind, and formed a separate company to manage this venture. Under the terms of this Partnership, Beeson Gregory Limited made a payment of £20 million to the University of Oxford to secure the rights more fully described below.

In August 2001, Beeson Gregory Group plc (subsequently acquired by Evolution in July 2002) made the decision to transfer this company to a separate subsidiary company, IP2IPO. On Admission, Evolution will hold 40.6 per cent. of IP2IPO's enlarged issued share capital.



In March 2002, IP2IPO Limited entered into the University of Southampton Partnership and IP2IPO raised £3 million to enable it to develop the relationship with the University of Southampton and for IP2IPO to meet its obligations under the University of Southampton Partnership.

In May 2003, IP2IPO Limited entered into the King's College London Partnership and IP2IPO raised £6.25 million to enable it to develop the relationship with King's College London and for IP2IPO to meet its obligations under the King's College London Partnership.

In September 2003, IP2IPO Limited entered into the University of York Partnership, conditional upon Admission.

### **University of Oxford Partnership**

The University of Oxford's chemistry department is the largest in the western world. Historically, staff at the department have been awarded 10 Nobel prizes in the last 80 years and today the department has a 5\* rating (the top rating possible under the UK's 5 yearly research assessment exercise, last carried out in 2001). It currently supports approximately 70 separate research groups (some 550 researchers), and the staff complement includes 34 full professors including some of the leading advisers to the pharmaceutical industry (including Professor Sir Jack Baldwin FRS (head of organic chemistry), Professor Graham Richards CBE, Professor Steve Davies and Professor Chris Schofield). Prior to the commencement of the University of Oxford Partnership, the department had established an entrepreneurial record having created IPR based upon which a number of spin-out companies were formed, including Oxford Asymmetry International plc, Oxford Molecular Group plc and Medisense Limited.

Under the terms of the University of Oxford Partnership, IP2IPO Limited is entitled to:

- 50 per cent. of the University of Oxford's share in the equity of spin-out companies based around IP created at the University of Oxford's chemistry department (after allocation of shares in the spin-out company to its academic founders). This entitlement applies to all such spin-out companies formed as from the commencement of the University of Oxford Partnership (December 2000) until November 2015; and
- 50 per cent. of the University of Oxford's share of the income derived from the licensing of IP arising out of the University of Oxford's chemistry department. This entitlement applies to all licensing agreements entered into during the term of the University of Oxford Partnership.

The University of Oxford's chemistry department carries out a wide range of research activities in both life and physical sciences. Within life sciences the organic chemistry division is a leading centre for drug discovery research, synthetic chemistry and drug delivery and its staff are actively involved in the research work of the Oxford Centre for Molecular Science and the Oxford Glycochemistry Institute. Within physical sciences, the inorganic chemistry department carries out research into novel materials including nano-materials, crystal structures for all-optical switches and specialist clays. The research activity of the physical and theoretical chemistry department includes electrochemistry, research into laser based detection systems, opto-electronics and biomedical devices. In addition, the physical and theoretical chemistry department is the home of the Centre for Computational Drug Design.

### **University of Oxford Partnership Spin-out Companies**

To date, IP2IPO Limited has an interest in the following University of Oxford spin-out companies:

#### *Inhibox Limited*

Inhibox Limited ("Inhibox") (formed in December 2001 by Professor Graham Richards, the scientific founder of Oxford Molecular Group plc) is a novel drug discovery company that uses computational methods of identifying potential new drug leads. IP2IPO Limited has a 15.9 per cent. shareholding in Inhibox.

#### *Pharminox Limited*

Pharminox Limited ("Pharminox") (formed in January 2002) is a drug development company established to commercialise novel platinum compounds for use in the treatment of certain forms of cancer. IP2IPO Limited has a 22 per cent. shareholding in Pharminox.

#### *Zyentia Limited*

Zyentia Limited ("Zyentia") (founded by Professor Chris Dobson, FRS, a pre-eminent chemist, in May 2002) is a company established to exploit technology relating to peptide and protein folding – a platform technology aimed at the development and modification of protein drugs. IP2IPO Limited has an 18.3 per cent. shareholding in Zyentia.

#### *Glycoform Limited*

Glycoform Limited ("Glycoform") (formed in November 2002) is an advanced drug delivery company based on a carbohydrate chemistry platform. Glycoform also plans to develop technologies for the manufacture of complex carbohydrates and the glycosylation of proteins. IP2IPO Limited has a 16.5 per cent. shareholding in Glycoform.

#### *VASTox Limited*

VASTox Limited ("VASTox") (formed by Professor Steve Davies, the founder of Oxford Asymmetry International plc, in February 2003) is a company which was established to provide sophisticated discovery and toxicology services to the pharmaceutical and biotechnology industries. IP2IPO Limited has a 20 per cent. shareholding in VASTox.

#### *ReOx Limited*

ReOx Limited ("ReOx") (formed in May 2003) is a company whose business is based on a protein complex which controls the cellular response to oxygen and has multiple therapeutic applications, including anaemia and cardio-vascular treatments. IP2IPO Limited has a 12.2 per cent. shareholding in ReOx.

#### **University of Southampton Partnership**

The University of Southampton is one of the UK's top ten research universities. It has a total income of some £230 million and experienced more than 50 per cent. growth in annual research funding since 1998 to a level of £70 million (2001/2002). The University of Southampton employs some 2,410 researchers across a range of disciplines including the school of oceanography, the prominent opto-electronics research centre (which has been involved in the creation of a number of spin-out companies), the school of medicine which has links to Southampton General Hospital (a large NHS trust) and biological sciences.

The University of Southampton Partnership is structured on the following basis:

- IP2IPO Limited has committed to invest the £5m Southampton Fund in spin-out companies based on IP created at the University of Southampton. The Group's investments in spin-out companies from the £5m Southampton Fund will be directly owned by IML;
- it is envisaged that the £5m Southampton Fund will be invested over a period of 4 years from March 2002 and each investment will be made on the basis of an agreed valuation of £750,000 (prior to the investment of new funds). As at 9 October 2003, £1,958,000 of the £5m Southampton Fund had been invested or committed;
- investment decisions (both as to spin-out companies and the amounts to be invested) are made by an investment committee, which is comprised of nominees from IP2IPO Limited and the University of Southampton. The chairman of the investment committee, who has a restricted veto over its decisions, is the then chief executive officer of IP2IPO Limited (or his nominee);
- IP2IPO Limited is committed to providing expertise and assistance to the University of Southampton in respect of its technology transfer activities;

- IP2IPO Limited has received a 20 per cent. shareholding in Southampton Asset Management Limited. Southampton Asset Management Limited is a company that has been set up to own the University of Southampton's equity interests in spin-out companies (after allocation of shares in the spin-out company to its academic founders) acquired during the term of the University of Southampton Partnership and is 80 per cent. owned by the University of Southampton; and
- the University of Southampton Partnership commenced in March 2002 and has a term of at least 25 years.

Accordingly, the benefits to which the Group is entitled under the University of Southampton Partnership comprise (1) direct equity shareholdings in spin-out companies as a result of investments from the £5m Southampton Fund and (2) an indirect interest in the University of Southampton's spin-out companies by virtue of IP2IPO Limited's 20 per cent. shareholding in Southampton Asset Management Limited. In addition, IP2IPO Limited is entitled to hold its indirect interests in the University of Southampton spin-out companies on its own balance sheet. For the duration of the Partnership, IP2IPO Limited will continue to accrue its indirect interest in University of Southampton spin-out companies whether or not any investment is made from the £5m Southampton Fund.

### **University of Southampton Partnership Spin-out Companies**

To date, the Group has an interest in the following University of Southampton spin-out companies:

#### *ACTIVEem Limited*

ACTIVEem Limited ("ACTIVEem") (formed in June 2002) is a company that uses electromagnetic sounding techniques as a novel means of offshore oil surveying. ACTIVEem was valued at £7.2 million at its most recent (second) funding round in December 2002. The Group has a 14.9 per cent. shareholding in ACTIVEem.

#### *Capsant Neurotechnologies Limited*

Capsant Neurotechnologies Limited ("Capsant Neurotechnologies") (formed in October 2002) is a company established to discover novel targets and drugs for central nervous system disorders such as stroke, trauma, epilepsy, Parkinson's disease and Alzheimer's disease. The Group has a 28 per cent. shareholding in Capsant Neurotechnologies.

#### *Southampton PolyPeptides Limited*

Southampton PolyPeptides Limited ("Southampton PolyPeptides") (formed in December 2002) is a company which has developed novel proprietary peptide synthesis technologies. The Group has a 36.3 per cent. shareholding in Southampton PolyPeptides.

#### *Nanotecture Limited*

Nanotecture Limited ("Nanotecture") (formed in February 2003) is a nano-scale materials science company focusing initially on the design of new supercapacitors and batteries. The Group will have a 23.5 per cent. shareholding in Nanotecture (assuming certain commercial milestones are achieved).

#### *HepCgen Limited*

HepCgen Limited ("HepCgen") (formed in March 2003) is a company that is based on novel diagnosis technologies for liver disorders and the development of novel treatments for Hepatitis C. The Group has a 37.6 per cent. shareholding in HepCgen.

#### *SynAIRgen Limited*

SynAIRgen Limited ("SynAIRgen") (formed in August 2003) is based on the expertise of Professor Stephen Holgate. Professor Holgate is the Medical Research Council Professor of Immunopharmacology at the school of medicine and his research has focused on asthma and COPD. Professor Holgate sits on the scientific advisory boards of Merck, AstraZeneca and Celltech and heads a 50 person research unit based on

site at Southampton General Hospital. SynAIRgen was established to find new drugs for the treatment of asthma and other lung disorders. The Group has a 45.2 per cent. shareholding in SynAIRgen.

#### *Stratophase Limited*

Stratophase Limited ("Stratophase") is based on IP developed at the opto-electronics research centre by Dr Peter Smith and certain of his colleagues. Stratophase specialises in waveguides and wavelength conversion technologies for optical devices with potential applications in materials processing, telecommunications and data storage. On 26 September 2003, IML committed to invest in Stratophase and the Group will have a 22 per cent. shareholding in Stratophase (assuming certain commercial milestones are achieved).

#### **King's College London Partnership**

King's College London has made a significant (£350 million) capital investment in its infrastructure in recent years. It has a total income of approximately £320 million per annum and is the fifth ranked university in the UK for its research grant income (£90 million in 2001/02). King's College London has some 3,200 post graduate researchers and 24 of its departments were graded 5 or 5\* in the 2001 research assessment exercise. It is in the UK's top five universities for generating earnings from research. King's College London's research is dominated by the life sciences, in which the school of medicine (the largest medical school in the UK, comprising the King's, Guy's and St Thomas's teaching hospitals), the school of biomedical sciences (specialising in ageing, heart disease and neuroscience), the institute of psychiatry and the department of life sciences are prominent.

The King's College London Partnership has been structured on the following basis:

- IP2IPO Limited has committed the £5m King's Fund for seed capital investment in King's College London spin-out companies. Any investments in the spin-out companies from the £5m King's Fund will be directly owned by IM2. As at 9 October 2003, approximately £350,000 of the £5m King's Fund had been earmarked for investment;
- it is envisaged that the £5m King's Fund will be invested over a period of 5 years from May 2003 and each investment will be made on the basis of an agreed valuation of £500,000 (prior to the investment of new funds);
- IP2IPO Limited is committed to making a contribution of £250,000 to King's College London's patenting costs over 5 years;
- IP2IPO Limited is committed to providing expertise and assistance to KCLE in respect of the commercialisation of King's College London's IP;
- IP2IPO Limited is entitled to 20 per cent. of King's College London's equity in spin-out companies based on IP created at King's College London (after allocation of shares in the spin-out company to its academic founders). Subject to certain transitional arrangements, this entitlement applies to all such spin-out companies formed during the term of the King's College London Partnership;
- IP2IPO Limited will also be entitled to 20 per cent. of King's College London's share of income derived from out-licensing. This entitlement applies to all licence income accrued during the term of the King's College London Partnership derived from licenses entered into after May 2003;
- IP2IPO Limited has the option to extend the £5m King's Fund at any time. Ten years after the commencement of the King's College London Partnership, King's College London has the option to review and, if it deems appropriate, terminate the King's College London Partnership (the "KCL Break Right"). However, the KCL Break Right may not be exercised by King's College London in circumstances where IP2IPO extends the £5m King's Fund by a further £5 million at or around the tenth anniversary of the King's College London Partnership; and
- in the absence of King's College London exercising the KCL Break Right, the term of the King's College London Partnership is 25 years.

Accordingly, the benefits to which IP2IPO Limited is entitled under the King's College London Partnership comprise: (1) equity shareholdings in spin-out companies as a result of investments from the £5m King's Fund, (2) equity shareholdings in spin-out companies as a result of IP2IPO Limited's entitlement to 20 per cent. of King's College London's equity in spin-out companies and (3) additional income as a result of IP2IPO Limited's entitlement to 20 per cent. of King's College London's income derived from licensing. These second and third benefits will accrue whether or not any investment is made from the £5m King's Fund.

### **University of York Partnership**

The Company entered into the University of York Partnership, which is conditional upon Admission. The Partnership relates to a new specialist research centre within the University of York, the Centre for Novel Agricultural Products ("CNAP"). CNAP, based in purpose built laboratories within a new £22 million building, is part of the University of York's biology department. CNAP supports a total complement of 60 staff who are focused on commercially led research and who do not have any teaching responsibilities at the university. CNAP's research objectives are based on using plants to develop novel industrial products and its current research activities span biosensors, biocatalysts, novel biomaterials (such as surgical adhesives), the production of speciality chemicals from plants and targets for novel herbicides.

The University of York Partnership is structured on the following basis:

- IP2IPO Limited will provide £1.15 million over 3 years to establish a technology commercialisation company, Amaethon Limited, to commercialise CNAP's IP;
- initially, the University of York will own CNAP's IP but Amaethon Limited will have the right to manage this IP and to call for its transfer to it or its nominee;
- Amaethon Limited will own the University of York's interest in spin-out companies and licences based on CNAP's IP;
- IP2IPO Limited will own one third of the equity share capital of Amaethon Limited, with the balance being owned by the University of York; and
- IP2IPO Limited will commit to invest up to a total of £750,000 over three years in spin-out companies based on CNAP's IP and this amount may be extended at IP2IPO Limited's option.

Once the University of York Partnership becomes unconditional, the benefits to which IP2IPO Limited will be entitled are: (1) equity shareholdings in spin-out companies based on CNAP's IP acquired as a result of IP2IPO Limited's investments and (2) a one third interest in Amaethon Limited (which in turn will hold the University of York's interest in spin-out companies and licences based on CNAP's IP).

### **Other University Partnerships**

The Directors believe that the value of the existing IP in the University of Oxford's chemistry department, the University of Southampton, King's College London and CNAP is substantial and the Group's focus, in the near term, will be to help exploit these IP assets. Notwithstanding this, the Company may take advantage of new Partnership opportunities in the future, on a selective basis.

### **Sources of Revenue**

The Directors believe that the Group will generate revenues from four sources:

1. the realisation of equity shareholdings in spin-out companies by means of sales or initial public offerings;
2. income received from licences in which the Group has an interest;
3. revenues from the provision by the Group of business development services to spin-out companies with the objective of enabling their commercial and corporate development; and

4. commissions received by the Group for assisting spin-out companies to raise finance.

The Directors believe that the Group will generate its most significant revenues from the realisation of equity shareholdings in spin-out companies and from income received from licences. However, the Group's objective is to ensure that anticipated revenues received from providing business development services to spin-out companies and commissions arising out of assisting spin-out companies to raise finance are sufficient to cover the Group's operating costs from the end of 2004 onwards.

#### **Investment process and monitoring of investments**

The Group has established processes for acquiring interests in spin-out companies. Group staff work alongside staff of the Group's Partners to (i) identify IP with commercial potential and, (ii) develop suitable exploitation strategies and business plans for these opportunities (which involves technical and commercial assessments of the opportunity concerned).

In the context of the University of Oxford Partnership, IP2IPO Limited's current policy is to convene an internal 'commitments committee' for the purposes of determining whether a commitment should be made to the formation of a spin-out company.

In the context of the University of Southampton Partnership and the King's College London Partnership, the Group's commitment to invest in a spin-out company opportunity is governed by investment committees constituted under the terms of those Partnerships. In both cases the majority of committee members are representatives of the relevant university Partner with the remaining members being representatives of IP2IPO Limited. In both cases IP2IPO Limited also appoints the committee chairman who has a restricted right to veto decisions of the committee.

The Board reviews developments in the pipeline of spin-out opportunities and, in addition, also monitors all investment proposals which are submitted to the investment committees established under the University of Southampton Partnership and the King's College London Partnership.

The Group also has a number of internal formal reporting procedures for monitoring its investments:

- (1) monthly updates are provided to the Board to report on key issues affecting spin-out companies in which the Group has an interest;
- (2) formal quarterly reviews of the portfolio of spin-out companies take place, including a review of their progress and prospects; and
- (3) end of year review of the balance sheet considers the carrying value of the Group's interest in spin-out companies in which it has an interest.

The Group's policy to date has been to appoint one of its members of staff to the board of each spin-out company.

#### **Current trading and prospects**

##### *Current trading*

Since 30 June 2003, the end of the 6 month period in respect of which the financial statements included in Part III have been prepared, the Group has made a number of additional investments:

- (1) an investment of £564,000 in SynAIRgen Limited (a spin-out company from the University of Southampton Partnership);
- (2) an investment of £50,017 in Novarc Limited;
- (3) a further investment of £145,000 in Southampton PolyPeptides Limited (a spin-out company from the University of Southampton Partnership) on account of that company having met certain investment milestones;

- (4) an investment of £153,000 in Stratophase Limited (a spin-out company from the University of Southampton Partnership); and
- (5) a further investment of £76,000 in Nanotecture Limited (a spin-out company from the University of Southampton Partnership) on account of that company having met certain investment milestones.

In addition, the Group has also been working closely with King's College London and in August 2003 the investment committee that has been established pursuant to that Partnership gave approval in principle to an investment of up to £400,000 in a neuroscience spin-out company opportunity (which, assuming the investment goes forward, will result in the Group owning approximately 45.6 per cent. of that company, depending on the level of co-investment).

#### *Spin-out company opportunities*

In life sciences the Group has identified a number of commercialisation opportunities from the research carried out by the Partners. These opportunities include: medicinal chemistry services, proteomic analysis services, retinoid signalling pathway targets, homing peptides, histone profiling for neurodegenerative disease diagnosis and therapy, rapid gene sequencing and novel approaches to the treatment of Parkinson's disease.

Similarly, the Group has also identified a number of physical science commercialisation opportunities across a range of research disciplines: fuel cells, opto-electronics, speech recognition software, micro-generators, solar cells, catalytic materials, clay materials, robotic inspection, polymer modification, novel autonomous sensors and intelligent agent computing.

The Group has also identified a number of opportunities at CNAP (pursuant to its conditional Partnership with the University of York). These opportunities include biocatalysis, novel targets for herbicides, nutraceuticals, fatty acids, biosensors and development of novel surgical sealants.

#### *IP licensing opportunity*

The Directors believe that the Group has an opportunity in the area of IP licensing. Total licence income for 198 US and Canadian universities and research institutions (including 92 of the top 100 US and Canadian research universities) was \$1.1 billion in 2001, based on 2001 research expenditure of \$32 billion. Columbia University generated \$133 million in 2002 (with total licence income to date of over \$300 million from the Axel co-transformation patent).

In contrast, the UK university sector has under achieved, generating just £16 million in license income in 2001 based on research funding of £3 billion. Although the Directors do not consider that the experiences of the US and Canadian universities are directly applicable to the UK, the Directors believe that the relative under performance of the UK sector is primarily because UK universities lack developed strategies to create value from licensing, and that this represents an opportunity for the Group to invest in developing an IP licensing capability.

Accordingly, the Group wishes to invest in:

- the identification, assessment and protection of its Partners' IP;
- the development or augmentation of this IP for example, the performance of additional proof of concept experiments in connection with a new discovery; and
- the business development activity required for IP licences to be entered into.

#### **Competition**

##### *General competitive pressure*

The Directors recognise a general competitive threat from those universities and research institutions with which the Group has not entered into Partnership. Such universities and research institutions (along with companies and other private sector inventors of IP) may create IP that competes either directly or indirectly

with the IP generated by universities and research institutions with which the Group has entered into Partnership.

#### *Specific sources of competition*

Axiomlab plc obtained the rights to provide IP commercialisation services to the University of Leeds. In return, Axiomlab is committed to provide £1 million in funding for the working capital requirements of a wholly owned subsidiary established to manage IP commercialisation services on behalf of the University of Leeds. It will receive a share of the equity of spin-out companies it assists, as well as a share of licensing agreements it negotiates.

In May 2002, Imperial College London entered into a transaction with Fleming Family and Partners and others ("Fleming") in which Fleming acquired a significant share of the portfolio of shares in spin-out companies owned by Imperial College London at that time. While the structure of this transaction is not directly comparable to the Group's Partnerships, the Directors believe it signals a growing interest within the investment community to form relationships with universities.

A number of quoted and unquoted companies are involved in the commercialisation of IP, including BTG plc, Generics Group AG, Scipher plc, Accentus plc, ANGLE Technology Group and ipValue Management Inc. However, these companies have different business models and cost structures compared to the Group and, so far as the Directors are aware, none of these companies has a business model which is currently based primarily on the foundation of university Partnerships.

#### **Directors**

##### *Dr Bruce Smith CBE, 64, Non-executive Chairman*

Bruce is Chairman of the Council of Smith Institute for Industrial Mathematics and System Engineering. He was the Chairman and majority shareholder of Smith System Engineering Limited until a management buy-out in 1997. Before founding that company in 1971 he worked in design engineering for Decca Radar Limited after a period in the United States with Bellcomm Inc. in the US space programme. Bruce is a fellow of the Royal Academy of Engineering, the Institution of Electrical Engineers and the Institute of Physics. He is Chairman of the Rainbow Seed Fund, Chairman of the Board of Trustees of the National Space Science Centre, a member of the Board of the British Antarctic Survey, a director of Innovision Research and Technology Plc, Vice Chairman of the Council of the University of Southampton, a Governor of Imperial College London and a Domus Fellow of St Catherine's College, University of Oxford. Bruce became a director of IP2IPO in September 2002.

##### *David Norwood, 35, Chief Executive Officer*

In July 1999, David founded IndexIT Partnership Limited, a technology advisory boutique, which, in March 2000, was acquired by Beeson Gregory Group plc for £34 million. David was a director of Beeson Gregory Group plc and was key to the origination of Beeson Gregory's £20 million Partnership with the University of Oxford, having been closely associated with the Oxford academic and technology communities for some years. David became an executive director of Evolution following its merger with Beeson Gregory Group plc in July 2002 and became a non-executive director of Evolution in September 2003.

##### *John Davies ACA, 30, Chief Financial Officer*

John was Finance Director of IndexIT Partnership Limited with responsibility for most of that company's internal operations. After Beeson Gregory Group plc acquired IndexIT Partnership Limited, John's responsibility as an Associate Director of Beeson Gregory Limited was to structure and control private equity placings. John is a qualified chartered accountant, having trained with Robson Rhodes. He holds a BA in law from the University of Oxford and an MA from McGill University, Canada.

##### *Dr Steven Lee, 36, Director of Life Sciences*

Steven joined Beeson Gregory Limited as an Associate Director in April 2001. Prior to this, he held a number of senior commercial and business development roles with major UK biotech companies. Steven has worked



for British Biotech, PA Consulting Group, Chiroscience and Datamonitor PLC. He has also acted as a consultant to multinational pharmaceutical companies on product strategy, working with Zeneca, Glaxo Wellcome, Novartis, J&J and others. His experience covers pharmaceutical research and development programme valuations, due diligence prior to licensing, merger and acquisition activity and provision of expert reports for company IPOs.

*Professor Graham Richards, CBE, 64, Non-executive Director*

Graham is Chairman of Chemistry in the University of Oxford and a leading figure in the field of computer-aided drug design. He was the scientific founder of Oxford Molecular Group plc and is a director of the University of Oxford technology transfer company Isis Innovation Limited. He is the author of over 300 articles and 15 books. He was awarded the Royal Society Mullard Award for his work on the development of the methods of computer-aided molecular design, their application and exploitation and has been named as the recipient of the American Chemical Society's award for computers in chemical and pharmaceutical research. Graham became a director of IP2IPO in December 2001.

*Harry Fitzgibbons, CVO, 66, Non-executive Director*

Harry is the Managing Director of Top Technology Ventures Limited, a London based venture capital company. He began his career with Lehman Brothers in New York before joining Hambros Bank where he was a director from 1972 to 1983 with responsibility for United States corporate finance and for Hambros Bank's portfolio of international unquoted investments. He left Hambros Bank in 1983 in order to set up the London subsidiary of L.F. Rothschild, Unterberg, Towbin, an American investment bank, following which, in 1986, he founded Top Technology Ventures Limited in association with Hambros Bank. Harry was educated at Trinity College, Oxford and is a graduate of Harvard Law School. Harry became a director of IP2IPO in October 2001.

*Andrew Beeson, 59, Non-executive Director*

In 1963 Andrew joined Capel-Cure Linton Clarke, later Capel-Cure Myers, becoming a partner in 1972 and head of institutional sales in 1979. Following the firm's purchase by ANZ Bank he became a director of ANZ Merchant Bank and subsequently of ANZ McLaughan. He resigned in 1989 to found Beeson Gregory as Chief Executive. He became Chairman of Beeson Gregory Group plc in 2001 and of Evolution in July 2002, following its merger with Beeson Gregory Group plc. He retired from this position in January 2003. Andrew became a director of IP2IPO in May 2001.

*Roger Brooke, 72, Non-executive Director*

Roger founded Candover Investments and built it into one of the UK's foremost venture capital businesses. He retired from Candover as Chairman in May 1999. This followed an early career in the UK Diplomatic Service and at the Industrial Re-Organisation Corporation, Pearsons and EMI (as Group Managing Director). His other past and present directorships include The Audit Commission (retired Chairman), Advent 2VCT (Chairman), Innisfree Limited (Chairman) and Beeson Gregory Group plc (Non-executive Director). Roger became a director of IP2IPO in December 2001.

*Alex Snow, 34, Non-executive Director*

In 1994 Alex joined Barclays de Zoete Wedd ("BZW") as a director of UK equities and in 1998 he joined Credit Suisse First Boston ("CSFB") as a result of its acquisition of BZW. Whilst at CSFB he set up a specialised hedge fund product aimed at UK and European hedge funds, principally addressing sales, trading, risk arbitrage, stock lending and prime brokerage. He also ran CSFB's European stock selection team which formed the basis for the firm's trading and proprietary positions. He joined Evolution in 2000 as Managing Director – Capital Markets and became Chief Executive in March 2001. Alex became a director of IP2IPO in July 2002.

### **Key Employees**

The Group employs 9 members of staff (including the executive Directors). Two members of staff focus on life sciences. Dr James Willcocks, who reports to Dr Lee, has a D.Phil (biochemistry) from the University of Oxford. A third person is expected to join this team imminently.

Two members of staff, Dr Chris Wright and Dr Andy Naylor focus on physical sciences. Dr Naylor holds a PhD from Nottingham University (semiconductor design) and has worked at the Rutherford Appleton Laboratories and Booze Allen & Hamilton, strategy consultants. Dr Wright holds a D.Phil in chemistry from the University of Oxford and prior to joining the Group was group operations director of AEA Technology Plc.

### **Reasons for the Placing**

The Company wishes to raise £30.0 million (after expenses) principally to enable it to further develop its existing Partnerships, to fund the Group's future working capital requirements and pursue certain IP licensing opportunities.

Although the Partnerships with the University of Southampton and King's College London and, conditionally, with the University of York, include a seed capital fund, the Group has no such arrangement with the University of Oxford. The Directors believe that a £5 million facility at the University of Oxford would create a source of seed capital for spin-out companies and enable the Group to enhance its interest in spin-out companies from the chemistry department and acquire interests in University of Oxford spin-out companies from other departments.

Although the Partnership with King's College London and the Partnership (conditional) with the University of York, entitle the Group to extend the seed capital funds that it has committed to provide, there is no such provision to extend the £5m Southampton Fund within the terms of the University of Southampton Partnership. Accordingly, the Directors believe that there is an opportunity to achieve greater value from that Partnership by agreeing an extension to that fund with the University of Southampton.

The Directors believe that a sum of £2.5 million is required to finance the University of York Partnership.

Whereas the Group has created value from its Partnerships via the formation of spin-out companies (six University of Oxford spin-out companies since December 2001 and seven University of Southampton spin-out companies since June 2002), the Directors believe that there is an opportunity to create additional value for the Group from licensing IP derived from its Partnerships.

Of the proceeds of the Placing the Directors wish to allocate £5 million to developing the Group's licencing opportunities.

The Group is at an early stage of development and the Directors recognise that its growth may create additional working capital demands. In addition, the Directors wish to provide the Group with sufficient cash reserves to enable the Group to meet these demands and, if appropriate, to take advantage of new Partnership opportunities.

### **Summary Financial Information**

The tables below set out summary financial information for the Group for the period ended 31 December 2001, the year ended 31 December 2002 and the six months to June 2003. This information has been extracted from the audited financial information set out in Part III of this document. As this is only a summary, investors are advised to read the whole of this document and not rely solely on the summarised information.

## Summary Profit and Loss Account

	<i>Period ended 31 December 2001 £'000</i>	<i>Year ended 31 December 2002 £'000</i>	<i>Six months ended 30 June 2003 £'000</i>
<b>Turnover</b>	—	—	39
<b>Operating loss</b>	(376)	(1,732)	(379)
Interest receivable and similar income	50	173	87
<b>Loss on ordinary activities before taxation</b>	(326)	(1,559)	(292)

The Group is currently loss making, with an operating loss before tax for the six months ended 30 June 2003 amounting to £292,000.

The year ended 31 December 2002 showed an operating loss before tax of £1,559,000, significantly higher than the previous period largely due to the provision against three fixed asset investments which were transferred to the Group from Beeson Gregory Technology Investments Limited (then a subsidiary of Beeson Gregory Group plc) in 2001. This provision amounted to £1,537,000, and was partially offset by other income of £650,000 relating to the waiver of an inter-company loan. Administration expenses increased to £845,000 (before provisions) in 2002 from £376,000 in 2001 as the prior period represented only a five month trading period.

## Summary balance sheet

	<i>31 December 2001 £'000</i>	<i>31 December 2002 £'000</i>	<i>30 June 2003 £'000</i>
<b>Investments</b>			
Equity rights	19,274	18,056	17,532
Equity investments	2,629	2,849	3,771
	21,903	20,905	21,303
Cash at bank and in hand	2,599	4,388	9,703
<b>Other assets less liabilities (net)</b>	(533)	21	41
<b>Net assets</b>	23,969	25,314	31,047

The equity rights balance of £17,532,000 relates to the balance of the amounts paid to the University of Oxford under the University of Oxford Partnership including associated acquisition costs as described earlier in this document. This balance is only realised by the receipt of shares in spin-out companies. It is not repayable in cash.

Equity investments relate to the value at cost less provisions for impairment of the equity interests in spin-outs from the Partners. At 30 June 2003, the Group had 14 investments in IP spin-out companies; 6 from the University of Oxford Partnership, 5 from the University of Southampton Partnership and 3 investments transferred from Beeson Gregory Technology Investments Limited in 2001.

Despite operating losses and investments made during the period from 18 September 2000 to 30 June 2003, the Group has a positive cash balance which stands at £9,703,000 at 30 June 2003. The primary reason why the cash balance has grown since 31 December 2001 is due to the private placements which have occurred to raise funds in connection with the University of Southampton Partnership and the King's College London Partnership. In this respect, £2,904,000 (net of issue costs) was raised in April 2002 and £6,025,000 (net of issue costs) was raised in May 2003.

### **Dividend Policy**

The Directors' current intention is to retain the Company's earnings in the foreseeable future to finance growth and expansion. It is, however, the Directors' intention to pay dividends when, in the view of the Directors, the Company has sufficient cash for this purpose.

### **The Placing**

KBC Peel Hunt has conditionally placed as agent for the Company 11,450,000 new Ordinary Shares at the Placing Price, representing 28.2 per cent. of the issued ordinary share capital of the Company on Admission. As agent for the Selling Shareholders, KBC Peel Hunt has also conditionally placed the Sale Shares at the Placing Price, representing 14.2 per cent. of the issued ordinary share capital of the Company on Admission. The Placing is intended to raise approximately £30.0 million for the Company (after expenses).

It is expected that the proceeds of the Placing will be received by the Company on or before 15 October 2003. In the case of placees requesting Placing Shares in uncertificated form, it is expected that the appropriate stock accounts of placees will be credited with the Placing Shares comprising their Placing participation with effect from 15 October 2003. In the case of placees requesting Placing Shares in certificated form, it is expected that certificates in respect of the Placing Shares will be despatched by post, within 14 days of the date of Admission.

Following Admission, the Directors will hold 475,111 Ordinary Shares, representing approximately 1.2 per cent. of the enlarged issued share capital of the Company. Evolution will hold 16,502,170 Ordinary Shares, representing approximately 40.6 per cent. of the enlarged issued share capital of the Company.

Further details of the Placing Agreement are set out in paragraph 10.5(c) of Part IV of this document.

### **Lock-In Arrangements**

Each Director pursuant to the Placing Agreement has undertaken to the Company and KBC Peel Hunt that, save in certain limited circumstances, he will not dispose of Ordinary Shares for a period of twelve months following Admission and for a further period of twelve months thereafter he will not dispose of Ordinary Shares without the prior consent of KBC Peel Hunt. Certain key employees have undertaken to the Company that, save in certain limited circumstances, they will not dispose of Ordinary Shares for a period of twelve months following Admission and for a further period of twelve months thereafter they will not dispose in excess of 50 per cent. of their Ordinary Shares without the prior consent of the Company.

Evolution has undertaken to the Company and KBC Peel Hunt that, save in certain limited circumstances, it will not dispose of any Ordinary Shares for a period of twelve months following Admission and that for a further period of twelve months thereafter Evolution will not dispose of such Ordinary Shares without the prior consent of KBC Peel Hunt.

### **Dealing Arrangements**

Application has been made for the whole of the issued and to be issued Ordinary Shares immediately following the Placing to be admitted to AIM. It is expected that Admission will become effective and that dealings in the Company's issued Ordinary Shares will commence on 15 October 2003. The new Ordinary Shares will rank *pari passu* in all respects with existing Ordinary Shares.

### **CREST**

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. The Directors have applied for the Ordinary Shares in issue following Admission to be admitted to CREST with effect from Admission and CREST has agreed to such admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if the individual shareholders so wish. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

## **Corporate Governance**

The Directors support high standards of corporate governance and confirm that, following Admission, they intend (having regard to the current stage of development of the Group) to comply, so far as practicable, with the Combined Code on Corporate Governance.

The Company has established an audit committee, a remuneration committee and a nominations committee which will continue to operate following Admission, with formally delegated duties and responsibilities.

The audit committee comprises Mr Brooke (chairman), Dr Smith and Mr Beeson. The audit committee is responsible for both ensuring that the financial performance of the Company is properly reported on and monitored and for reviewing the auditor's reports relating to accounts and internal control systems.

The remuneration committee comprises Dr Smith (chairman), Mr Beeson and Mr Fitzgibbons. The remuneration committee is responsible for the review and recommendation of the scale and structure of remuneration for senior management including the award of share options.

The nominations committee, comprising Dr Smith (Chairman), Mr Norwood, Mr Snow and Mr Fitzgibbons, will consider appointments to the board of the Company.

The Company has adopted a share dealing code for Directors and employees in accordance with the AIM Rules and will take proper steps to ensure compliance by the Board and relevant employees.

## **Share incentives**

The Directors believe that the success of the Company depends to a high degree on the future performance of the management team. The Directors also recognise the importance of ensuring that all key employees are incentivised and identify closely with the profitability of the Company.

Accordingly, the Company has entered into Option Agreements with its Directors and certain employees to subscribe for options over 2,338,905 Ordinary Shares (in aggregate) representing 5.8 per cent. of the issued share capital on Admission. The Board has resolved not to grant options over Ordinary Shares of more than 10 per cent. of the Company's issued share capital from time to time.

Further details of the Option Agreements are set out in paragraph 4 of Part IV of this document.

## **PART II**

### **RISK FACTORS**

This Part II contains the principal risk factors that the Directors believe to be associated with an investment in the Company. The risks listed below do not necessarily comprise all the risks associated with an investment in the Company.

#### **Early stage of development and limited operating history**

The Group is at an early stage of development and did not generate any revenues prior to 2003. Since January 2003, the Group has generated very modest revenues from business development activities and fees of this nature are likely to represent a substantially less significant source of revenue for the Group than the realisation of equity shareholdings in spin-out companies. The commencement of the Group's material revenues is difficult to predict and there is no guarantee that the Group will generate any material revenues in the foreseeable future.

The Group has limited operating history upon which its performance and prospects can be evaluated and faces the risks frequently encountered by developing companies. These risks include the potential inability to retain key personnel, as well as uncertainty as to which areas to target for growth and expansion. In addition, there can be no assurance that the Group's proposed operations will be profitable or produce a reasonable return, if any, on investment.

#### **Business model is unproven**

The Group's business model is that of entering into long term Partnerships with universities and in return for long term interests in their IP. This business model is unproven and there is no guarantee that it will ultimately prove successful.

#### **Termination of University Partnerships**

The benefits to which the Group is entitled under its Partnerships are dependent on the continuation of those Partnerships. In a number of instances (principally relating to a failure on the part of the Group to meet certain contractual obligations), the Partnerships can be terminated, which would have a highly material adverse effect on the Group's prospects. Under the terms of the University of Southampton Partnership and the King's College London Partnership if there is a change in "control" (within the meaning of section 840 of the Income and Corporation Taxes Act 1988) of IP2IPO Limited or IML (in the case of the University of Southampton Partnership) or IP2IPO Limited or IM2 (in the case of the King's College London Partnership), then unless the change of control is to Evolution or a member of its group, the University of Southampton and King's College London would have the right to terminate its Partnership. This could make an offer for the Group less attractive for a potential bidder in that the consent of the University of Southampton or King's College London, as the case may be, would be required. The reduction in Evolution's shareholding in the Company to below 50 per cent. pursuant to the Placing does not constitute a change of control in this context.

#### **Research funding**

If, over the long term, the universities with whom the Group has entered into Partnership experience a pronounced reduction in their research funding, it is reasonable to expect that this would have an adverse effect on both the quantity and quality of their research output, which would diminish the value of the Partnerships to the Group.

#### **Changes in legislation and policy**

There may be unforeseen changes in government policy or legislation, or other changes in the terms upon which public monies are made available to universities and research institutions. Such changes could result in universities and research institutions no longer being able, or for it to become commercially unattractive

for them, to own or exploit IP. This would represent a fundamental risk to the viability of the Group's business.

Changes in government policy or legislation or other terms upon which the academics are incentivised could make it commercially unattractive for research academics to carry out their research within the United Kingdom, and potentially make other countries more attractive. This represents a fundamental risk to the viability of the Group's business.

Changes in legislation could include the impact under the Finance Act 2003 that the Inland Revenue could seek to treat the value of the shares received by the academics in spin-out companies as being subject to income tax, and potentially also national insurance contributions for employee and employer, on the grounds that the shares are received by the academics at an under-value "by reason of their employment". While this is not directly a risk for the Group, it could deter academics from subscribing for shares in spin-out companies in the future, which could slow the rate of spin-out companies.

#### **The Group may face competition from organisations with much greater capital**

The Group may face significant competition from organisations which have much greater capital resources than the Group. There is no assurance that the Group will be able to compete successfully in such a marketplace.

#### **Appetite for investment in spin-out companies from the Group's Partnerships and ability to realise equity shareholdings**

It is anticipated that spin-out companies in which the Group has an interest will have, in common with many other early stage technology transfer companies, substantial funding requirements. As such, the success of spin-out companies is subject to wider market conditions. It may be the case that investors' appetite to invest in such companies is insufficient to meet the funding requirements of the spin-out companies concerned. This would have a material adverse effect on the value and financial position of such companies and consequently on the value of the assets and the business of the Group. It may also prove difficult, or take a considerable amount of time, for the Group to be able to realise its equity shareholdings in spin-out companies, which would make it difficult for the Group to generate material revenues.

#### **Investments made by the Group will be early stage**

Investments made by the Group will be investments in spin-out companies or licensing opportunities, based on early stage technologies.

The investments will be subject to risks associated with early stage investments in general, including the ability to secure second round funding to support ongoing research and development activities, the impact of competing technologies entering the market with more resources and the risk that the research and development will fail. In some cases the ability to succeed will be dependent upon regulatory approval for certain trials to proceed.

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

#### **Personnel of the Group and spin-out companies**

Attracting and retaining key personnel is difficult in the marketplace in which the Group operates. The Group has key personnel, particularly David Norwood (Chief Executive Officer) who has valuable experience and contacts in the Group's field. The Group might not be able to attract the new recruits that it needs to grow and it might lose existing key personnel on whom it relies. There is a risk that the creators of IP, often the founders, could leave the spin-out company if, for example, they left a university or fail to be incentivised by the spin-out company.

### **Personnel of the spin-out companies**

The success of the existing and future spin-out companies is dependent upon retaining key academic individuals and the ability to attract and retain senior management of sufficient calibre.

### **Intellectual property**

The Group's objective is to create value from IP in which it has an interest through its long-term university Partnerships. Accordingly, although the Company does not create any IP directly, it is subject to the risks that affect high technology industries generally.

High technology industries are characterised by vigorous protection and pursuit of IPR, resulting in significant and often protracted and expensive litigation. Companies in which the Group has an interest may from time to time be notified of claims that they may be infringing third party patents or other IPR. Litigation could result in a significant expense to a company in which the Group has an interest, adversely affecting sales of the challenged product or technology and diverting the efforts of its technical and management personnel, whether or not the litigation is determined in its favour. In the event of an adverse outcome in any such litigation, the relevant company in which the Group has an interest may be required to pay substantial damages and is likely to have incurred significant legal fees. In addition, it may be required to cease the manufacture, use, sale or importation of infringing products; expend significant resources to develop or acquire non-infringing technology; discontinue the use of some processes; or obtain licenses to use the IP in the infringing technology. Any of these possible outcomes is likely to result in a loss of value to the company concerned and, as a result, also to the Group.

While companies in which the Group holds interests may intend to seek legal protection (for example, patent and trade mark registrations) with respect to certain of their IPR, there can be no assurance that any such protections will be granted or effectively enforced. This may result in a loss of value to the companies concerned and, as a result, also to the Group.

Despite efforts by the Group's spin-out companies to protect their proprietary rights, unauthorised parties may attempt to use aspects of their technology, or to obtain and use information that they regard as proprietary. It is likely to be difficult or impossible for companies in which the Group has an interest to police unauthorised use of IP used by them in their business. The Group does not directly police unauthorised use by third parties of IP in which it has an interest.

In addition, there can be no assurance that competitors of companies in which the Group has an interest will not independently develop similar products or technology, the result of which could be a loss of value to the company concerned and, as a result, also to the Group.

### **Influence of the principal shareholder**

Evolution owns 75.2 per cent. of the current issued share capital of the Company. Evolution is selling 5,460,000 Ordinary Shares pursuant to the Placing and, therefore, immediately after Admission, it will hold 40.6 per cent. of the Company's enlarged issued share capital. In addition a number of the Directors either are employees of a member of the group of companies of which Evolution is a member and/or hold shares in Evolution. For the purposes of the Combined Code on Corporate Governance only four non-executive Directors are regarded as independent. In addition, David Norwood, the Group's Chief Executive Officer, is a director and significant shareholder in Evolution.

Inevitably as a consequence of that shareholding and of those directorships, Evolution will be able to exercise a significant amount of control over the business of the Group. For example, where the consent of 50 per cent. or more of the shareholders of the Company is required in general meeting, it is practically impossible to obtain that majority unless Evolution is in favour. In addition, it would not be possible to pass a shareholders' resolution where 75 per cent. or more of the shareholders voting in favour is required, unless Evolution were in favour of that resolution.



### **Recoverability of the University of Oxford Equity Right**

Included in the balance sheet of the Group under the category of Fixed Asset Investments are equity rights amounting to £17.3 million (before associated acquisition costs). These equity rights relate to the amounts paid to the University of Oxford chemistry department to secure 50 per cent. 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. Under the terms of the University of Oxford Partnership the Group also has the right to 50 per cent. of the royalties due to the University of Oxford under licences of intellectual property generated from the chemistry department, entered into during the same period. The balance of these equity rights of £17.3 million at 30 June 2003 is only realised by the receipt of shares in spin-out companies. It is not repayable in cash. In the event that the value of shares received in spin-out companies is insufficient to utilise the £17.3 million by March 2016, that asset will be written off.

The ultimate recovery of the £17.3 million equity right by March 2016 contains significant risks and depends upon the successful commercialisation of research by the University of Oxford chemistry department and acquisition of equity rights in the related spin-out companies. The key risks that should be considered in relation to the recovery of the equity rights are:

- 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;
- the valuation and volume of successful IP spin-out opportunities arising from the University of Oxford Partnership which will allow the repayment of the equity rights within the remaining time frame of the Partnership;
- 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 and other sectors; and
- the availability and skill of the Group's staff to negotiate with the academics and the University of Oxford to successfully convert the IP opportunities to spin-out companies.

### **International Financial Reporting Standards**

In June 2002, the Council of Ministers of the European Union approved a regulation (the "Regulation") requiring all companies that are governed by the law of a member state of the European Union ("EU") and whose securities are admitted to trading on a regulated market of any member state to prepare their consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The Regulation is to be effective for each financial year starting on or after 1 January 2005 with respect to companies with listed equity securities.

The IFRS issued by the International Accounting Standards Board ("IASB") are not automatically mandatory in Europe, as the Regulation requires that each IFRS be adopted by the European Commission. During July 2003, the European Commission adopted all IFRSs extant at 1 March 2003 with the exception of IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement). The IASB recently issued 'IFRS 1 First-time Adoption of International Financial Reporting Standards', which explains how an entity should make the transition to IFRSs from another basis of accounting. It is expected that there will be significant continuing developments in IFRSs between now and 2005 and consequently there is uncertainty about exactly what IFRSs will require in 2005. In particular, key standards such as IAS 32 and IAS 39 are still being developed, and these are discussed in greater depth below, as well as share based payments.

IAS 32 covers the disclosure requirements for financial instruments and the presentation of debt and equity instruments that in the UK is addressed by Financial Reporting Standard ("FRS") 4. IAS 39 covers the recognition and measurement of financial instruments including derecognition and guidance in hedge accounting - what it is and when it is permitted. There is currently no direct equivalent to IAS 39 in the UK. In June 2002, the IASB exposed revisions to both IAS 32 and IAS 39 making changes to the wording in an

attempt to clarify their application. In the June 2003 IASB meeting, it tentatively agreed to issue IAS 32 as quickly as possible and to issue IAS 39 in two stages.

The Group will adopt any relevant standards issued by the ASB and the IASB as they become applicable to the Group. The adoption of IFRSs may have a material impact on the Group's financial position and reported results, particularly fair valuing the Group's financial instruments and charges for share based payments, although it is not possible to quantify the impact at this time.

## PART III

### FINANCIAL INFORMATION

#### ACCOUNTANTS' REPORT ON IP2IPO FOR THE SIX MONTHS ENDED 30 JUNE 2003, THE YEAR ENDED 31 DECEMBER 2002 AND THE PERIOD ENDED 31 DECEMBER 2001

**PRICEWATERHOUSECOOPERS** 

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10 October 2003

Dear Sirs

#### **IP2IPO Group plc**

##### **Introduction**

We report on the combined financial information for the period from 18 September 2000 to 31 December 2001 and on the consolidated financial information for the year ended 31 December 2002 and the six months ended 20 June 2003 ("the Financial Information") set out below. This Financial Information has been prepared for inclusion in the prospectus dated 10 October 2003 ("the Prospectus") of IP2IPO Group plc ("the Company"). The Company and its subsidiaries are referred to as "the Group".

IP2IPO Group plc was incorporated on 24 April 2001 as a private company limited by shares with the name De Facto 929 Limited. De Facto 929 Limited, changed its name to IP2IPO Limited on 22 May 2001.

IP2IPO Limited was incorporated on 18 September 2000 as a private limited company by shares with the name Gardengold Limited.

In June 2001 IP2IPO Group plc (then named IP2IPO Limited) acquired the entire share capital of IP2IPO Limited (then named Gardengold Limited) from Evolution Beeson Gregory Limited.

On 31 July 2001, IP2IPO Limited changed its name to IP2IPO Group Limited, and Gardengold Limited simultaneously changed its name to IP2IPO Limited.

The Company was re-registered as a public limited company on 29 September 2003 and its name changed to IP2IPO Group plc.

**Basis of preparation**

The Financial Information set out below is based on:

- for the six months ended 30 June 2003, the audited consolidated financial statements of the Company for the six months ended 30 June 2003;
- for the year ended 31 December 2002, the audited consolidated financial statements of the Company for the year ended 31 December 2002; and
- for the period ended 31 December 2001, the audited financial statements of IP2IPO Limited for the period from 18 September 2000 (date of incorporation) to 31 December 2001 and the audited financial statements of the Company for the period from 24 April 2001 (date of incorporation) to 31 December 2001.

**Responsibility**

Such financial statements are the responsibility of the Directors, who approved the issue of the financial statements.

The Directors are responsible for the contents of the Prospectus in which this report is included.

It is our responsibility to compile the Financial Information set out in our report from the financial statements, to form an opinion on the Financial Information and to report our opinion to you.

**Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the Financial Information. The evidence included that previously obtained by us in respect of the year ended 31 December 2002 and the six month period ended 30 June 2003, and by KPMG Audit plc in respect of the periods ended 31 December 2001, relating to the audit of the financial statements underlying the Financial Information. Our work also included an assessment of significant estimates and judgements made by those responsible for the preparation of the Financial Information and whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence and to give reasonable assurance that the Financial Information is free from material misstatement, whether caused by fraud or other irregularity or error.

**Opinion**

In our opinion, the Financial Information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Group as at the date stated and of its loss and cash flows for the periods then ended.

**Consent**

We consent to the inclusion in the Prospectus of this report, and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 of the Public Offers of Securities Regulations 1995.

**CONSOLIDATED PROFIT AND LOSS ACCOUNTS FOR THE SIX MONTHS ENDED  
30 JUNE 2003 AND THE YEAR ENDED 31 DECEMBER 2002, AND  
THE COMBINED PROFIT AND LOSS ACCOUNT  
FOR THE PERIOD ENDED 31 DECEMBER 2001**

	<i>Note</i>	<i>Period ended 31 December 2001 £'000</i>	<i>Year ended 31 December 2002 £'000</i>	<i>Six months ended 30 June 2003 £'000</i>
<b>Turnover</b>	2	–	–	39
Administrative expenses				
Provision against fixed asset investments	11	–	(1,537)	–
Other		(376)	(845)	(418)
Total		(376)	(2,382)	(418)
Other operating income – loan waiver	3	–	650	–
<b>Operating loss</b>		(376)	(1,732)	(379)
Interest receivable and similar income	7	50	173	87
<b>Loss on ordinary activities before taxation</b>	2,4	(326)	(1,559)	(292)
Tax credit on loss on ordinary activities	8	89	–	–
<b>Loss on ordinary activities after taxation</b>	17	(237)	(1,559)	(292)
<b>Basic and diluted loss per ordinary share</b>	9	(1.7p)	(6.3p)	(1.1p)

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

All results arise from continuing activities.

There are no recognised gains and losses other than the losses above and therefore no separate statement of recognised gains and losses has been presented.

**COMBINED BALANCE SHEET AS AT 31 DECEMBER 2001 AND THE  
CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2002 AND 30 JUNE 2003**

	<i>Note</i>	<i>31 December 2001 £'000</i>	<i>31 December 2002 £'000</i>	<i>30 June 2003 £'000</i>
<b>Fixed assets</b>				
Tangible fixed assets	10	20	47	33
Investments				
Equity rights	11	19,274	18,056	17,532
Equity investments	11	2,629	2,849	3,771
		<u>21,903</u>	<u>20,905</u>	<u>21,303</u>
		<u>21,923</u>	<u>20,952</u>	<u>21,336</u>
<b>Current assets</b>				
Debtors	12	107	47	75
Cash at bank and in hand		<u>2,599</u>	<u>4,388</u>	<u>9,703</u>
		<u>2,706</u>	<u>4,435</u>	<u>9,778</u>
<b>Creditors: Amounts falling due within one year</b>	13	<u>(659)</u>	<u>(73)</u>	<u>(67)</u>
<b>Net current assets</b>		<u>2,047</u>	<u>4,362</u>	<u>9,711</u>
<b>Total assets less current liabilities</b>		<u>23,970</u>	<u>25,314</u>	<u>31,047</u>
<b>Provisions for liabilities and charges</b>	14	<u>(1)</u>	<u>–</u>	<u>–</u>
<b>Net assets</b>		<u>23,969</u>	<u>25,314</u>	<u>31,047</u>
<b>Capital and reserves</b>				
Called up share capital	16	2,341	2,528	2,919
Share premium account	17	21,865	24,582	30,216
Profit and loss account (deficit)	17	<u>(237)</u>	<u>(1,796)</u>	<u>(2,088)</u>
<b>Equity shareholders' funds</b>	18	<u>23,969</u>	<u>25,314</u>	<u>31,047</u>

**CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2003  
AND THE YEAR ENDED 31 DECEMBER 2002, AND THE COMBINED CASH FLOW  
STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2001**

		<i>Period ended 31 December 2001 £'000</i>	<i>Year ended 31 December 2002 £'000</i>	<i>Six months ended 30 June 2003 £'000</i>
<b>Net cash outflow from operating activities</b>	<i>Note</i> 19	(365)	(770)	(395)
<b>Returns on investments and servicing of finance</b>				
Interest received		50	173	87
<b>Net cash inflow from returns on investment and servicing of finance</b>		50	173	87
<b>Taxation</b>		-	89	-
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets		(23)	(50)	-
Purchase of fixed asset investments		(650)	(557)	(402)
<b>Net cash outflow from capital expenditure and financial investments</b>		(673)	(607)	(402)
<b>Net cash outflow before financing</b>		(988)	(1,115)	(710)
<b>Financing</b>				
Proceeds from issue of ordinary shares		3,002	3,000	6,250
Share issue costs		(65)	(96)	(225)
New loan from Evolution Beeson Gregory Limited		650	-	-
<b>Net cash inflow from financing</b>		3,587	2,904	6,025
<b>Increase in cash</b>	19	2,599	1,789	5,315

There are a number of transactions which have been treated as non-cash transactions as they were undertaken by Evolution Beeson Gregory Limited. These are detailed in note 20.

## NOTES TO THE FINANCIAL INFORMATION

### 1. ACCOUNTING POLICIES

#### **Basis of preparation**

The financial information set out in this report has been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom. A summary of the more important accounting policies which have been applied consistently is given below.

The Company acquired the entire issued share capital of IP2IPO Limited during June 2001 from Evolution Beeson Gregory Limited. The financial information presented for the period ended 31 December 2001 includes the results and cash flows of IP2IPO Limited for the period from 18 September 2000 (date of incorporation) to 31 December 2001, together with those of the Company from 24 April 2001 (date of incorporation) to 31 December 2001.

#### **Basis of consolidation**

The Group's consolidated financial information comprises the financial information of the Company and its subsidiary undertakings made up to the end of each of the financial periods. Intercompany transactions are eliminated on consolidation and the consolidated accounts reflect external transactions only.

The Directors consider that in general the Group's equity investments do not fall within the Companies Act 1985 definition of associated undertakings, on the basis that 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 equity 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. Accordingly these investments have not been equity accounted for in the Group accounts. This treatment 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.

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

#### **Turnover**

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

#### **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 cost of acquisition. Depreciation is calculated 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 over 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 diminution in value.

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



## NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

The Directors review the carrying value of the University of Oxford chemistry department equity rights at each period end on the basis of 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 the University of Oxford Partnership, the shorter of the Partnership period and the period over which the equity rights are realised.

The lives of the Partnerships with the University of Oxford, University of Southampton, and King's College London are 15 years, 25 years and 25 years respectively.

### Equity investments

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

Provisions for equity investments have been calculated in accordance with British Venture Capital Association Guidelines in force at the balance sheet date. Equity 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 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 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 tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted.

### Financial Instruments

Currently the Group does not enter into derivative financial instruments. Financial assets and financial liabilities are recognised and cease to be recognised on the basis of when the related legal titles pass to or from the Group. Financial assets are stated at the lower of cost to the Group, less provision for amortisation and impairment.

### Related party transactions

In accordance with FRS 8, "Related Party Disclosure", 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).

## NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

### 2. TURNOVER AND LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

The Group's turnover and loss on ordinary activities before taxation are derived entirely from its financial activity within the United Kingdom

### 3. OTHER OPERATING INCOME – LOAN WAIVER

	<i>Period ended 31 December 2001 £'000</i>	<i>Year ended 31 December 2002 £'000</i>	<i>Six months ended 30 June 2003 £'000</i>
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 (see Note 24). 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 Group acquired its investment in Novarc Limited from Evolution Beeson Gregory 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 Group.

### 4. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	<i>Period ended 31 December 2001 £'000</i>	<i>Year ended 31 December 2002 £'000</i>	<i>Six months ended 30 June 2003 £'000</i>
Loss on ordinary activities before taxation is stated after charging:			
Depreciation of tangible owned fixed assets	8	23	14
Amortisation of acquisition costs	16	18	9
Impairment of equity investments	–	1,537	–
Auditors remuneration – audit services	5	8	5
Operating lease charges – leasehold properties	–	11	11

# NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

## 5. DIRECTORS' EMOLUMENTS

	<i>Period ended ended 31 December 2001 £'000</i>	<i>Year ended ended 31 December 2002 £'000</i>	<i>Six months ended 30 June 2003 £'000</i>
Aggregate emoluments	86	269	145
Company pension contributions to money purchase schemes	13	33	11

The Company pension contributions during the period are in respect of two Directors (year ended 31 December 2002: four Directors; period ended 31 December 2001: three Directors).

The total gain on the exercise of share options over shares in Evolution, by Directors during the period was £893,000 (year ended 31 December 2002: £40,000; period ended 31 December 2001: £nil).

The aggregate remuneration paid to Directors for the six months ended 30 June 2003, the year ended 31 December 2002 and the period ended 31 December 2001, was as follows:

### Six months ended 30 June 2003

	<i>Base salary £'000</i>	<i>Bonuses £'000</i>	<i>Fees £'000</i>	<i>Benefits in kind (b) £'000</i>	<i>Pension £'000</i>	<i>Total £'000</i>
<b>Executive directors</b>						
John Davies (a)	34	10	—	1	6	51
Steven Lee	35	10	—	1	5	51
David Norwood	29	—	—	—	—	29
<b>Non executive directors</b>						
Andrew Beeson	—	—	5	—	—	5
Roger Brooke	—	—	5	—	—	5
Harry Fitzgibbons	—	—	5	—	—	5
Graham Richards	—	—	5	—	—	5
Bruce Smith	—	—	5	—	—	5
Alexander Snow	—	—	—	—	—	—
	<u>98</u>	<u>20</u>	<u>25</u>	<u>2</u>	<u>11</u>	<u>156</u>

(a) John Davies was the highest paid director during the six months ended 30 June 2003.

(b) Benefits in kind relate to the provision of private medical insurance.

# NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

## Year ended 31 December 2002

	<i>Base salary £'000</i>	<i>Bonuses £'000</i>	<i>Fees £'000</i>	<i>Benefits in kind (h) £'000</i>	<i>Pension £'000</i>	<i>Total £'000</i>
<b>Executive directors</b>						
John Davies	70	—	—	1	10	81
Steven Lee (e)	18	—	—	—	3	21
David Norwood	61	—	—	—	7	68
Christopher Wright (a,b)	100	—	—	2	13	115
<b>Non executive directors</b>						
Tony Bartlett (c)	—	—	—	—	—	—
Andrew Beeson	—	—	—	—	—	—
Roger Brooke	—	—	—	—	—	—
Charles Byford (d)	—	—	—	—	—	—
Harry Fitzgibbons	—	—	5	—	—	5
Graham Richards	—	—	10	—	—	10
Bruce Smith (f)	—	—	2	—	—	2
Alexander Snow (g)	—	—	—	—	—	—
	<u>249</u>	<u>—</u>	<u>17</u>	<u>3</u>	<u>33</u>	<u>302</u>

- (a) Christopher Wright was the highest paid director during the year ended 31 December 2002.
- (b) Christopher Wright resigned as a director on 13 November 2002. His remuneration represents his salary, benefits and pension contributions to the date of his resignation.
- (c) Tony Bartlett resigned as a director on 17 July 2002. He did not receive any remuneration for his services as a director in the year ended 31 December 2002.
- (d) Charles Byford resigned as a director on 26 August 2002. He did not receive any remuneration for his services as a director in the year ended 31 December 2002.
- (e) Steven Lee was appointed as a director on 26 September 2002. His remuneration represents his salary, benefits and pension contributions from his date of appointment to 31 December 2002.
- (f) Bruce Smith was appointed as a director on 11 September 2002. His remuneration represents his fees from his date of appointment to 31 December 2002.
- (g) Alexander Snow was appointed as a director on 11 July 2002. He did not receive any remuneration for his services as a director in the year ended 31 December 2002.
- (h) Benefits in kind relate to the provision of private medical insurance.

## NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

### Period ended 31 December 2001

	<i>Base salary £'000</i>	<i>Bonuses £'000</i>	<i>Fees £'000</i>	<i>Benefits in kind (g) £'000</i>	<i>Pension £'000</i>	<i>Total £'000</i>
<b>Executive directors</b>						
John Davies (c)	29	—	—	—	5	34
David Norwood (b)	14	—	—	—	2	16
Christopher Wright (b)	42	—	—	—	6	48
<b>Non executive directors</b>						
Tony Bartlett (c)	—	—	—	—	—	—
Andrew Beeson (b)	—	—	—	—	—	—
Roger Brooke (e)	—	—	—	—	—	—
Charles Byford (a)	—	—	—	—	—	—
Harry Fitzgibbons (d)	—	—	1	—	—	1
Graham Richards (f)	—	—	—	—	—	—
	<u>85</u>	<u>—</u>	<u>1</u>	<u>—</u>	<u>13</u>	<u>99</u>

- (a) Christopher Wright was the highest paid director during the period ended 31 December 2001.
- (b) David Norwood, Christopher Wright, Charles Byford and Andrew Beeson were all appointed as directors of the Company on 17 May 2001 and their remuneration represents their salaries, benefits, pension contributions and fees for the period from appointment to the 31 December 2001.
- (c) John Davies and Roger Brooke were appointed as directors of the Company on 16 July 2001 and their remuneration represents their salaries, benefits, pension contributions and fees for the period from appointment to the 31 December 2001.
- (d) Harry Fitzgibbons was appointed as a director of the Company on 25 October 2001 and his remuneration represents his fees from the date of appointment to 31 December 2001.
- (e) Roger Brooke was appointed as a director of the Company on 20 December 2001 and his remuneration represents his fees from the date of appointment to 31 December 2001.
- (f) Graham Richards was appointed as a director of the Company on 21 December 2001 and his remuneration represents his fees from the date of appointment to 31 December 2001.
- (g) Benefits in kind relate to the provision of private medical insurance.

### Participation in long-term incentive schemes

The interests of Directors in options over ordinary shares of 10p each of the Company during the six months ended 30 June 2003, the year ended 31 December 2002 and the period ended 31 December 2001, were as follows:

	<i>At 18 September 2000</i>	<i>At 31 December 2001</i>	<i>Granted during the period</i>	<i>Surren- dered during the period</i>	<i>At 31 December 2002(a)</i>	<i>At 30 June 2003</i>	<i>Expiry Date</i>	<i>Exercise price (p)</i>	<i>Earliest exercise date</i>	<i>Latest exercise date</i>
John Davies	—	—	212,800	—	212,800	212,800	14.01.12	141	2.08.02	14.01.12
Steven Lee	—	—	212,800	—	212,800	212,800	14.01.12	141	2.08.02	14.01.12
Christopher Wright	—	—	851,200	(567,495)	283,705	N/A	14.01.12	141	2.08.02	14.01.12

- (a) Interests in options are stated at the year end, or in the case of Christopher Wright, who resigned during the year ended 31 December 2002, at the date of resignation.
- (i) The right to exercise the options vests in respect of one third of the award in August 2002, 2003, 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 Group at the relevant time. There are no further performance criteria.
- (ii) During August 2002 one third of the outstanding options of both John Davies and Steven Lee vested. As the Company is a private limited company no reliable estimate of the share price at the date of vesting can be made, however the directors consider a best estimate of the share price at the date of

## NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

these options vesting was £1.60, which equates to the consideration paid for the shares issued by the Company during April 2002.

- (iii) Subsequent to the period end during August 2003 a further third of the outstanding options held by John Davies and Steven Lee vested. The directors best estimate of the share price at that time of vesting was £1.60, by reference to the consideration paid for shares issued by the Company in May 2003.
- (iv) The share price at the period end is best estimated by the Directors at £1.60 per ordinary share by reference to the consideration paid for shares issued by the Company in May 2003.

Subsequent to the balance sheet date options over the ordinary shares of 10 pence each of the Company were granted to the following directors:

	<i>Number of options</i>	<i>Date of grant</i>	<i>Exercise price</i>	<i>Earliest exercise date<sup>(1)</sup></i>	<i>Latest exercise date</i>
John Davies	100,000	29.07.03	1.60	29.07.04	28.07.13
Steven Lee	100,000	29.07.03	1.60	29.07.04	28.07.13
David Norwood	250,000	29.07.03	1.60	29.07.04	28.07.13

See Note 23 for further details relating to these Share Options.

### Directors' options over shares of Evolution

The directors of the Company, who served during the period, having options on ordinary shares of the ultimate holding company, Evolution, are shown below:

#### Period ended 31 December 2001

<i>Note</i>	<i>At 18 September 2000</i>	<i>Granted during the period</i>	<i>Exercised during the period</i>	<i>At 31 December 2001</i>	<i>Earliest exercise date</i>	<i>Latest exercise date</i>	<i>Exercise price pence</i>
Alex Snow							
(4)	—	500,000	—	500,000	14.12.00	13.12.05	25.00
(2)	—	1,065,632	—	1,065,632	12.05.04	11.05.11	58.67
(3)	—	2,025,933	—	2,025,933	12.05.03	11.05.11	58.67
(1)	—	1,500,000	—	1,500,000	30.06.04	29.06.11	52.30
Andrew Beeson							
(5)	92,300	—	—	92,300	24.11.02	24.11.09	28.25
(5)	57,700	—	—	57,700	24.11.02	24.11.09	28.25
David Norwood							
(7)	601,120	—	—	601,120	09.08.02	31.01.04	10.03
(6)	—	58,541	—	58,541	19.04.04	18.04.11	Nil
Christopher Wright							
(5)	—	100,000	—	100,000	09.10.03	09.10.10	154.80
John Davies							
(7)	403,891	—	—	403,891	16.03.00	31.01.04	10.03
(7)	16,949	—	—	16,949	16.03.00	31.01.04	10.03
(6)	—	14,634	—	14,634	19.04.04	18.04.11	Nil
Tony Bartlett							
(7)	50,000	—	—	50,000	24.11.02	24.11.09	28.25
Charles Byford							
(7)	150,000	—	—	150,000	24.11.02	24.11.09	28.25
(7)	100,000	—	(100,000)(a)	—	March 2001	March 2008	10.59
(5)	9,220	—	—	9,220	October 2001	October 2008	18.36
(5)	13,840	—	—	13,840	24.11.02	24.11.09	18.36

(a) Market price at exercise date – 193.5p

## NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

### Year ended 31 December 2002

<i>Note</i>	<i>At 1 January 2002</i>	<i>Conversion (a)</i>	<i>Exercised during the year</i>	<i>At 31 December 2002 (e)</i>	<i>Earliest exercise date</i>	<i>Latest exercise date</i>	<i>Exercise price pence</i>
Alex Snow							
(4)	500,000	—	—	500,000	14.12.00	13.12.05	25.00
(2)	1,065,632	—	—	1,065,632	12.05.04	11.05.11	58.67
(3)	2,025,933	—	—	2,025,933	12.05.03	11.05.11	58.67
(1)	1,500,000	—	—	1,500,000	30.06.04	29.06.11	52.30
Andrew Beeson							
(5)	92,300	71,071	—	163,371	24.11.02	24.11.09	28.25
(5)	57,700	44,429	—	102,129	24.11.02	24.11.09	28.25
David Norwood							
(7)	601,120	462,862	—	1,063,982	09.08.02	31.01.04	10.03
(6)	58,541	45,076	—	103,617	19.04.04	18.04.11	Nil
Christopher Wright							
(5)	100,000	77,000	—	177,000	09.10.03	09.10.10	154.80
John Davies							
(7)	403,891	310,995	(70,800)(b)	644,086	16.03.00	31.01.04	10.03
(7)	16,949	13,051	(30,000)(c)	—	16.03.00	31.01.04	10.03
(6)	14,634	11,269	—	25,903	19.04.04	18.04.11	Nil
Tony Bartlett							
(7)	50,000	38,500	—	88,500	24.11.02	24.11.09	28.25
Charles Byford							
(7)	150,000	115,500	—	265,000	24.11.02	24.11.09	28.25
(5)	9,220	—	(9,220)(d)	—	October 2001	October 2008	18.36
(5)	13,840	—	(13,840)(d)	—	24.11.02	24.11.09	18.36

(a) The interests at 1 January 2002 in 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 share in Beeson Gregory Group Limited (formerly Beeson Gregory Group Plc) was exchanged for 1.77 1p shares in Evolution. In addition all these shares became exercisable on this date, and all these shares will now expire on 4 October 2004.

(b) Market price at exercise date – 48.3p.

(c) Market price at exercise date – 53p.

(d) Market price at exercise date – 77.5p.

(e) Interest in options at the year end, or in the case of Christopher Wright, Tony Bartlett and Charles Byford, who resigned during the year, their interest in options at their date of resignation.

### Period ended 30 June 2003

<i>Note</i>	<i>At 1 January 2003</i>	<i>Exercised during the period</i>	<i>At 30 June 2003</i>	<i>Earliest exercise date</i>	<i>Latest exercise date</i>	<i>Exercise price pence</i>
Alex Snow						
(4)	500,000	—	500,000	14.12.00	13.12.05	25.00
(2)	1,065,632	—	1,065,632	12.05.04	11.05.11	58.67
(3)	2,025,933	—	2,025,933	12.05.03	11.05.11	58.67
(1)	1,500,000	—	1,500,000	30.06.04	29.06.11	52.30
Andrew Beeson						
(5)	163,371	—	163,371	24.11.02	24.11.09	28.25
(5)	102,129	—	102,129	24.11.02	24.11.09	28.25
David Norwood						
(7)	1,063,982	(1,063,982)(a)	—	09.08.02	31.01.04	10.03
(6)	103,617	—	103,617	19.04.04	18.04.11	Nil
John Davies						
(7)	644,086	(644,086)(b)	—	16.03.00	31.01.04	10.03
(6)	25,903	—	25,903	19.04.04	18.04.11	Nil

(a) Market price at exercise date – 63.83p.

(b) Market price at exercise date – 59.83p.

## NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

### Summary of schemes for Directors' options in the above tables

1. These options were granted under the 2001 Executive Share Option Scheme. Under the terms of this scheme the performance criteria require that the closing bid of the ultimate holding company, Evolution, share price as derived from the Daily Official List published by The London Stock Exchange Plc must be not less on average than a specified amount for a period of sixty consecutive days before options can be exercised. If the share price is 90p then 25 per cent. of the options may be exercised, 110p a further 25 per cent. may be exercised, 130p then a further 25 per cent. may be exercised and 150p the remaining 25 per cent. may be exercised.
2. These options were granted under the 2000 Executive Share Option Scheme (Unapproved Ordinary). A performance criteria has been set making the exercise of the option conditional on the middle market quotation of the ultimate holding company, Evolution, share price increasing by an average of 50 per cent. above the relevant exercise price over a period of 30 dealing days since the date of the grant.
3. These options were granted under the 2000 Executive Share Option Scheme (Unapproved Super). No performance criteria are attached to the exercise of these options.
4. These options were granted outside of any share scheme and there are no performance criteria attached to the exercise of these options.
5. These options were granted under the Beeson Gregory Group Executive Share Incentive Scheme 1996. No performance criteria are attached to the exercise of these options.
6. These options were granted under the Beeson Gregory Group Deferred Bonus Plan. No performance criteria are attached to the exercise of these options.
7. These options were granted under the Beeson Gregory Group Replacement Options Agreement. No performance criteria are attached to the exercise of these options.

No options lapsed during the period to 30 June 2003.

All of the above are nil cost options.

### 6. EMPLOYEES

During the period the Group had 7 employees all of whom were involved in management and administration activities (year ended 31 December 2002: 6; period ended 31 December 2001: 5).

Total staff costs for the periods were as follows:

	<i>Period ended 31 December</i>	<i>Year ended 31 December</i>	<i>Six months ended 30 June</i>
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Wages and salaries	198	449	243
Social security costs	18	51	33
Pension costs	23	64	23
	<u>239</u>	<u>564</u>	<u>299</u>

### 7. INTEREST RECEIVABLE AND SIMILAR INCOME

	<i>Period ended 31 December</i>	<i>Year ended 31 December</i>	<i>Six months ended 30 June</i>
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Bank interest receivable	<u>50</u>	<u>173</u>	<u>87</u>



## NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

### 8. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES

	<i>Period ended 31 December 2001 £'000</i>	<i>Year ended 31 December 2002 £'000</i>	<i>Six months ended 30 June 2003 £'000</i>
Current tax:			
Group relief receivable	(90)	1	–
Deferred tax:			
Current period movement	<u>1</u>	<u>(1)</u>	<u>–</u>
Tax credit on loss on ordinary activities	<u>(89)</u>	<u>–</u>	<u>–</u>

The tax assessed for the periods is higher than the standard rate of corporation tax in the UK (30 per cent.).

Factors affecting the current tax charge/(credit) for the periods are explained below:

	<i>Period ended 31 December 2001 £'000</i>	<i>Year ended 31 December 2002 £'000</i>	<i>Six months ended 30 June 2003 £'000</i>
Loss on ordinary activities before tax	<u>(326)</u>	<u>(1,559)</u>	<u>(292)</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%; 2001: 30%)	(98)	(468)	(87)
Effects of:			
Costs not deductible for tax purposes	9	461	8
Non taxable income	–	(195)	–
Capital allowances for period in excess of depreciation	(1)	2	2
Group relief surrendered (not paid)	<u>–</u>	<u>201</u>	<u>77</u>
Current tax charge	<u>(90)</u>	<u>1</u>	<u>–</u>

There is a potential deferred tax asset at 30 June 2003 of £464,000 (2002: £462,000; 2001: £nil), relating to accelerated capital allowances and provisions against investments. This asset has not been recognised in this financial information 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 difference could be deducted.

### 9. BASIC AND DILUTED LOSS PER ORDINARY SHARE

The basic loss per share has been calculated by dividing the loss for the six month period ended 30 June 2003 of £292,000 (year ended 31 December 2002: £1,559,000; period ended 31 December 2001: £237,000) by the weighted average number of shares of 26,038,012 in issue during the period ended 30 June 2003 (year ended 31 December 2002: 24,738,139; period ended 31 December 2001: 13,775,797).

The Group had no dilutive potential ordinary shares in the period ended 30 June 2003, the year ended 31 December 2002 and the period ended 31 December 2001 which would serve to increase the loss per ordinary share. There is therefore no difference between the loss per ordinary share and the diluted loss per ordinary share in these periods.

# NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

## 10. TANGIBLE FIXED ASSETS

	<i>Computer equipment £'000</i>	<i>Fixtures and fittings £'000</i>	<i>Total £'000</i>
<b>Cost</b>			
At 18 September 2000	—	—	—
Additions	28	—	28
At 31 December 2001	28	—	28
Additions	30	20	50
At 31 December 2002 and 30 June 2003	58	20	78
<b>Accumulated depreciation</b>			
At 18 September 2000	—	—	—
Charge for the period	(8)	—	(8)
At 31 December 2001	(8)	—	(8)
Charge for the year	(19)	(4)	(23)
At 31 December 2002	(27)	(4)	(31)
Charge for the period	(10)	(4)	(14)
At 30 June 2003	(37)	(8)	(45)
<b>Net book value</b>			
At 31 December 2001	20	—	20
At 31 December 2002	31	16	47
At 30 June 2003	21	12	33

## NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

### 11. FIXED ASSET INVESTMENTS

#### Equity rights

	<i>Oxford University Chemistry Department Equity Rights £'000</i>	<i>Acquisition costs £'000</i>	<i>Total £'000</i>
<b>Cost</b>			
At 18 September 2000	–	–	–
Additions	19,890	254	20,144
Investment in spin out companies	(854)	–	(854)
At 31 December 2001	19,036	254	19,290
Investment in spin out companies	(1,230)	–	(1,230)
Additions	–	30	30
At 31 December 2002	17,806	284	18,090
Investment in spin out companies	(550)	–	(550)
Additions	–	35	35
At 30 June 2003	17,256	319	17,575
<b>Aggregate amortisation of acquisition costs</b>			
At 18 September 2000	–	–	–
Charge for the period	–	(16)	(16)
At 31 December 2001	–	(16)	(16)
Charge for the year	–	(18)	(18)
At 31 December 2002	–	(34)	(34)
Charge for the period	–	(9)	(9)
At 30 June 2003	–	(43)	(43)
<b>Net book value</b>			
At 31 December 2001	19,036	238	19,274
At 31 December 2002	17,806	250	18,056
At 30 June 2003	17,256	276	17,532

#### The University of Oxford Chemistry Department Equity Rights

The Group has the right to 50 per cent. 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 per cent. of the royalties due to the University of Oxford under licences generated by the chemistry department, entered into during the same period.

This agreement was signed in December 2000 and the equity rights remaining at the period 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 the Company 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 asset will be written off.

## NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

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 repayment 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 and other sectors; and
- the availability and skill of the IP2IPO staff to negotiate with the academics and the University of Oxford to successfully convert the IP opportunities to spin-out companies.

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

The Directors have reviewed the carrying value of the equity rights as at each period end. 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 the University of Oxford chemistry department are anticipated to be created in the future, the size of the Group'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.

### Acquisition costs

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 lives of the Partnerships with the University of Oxford chemistry department, the University of Southampton and King's College London are 15 years, 25 years, and 25 years respectively.

## NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

### Equity investments

	<i>University of Oxford spin-outs £'000</i>	<i>University of Southampton spin-outs £'000</i>	<i>Other University spin-outs £'000</i>	<i>Total £'000</i>
<b>Cost</b>				
At 18 September 2000	—	—	—	—
Transfer from Beeson Gregory Limited	—	—	1,125	1,125
Investment in spin-out companies	854	—	—	854
Additions	—	—	650	650
At 31 December 2001	854	—	1,775	2,629
Investment in spin-out companies	1,237	520	—	1,757
At 31 December 2002	2,091	520	1,775	4,386
Investment in spin-out companies	578	344	—	922
At 30 June 2003	2,669	864	1,775	5,308
<b>Provision for impairment</b>				
At 18 September 2000	—	—	—	—
At 31 December 2001	—	—	—	—
Charge for the year	—	—	(1,537)	(1,537)
At 31 December 2002	—	—	(1,537)	(1,537)
Charge for the period	—	—	—	—
At 30 June 2003	—	—	(1,537)	(1,537)
<b>Net book value</b>				
At 31 December 2001	854	—	1,775	2,629
At 31 December 2002	2,091	520	238	2,849
At 30 June 2003	2,669	864	238	3,771

### University of Oxford spin-outs

During the six months to 30 June 2003, there were investments in the University of Oxford spin-out companies with a value of £578,000, being an investment in ReOx Limited valued at £553,000 and an investment in VASTox Limited of £25,000.

During the year ended 31 December 2002, there were investments in the University of Oxford spin-out companies with a value of £1,237,000, being an investment in Zyentia Limited valued at £706,000, and an investment in Glycoform Limited valued at £531,000.

During the period ended 31 December 2001, there were investments in the University of Oxford spin-out companies with a value of £854,000, being an investment in Pharminox Limited valued at £678,000, and an investment in Inhibox Limited valued at £176,000.

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

### University of Southampton spin-outs

Under the terms of the partnership with the University of Southampton, the Group owns a 20 per cent. 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

## NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

Asset Management Limited results in the Group receiving a directly owned stake in spin-out companies equivalent to 20 per cent. of the stake to which Southampton Asset Management Limited is entitled. These equity interests in spin-out companies are acquired by the Group at a price per share equal to par value and as such do not represent material amounts in the financial statements. The Group has no participating influence in Southampton Asset Management Limited.

In addition, the Group has committed to invest up to £5 million directly in spin-out companies from the University of Southampton in return for direct equity interests in these companies. During the six months ended 30 June 2003, the Group made investments in Nanotecture Limited, HepCgen Limited and Stratophase Limited under this agreement with a value of £344,000. During the year ended 31 December 2002, the Group made investments in Southampton University spin-out companies of £520,000 under this agreement, being an investment in ACTIVEem Limited valued at £150,000, an investment in Capsant Neurotechnologies Limited valued at £225,000, and an investment in Southampton PolyPeptides Limited valued at £145,000.

At the period end the Directors have undertaken a review of the carrying values of these investments 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 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. The Directors have undertaken reviews of the carrying values of these investments at each period end in line with the British Venture Capitalist Association guidelines and as a consequence during the year ended 31 December 2002 have partially written down the carrying value of these investments.

### Significant fixed asset investments at 30 June 2003

At 30 June 2003 the Group has investments where it holds greater than 20 per cent. of the issued share capital in the following companies:

<i>Undertaking</i>	<i>Country of incorporation</i>	<i>Type of Share Held</i>	<i>Percentage of issued share capital held</i>	<i>Net Assets £'000</i>	<i>Loss before tax</i>	<i>Date of Financial Statements</i>
Novarc Limited	United Kingdom	Ordinary shares	30.80	754	(527)	31.05.02
Pharminox Limited	United Kingdom	Ordinary shares	22.00	564	(176)	31.03.03
Capsant Neurotechnologies Limited	United Kingdom	Ordinary shares	28.00	351	—	31.12.02
Southampton PolyPeptides Limited	United Kingdom	Ordinary shares	36.30	150	—	31.12.02
VASTox Limited	United Kingdom	Ordinary shares	20.00	—	—	—
Nanotecture Limited	United Kingdom	Ordinary shares	23.50	—	—	—
HepCgen Limited	United Kingdom	Ordinary shares	37.60	—	—	—

VASTox Limited, Nanotecture Limited and HepCgen Limited have not filed annual accounts as at 30 June 2003 and accordingly no financial information is presented with respect to these companies.

## NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

The effect of the departure from the Companies Act 1985 as described in Note 1 to the financial statements, based on those investments where the company holds 20 per cent. or more of the issued share capital, has been to decrease the loss before taxation by £372,495 and increase net assets by £1,115,703.

In addition the Group has the following investments in spin-out companies where it holds less than 20 per cent. of the issued share capital:

<i>Undertaking</i>	<i>Country of incorporation</i>	<i>Type of Share Held</i>	<i>Percentage of issued share capital held</i>
Inhibox Limited	United Kingdom	Ordinary shares	15.90
Zyentia Limited	United Kingdom	Ordinary shares	18.30
Glycoform Limited	United Kingdom	Ordinary shares	16.50
ACTIVEem Limited	United Kingdom	Ordinary shares	14.90
ReOx Limited	United Kingdom	Ordinary shares	12.20

### Significant fixed asset investments at 31 December 2002

At 31 December 2002 the Group has investments where it holds greater than 20 per cent. of the issued share capital in the following companies:

<i>Company</i>	<i>Country of incorporation</i>	<i>Type of Share Held</i>	<i>Percentage of issued share capital held</i>	<i>Net Assets £'000</i>	<i>Loss before tax</i>	<i>Date of Financial Statements</i>
Novarc Limited	United Kingdom	Ordinary shares	31.30	754	(527)	31.05.02
Pharminox Limited	United Kingdom	Ordinary shares	21.98	–	–	–
Capsant Technologies Limited	United Kingdom	Ordinary shares	28.00	351	–	31.12.02
Southampton PolyPeptides Limited	United Kingdom	Ordinary shares	36.30	150	–	31.12.02

Pharminox Limited had not filed annual accounts as at 31 December 2002 and accordingly no financial information has been presented for this company.

The effect of the departure from the Companies Act 1985 as described in Note 1 to the financial statements for the year ended 31 December 2002 has been to increase the loss before taxation by £1,117,000 and increase net assets by £696,000.

In addition at 31 December 2002 the Group had the following investments in spin-out companies where it holds less than 20 per cent. of the issued share capital:

<i>Undertaking</i>	<i>Country of incorporation</i>	<i>Type of share held</i>	<i>Percentage of issued share capital held</i>
Inhibox Limited	United Kingdom	Ordinary shares	15.90
Zyentia Limited	United Kingdom	Ordinary shares	18.30
Glycoform Limited	United Kingdom	Ordinary shares	16.50
ACTIVEem Limited	United Kingdom	Ordinary shares	14.90

## NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

### Significant fixed asset investments at 31 December 2001

At 31 December 2001 the Group has investments where it holds greater than 20 per cent. of the issued share capital in the following companies:

<i>Company</i>	<i>Country of incorporation</i>	<i>Type of share held</i>	<i>Percentage of issued share capital held</i>
Novarc Limited	United Kingdom	Ordinary shares	45.50
Pharminox Limited	United Kingdom	Ordinary shares	21.98

Neither Pharminox Limited nor Novarc Limited had filed annual accounts as at 31 December 2001 and accordingly no financial information has been presented for these companies.

The effect of the departure from the Companies Act 1985 as described in Note 1 to the financial statements for the period ended 31 December 2001 has been to decrease the loss before taxation by £107,000 and increase net assets by £521,000.

In addition at 31 December 2001 the Group had the following investments in spin-out companies where it holds less than 20 per cent. of the issued share capital:

<i>Undertaking</i>	<i>Country of incorporation</i>	<i>Type of share held</i>	<i>Percentage of issued share capital held</i>
Inhibox Limited	United Kingdom	Ordinary shares	15.90

### 12. DEBTORS

	<i>31 December 2001 £'000</i>	<i>31 December 2002 £'000</i>	<i>30 June 2003 £'000</i>
Trade debtors	—	—	23
Corporation tax recoverable	90	—	—
Other tax recoverable	—	—	5
Other debtors	—	35	37
Prepayments and accrued income	17	12	10
	<u>107</u>	<u>47</u>	<u>75</u>

### 13. CREDITORS: Amounts falling due within one year

	<i>31 December 2001 £'000</i>	<i>31 December 2002 £'000</i>	<i>30 June 2003 £'000</i>
Amount due to Evolution Beeson Gregory Limited	—	56	46
Loan due to Evolution Beeson Gregory Limited	650	—	—
Accruals and deferred income	9	17	21
	<u>659</u>	<u>73</u>	<u>67</u>



## NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

### 14. PROVISIONS FOR LIABILITIES AND CHARGES

#### Deferred tax asset/(liability)

	£'000
At 18 September 2000	–
Transfer from profit and loss account	(1)
At 31 December 2001	(1)
Transfer to profit and loss account	1
At 31 December 2002 and 30 June 2003	–

The deferred taxation balance provided comprises

	31 December 2001 £'000	31 December 2002 £'000	30 June 2003 £'000
Provisions and other timing differences	(1)	–	–
	(1)	–	–

See Note 8 for details of unprovided deferred tax assets.

### 15. FINANCIAL INSTRUMENTS

In the normal course of business, the Group uses certain financial instruments including cash, equity rights and equity investments but has no borrowings. The Group has no foreign currency assets, liabilities or other financial investments, all balances being in sterling. All short term debtors and creditors have been excluded from all of the following disclosures.

The Group's cash and short term deposits were as follows:

	31 December 2001 £'000	31 December 2002 £'000	30 June 2003 £'000
On short term deposit – floating rate	2,599	4,388	9,703
On current account	–	–	–
	2,599	4,388	9,703

The interest rate for short term deposits is variable dependent on the rates offered by the Group's bankers.

The Group has detailed policies and strategies in respect of these financial instruments, which seek to minimise the associated risks.

#### Risk Management Objectives

Through its normal operations, the Group is exposed to a number of risks, the most significant of which are liquidity and market risks. The management of these risks is vested in the Board of Directors.

#### Management of Liquidity Risk

The Group seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

#### Management of Market Risk

The Group is exposed to market risk in respect of its equity rights and equity investments. Note 11 summarises the risks associated with holding these equity rights and equity investments and the movements in the balances during the period. The Group mitigates this risk by having established investment appraisal processes and asset monitoring procedures which are subject to overall review by the board.

## NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

### Loan from Beeson Gregory Limited

During the period ended 31 December 2001 the Group received a loan of £650,000 from Evolution Beeson Gregory Limited. This loan was interest free. During the year ended 31 December 2002 this loan was waived by Beeson Gregory Limited (see Note 3).

### Fair Value of Financial Instruments

Equity investments are stated at historical cost less provision for impairment in value. During the period to 30 June 2003, the year ended 31 December 2002 and the period ended 31 December 2001, there have been no realisations in respect of equity stakes in spin-out companies acquired under the Group's agreements with the University of Oxford, the University of Southampton or King's College London.

The Directors believe that the fair value of equity investments are best estimated by their carrying value in the absence of third party evidence to support any upward revaluation. Where second or subsequent rounds of finance are completed prior to the balance sheet date, the corresponding valuation is considered. The Directors believe that the fair value of equity investments was £4,697,000 at 30 June 2003, £3,775,000 at 31 December 2002 and £2,629,000 at 31 December 2001.

No fair value of the Equity Rights had been disclosed as at 30 June 2003, 31 December 2002 and 31 December 2001 as the Directors believe that it is not practicable to estimate the fair value with sufficient reliability. The Directors believe it is not practicable because the asset is unique, the future cash flows are difficult to predict and a reliable valuation method is not available. See Note 11 for further details of the financial instrument and its carrying value at the relevant dates.

### 16. CALLED UP SHARE CAPITAL

	<i>31 December 2001 £'000</i>	<i>31 December 2002 £'000</i>	<i>30 June 2003 £'000</i>
Authorised:			
35 million ordinary shares of 10p each	<u>3,000</u>	<u>3,000</u>	<u>3,500</u>
Allotted, called up and fully paid:			
29,188,910 ordinary shares of 10p each	<u>2,341</u>	<u>2,528</u>	<u>2,919</u>

On 24 April 2001 the Company was incorporated with an authorised share capital of 1,000 ordinary shares of £1 each, all of which were issued at par for cash.

On 2 August 2001 the authorised share capital was increased to 30 million ordinary shares of 10p each, and the shares in issue were converted to 10,000 ordinary shares of 10p each. Immediately following this 21,270,000 ordinary shares of 10p each were issued at a price of £1 each satisfied by waiver of intercompany debt of £21,270,000.

On 12 September 2001 2,127,660 ordinary shares of 10p each were issued at £1.41 share for cash.

On 17 April 2002 1,875,000 ordinary shares of 10p each were issued at £1.60 per share for cash.

On 27 May 2003 the authorised share capital of the Company was increased by 5,000,000 ordinary shares of 10p each.

On 27 May 2003 3,906,250 ordinary shares of 10p each were issued at £1.60 per share for cash.

## NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

### Share options

Options over ordinary shares of 10p each held by employees and Directors of the Group at 30 June 2003, 31 December 2002 and 31 December 2001 were as follows:

<i>Date of grant</i>	<i>Ordinary shares under option at 30 June 2003</i>	<i>Ordinary shares under option at 31 December 2002</i>	<i>Ordinary shares under option at 31 December 2001</i>	<i>Exercise price (p)</i>	<i>Earliest exercise date</i>	<i>Latest exercise date</i>
1 August 2001	868,905	868,905	1,436,400	141	2.08.02	14.01.12
26 September 2002	31,250	31,250	–	160	26.09.03	25.09.13

Details of options granted in the period since 30 June 2003 are set out in Note 23.

### 17. RESERVES

	<i>Share premium account £'000</i>	<i>Profit and loss account (deficit) £'000</i>
At 18 September 2000	–	–
Issue of shares (net of issue costs of £65,000)	21,865	–
Loss for the period	–	(237)
At 31 December 2001	21,865	(237)
Issue of shares (net of issue costs of £96,000)	2,717	–
Loss for the year	–	(1,559)
At 31 December 2002	24,582	(1,796)
Issue of shares (net of issue costs of £225,000)	5,634	–
Loss for the period	–	(292)
At 30 June 2003	30,216	(2,088)

### 18. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS FUNDS

	<i>Period ended 31 December 2001 £'000</i>	<i>Year ended 31 December 2002 £'000</i>	<i>Six months ended 30 June 2003 £'000</i>
Loss for the period	(237)	(1,559)	(292)
Net proceeds of shares issued	24,206	2,904	6,025
Net change in shareholders' funds	23,969	1,345	5,733
Opening shareholders' funds	–	23,969	25,314
Closing shareholders' funds	23,969	25,314	31,047

## NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

### 19. NOTES TO THE CASHFLOW STATEMENTS

#### (i) Net cash flow from operating activities

	<i>Period ended 31 December</i>	<i>Year ended 31 December</i>	<i>Six months ended 30 June</i>
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Operating loss	(376)	(1,732)	(379)
Depreciation of tangible fixed assets	3	23	14
Amortisation of acquisition costs	16	18	9
Increase in debtors	(17)	(30)	(28)
(Decrease)/increase in creditors	9	64	(6)
Provisions against fixed asset investments	—	1,537	—
Other non-cash movement	—	—	(5)
Waiver of intercompany loan	—	(650)	—
Net cash outflow from operating activities	<u>(365)</u>	<u>(770)</u>	<u>(395)</u>

#### (ii) Reconciliation of net cashflow to movements in net funds

	<i>Period ended 31 December</i>	<i>Year ended 31 December</i>	<i>Six months ended 30 June</i>
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Movement in cash in the period	2,599	1,789	5,315
New loans	(650)	—	—
Changes in net funds resulting from cashflow	<u>1,949</u>	<u>1,789</u>	<u>5,315</u>
Other non-cash items			
– Loan waiver	—	650	—
Movement in net funds in the period	<u>1,949</u>	<u>2,439</u>	<u>5,315</u>
Opening net funds	—	1,949	4,388
Closing net funds	<u>1,949</u>	<u>4,388</u>	<u>9,703</u>

#### (iii) Analysis of net funds

	<i>At 18 September</i>	<i>Cash flow</i>	<i>At 31 December</i>	<i>Cash flow</i>	<i>At 31 December</i>	<i>Cash flow</i>	<i>At 30 June</i>
	<i>2000</i>	<i>2001</i>	<i>2001</i>	<i>2002</i>	<i>2002</i>	<i>2003</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cash in bank and in hand	—	2,599	2,599	1,789	—	4,388	5,315
Debt due within one year	—	(650)	(650)	—	650	—	—
Net funds	<u>—</u>	<u>1,949</u>	<u>1,949</u>	<u>1,789</u>	<u>650</u>	<u>4,388</u>	<u>5,315</u>
							<u>9,703</u>

The non-cash movement in net funds related to the waiver of a loan between the Company and Evolution Beeson Gregory Limited during the year ended 31 December 2002.

### 20. MAJOR NON CASH TRANSACTIONS

During the period under review the Group has made investments in a number of university spin-out companies under agreements that it has in place with the University of Oxford. Further details of these transactions are given in Note 11.

## NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

During the year ended 31 December 2002 a loan of £650,000 due to Evolution Beeson Gregory Limited was waived.

During the period ended 31 December 2001 the Company acquired the Oxford University chemistry department Equity Rights for £19,890,000 and associated acquisition costs of £254,000. This amount was paid by Evolution Beeson Gregory Limited and placed on intercompany account.

During the period ended 31 December 2001 the Company acquired three investments, Novarc Limited, Powerlase Limited and Toumaz Technologies Limited for an aggregate consideration of £1,125,000 from Evolution Beeson Gregory Limited, the consideration being placed on intercompany account.

During the period ended 31 December 2001 the Company issued 21,270,000 ordinary shares of 10p each for consideration of £1 per share to Evolution Beeson Gregory Limited, satisfied by waiver of the intercompany debt of £21,270,000.

### 21. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Under the terms of an agreement entered into during the period between the Group and King's College London ("KCL") and KCL Enterprises Limited, the Group agreed to make £5 million available to KCL for the purposes of making investment in spin-out companies over a period of five years commencing in May 2003. At 30 June 2003 all of this amount was still available under the terms of the agreement. In addition, the Group has committed to make a £250,000 contribution to KCL over a five year period.

Under the terms of an agreement entered into during the year ended 31 December 2002 between the Group, and the University of Southampton and certain of the University of Southampton's subsidiaries, the Group 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 30 June 2003, £864,000 has been invested in five spin-out companies from the university: ACTIVEem Limited, Capsant Neurotechnologies Limited, Southampton PolyPeptides, Nanotecture Limited and HepCgen Limited and the Group has committed to invest £326,000 representing amounts to be invested pending the meeting of further investment milestones (£221,000 of which was duly invested in the post balance sheet period).

IP2IPO Limited has entered into an agreement with the University of York, which is conditional upon Admission. The agreement relates to a new specialist research centre within the University of York: the Centre for Novel Agricultural Products ("CNAP"). IP2IPO Limited will provide £1.15 million over three years to establish a technology commercialisation company, Amaetheon Limited, to commercialise CNAP's IP. Additionally, IP2IPO Limited will commit to invest up to a total of £750,000 over three years in spin-out companies based on CNAP's IP (and this amount may be extended at IP2IPO's option). Once the University of York Partnership becomes unconditional, IP2IPO will become entitled to: (1) equity shareholdings in spin-out companies based on CNAP's IP acquired as a result of IP2IPO's investments and (2) a one-third interest in NewCo.

### 22. FINANCIAL COMMITMENTS

At 30 June 2003, 31 December 2002 and 31 December 2001 the Group had annual commitments under non-cancellable operating leases expiring as follows:

	<i>Land and buildings</i>		
	<i>31 December</i>	<i>31 December</i>	<i>30 June</i>
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Within one year	—	—	—
Between two to five years	—	23	23
After five years	—	—	—
	<u>—</u>	<u>23</u>	<u>23</u>

## NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

### 23. POST BALANCE SHEET EVENTS

Subsequent to 30 June 2003, the Group made investments of £564,000 in SynAIRgen Limited, a spin-out company from the University of Southampton, £153,000 in Stratophase Limited, a spin-out company of the University of Oxford, £50,017 in Novarc Limited, a further £145,000 in Southampton PolyPeptides Limited on account of that company having met certain investment milestones, and a further £76,000 in Nanotecture Limited, also on account of it having met certain investment milestones.

The following Directors made the following investments subsequent to the period end:

<i>Director</i>	<i>Spin-out company</i>	<i>Number of shares</i>	<i>30 June 2003 £'000</i>
Bruce Smith	SynAIRgen	2,000	20
John Davies	SynAIRgen	100	1
Andrew Beeson	SynAIRgen	400	4

In addition, subsequent to the period end the Group granted 838,750 options over the ordinary shares of the Company to employees and directors. The right to exercise the options ordinarily vests in respect of one-third of the award in July 2004, 2005 and 2006. The vesting and exercise of the options is subject to the relevant optionholder continuing to be an employee or director of a company in the same Group as the Company at the relevant time.

### 24. RELATED PARTY TRANSACTIONS

During the six month period ended 30 June 2003 the Group incurred charges payable to the following related companies:

<i>Name of related party</i>	<i>Type of transaction</i>	<i>Value £'000</i>
Evolution Group Services Limited	Recharge of expenses	112
Evolution Group Services Limited	Provision of accounting services	12
Evolution Beeson Gregory Limited	Arrangement fee	200

At 30 June 2003 an amount of £46,000 was due to Evolution Beeson Gregory Limited.

During the six month period ended 30 June 2003 the following directors made investments with the following spin out companies:

<i>Director</i>	<i>Spin-out company</i>	<i>Number of shares held</i>	<i>% of issued share capital</i>	<i>Value of investment £'000</i>
Steven Lee	ReOx	200	0.02	1
Bruce Smith	Nanotecture	10,000	1.18	15
	HepCgen	2,000	1.82	20
Roger Brooke	Nanotecture	6,667	0.78	10
	HepCgen	1,000	0.91	10
	ReOx	4,000	0.40	20

During the year ended 31 December 2002 the following related party transactions were made by the Group:

<i>Name of related party</i>	<i>Type of transaction</i>	<i>Value £'000</i>
Evolution Beeson Gregory Limited	Recharge of expenses	785
Evolution Beeson Gregory Limited	Provision of accounting services	60
Evolution Beeson Gregory Limited	Loan waiver	650

At 31 December 2002 an amount of £56,000 was due to Evolution Beeson Gregory Limited.

## NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

During the year ended 31 December 2002 the following directors made investments with the following spin-out companies:

<i>Director</i>	<i>Spin-out company</i>	<i>Number of shares held</i>	<i>% of issued share capital</i>	<i>Value of investment £'000</i>
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
Roger 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

During the period ended 31 December 2001 the following related party transactions were made by the Group

<i>Name of related party</i>	<i>Type of transaction</i>	<i>Value £'000</i>
Evolution Beeson Gregory Limited	Recharge of expenses	326
Evolution Beeson Gregory Limited	Provision of accounting services	50
Evolution Beeson Gregory Limited	Loan made to the Group	650

At 31 December 2001 a loan of £650,000 was due to Evolution Beeson Gregory Limited.

In addition further costs relating to the operations of the Group were borne by Evolution Beeson Gregory Limited in the period prior to August 2001. No recharge was made of these expenses.

During the period ended 31 December 2001 the Company acquired the University of Oxford chemistry department Equity Rights for £19,890,000 and associated acquisition costs of £254,000. This amount was paid by Evolution Beeson Gregory Limited and placed on intercompany account.

During the period ended 31 December 2001 the Company acquired three investments, Novarc Limited, Powerlase Limited and Toumaz Technologies Limited for an aggregate consideration of £1,125,000 from a subsidiary of Evolution Beeson Gregory Limited the consideration being placed on intercompany account.

During the period ended 31 December 2001 the Company issued 21,270,000 ordinary shares of 10p each for consideration of £1 per share to Evolution Beeson Gregory Limited, satisfied by waiver of the intercompany debt of £21,270,000.

In June 2001 the Company acquired the entire issued share capital of IP2IPO Limited (then Gardengold Limited) from Evolution Beeson Gregory Limited for a cash consideration of £100.

## NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

The following directors made the following investments subsequent to 30 June 2003.

<i>Director</i>	<i>Spin out company</i>	<i>Number of shares</i>	<i>2003 £'000</i>
Bruce Smith	SynAIRgen	2,000	20
John Davies	SynAIRgen	100	1
Andrew Beeson	SynAIRgen	400	4

At 30 June 2003 the directors continued to hold all of the above investments in spin-out companies.

### 25. ULTIMATE HOLDING COMPANY

The ultimate holding company and ultimate controlling party is The Evolution Group plc ("Evolution"), a company incorporated in England and Wales with registered number 03359425. The immediate parent company is Evolution Beeson Gregory Limited (formerly Beeson Gregory Plc). Evolution statutory accounts are available from the Secretary, 9th Floor, 100 Wood Street, London, EC2V 7AN.

Yours faithfully

**PricewaterhouseCoopers LLP**

*Chartered Accountants*



## PART IV

### ADDITIONAL INFORMATION

#### 1 Incorporation and principal place of business

- (a) The Company was incorporated in England and Wales with registration number 04204490 on 24 April 2001 under the Act as a private company limited by shares with the name De Facto 929 Limited. De Facto 929 Limited changed its name to IP2IPO Limited on 22 May 2001 and to IP2IPO Group Limited on 31 July 2001. On 29 September 2003, the Company was re-registered as a public limited company under the Act and its name was changed to IP2IPO Group plc.
- (b) The Company operates under the Act and the regulations made under it and the liability of its members is limited.

#### 2 Share Capital of the Group

##### 2.1 The Company:

- (a) The Company's present authorised share capital is £9,000,000 divided into 90,000,000 Ordinary Shares.
- (b) There have been the following changes in the authorised and issued share capital of the Company in the period since incorporation:
- (i) on 24 April 2001, 2 ordinary shares of £1 each were issued for cash at par as the original subscriber shares;
  - (ii) on 17 May 2001, 998 ordinary shares of £1 each were issued for cash at par;
  - (iii) on 2 August 2001, each of the authorised and issued ordinary shares of £1 each were sub-divided into 10 Ordinary Shares of 10p each;
  - (iv) on 2 August 2001, the authorised share capital was increased to £3,000,000 by the creation of 29,990,000 new Ordinary Shares;
  - (v) on 2 August 2001, 21,270,000 Ordinary Shares were issued for cash at £1 per Ordinary Share satisfied by waiver of inter-company debt of £21,270,000;
  - (vi) on 12 September 2001, 2,127,660 Ordinary Shares were issued for cash at £1.41 per Ordinary Share;
  - (vii) on 17 April 2002, 1,875,000 Ordinary Shares were issued for cash at £1.60 per Ordinary Share;
  - (viii) on 27 May 2003, the authorised share capital was increased to £3,500,000 by the creation of 5,000,000 new Ordinary Shares;
  - (ix) on 27 May 2003, 3,906,250 Ordinary Shares were issued for cash at £1.60 per Ordinary Share; and
  - (x) on 7 October 2003, the authorised share capital was increased to £9,000,000 by the creation of 55,000,000 new Ordinary Shares.
- (c) The authorised and issued share capital of the Company, immediately following the Placing, will be:

<i>Authorised</i>		<i>Issued and fully paid</i>	
<i>Amount</i>	<i>Number</i>	<i>Amount</i>	<i>Number</i>
£9,000,000	90,000,000	£4,063,891	40,638,910

- (d) On 7 October 2003, by or pursuant to resolutions passed by the shareholders of the Company in general meeting:
- (i) the Directors were authorised pursuant to section 80 of the Act to allot relevant securities of the Company (a) up to a maximum of £1,500,000 pursuant to the Placing; (b) an additional amount of £233,891 in respect of options entered into prior to the Placing; and (c) an additional amount of £1,680,000 (the "Section 80 Authority"), such authority expiring (in the case of (a) and (c)) at the next annual general meeting or 12 months from the passing of the resolution and in the case of (b) five years from the date of the resolution (the "Section 80 Expiry Dates"). The Section 80 Authority permits the Directors to allot shares in the Company after the Section 80 Expiry Dates (as if the Section 80 Authority had not expired) where such allotments are pursuant any offers or agreements entered into by the Company before the Section 80 Expiry Dates;
  - (ii) the Directors were empowered pursuant to section 95 of the Act to allot equity securities in the Company for cash as if section 89 of the Act did not apply (the "Section 95 Empowerment"), such power being limited to the allotment of equity securities (a) up to £1,500,000 in connection with the Placing, (b) granted under option to Directors and employees prior to the date of the Placing, (c) in connection with any rights issue or other offers to shareholders in proportion to their holdings subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with the problems under the law of any territory or the requirements of any regulatory body or stock exchange in any territory or in connection with fractional entitlements or shares represented by depositary receipts or otherwise and (d) otherwise up to an aggregate nominal amount equal to £220,945. The Section 95 Empowerment shall expire (in the case of (a), (c) and (d)) at the next annual general meeting or 12 months from the passing of the resolution and in the case of (b) five years from the date of the resolution (the "Section 95 Expiry Dates") save that the Directors may allot shares in the Company after the Section 95 Expiry Dates (as if the Section 95 Empowerment had not expired) pursuant to any offers or agreements to allot shares in the Company entered into by the Company before the Section 95 Expiry Dates.

## 2.2 *Incorporation and capital information on the other members of the Group*

### (a) ***IP2IPO Limited***

- (i) The Company's wholly-owned subsidiary, IP2IPO Limited, carries out the operating and trading activities described in Part I of this document.
- (ii) IP2IPO Limited was incorporated in England and Wales with registration number 04072979 on 18 September 2000 under the Act as a private company limited by shares with the name Gardengold Limited. Gardengold Limited's name was changed to IP2IPO Limited on 31 July 2001. The principal legislation under which it operates is the Act and the regulations made thereunder. The registered office is 9th Floor, 100 Wood Street, London, EC2V 7AN and its principal place of business is 59 St Aldates, Oxford OX1 1ST.
- (iii) The authorised share capital of IP2IPO Limited at the date of this document is £50,000 divided into 50,000 ordinary shares of £1 each.

There have been the following changes in the share capital of IP2IPO Limited in the period since incorporation: (i) on 11 September 2000, 1 ordinary share of £1 was issued for cash at par to the original subscriber; (ii) the subscriber share was transferred to Beeson Gregory Limited for £1 on 22 November 2000; (iii) on 29 December 2000, 99 ordinary shares of £1 each were issued for cash at par to Beeson Gregory Limited; (iv) on 22 June 2001, the entire issued share capital of IP2IPO Limited (100 ordinary shares of £1 each) was transferred to the Company for £100; and (v) on 17 September 2003, IP2IPO Limited increased its share capital to £50,000 by the creation of an additional 49,000 ordinary shares of £1 each. IP2IPO Limited issued a further 40,000 ordinary shares at a price per share of £100 to the Company, pursuant to a capitalisation of an inter-company debt.

(b) ***IP2IPO Management Limited***

- (i) IML was incorporated in England and Wales with registration number 04368104 on 6 February 2002 under the Act as a private company limited by shares with its existing name. The principal legislation under which it operates is the Act and the regulations made thereunder. IML is a wholly owned subsidiary of IP2IPO Limited. The registered office is 9th Floor, 100 Wood Street, London, EC2V 7AN and its principal place of business is 59 St Aldates, Oxford OX1 1ST.
- (ii) The authorised share capital of IML at the date of this document is £1,000 divided into 1,000 ordinary shares of £1 each.

There have been the following changes in the share capital of IML in the period since incorporation: (i) on 6 February 2002, 1 ordinary share of £1 was issued for cash at par to the original subscriber and transferred to Masons Nominees Limited on the same date and 1 ordinary share of £1 was issued for cash at par to Masons Nominees Limited; and (ii) the entire issued share capital of IML (2 ordinary shares of £1 each) was subsequently transferred by Masons Nominees Limited to IP2IPO Limited on 19 March 2002.

(c) ***IP2IPO Management II Limited***

- (i) IM2 was incorporated in England and Wales with registration number 04709243 on 24 March 2003 under the Act as a private company limited by shares with the name Poundpeople Limited. Poundpeople Limited's name was changed on 28 May 2003 to IP2IPO Management II Limited. The principal legislation under which it operates is the Act and the regulations made thereunder. IM2 is a wholly owned subsidiary of IP2IPO Limited. The registered office is 9th Floor, 100 Wood Street, London, EC2V 7AN and its principal place of business is 59 St Aldates, Oxford OX1 1ST.
- (ii) The authorised share capital of IM2 at the date of this document is £1,000 divided into 1,000 ordinary shares of £1 each.

There have been the following changes in the share capital of IM2 in the period since incorporation: (i) on 24 March 2003 1 ordinary share of £1 was issued for cash at par to the original subscriber and transferred to Masons Nominees Limited on 7 April 2003; and (ii) the entire issued share capital of IM2 (1 ordinary share of £1) was subsequently transferred by Masons Nominees Limited to IP2IPO Limited on 13 May 2003.

2.3 Save as disclosed in paragraphs 2.1 and 2.2 and 4 of this Part IV of this document:

- (a) during the three years preceding the date of this document:
  - (i) there has been no alteration in the share or loan capital of the Company or of any subsidiary of the Company;
  - (ii) no share or loan capital of the Company or any subsidiary of the Company has been issued or agreed to be issued; and
  - (iii) no commissions, discounts, brokerage or other special terms have been granted by the Company or any subsidiary of the Company in connection with the issue of any share or loan capital; and
- (b) no share or loan capital of the Company or any subsidiary of the Company is under option or agreed conditionally or unconditionally to be put under option.

**3 Directors' and Other Interests**

- (a) At the date of this document, the interests of the Directors (all of which are beneficial), and of all such persons connected (within the meaning of section 346 of the Act) with the Directors in the issued share capital of the Company, as notified to the Company under the provisions of sections 324 or 328 of the Act, both before and immediately following Admission, as required to be entered in the register of directors' interests maintained under the provisions of section 325 of the Act, are set out in the table below and in paragraph 4 below:

<i>Name</i>	<i>Immediately before Admission</i>		<i>Immediately following Admission</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of Issued Share Capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Issued Share Capital</i>
Dr B.G. Smith	21,875	0.07	34,625	0.09
D.R. Norwood	—	—	363,636	0.89
J.Q. Davies	—	—	3,750	0.01
Dr S.L.C. Lee	—	—	—	—
A.N.W. Beeson	—	—	40,000	0.10
C.R.E Brooke	31,250	0.11	31,250	0.08
H.E. Fitzgibbons	—	—	—	—
Prof W.G. Richards	—	—	1,850	0.00
A.C.W. Snow	—	—	—	—

- (b) At the date of this document, the Directors are aware of the following persons who, directly or indirectly, are interested in 3 per cent. or more of the issued share capital of the Company:

<i>Name</i>	<i>Immediately before Admission</i>		<i>Following Admission</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of Issued Share Capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Issued Share Capital</i>
The Evolution Group plc	21,962,170	75.24	16,502,170	40.61
Barclays Capital (NO3) Ltd	2,910,750	9.97	2,910,750	7.16
BNY (OCS) Nominees Ltd	1,337,500	4.58	1,337,500	3.29

- (c) As at the date of this document the Directors have the following interests in the shares in Evolution: Mr Norwood holds 3,080,995 shares, Mr Davies holds 271,934 shares, Mr Beeson holds 3,562,000 shares and Mr Snow holds 429,102 shares. Additionally Directors have the following options over shares in Evolution: Mr Norwood over 103,617 shares (vest in April 2004), Mr Davies over 25,903 shares (vest in April 2004), Mr Beeson over 265,500 shares (already vested) and Mr Snow over 2,525,933 shares which have vested and an additional 2,565,632 shares which vest in May and June 2004. At the date of this document in aggregate those Directors hold 2.98 per cent. of the issued shares in Evolution.
- (d) Mr Fitzgibbons has an interest (related to the performance of the funds managed by Top Technology Ventures Limited) in 510,929 Ordinary Shares held by Top Technology Ventures IV L.P., in 289,996 Ordinary Shares held by Unibank A/S and in 78,575 Ordinary Shares held by Nordea Bank Danmark A/S, companies of which he is a director.
- (e) No loans are outstanding from the Group to any Director nor has any guarantee been provided by the Group for the benefit of any Director.
- (f) No Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group and which was effected by any member of the Group during the current or immediately preceding financial year or during any earlier financial year which remains in any respect outstanding or unperformed.
- (g) Set out below is information relating to each Director relating to directorships which they have held and partnerships in which they have been a partner, in each case over the previous five years preceding the date of this document.

<i>Director</i>	<i>Current directorships and partnerships</i>	<i>Directorships and partnerships of the last 5 years</i>
Dr B. G. Smith	Bruce Investments Limited Smith Institute Downex Investments Limited Industrial Technology Securities Limited Imagineer Systems Ltd Innovision Research & Technology plc IP2IPO Group plc M.U.A. Limited National Space Science Centre Spectrum (General Partner) Limited University of Southampton Holdings Limited	Airto Limited British Maritime Technology Limited Esys Limited Foundation for Science and Technology Southampton Asset Management Limited Southampton Innovations Limited
D. R. Norwood	Beeson Gregory Group Limited Beeson Gregory Index Nominees Limited Beeson Gregory Technology Investments Limited Berkeley Adam Limited Evolution Beeson Gregory Limited Evolution Beeson Gregory Nominees Limited The Evolution Group plc Inhibox Limited IP2IPO Group plc IP2IPO Limited IP2IPO Management Limited IP2IPO Management II Limited SynAIRgen Limited VASTox Limited	Beeson Gregory Investment Management Limited Beeson Gregory (US) Limited Bored of Games Limited Ceravision Limited Elixir Studios Limited Envisional Solutions Limited EVO Nominees Limited Home House Limited IndexIT Partnership Ltd Mathengine plc Netvisional Limited Oxonica Limited Spectral Fusion Technologies Limited
J. Q. Davies	ACTIVEem Limited HepCgen Limited IP2IPO Limited IP2IPO Group plc IP2IPO Management Limited IP2IPO Management II Limited OHM Limited	Beeson Gregory Technology Investments Limited Bored of Games Limited Caissa Capital Limited IndexIT (General Partner) Limited IndexIT Partnership Ltd Netvisional Limited Spectral Fusion Technologies Limited
Dr S.K.C. Lee	Capsant Neurotechnologies Limited IP2IPO Group plc IP2IPO Limited IP2IPO Management Limited IP2IPO Management II Limited ReOx Limited VASTox Limited	Aesthetic Development Limited Glycoform Limited

<i>Director</i>	<i>Current directorships and partnerships</i>	<i>Directorships and partnerships of the last 5 years</i>
A.N.W. Beeson	Association of Private Client Investment Managers and Stockbrokers IP2IPO Group plc Nelson Bakewell Holdings Limited Woolworths Group Plc	Beeson Gregory Index Nominees Limited Beeson Gregory Investment Management Limited Beeson Gregory Technology Investments Limited Beeson Gregory Group Ltd Beeson Gregory (US) Limited Caissa Capital Limited Carrie Martin Limited Evolution Beeson Gregory Limited Evolution Beeson Gregory Nominees Limited EVO Nominees Limited IP2IPO Limited IP2IPO Management Limited IndexIT Consulting Limited IndexIT (General Partner) Limited IndexIT Partnership Ltd The Evolution Group plc
C.R.E. Brooke	Accord plc Advent 2 VCT plc Beeson Gregory Group Ltd Benchwood Properties Limited Cambria Limited Candover Services Limited Centaur Communications Limited Chawton Holdings Limited Cresco International plc Friday's Court Limited Innisfree Limited Innisfree Group Limited Innisfree SLP Limited Innisfree SLP II Limited IP2IPO Group plc Watermeadow Services Limited	Candover Investments plc Carillion plc Innisfree Partners Limited Innisfree Partners II Limited Lambert Fenchurch Group Limited Linguaphone Group plc Private Investor Capital Limited Renaissance Films Limited Slough Estates plc Tarmac Holdings Limited The Beaufort Hotel Limited Wembley plc
H.E. Fitzgibbons	Conduit Ventures Limited Conduit Ventures (General Partner) Limited Conduit Ventures (Founder Partner) Limited HATT II General Partner Limited HATT III General Partner Limited IP2IPO Group plc Restec Laboratories Limited Top Technology Ventures Limited TTV IV G.P. Limited The Prince of Wales International Business Leaders Forum	AFA Systems plc Amber Logic Limited Anglo-Russian Opera and Ballet Trust Capteur Sensors and Analysers Limited Dionne plc Investec Technology Trust Limited Johnson Matthey plc Kryukov Productions Limited Trafficmaster plc Virtual Access plc Virtual Access (UK) Limited

<i>Director</i>	<i>Current directorships and partnerships</i>	<i>Directorships and partnerships of the last 5 years</i>
Prof W.G. Richards	Inhibox Limited IP2IPO Group plc Isis Innovation Limited Peratech Limited Virtual Environments International Limited	Association for International Cancer Research Catayst Biomedica Limited Innovox Limited OM 2000 plc (formerly Oxford Molecular Group plc) Oxford Molecular Limited
A.C.W. Snow	Beeson Gregory Group Ltd Beeson Gregory Index Nominees Limited Beeson Gregory Investment Management Limited Beeson Gregory Technology Investments Limited Beeson Gregory (US) Limited Capital Exchange Limited Christows Administration Limited Christows Asset Management Limited Christows Group Limited Christows Investment Management Limited Christows Limited Evolution Beeson Gregory Nominees Limited Evolution Beeson Gregory Limited Evolution Capital Investment Limited Evolution Capital Limited Evolution Group Services Limited Evolution Securities China Limited Evolution Securities Limited IndexIT Partnership Limited IP2IPO Group plc IP2IPO Limited IP2IPO Management II Limited IP2IPO Management Limited The Evolution Group Plc Wilmington Corporate Capital Limited	BR Corporate Finance Limited (formerly Christows Capital Limited) Evolution Nominees Limited Gladiator Capital Limited Mightymatch plc Pervasic Limited Wireless Frontier Limited Wireless Frontier Partners Limited

(h) Save as disclosed in paragraph 3(i) below, no Director has:

- (i) any unspent convictions in relation to indictable offences;
- (ii) had any bankruptcy order made against him or entered into any individual voluntary arrangements;
- (iii) been a director of a company which has been placed into receivership, compulsory liquidation or creditors' voluntary liquidation or administration or which has entered into any company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors, nor have they been a director of any such company within the twelve months preceding such an event;
- (iv) been a partner of any partnership which has been put into compulsory liquidation or administration or entered into partnership voluntary arrangements, nor have they been a partner of such partnership within the twelve months preceding such an event;

- (v) had a receivership of any asset of such director or of a partnership where he was a partner at the time or within the twelve months preceding such event;
  - (vi) been publicly criticised by statutory or regulatory authorities (including recognised professional bodies);
  - (vii) or been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.
- (i) Mr Fitzgibbons was a director of both Virtual Access plc and Virtual Access (UK) Limited from May 1997 until March 2002. In February 2002 Virtual Access plc and Virtual Access (UK) Limited were placed in administration.

Mr Brooke was a director of Chawton Developments Limited from 1991 until 1996. Chawton Developments Limited was put into compulsory liquidation in 1993 and dissolved in 1996. He is a director of Chawton Holdings Limited from 1991 which was put into receivership in 1992.

Professor Richards has been a director of Virtual Environments International Limited since November 1996 and that company was put into creditors' voluntary liquidation in August 2001.

#### 4 Options

- (a) Immediately following Admission, the following Directors will hold the following options over Ordinary Shares:

<i>Name</i>	<i>Date of Grant</i>	<i>Number of Ordinary Shares</i>	<i>Exercise Price (p)</i>	<i>Percentage of the Company's issued share capital on Admission (%)</i>
D. Norwood	29.07.03	250,000	160	2.34
	07.10.03	700,000	275	
J. Q. Davies	15.01.02	212,800	141	0.77
	29.07.03	100,000	160	
S.K.C. Lee	15.01.02	212,800	141	0.77
	29.07.03	100,000	160	

Options granted to Mr Davies and Dr Lee on 15 January 2002 have vested or vest in three equal tranches on 2 August 2002, 2003 and 2004. Vesting is conditional upon the optionholder holding an office or being employed by the Group. Options lapse after 10 years from the date of grant.

Options granted to Mr Norwood, Mr Davies and Dr Lee on 29 July 2003 vest in three equal tranches on the first, second and third anniversaries of the date of grant. Vesting is conditional upon the optionholder holding an office or being employed by the Group. Options lapse after 10 years from the date of grant.

Options granted to Mr Norwood on 7 October 2003 vest as follows: on the first anniversary, 100,000 Ordinary Shares; on the second anniversary, 200,000 Ordinary Shares and on the third anniversary, 400,000 Ordinary Shares. Vesting is conditional upon Mr Norwood holding an office or being employed by the Group, and certain performance criteria being achieved. Options lapse after 10 years from the date of grant.

- (b) The Company does not have an approved share option scheme and currently the Directors do not intend to adopt an approved scheme.



- (c) The Company has granted the following further options to employees of the Group:

<i>No. of Ordinary Shares</i>	<i>Date of Grant</i>	<i>Exercise price (p)</i>	<i>Percentage of the Company's issued share capital on Admission (%)</i>
443,305	15.01.02	141	1.09
31,250	26.09.02	160	0.08
168,750	29.07.03	160	0.42
50,000	14.09.03	160	0.12
50,000	14.09.03	275	0.12
10,000	17.09.03	160	0.02
10,000	17.09.03	275	0.02

The options granted on 15 January 2002 have vested or vest in three equal tranches on 2 August 2002, 2003 and 2004. The options granted on 26 September 2002, 29 July 2003, 14 September 2003 and 17 September 2003 vest in three equal tranches on the first, second and third anniversaries of the date of grant. In each case vesting is conditional upon the optionholder holding an office or being employed by the Group. Options lapse after 10 years from the date of grant.

- (d) The Company has agreed to grant a further option over 100,000 Ordinary Shares to a new joiner, on commencement of that person's employment.
- (e) The Board intends to grant additional options over Ordinary Shares to employees and Directors in the future at an exercise price which takes into account changes in the value of Ordinary Shares. The Board has resolved not to grant options over Ordinary Shares of more than 10 per cent. of the Company's issued share capital from time to time.

## **5 Directors' Service Agreements**

- (a) (i) Mr Norwood entered into a service agreement with the Company on 29 September 2003 the principal terms of which are that he is entitled to a salary of £80,000 per annum and his service agreement is terminable on twelve months' notice either way. Mr Norwood is also entitled to a pension contribution equal to a maximum of £12,000 per annum, permanent health insurance, life insurance cover and private medical insurance.
- (ii) Mr Davies entered into a service agreement with the Company on 29 September 2003, the principal terms of which are that he is entitled to a salary of £80,000 per annum and his service agreement is terminable on six months' notice either way. Mr Davies is also entitled to a pension contribution equal to a maximum of £10,500 per annum, permanent health insurance, life insurance cover and private medical insurance.
- (iii) Dr Lee entered into a service agreement with the Company on 29 September 2003, the principal terms of which are that he is entitled to a salary of £80,000 per annum and his service agreement is terminable on six months' notice either way. Dr Lee is also entitled to a pension contribution equal to a maximum of £10,500 per annum, permanent health insurance, life insurance cover and private medical insurance.
- (iv) Each of the non-executive Directors entered into agreements with the Company on 29 September 2003 to govern the terms and conditions of appointment of the non-executive Directorships with the Company. Each appointment is for a term of three years (calculated from the date of their original appointment to the Board, save in the case of Dr Smith, calculated from 4 September 2003) (unless renewed at the end of that period) and is terminable on one month's notice either way, save that Dr Smith's appointment is terminable on three months' notice either way. Each of the non-executive Directors is entitled to a fee of £15,000 per annum (save in the case of Dr Smith who is entitled to a fee of £25,000 per annum and Mr Snow who receives no fee for his services).

- (b) Save as referred to in paragraph 5(a) of this Part IV of this document, there are no service agreements between any Director and any member of the Group, other than agreements, expiring or determinable by the employing company without payment of compensation (other than statutory compensation) and no such contracts are proposed.
- (c) There is no arrangement under which any Director has waived or agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.
- (d) The aggregate remuneration (including salaries, fees, pension contributions, bonus payments and benefits in kind) granted to the Directors by the Group during the year ended 31 December 2002 amounted to £342,000. It is estimated that the aggregate remuneration of the Directors for the current financial year ending 31 December 2003 under the arrangements in force as at the date of this document will not exceed £450,000.
- (e) The Group has a policy whereby Directors are entitled to make *de-minimis* investments in spin-out companies under the Partnerships in the event that following a proposal to invest by the Group in the spin-out company, that spin-out company has a requirement for further funds.

## **6 Memorandum and Articles of Association**

- (a) The Memorandum of Association of the Company provides that its principal object is to carry on business as a holding company and investment company.
- (b) The Company's Articles contain, *inter alia*, provisions to the following effect:

### **(i) Rights attaching to shares**

#### **(a) Income**

The profits of the Company which may be distributed in respect of any financial year or other period shall be distributed *pari passu* among the holders of the Ordinary Shares according to the nominal amounts (excluding any premium) paid up on the Ordinary Shares held by them respectively.

#### **(b) Capital**

On a distribution of assets on liquidation or otherwise, the surplus assets of the Company remaining after payment of its liabilities shall be distributed amongst the holders of Ordinary Shares according to the nominal amounts (excluding any premium) paid up on the Ordinary Shares held by them respectively.

#### **(c) Voting**

Subject to any special rights or restrictions as to voting attached to any shares by or in accordance with the Articles and or any resolution authorising the creation of such shares, on a show of hands every member who is present in person shall have one vote and, on a poll, every member who is present in person or by proxy shall have one vote for every share held by him.

### **(ii) Variation of class rights**

Subject to the Act, all or any of the rights and restrictions attached to any class of shares may be altered, added to or abrogated with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of such shares. To any such separate general meeting all the provisions of the Articles relating to general meetings shall apply, *mutatis mutandis*, but so that the necessary quorum shall be two or more persons holding or representing by proxy at least one-third in nominal value of the issued shares of the relevant class, that every holder of shares of the class shall be entitled on a poll to one vote for every such share held by

him, that any holder of shares of the class present in person or by proxy may demand a poll and that at any adjourned meeting of such holders one holder present in person or by proxy (whatever the number of shares held by them) shall be a quorum. The rights attached to any class of shares shall, unless otherwise expressly provided by the terms of issue of such shares or by the rights attaching to such shares, be deemed not to be altered by the creation or issue of further shares ranking *pari passu* therewith or by a purchase by the Company of its own shares.

(iii) *Alteration of Capital*

Subject to the rights attaching to any class of shares that may be in issue:

- (a) the Company may by ordinary resolution consolidate and divide all or any of its share capital into shares of larger amount, sub-divide all or any of its shares into shares of smaller amount (so that the resolution whereby any share is sub-divided may determine that as between the holders of the shares resulting from the sub-division one or more shares may have such rights or restrictions as compared with the other or others as the Company has power to attach to unissued or new shares) and cancel any shares not at the date of the resolution taken or agreed to be taken by any person;
- (b) subject to any consent required by law, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account;
- (c) subject to the provisions of the Act and the Articles, all unissued shares of the Company are at the disposal of the Directors;
- (d) subject to the provisions of the Act, any shares may, with the sanction of a special resolution, be issued on terms that they are, or at the option of the Company are, liable to be redeemed on the terms and in the manner provided for by the Articles; and
- (e) subject to the provisions of the Act, the Company may purchase all or any of its shares of any class, including any redeemable shares.

(iv) *Transfers of Shares*

- (a) The shares are in registered form but, notwithstanding any other provision of the Articles, a member is entitled to transfer his shares and other securities by means of a relevant system as referred to in the CREST Regulations including the relevant system of which CRESTCo Limited is the operator. Any provision of the Articles which is inconsistent with the holding of shares in uncertified form, the transfer of shares by means of such a relevant system or the CREST Regulations shall, to that extent, not apply.
- (b) Any member may, subject to the Articles, transfer all or any of his shares by an instrument of transfer in the usual common form or in any other manner (whether or not by written instrument) which the Directors may approve. Any written instrument of transfer of a share shall be signed by or on behalf of the transferor (and, in the case of a share which is not fully paid by or on behalf of the transferee) and the transferor shall be deemed to remain the holder of the shares until the name of the transferee is entered in the register in respect thereof. All instruments of transfer may be retained by the Company.
- (c) The Directors may refuse to register the transfer of a share which is not fully paid, providing that any such refusal will not prevent dealings in the shares from taking place on an open and proper basis.
- (d) The Directors may refuse to register any transfer in favour of a person known to be a minor, bankrupt or person who is mentally disordered or a patient for the purpose of any statute relating to mental health.
- (e) The Directors may decline to register any transfer unless any written instrument of transfer, duly stamped, is lodged with the Company, accompanied by the relevant certificate and such

other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer, the instrument is in respect of only one class of share and, in the case of a transfer to joint holders the number of joint holders does not exceed four.

- (f) The register of members may be closed by the Directors for any period (not exceeding 30 days in any year) upon notice being given by advertisement in a leading national daily newspaper and in such other newspaper as may be required by the Act.

(v) *Section 212 of the Act*

Without limitation to the powers of the board under section 216 of the Act, where a member fails to comply with any notice (a "statutory notice") given by the board under section 212 of the Act requiring such member or any other named person to give particulars of any interest in respect of shares in the Company, the Company may, no earlier than fourteen days after the service of the statutory notice, give the registered holder of such shares a notice (a "restriction notice") stating or to the effect that, the shares in respect of which the default has occurred ("default shares"), are subject to certain sanctions for so long as the default continues and (unless the Board otherwise determines) seven days thereafter. For a shareholding of less than 0.25 per cent. of the relevant class, the only sanction is that the member may be prohibited from attending at meetings and voting; for a shareholding of 0.25 per cent. or more of the relevant class, the Articles also provide for the withholding of the payment of dividends (including shares issued in lieu of dividend) on the default shares; and, subject to those limitations approved by the London Stock Exchange, restrictions on the transfer of the default shares.

(vi) *Directors*

- (a) Unless and until the Company in general meeting shall otherwise determine, the number of Directors shall not be less than two and there shall not be any maximum number.
- (b) Subject to the Act and the Articles, no Director shall be disqualified by his office from entering into any contract or arrangement with the Company either with regard to his tenure of any office or employment or as a vendor, purchaser or otherwise. Nor shall any such contract be liable to be avoided. Nor shall any Director so contracting be liable to account to the Company for any remuneration, profit or other benefit realised by any such contract or arrangement by reason of such Director holding that office or of the fiduciary relationship thereby established, but such Director shall declare the nature of his interest in accordance with the Act.

(vii) *Restrictions on Voting by Directors*

Save as otherwise provided by the Articles, a Director shall not vote (nor be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement in which he (or anyone connected with him) is, to his knowledge, materially interested, and if he shall his vote shall not be counted, but (in the absence of some material interest other than as indicated below) this prohibition shall not apply to any of the following matters namely:

- (a) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person at the request of or for the benefit of the Company or any of its subsidiaries;
- (b) the giving of any guarantee, security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (c) any proposal concerning his participation in any offer of shares in or debentures or other securities of the Company or any of its subsidiaries issued or to be issued pursuant to any offer or invitation to holders of securities or concerning his participation for subscription or purchase in which offer he is or is to be interested as a participant in the underwriting or sub-underwriting thereof;

- (d) any contract or arrangement in which he is interested by virtue of his interest in shares or debentures or other securities of the Company or by reason of any other interest in or through the Company;
- (e) any proposal concerning retirement, death or disability benefits scheme or a share option scheme, share incentive scheme or profit-sharing scheme which either relates to both employees and Directors of the Company and/or directors of any subsidiary and does not provide any Director as such any privilege or advantage not accorded to the employees to whom such scheme or fund relates or has been approved by or is conditional on approval by the Inland Revenue for tax purposes;
- (f) any proposal concerning an insurance which the Company is empowered to purchase and/or maintain for the benefit of and against any liability incurred by any Directors or persons who include the Directors.

(viii) *Remuneration of Directors*

- (a) The remuneration (whether by way of salary, commission, participation in profits or otherwise) of any executive Director shall be such as the Directors may determine, and either in addition to or in lieu of his remuneration as Director.
- (b) Each of the Directors may be paid a fee for his services as a Director at such rate as the Directors may from time to time determine provided that the aggregate of all such fees so paid to Directors (excluding amounts payable under any other Article) shall not exceed £250,000 per annum or such larger amount as the Company may by ordinary resolution determine.
- (c) Each Director may be paid all reasonable travelling, hotel and other expenses properly and reasonably incurred by him in attending and returning from meetings of the Directors or any committee of the Directors or meetings of shareholders or debenture holders of the Company or otherwise in connection with the business of the Company or the discharge of his duties as a Director. Any Director who, by request, goes to reside abroad for any purposes of the Company or who performs services which in the opinion of the Directors go beyond the ordinary duties of a Director shall be entitled to be paid such extra remuneration (whether by way of salary, commission, participation in profit or otherwise) and such extra remuneration shall be in addition to any remuneration provided for by or pursuant to any other Article.

(ix) *Appointments to office*

Subject to the Act, the Directors may from time to time appoint one or more of their body to hold any other employment or executive office and upon such terms as they may determine and may revoke or terminate any of such appointments. Any such revocation or termination shall be without prejudice to any claim for damages such Director may have against the Company or the Company has against the Director for breach of any service contract between him and the Company.

(x) *Retirement of Directors*

Save as may be otherwise resolved by the company in general meeting convened on special notice a person shall not be appointed as a Director if, at the time when the appointment would take effect, he would have attained the age of 70. A Director shall vacate his office at the conclusion of the annual general meeting of the Company which next follows his attaining the age of 70; but acts done by a person as Director are valid notwithstanding that it is afterwards discovered that, by reason of this Article, he should not have been appointed or his appointment had terminated

No provision in these Articles for the automatic reappointment of retiring Directors in default of the appointment of another applies to such a retiree.

(xi) *Borrowing Powers*

The Directors may exercise all the powers of the Company to borrow money and shall restrict the borrowings of the Company, and exercise all other rights and powers of control which the Company has in relation to its subsidiaries, so as to secure (but, in relation to subsidiaries, only insofar as the rights and powers of the Company enable the board to do so) that the aggregate outstanding principal amount of all borrowings of the Company and its subsidiaries from time to time does not, without the sanction of an ordinary resolution, exceed an amount equal to four times the share capital and reserves (as defined by the Articles) without the previous sanction of any ordinary resolution of the Company in general meeting.

(xii) *Pensions, gratuities etc.*

The Directors may, subject to the provisions of the Act, exercise all the powers of the Company to grant pensions, annuities or other allowances and benefits in favour of any person including any Director or former Director or the relations, connections or dependants of any Director or former Director, provided that no pension, annuity or other allowance or benefit (except such as may be provided for by the Articles) shall be granted to a Director or former Director who has not been an executive Director or held any other office or place of profit under the Company or any of its subsidiaries or to a person who has no claim on the Company except as a relation, connection or dependant of such a Director or former Director without the approval of an ordinary resolution of the Company.

(xiii) *Dividends*

Subject to the Act, the Company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the Directors. Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provides, all dividends shall be declared and paid according to the amounts paid up on the shares, (but no amount paid up on a share in advance of calls be treated for this purpose as paid up on such share), and shall be apportioned and paid *pro rata* to the amounts paid up on the shares during any portion of the period in respect of which the dividend is paid.

Subject to the provisions of the Act, the Directors may pay such interim dividends as they think fit.

(xiv) *Unclaimed dividends*

Any dividend unclaimed for a period of twelve years after it became due for payment shall be forfeited and shall revert to the Company.

(xv) *Untraced shareholders*

- (a) When the registered address of a member appears to be incorrect or out of date such member may, if the board so resolves, be treated as if he had no registered address and thereafter the Company is not obliged to send cheques, warrants, notices or accounts to that member. No such resolution shall be proposed unless cheques or warrants sent to the registered address of such member have been returned by the Post Office or left uncashed on at least two consecutive occasions or, following one such occasion, reasonable enquiries have failed to establish any new address of such member.
- (b) If for a period of twelve years at least three dividends have become payable and not been cashed and no communication has been received from the member (or any person entitled to the member's shares by transmission), the Company may sell such shares at the best obtainable price if, after giving notice in a leading newspaper and a newspaper circulating in the region of the member's registered address, it has not had any communication from the member (or anyone entitled to his shares by transmission) within three months.

## 7 Working Capital

The Directors are of the opinion, having made due and careful enquiry and taking into account the net proceeds of the Placing, that the working capital available to the Group will, from Admission, be sufficient for its present requirements, that is for at least the next twelve months from the date of publication of this document.

## 8 Litigation

No member of the Group is engaged in any legal or arbitration proceedings, nor, so far as the Directors are aware, are there any legal or arbitration proceedings active, pending or threatened against or being brought by any member of the Group which are having or may have or may have had, a significant effect on the Group's financial position.

## 9 Taxation

- (a) The following paragraphs include advice received by the Directors about the current taxation position of shareholders who are resident or ordinarily resident and domiciled in the UK for taxation purposes in respect of their holdings of Ordinary Shares and who hold their Ordinary Shares as investments. The statements below are intended only as a general guide and do not constitute advice to any shareholder on his or her personal tax position and may not apply to certain classes of investor (such as dealers, charities or pension providers) or investors who acquired their shareholding by reason of a directorship or employment. The comments are based on legislation and published Inland Revenue practice as at 1 September 2003. Levels of taxation may change from time to time. **Any investor who is in any doubt as to his or her tax position, or who may be subject to tax in any other jurisdiction, should consult his or her professional adviser.**

(b) Taxation of Dividends

A dividend paid to a non-corporate shareholder is treated as being paid with a tax credit equal to one ninth of the net dividend. A dividend of £90 would therefore have an accompanying tax credit of £10. Individual shareholders whose taxable income is within the lowest or basic rate bands will be liable to income tax at 10 per cent. on the aggregate of the dividend and the tax credit. The tax credit will therefore satisfy their income tax liability on the dividend. Individual shareholders who are liable to income tax at the higher rate will be charged to income tax at 32.5 per cent. on the aggregate of the dividend with the accompanying tax credit. The 10 per cent. tax credit is set against the income tax liability of 32.5 per cent. leaving an additional income tax liability of 22.5 per cent. This additional 22.5 per cent. tax liability equates to an effective rate of income tax on the dividend actually received of 25 per cent.

Subject to certain exceptions for certain insurance companies which hold shares as trading stock, a UK corporate shareholder receiving a dividend paid by the Company will not be taxable on the dividend. Since July 1997 pension providers and most UK corporate shareholders have not been entitled to payment of tax credits by the Inland Revenue. However, certain charities and other bodies entitled to special exceptions can continue to claim tax credits, or a portion thereof, in respect of dividends paid to 6 April 2004.

Persons who are not resident in the UK should consult their own tax advisers on whether they can benefit from all or part of any tax credit and what relief or credit they may be entitled to in the jurisdiction in which they are resident.

(c) Taxation of chargeable gains

If a shareholder disposes of all or any of the Ordinary Shares acquired in the Placing he or she may, depending on the shareholder's particular circumstances, incur a liability to taxation on chargeable gains. Individuals, personal representatives and trustees, may be entitled to an annual exemption and taper relief, which will serve to reduce the chargeable gain. Companies are not entitled to taper relief, but are due indexation allowance, which may also reduce the chargeable gain.

(d) Stamp duty and stamp duty reserve tax

- (i) Generally, no stamp duty or stamp duty reserve tax ("SDRT") will be payable by subscribers on the issue to them of new Ordinary Shares pursuant to the Placing.
- (ii) Any subsequent transfer or sale of Ordinary Shares will generally give rise to a liability on the purchaser to *ad valorem* stamp duty currently at a rate equivalent to 50p for every £100 or part of £100 of the consideration paid. An unconditional agreement to transfer such Ordinary Shares will be subject to SDRT at a rate of 0.5 per cent. of the consideration paid. However, when an instrument of transfer is executed and duly stamped before the expiry of a period of six years beginning with the date of that agreement, a claim can normally be made to cancel or obtain repayment of the SDRT liability.
- (iii) Special rules apply to the agreements made by market makers in the ordinary course of their business, broker-dealers and certain other persons. Agreements to the transfer of Ordinary Shares to charities will not give rise to SDRT or stamp duty.

## 10 Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company and other members of the Group within the two years immediately preceding this document and remain outstanding and are or may be material or are material in the context of the Group's business:

### 10.1 Summary of the agreements relating to the University of Oxford Partnership

(a) **Equity Agreement**

Pursuant to an equity agreement dated 14 December 2000 (as varied by a supplemental agreement dated 13 September 2001 (the "Equity Supplemental Agreement")) made between Evolution Beeson Gregory (1), IP2IPO Limited (2), the University of Oxford (3) and ISIS Innovations Limited ("ISIS") (4), the University of Oxford granted IP2IPO Limited (in consideration of the sum of £10,000 paid by IP2IPO Limited to the University of Oxford) the right to purchase (subject to certain exceptions) 50 per cent. of the share capital issued to the University of Oxford in companies (each a "University of Oxford Spin-Out Company") where some or all of the founding shareholders are members of the University of Oxford Departments of Chemistry ("OUCD"). The equity agreement was varied by the Equity Supplemental Agreement such that, *inter alia*, the Company replaced Evolution Beeson Gregory.

The term of the equity agreement (as amended) is 15 years from 23 November 2000 but may be determined earlier with the agreement of the parties or if (i) IP2IPO Limited becomes insolvent, (ii) the Company or IP2IPO Limited commits any material breach of the agreement (not being capable of remedy) or (iii) the Company or IP2IPO Limited fails to remedy any material remediable breach after a cure period.

IP2IPO Limited's right to purchase a 50 per cent. interest in each University of Oxford Spin-Out Company arises upon the earliest of (i) the date on which the first investor (other than the founder researchers) and the University of Oxford subscribes for shares in the University of Oxford Spin-Out Company, (ii) the date falling three months after shares in the University of Oxford Spin-Out Company have been allotted to the founder researchers and (iii) the date an agreement is entered into for the sale of the whole of the issued share capital of that University of Oxford Spin-Out Company or for the sale of the whole or substantially the whole of the assets and/or business of that University of Oxford Spin-Out Company.

The price to be paid by IP2IPO Limited to purchase the University of Oxford's 50 per cent. of the shares in a University of Oxford Spin-Out Company is (i) the fair value of the shares (as agreed or certified by the auditors of the University of Oxford Spin-Out Company) or (ii) if the purchase is taking place at the same time as an investor is subscribing for shares in that University of Oxford Spin-Out Company, a price not materially different from the price paid by that investor



taking into account the rights attaching to the shares being subscribed for by that investor and the shares being purchased by IP2IPO Limited. However, once IP2IPO Limited has paid, in aggregate, a sum equal to £19,890,000 for shares in University of Oxford Spin-Out Companies, then the purchase price to be paid for further purchases of shares in University of Oxford Spin-Out Companies shall be the par value of such shares.

The equity agreement establishes a procedural framework for the exploitation of IP arising within the OUCD. IP2IPO Limited's involvement includes assisting ISIS in the identification of exploitable IP within the OUCD, the evaluation of all projects established by ISIS and, where appropriate, to produce an investment proposal in respect of any exploitable IP. The parties agreed to establish a steering committee (consisting of three representatives from the Company and IP2IPO Limited, two representatives from the University of Oxford and one representative from ISIS). The steering committee is empowered to review progress in the exploitation of the relevant IP, the effectiveness of the framework and procedures which the parties have adopted for exploitation purposes and advise the University of Oxford and ISIS on the processes of achieving exploitation. The quorum of the steering committee is two representatives of the Company and IP2IPO Limited and two representatives from the University of Oxford and ISIS. Administration of the steering committee will be provided by IP2IPO Limited and one of the representatives appointed by IP2IPO Limited will normally act as chairman of the steering committee. The chairman shall not have a casting vote. To the extent that the steering committee shall be unable to agree on any matter before it, the matter shall be referred to the Registrar of the University of Oxford and the chief executive of the Company.

The Company guarantees to the University of Oxford the due performance by IP2IPO Limited of its obligations under the equity agreement.

**(b) Revenue Sharing Agreement**

Pursuant to a revenue sharing agreement dated 14 December 2000 (as varied by a supplemental agreement dated 13 September 2001 (the "Revenue Supplemental Agreement")) and made between Evolution Beeson Gregory (1) IP2IPO Limited (2) and ISIS (3) ISIS (in consideration of the sum of £100,000 paid by IP2IPO Limited to ISIS) agreed to pay to IP2IPO Limited a sum equal to 50 per cent. of the net revenue derived from the exploitation by ISIS of IPR in work done (in whole or in part) by members of the OUCD through the grant of licences or in other ways that would otherwise be for distribution to elements of the University of Oxford as set out in the University of Oxford's Statutes, Decrees and Regulations from time to time. The revenue sharing agreement was varied by the Revenue Supplemental Agreement such that, *inter alia*, the Company replaced Evolution Beeson Gregory.

The term of the revenue sharing agreement (as amended) is fifteen years from 23 November 2000 and may be determined earlier with the agreement of the parties to the agreement or if (i) IP2IPO Limited becomes insolvent, (ii) the Company or IP2IPO Limited shall commit any material breach of the agreement (not being capable of remedy) or (iii) the Company or IP2IPO Limited fails to remedy any material remediable breach of the agreement after a cure period.

The Company guarantees to ISIS the due performance by IP2IPO Limited of its obligations under the revenue sharing agreement.

**(c) Loan Agreement**

Pursuant to a loan agreement dated 14 December 2000 (as varied by a supplemental agreement dated 13 September 2001 (the "Loan Supplemental Agreement")) and made between Evolution Beeson Gregory (1) IP2IPO Limited (2) and the University of Oxford (3), IP2IPO Limited agreed to make a loan of £19,890,000 (the "Loan") available to the University of Oxford. The Loan was paid to the University of Oxford in two tranches, both of which tranches have been paid in full. The loan agreement (as amended) provides that sums due by IP2IPO Limited to the University of Oxford in respect of the purchase by IP2IPO Limited of shares from the University of Oxford in

any University of Oxford Spin-Out Company, will be offset and be applied in the reduction of the outstanding balance of the Loan. To the extent that there is any balance of the Loan outstanding as at 31 March 2016, then such outstanding balance will be written off and all amounts due from the University of Oxford to IP2IPO Limited in respect of the Loan will be deemed to have been discharged on that date. The loan agreement was varied by the Loan Supplemental Agreement such that, *inter alia*, the Company replaced Evolution Beeson Gregory.

The Company guarantees to the University of Oxford the due performance by IP2IPO Limited of its obligations under the loan agreement.

## 10.2 Summary of the agreements relating to the University of Southampton Partnership

### (a) **Framework Agreement**

Pursuant to a framework agreement dated 20 March 2002 and made between University of Southampton (1) University of Southampton Holdings Limited, a wholly owned subsidiary of University of Southampton ("USHL") (2) IP2IPO Limited (3) IML (4) and Southampton Asset Management Limited ("SAM") (5) the parties agreed certain arrangements with regard to the commercialisation of the IP created by the University of Southampton's academic staff, students and third parties which vests in the University of Southampton ("University of Southampton IP"). Broadly summarised, these arrangements entitle IP2IPO Limited to a 20 per cent. interest in SAM which holds the University of Southampton's interest in any company established with a view to the commercialisation of University of Southampton IP ("University of Southampton Spin-Out Company"), the University of Southampton's interest in shares acquired as a result of the University's licensing activities (other than Out-Licensing) as defined in paragraph 10.2(a)(iv) and an interest, through IML, in investments from the £5m Southampton Fund in University of Southampton Spin-Out Companies.

The principal provisions of the framework agreement are as follows:

- (i) IP2IPO Limited will make the £5m Southampton Fund available to IML so as to enable IML to make seed capital investments in University of Southampton Spin-Out Companies made in accordance with the investment protocol set out in the framework agreement and in companies formed to commercialise University of Southampton IP which is partially owned by the University of Southampton and partially owned by third parties;
- (ii) recording that the University of Southampton IP policy and certain other contracts grant the University of Southampton ownership of University of Southampton IP and the University of Southampton has agreed that it will not amend the IP policy (other than by reason of any change of law) with the objective of materially diminishing any interest which IP2IPO Limited may have in University of Southampton Spin-Out Companies;
- (iii) subject to the provisions of paragraph 10.2(a)(iv), the University of Southampton will use all reasonable endeavours and act in good faith to procure that during the term of the framework agreement all commercialisation opportunities relating to the creation of University of Southampton Spin-Out Companies will be channelled through SAM. As from the date of the framework agreement, SAM owns outright the equity in University of Southampton Spin-Out Companies corresponding to the University of Southampton's interest in that company;
- (iv) whilst generally University of Southampton IP will be commercialised by the University of Southampton licensing or assigning the relevant IP to a University of Southampton Spin-Out Company, in some instances greater benefit may be derived by the University of Southampton licensing the relevant University of Southampton IP to a company which may be regarded as 'established' (i.e. it is not 'early stage' or 'developmental') in return for cash or deferred cash consideration ("Out-Licensing"). Under the framework agreement the parties acknowledge that IP2IPO Limited has a vested interest in the creation of University of Southampton Spin-Out Companies but no such interest in Out-Licensing and they agree, that, where such alternative commercialisation routes present themselves the presumption as

between the parties is that the preferred route is the formation of a University of Southampton Spin-Out Company where the arguments in favour of such formation outweigh the arguments in favour of Out-Licensing. However, subject to the University of Southampton acting in good faith and giving due consideration to the views of the steering committee (as referred to in paragraph 10.2(a)(x) below), the University of Southampton's decision with respect to the selection of the preferred commercialisation route is final;

- (v) investment decisions in relation to University of Southampton Spin-Out Companies will be made by the investment committee (other than in relation to certain *de-minimis* investments, being investments (a) of less than £50,000 made prior to the formation of a University of Southampton Spin-Out Company with the unanimous consent of the investment committee and (b) of less than £20,000 provided that not more than five of such investments are made in any one year). The investment committee comprises the director of the University of Southampton's Centre for Enterprise and Innovation, the chief executive officer of IP2IPO Limited (who is to be chairman with a second and casting vote), the non-executive directors of SAM (excluding non-executive directors who are University of Southampton Academic Staff (as defined in paragraph 10.2(a)(vii) below) or full time employees of the University of Southampton or IP2IPO Limited) and two persons nominated by IP2IPO Limited. Any investment decision requires the affirmative vote of the chief executive officer of IP2IPO Limited. If such affirmation is not given the matter is to be referred to the steering committee (see paragraph 10.2(a)(x) below);
- (vi) investments in University of Southampton Spin-Out Companies are made on the basis of a pre-money valuation of £750,000. It is intended that IML has the right of first access to University of Southampton Spin-Out Companies in order to supply IML with opportunities to invest the £5m Southampton Fund and the parties to the framework agreement are obliged to use reasonable endeavours to ensure, whenever possible, that IML is placed in a position where it has the first opportunity to invest in any University of Southampton Spin-Out Company. Whilst it is the intention that IML shall have first access to each University of Southampton Spin-Out Company, in certain cases other sources of finance closely associated with the University of Southampton will have co-investment rights;
- (vii) the division of equity in a University of Southampton Spin-Out Company (prior to any £5m Southampton Fund investment by IML and any third party investment and prior to the issue of shares or options to University of Southampton Spin-Out Company management (other than academic staff employed by the University of Southampton ("University of Southampton Academic Staff"))) shall, as between the University of Southampton and the relevant University of Southampton Academic Staff, be assessed on a case by case basis. However, the University of Southampton has given assurances that it is reasonable for the parties to assume that in most cases, SAM will be entitled to hold not less than 50 per cent. of the equity in a University of Southampton Spin-Out Company, prior to any investment in that company (and excluding any shares issued to management who are not University of Southampton Academic Staff);
- (viii) IML is obliged to make the £5m Southampton Fund available for the purposes of investing in University of Southampton Spin-Out Companies over four years (i.e. at £1.25 million per annum before charges) although any monies not invested in any given year are rolled into the following year's allocation of £1.25 million. With the unanimous consent of the investment committee, IML is entitled to make investments exceeding £1.25 million in any year. It is envisaged that the average investment will be of the order of £250,000 but no single investment greater than £500,000 can be made without the unanimous consent of the investment committee and the board of IML. The £5m Southampton Fund may also be invested in a small number of cases on a pre-incorporation basis (not to exceed £50,000 in any case) for the purpose of enabling an identifiable project to progress to the point where formation of a University of Southampton Spin-Out Company becomes practicable;

- (ix) IP2IPO Limited is entitled to charge and IML shall pay a fee chargeable against the £5m Southampton Fund, of 2 per cent. per annum (that is 2 per cent. of £5 million). The fee is payable annually in arrears. No fee is payable once the £5m Southampton Fund is fully invested;
- (x) a steering committee (comprising three representatives of IP2IPO Limited, two representatives of the University of Southampton and one representative of SAM (being one SAM non-executive director)) shall be established to conduct those activities set out in the framework agreement, including, monitoring and reviewing the activities of the parties in relation to the framework agreement with a view to maximising the benefits of the parties, suggesting improvements and changes to the arrangements contained in the framework agreement and to consider and suggest solutions in relation to any issue arising between the parties in relation to the framework agreement;
- (xi) University of Southampton acknowledges that IP2IPO Limited may wish to supply business development services to any University of Southampton Spin-Out Company and it shall not object to the same being so provided;
- (xii) IP2IPO Limited is also obliged to provide certain other services to the University of Southampton and SAM, including the provision of a secondee to work with the University's Centre for Enterprise and Innovation, subject to IP2IPO Limited indemnifying the University in respect of certain acts of the same;
- (xiii) University of Southampton undertakes not to enter any similar agreement or arrangement with third parties during the term of the framework agreement without the consent of IP2IPO Limited;
- (xiv) an acknowledgement that in some cases it may be beneficial for IP2IPO Limited to hold its indirect interest in a University of Southampton Spin-Out Company (that is, the interest in a spin-out company to which IP2IPO is entitled by virtue of its holding of 20 per cent. of the issued share capital of SAM) directly rather than indirectly through its shareholding in SAM. Provided that University of Southampton and SAM are each satisfied that neither of them shall be prejudiced or disadvantaged in any way, IP2IPO Limited is entitled to require those shares in that University of Southampton Spin-Out Company be issued to it as corresponds to its 20 per cent. of the interest held by SAM. In such a case IP2IPO Limited shall have no further rights in respect of the shares in that University of Southampton Spin-Out Company which are held by SAM and the articles of association of SAM give effect to that requirement;
- (xv) IP2IPO Limited and IML each warrant to the University of Southampton and SAM that each of them has the capacity and authority to enter into and perform the framework agreement and that the framework agreement has been duly executed by each of them;
- (xvi) upon the full utilisation of the £5m Southampton Fund or the expiry of eight years from the 20 March 2002, then the provisions of the framework agreement in relation to the £5m Southampton Fund will cease to have effect but the parties will enter into good faith negotiations as to the establishment of a further fund on similar terms;
- (xvii) the framework agreement may be terminated as follows:
  - (a) broadly, after the twenty-fifth anniversary of the term of the framework agreement, if University of Southampton decides that it is not in the best interests of the University of Southampton to continue with the framework agreement;
  - (b) immediately by notice in writing given either by University of Southampton or by IP2IPO Limited if (aa) either party or any member of that party's group are in material, continuing or irremediable breach of any of its obligations under the framework agreement and (in relation to breaches capable of being remedied), fails to remedy the

same within a period of 30 days after written notice of the breach or (bb) that party is suffering some form of insolvency (as more particularly described in the framework agreement);

- (c) by the University of Southampton if during the term of the framework agreement there has been a significant change of control (defined as any person other than Evolution or any member of its group) acquiring control (within the meaning of section 840 Income and Corporation Taxes Act 1988) of IP2IPO Limited or IML;
- (d) if the chief executive officer of IP2IPO Limited fails to affirm in any 12 month period three or more decisions of the investment committee (ignoring any failures to affirm which the steering committee decides were justified);
- (e) if IP2IPO Limited ceases to be actively engaged in the commercialisation of IP of universities or other public sector research institutions after the £5m Southampton Fund has been fully utilised (ignoring any sum of less than £20,000) or on the expiry of 8 years from the date of the framework agreement;
- (f) IP2IPO Limited may terminate the framework agreement if there has been a change of law or tax change which results in it no longer being economic for IML to invest in University of Southampton Spin-Out Companies or there being a fundamental and drastic shortage of investment opportunities available to IML (for example no formal proposals being received by the investment committee for a two year period) or the University of Southampton or SAM ceases to own IP created at the University of Southampton; or
- (g) University of Southampton shall be entitled in the event of a fundamental early failure in the first year of the term of the framework agreement to require IP2IPO Limited to transfer to University of Southampton for the sum of £1 all the B ordinary shares subscribed for by IP2IPO Limited in SAM or, if such event occurs in the second year of the term, to require IP2IPO Limited to transfer to the University of Southampton for the sum of £1, 50 per cent. of all such B ordinary shares. For these purposes a fundamental early failure means (aa) there is a change of law prohibiting IML from investing in spin-out companies and that it is reasonable to assume that such prohibition is permanent, (bb) there is a change in circumstance which undermines the commercial rationale of the framework agreement or (cc) IP2IPO Limited persistently and materially breaches the provisions of the framework agreement.

**(b) *Subscription and Shareholders Agreement***

Pursuant to a subscription and shareholders agreement dated 20 March 2002 and made between USHL (1), IP2IPO Limited (2) and SAM (3), USHL agreed to subscribe at par for 78 A ordinary shares of £1 each in SAM (which when aggregated with USHL's existing holding of 2 A ordinary shares gave USHL 80 per cent. of the issued share capital of SAM) and IP2IPO Limited agreed to subscribe at par for 20 B ordinary shares of £1 each in SAM (which gave IP2IPO Limited 20 per cent. of the issued share capital of SAM).

The principal provisions of the subscription and shareholders agreement are as follows:

- (i) SAM gave warranties in respect of its post incorporation status to each of USHL and IP2IPO Limited;
- (ii) IP2IPO Limited has the right to appoint one director to the board of directors of SAM and the right to remove or replace any such director from time to time. Pending any such appointment, IP2IPO Limited has the right to appoint, remove and replace an observer who shall be entitled to attend and speak, but not vote, at meetings of the board of directors of SAM. Any director appointed by IP2IPO Limited may report back to the Company in relation to the proceedings of the board of directors of SAM and at each meeting of such

board of directors may represent the position of the Company. IP2IPO Limited shall be responsible for and shall indemnify USHL and SAM against any claim made by any director or observer appointed and subsequently removed by it;

- (iii) until IP2IPO Limited ceases to hold (in aggregate) 20 per cent. of the entire issued share capital of SAM, the parties to the agreement have agreed that certain minority protection rights in favour of IP2IPO Limited shall apply, including the following prohibitions without the prior written consent of IP2IPO Limited: the issue of new shares in SAM; the alteration to the memorandum and articles of association of SAM; the borrowing of any money by SAM; the disposal of any of its business or undertaking; the change in the nature and scope of the business of SAM;
- (iv) no transfer of shares in the share capital of SAM by a shareholder in SAM is allowed unless the transfer is in accordance with the permitted transfer provisions of the articles of association of SAM or with the prior written consent of the other shareholder;
- (v) the subscription and shareholders agreement shall continue unless and until the earlier of (aa) IP2IPO or USHL ceasing to hold any shares in SAM, (bb) a resolution is passed or an order is made to wind-up SAM, (cc) a listing of SAM's share capital is achieved or (dd) the parties agree that such agreement should terminate.

(c) ***Articles of Association of SAM***

The articles of association adopted by SAM under the terms of the subscription and shareholders' agreement provide that:

- (i) the A ordinary shares and B ordinary shares rank equally but the holders of B ordinary shares (IP2IPO Limited) have the right to appoint one director;
- (ii) no shareholder may transfer, create or dispose of any interest in any share other than to members of its group or to a bare nominee or in the case of a holder of B ordinary shares to any investment fund or trustee, nominee or custodian; and

and give effect to arrangement specified in paragraph 10.2(a)(xiv) in the summary of the framework agreement relating to the University of Southampton Partnership.

10.3 *Summary of the agreement relating to the King's College London Partnership*

Pursuant to a framework agreement dated 14 May 2003 and made between King's College London (1), KCLE (2), IP2IPO Limited (3) and IM2 (4), the parties agreed certain arrangements with regard to the commercialisation of the IP created by the King's College London academic staff, students and third parties which vests in King's College London ("KCL IP"). Broadly summarised, these arrangements entitle IP2IPO Limited to a 20 per cent. interest in the shares held by King's College London (or any member of the group of which it forms part (the "KCL Group")) in any company established with a view to the commercialisation of KCL IP (a "KCL Spin-Out Company"), a 20 per cent. interest in any benefits derived by the KCL Group (including licence fees) arising from the licensing or assignment of KCL IP for commercialisation (save where such licensing or assignment is to a KCL Spin-Out Company) and an interest, through IM2, in investments from the £5m King's Fund in KCL Spin-Out Companies.

The principal provisions of the framework agreement are as follows:

- (i) IP2IPO Limited will make the £5m King's Fund available to IM2 to enable IM2 to make seed capital investments in any KCL Spin-Out Company made in accordance with the investment protocol set out in the framework agreement. IM2 is also able to invest the £5m King's Fund in companies formed to commercialise KCL IP that is partially owned by King's College London and partially owned by third parties. IM2 is also entitled to provide funds for the purposes of enabling identifiable projects to progress to a point where the formation of a KCL Spin-Out

Company becomes practicable save that such investments shall not exceed £50,000 without the unanimous consent of the investment committee;

- (ii) King's College London has agreed that it will not amend its IP policy (other than by reason of any change of law) with the objective of fundamentally avoiding or materially diminishing any interest which KCLE, IP2IPO Limited or IM2 may have in KCL Spin-Out Companies and/or which IP2IPO Limited or IM2 have under the framework agreement;
- (iii) IM2 has the first right to make seed capital investments in KCL Spin-Out Companies. The framework agreement recognises that there may be some circumstances where the founder of a KCL Spin-Out Company may not want to accept seed capital from the £5m King's Fund and in such a case King's College London or KCLE will not be in breach of their respective obligations under the framework agreement. There are a number of other sources of seed capital finance (including two university challenge funds with which KCL is associated) who have a co-investment right alongside IM2 but IM2 has the right to invest a minimum of 50 per cent. of the total seed capital invested in the KCL Spin-Out Company;
- (iv) once the £5m King's Fund has been fully invested, IP2IPO Limited has the right to extend the £5m King's Fund;
- (v) investment decisions in relation to KCL Spin-Out Companies will be made by an investment committee. The investment committee comprises the managing director of KCLE, three persons nominated by KCLE, the chief executive officer of IP2IPO Limited (who shall be chairman of the meeting) and two persons nominated by IP2IPO Limited. The chairman of the investment committee (the chief executive officer of IP2IPO Limited) may veto what would have been an affirmative decision of the investment committee, however such veto can only be exercised once in any 12 month period;
- (vi) the £5m King's Fund shall not be entitled to make investments in any KCL Spin-Out Company in any subsequent fund raising rounds;
- (vii) the £5m King's Fund will invest on the basis of a standard valuation for all KCL Spin-Out Companies, namely a pre-money valuation of £500,000 at the point at which the £5m King's Fund invests. This valuation assumes that the KCL Spin-Out Company will have already issued shares to King's College London or KCLE and academic staff employed by KCL who were substantially involved in the generation of the KCL IP relative to that KCL Spin-Out Company and, as appropriate, the KCL Spin-Out Company initial management team;
- (viii) that KCL's policy is that as between KCL Group and founders of the relevant KCL IP the division of equity should be such that the KCL Group receives at least 60 per cent. of the shares in a KCL Spin-Out Company but it is acknowledged that the precise division will depend on KCL's policy in respect of its IP;
- (ix) it is envisaged that the £5m King's Fund will be invested over a period of about five years at a rate of about £1 million per annum;
- (x) IP2IPO Limited will provide King's College London up to £250,000 to augment King's College London's patenting resources, such that for every £66 spent by King's College London after the date of the framework agreement on patenting costs, IP2IPO Limited will provide an additional £34, subject to a maximum of £50,000 in any one year and subject to the overall cap of £250,000;
- (xi) IP2IPO Limited is also obliged to provide certain services to KCLE, including the provision of a secondees to work with KCLE, subject to IP2IPO Limited indemnifying the University in respect of certain acts of the same;
- (xii) King's College London recognises that IP2IPO Limited may wish to supply business development services to any KCL Spin-Out Company and it shall not object to the same being so provided;

- (xiii) King's College London undertakes not to enter any similar agreement or arrangement with third parties during the term of this framework agreement without the consent of IP2IPO Limited;
- (xiv) IP2IPO Limited is entitled to a share of the value that would accrue to the KCL Group with respect to any given commercialisation project during the term of the framework agreement. IP2IPO Limited shall be entitled to:
  - (i) 20 per cent. of the KCL Group's interest (accrued during the term of the framework agreement) in any licensing agreements (entered into during the term of the framework agreement) under which any member of the KCL Group licences out KCL IP to a third party in return for a fee; and
  - (ii) 20 per cent. of the KCL Group's interest in any KCL Spin-Out Company (formed during the term of the framework agreement);
- (xv) a steering committee (comprising three representatives of IP2IPO Limited and three representatives of King's College London) shall be established to conduct those activities set out in the framework agreement, including, monitoring the progression of the relationship between the parties, identifying areas for improvement and suggesting and agreeing improvements and changes to the arrangements contained in the framework agreement and to consider and suggest solutions in relation to any issue arising between the parties in relation to the framework agreement;
- (xvi) IP2IPO Limited and IM2 each warrant to King's College London and KCLE that each of them has the capacity and authority to enter into and perform the framework agreement and that the framework agreement has been duly executed by each of them;
- (xvii) in the event that King's College London should merge with another university, the parties acknowledge that the framework agreement will not necessarily terminate but they will consult on how best to accommodate the commercialisation activities of the merged entity;
- (xviii) the framework agreement commenced on 14 May 2003 and subsists for a period of 25 years from that date, subject to the rights to terminate earlier as set out immediately below;
- (xix) the framework agreement may be terminated as follows:
  - (a) immediately by notice in writing given either by King's College London or by IP2IPO Limited if (aa) either party or any member of that party's group are in material breach of any of its obligations under the framework agreement and (in relation to breaches capable of being remedied), fails to remedy the same within a period of 30 days after written notice of the breach and the breach is both material and has been "finally determined" (as defined in the framework agreement) or (bb) that party is suffering some form of insolvency (as more particularly described in the framework agreement);
  - (b) IP2IPO Limited may terminate the framework agreement if there has been, in summary, a change of law or tax change which results in it no longer being economic for IM2 to invest in KCL Spin-Out Companies or there being a fundamental and drastic shortage of investment opportunities available to IM2 (for example no formal proposals being received by the investment committee for a two year period) or King's College London ceases to own IP created at KCL which, in any such case, cannot be rectified or, as the case may be, rectified after notice;
  - (c) King's College London may terminate the framework agreement if during the term there has been a significant change of control (defined as any person other than Evolution or any member of its group acquiring control (within the meaning of section 840 Income and Corporation Taxes Act 1988)) of IP2IPO Limited or IM2;
  - (d) if by the tenth anniversary of the date of the framework agreement, IP2IPO Limited has not provided an undertaking to either King's College London or KCLE to extend the fund by an



additional £5 million, then King's College London or KCLE shall have the right to terminate the framework agreement 60 days following the tenth anniversary, after first having provided prior notice of its intention to terminate;

- (e) in the six months immediately prior to the tenth anniversary of the term of the framework agreement (but only if IP2IPO Limited shall not have provided the undertaking for the additional £5 million), King's College London or KCLE shall be entitled to carry out a review of the progress made under the framework agreement. If King's College London or KCLE having carried out that review conclude that IP2IPO Limited's performance has been unsatisfactory and warrants termination of the framework agreement, then the framework agreement may be so terminated 60 days following the tenth anniversary, after first having provided prior notice of its intention to terminate;
- (xx) in addition King's College London shall be entitled in the first three years of the term of the framework agreement to require IP2IPO Limited to transfer to King's College for the sum of £1 a decreasing percentage of all the shares held by IP2IPO Limited in KCL Spin-Out Companies and all net licence income received from licensing opportunities in that three year period, if IP2IPO Limited shall have failed by reason of its own voluntary act or omission to invest the £5m King's Fund at the rate anticipated in the framework agreement over the first three years and IP2IPO Limited shall have failed to remedy such breach after having received written notice of the same.

#### 10.4 *Summary of the agreements relating to the University of York Partnership*

##### (a) **Framework Agreement**

Pursuant to a framework agreement dated 19 September 2003 and made between University of York (1), IP2IPO Limited (2) and Amaethon Limited ("AL") (3), the parties agreed certain arrangements with regard to the exploitation of the IP created or owned by certain persons based at the Centre of Novel Agricultural Products within the Biology Department of the University of York ("CNAP IP"). Broadly summarised, these arrangements entitle IP2IPO Limited to a one-third interest, through AL, in (i) any company established with a view to the commercialisation of CNAP IP (a "CNAP Spin-Out Company") and (ii) benefits (including licence fees) arising from the licensing or assignment of CNAP IP (other than to a CNAP Spin-Out Company). IP2IPO Limited will also be entitled to shares in CNAP Spin-Out Companies following an investment from the CNAP Fund (as defined in paragraph 10.4(a)(vii) below).

The principal provisions of the framework agreement are as follows:

- (i) the framework agreement is conditional upon Admission. If Admission does not take place prior to 31 December 2003 (or such later date as IP2IPO Limited and the University of York agree) then the framework agreement will cease to have effect;
- (ii) AL will be owned as to two-thirds by the University of York and one-third by IP2IPO Limited;
- (iii) both the University of York and IP2IPO Limited have the option at any time thirty days before AL raises capital by an issue of equity shares or its share capital is admitted to trading to a recognised investment exchange, to a certain percentage of AL's income so achieved subject to a proportion of its shares in AL being converted into deferred shares which carry no right or entitlement;
- (iv) University of York agrees for the duration of the framework agreement to make all of CNAP IP exclusively (subject to certain limited exceptions) available to AL and AL may call for CNAP IP to be transferred either to itself or to whomever it may direct. AL shall seek to exploit CNAP IP through the formation of CNAP Spin-Out Companies or through licensing agreements (entered into during the term of the framework agreement) under which any AL licences out CNAP IP to a third party in return for a fee;

- (v) AL shall be the sole and exclusive IP commercialisation company for CNAP IP and shall be responsible for the exploitation of CNAP IP;
- (vi) University of York and AL each undertake not to enter any similar agreement or arrangement with third parties during the term of the framework agreement in respect of CNAP IP without the consent of IP2IPO Limited. However if the CNAP Fund (as defined in paragraph 10.4(a)(vii) below) is not extended beyond the initial term of three years, then AL may enter into arrangements with third parties in relation to the provision of seed capital;
- (vii) IP2IPO Limited will make a fund (the "CNAP Fund"), initially in the amount of £750,000, available to enable seed capital investments in CNAP Spin-Out Companies to be made. Investments in any CNAP Spin-Out Company are to be made in accordance with the investment protocol set out in the framework agreement. In addition, IP2IPO Limited will also be able to invest the CNAP Fund in companies formed to commercialise CNAP IP that is partially owned by AL and partially owned by third parties;
- (viii) the objective is that the CNAP Fund is invested over three years. Once the CNAP Fund has been fully invested, IP2IPO Limited shall have the right to extend the CNAP Fund;
- (ix) IP2IPO Limited will invest the CNAP Fund on the basis of a standard valuation for all CNAP Spin-Out Companies, namely a pre-money valuation of £500,000 at the point at which the investment is made. This valuation assumes that the CNAP Spin-Out Company will already have issued shares to AL and the relevant academic staff of the University of York or CNAP Research Centre staff who generated the relevant CNAP IP ("Inventors"), and where relevant the CNAP Spin-Out Company's initial management and any third party with a prior interest in the relevant IP. Investment in any CNAP Spin-Out Company shall not exceed £300,000 unless the members of the investment committee unanimously agree;
- (x) IP2IPO Limited may also invest the CNAP Fund, subject to certain financial limits, in projects which are close to the point of commercialisation and require a relatively small amount of funding specifically for the purposes of advancing the project to the point where it is possible to form a CNAP Spin-Out Company or enter into a licence of the relevant CNAP IP;
- (xi) investment decisions in relation to CNAP Spin-Out Companies will be made by an investment committee. The investment committee comprises the chief executive of AL and three persons nominated by the University of York, the chief executive officer of IP2IPO Limited (who shall be chairman with a second and casting vote) and two persons nominated by IP2IPO Limited. IP2IPO Limited is only entitled or obliged to make an investment from the CNAP Fund if the investment committee is satisfied that IP2IPO Limited has sufficient control over its investment;
- (xii) the framework agreement specifies how any licence fees on out licensing shall be allocated between the Inventors of the relevant CNAP IP and AL. In addition the framework agreement provides that the Inventors' pre-money share in the relevant CNAP Spin-Out Companies will be 28 per cent. with the remaining 72 per cent. being held by AL;
- (xiii) IP2IPO Limited will provide AL with working capital of up to £1,000,000. The working capital will be provided by IP2IPO Limited in three tranches as follows. Once the framework agreement becomes unconditional, IP2IPO Limited will make a payment to AL of £333,333 in subscription for 333,333 B shares of £1 each in AL; such B shares carry no right or entitlement. Provided AL meets the target of completing the seed funding one or more CNAP Spin-Out Companies and entering into two or more out licences by the first anniversary of the date upon which the framework agreement becomes effective, IP2IPO Limited will provide an additional £333,333 to AL in subscription for a further 333,333 B shares. Finally, once certain minimum performance targets as set by the board of directors of AL (which shall be no less than the target above) have been achieved in the period

between the first and second anniversaries of the date on which the framework agreement becomes effective, IP2IPO Limited will provide a final payment of £333,334 to AL in subscription for a further 333,334 B shares. If IP2IPO Limited does not make these payments then a commensurate proportion of its holding of A ordinary shares of 1p each in AL would be subject to being converted into deferred shares with no right or entitlement;

- (xiv) to enable AL to hire an additional member of staff, IP2IPO Limited will over a three year period pay AL £50,000 each year in subscription at par for 50,000 B shares;
- (xv) the parties acknowledge that an exit for AL is desirable and that they shall work together in good faith to realising value for the shareholders in AL;
- (xvi) IP2IPO Limited will provide services and assistance to AL including attracting new investors and providing advice with respect to commercialisation projects and IP2IPO Limited will be entitled to sell its corporate development services to CNAP Spin-Out Companies;
- (xvii) the parties gave certain limited warranties to each other;
- (xviii) the framework agreement may be terminated as follows:
  - (a) immediately by notice in writing given either by University of York or by IP2IPO Limited if (aa) either party or any member of that party's group are in material, continuing or irremediable breach of any of its obligations under the framework agreement and, in any such case (in relation to breaches capable of being remedied), fails to remedy the same within a period of 30 days after written notice of the breach or (bb) that party is suffering some form of insolvency (as more particularly described in the framework agreement);
  - (b) IP2IPO Limited may terminate the framework agreement if there has been, in summary, a change of law or tax change which results in it no longer being economic for AL to invest in CNAP Spin-Out Companies or there being a fundamental and drastic shortage of investment opportunities available in relation to CNAP IP (for example no formal proposals being received by the investment committee for a two year period) or the University or AL ceasing to own CNAP IP (other than anticipated under the framework agreement) which, in any such case, cannot be rectified or, as the case may be, rectified after notice;
- (xix) if AL suffers from some form of insolvency (as more particularly described in the framework agreement) then, subject to the University of York not intentionally causing such event to occur or materially contributing to it occurring and/or rejecting an offer of finance which would enable AL to return to solvency, then the University of York may notify the other parties that all future CNAP IP will cease to be available to AL;
- (xx) the framework agreement commenced on 19 September 2003 and subsists for a period of 25 years from the date upon which the agreement becomes effective; and
- (xxi) on the date that the framework agreement comes into effect the parties will enter into the subscription and shareholders' agreement referred to below.

**(b) *Subscription and Shareholders' Agreement***

Pursuant to a subscription and shareholders' agreement to be entered into once the framework agreement becomes unconditional and to be made between University of York (1), IP2IPO Limited (2) and AL (3), University of York agrees to subscribe at par for 6,566 ordinary shares of 1p each in AL (which when aggregated with the University's existing holding of 100 A ordinary shares of 1p each in AL will give the University of York two-thirds of the issued share capital of AL) and IP2IPO Limited agrees to subscribe at par for 3,333 A ordinary shares of 1p each in AL (which will give IP2IPO Limited one-third of the issued share capital of AL).

The principal provisions of the subscription and shareholders' agreement are as follows:

- (i) AL will give warranties in respect of its post incorporation status to each of the University of York and to IP2IPO Limited;
- (ii) University of York has the right to appoint up to four directors to the board of directors of AL and IP2IPO Limited has the right to appoint up to two directors to the board of directors of AL, together with the right to remove or replace any such director from time to time. Any director appointed by IP2IPO Limited may report back to the Company in relation to the proceedings of the board of directors of AL and at each meeting of such board of directors may represent the position of the Company. IP2IPO Limited shall be responsible for and shall indemnify the University of York and AL against any claim made by any director appointed and subsequently removed by it;
- (iii) until IP2IPO Limited ceases to hold (in aggregate) 20 per cent. of the entire issued share capital of AL, the parties to the agreement have agreed that certain minority protection rights in favour of IP2IPO Limited shall apply, including the following prohibitions without the prior written consent of IP2IPO Limited; the issue of new shares in AL; the alteration to the memorandum and articles of association of AL; the disposal of any of its business or undertaking, the transfers of any shares in AL and the disposal of any IP otherwise than in the ordinary course of business or in a manner consistent with the framework agreement;
- (iv) AL will, provided it has sufficient working capital, distribute its distributable profits at least annually provided that no such distributions are made within two years of the date of the subscription and shareholders' agreement;
- (v) upon signature of the subscription and shareholders' agreement AL will deliver a warrant to IP2IPO Limited entitling it to subscribe at par for such further A ordinary shares of 1p each as is equal to the number it then holds if AL issues shares, subject to certain exceptions, at a price of less than £1; and
- (vi) the subscription and shareholders agreement shall continue unless and until the earlier of (aa) IP2IPO Limited or the University of York ceasing to hold any shares in AL, (bb) a resolution is passed or an order is made to wind-up AL, (cc) the admission of AL's share capital to any recognised investment exchange or (dd) the parties agree that such agreement should terminate.

(c) *Articles of Association of AL*

The articles of association to be adopted by AL under the terms of the subscription and shareholders' agreement provide that:

- (i) the ordinary shares and A ordinary shares rank equally but the holders of ordinary shares have the right to appoint up to four directors and to remove, substitute or replace any of such directors and the holders of A ordinary shares have the right to appoint up to two A directors and to remove, substitute or replace any of such directors;
- (ii) the B shares of £1 each carry no right or entitlement;
- (iii) no shareholder may transfer, create or dispose of any interest in any share other than to members of its group or to a bare nominee or in the case of a holder of A ordinary shares or B shares to any investment fund or trustee, nominee or custodian provided that beneficial ownership does not vest in anyone who is not a member of the same group as that shareholder; and
- (iv) on a take-over or admission of the share capital of AL to any recognised investment exchange the holders of ordinary shares and A ordinary shares shall be entitled to such proportion of the proceeds as the number of ordinary and A ordinary shares held by them bears to the total of ordinary and A ordinary shares then in issue.

## 10.5 Other Material Contracts

### (a) **Provision of Services Agreement with Evolution Beeson Gregory**

An agreement made on 29 September 2003 between Evolution (1) Evolution Beeson Gregory (2) IP2IPO Limited (3) the Company (4) and Beeson Gregory Group Limited (5).

Under this agreement Evolution and Evolution Beeson Gregory provide certain facilities and services, such as *ad hoc* administrative services, human resources and accounting, to the Company and IP2IPO Limited for so long as the Company and IP2IPO require the same. The fee for such facilities and services is not anticipated to exceed £85,000 per annum.

### (b) **Appointed Representative Agreement**

IP2IPO Limited and Evolution Beeson Gregory entered into an agreement dated 25 March 2003 pursuant to which Evolution Beeson Gregory appointed IP2IPO Limited as its appointed representative under the Financial Services and Markets Act 2000.

### (c) **The Placing Agreement**

The Placing Agreement contains the following principal terms:

- (i) The Company appointed KBC Peel Hunt as its agent to procure subscribers at the Placing Price of 11,450,000 Ordinary Shares (the "Subscription Shares"). KBC Peel Hunt agreed (subject as set out in paragraph 10.5(c)(ii) below) to use its reasonable endeavours to procure subscribers at the Placing Price for the Subscription Shares.
- (ii) The obligations of KBC Peel Hunt referred to in paragraph 10.5(c)(i) are conditional, *inter alia*, on Admission occurring on or about 15 October 2003 or such later date (being not later than 29 October 2003) as KBC Peel Hunt and the Company may agree.
- (iii) The Company agreed to pay KBC Peel Hunt:
  - (aa) commission at the rate of 3 per cent. of the value of the Subscription Shares (together with value added tax); and
  - (bb) a corporate finance fee of £200,000 (together with value added tax).
- (iv) The Company agreed to pay all the costs and expenses of and incidental to the Placing (together with value added tax on such costs and expenses).
- (v) The Company and each of the Directors have given certain warranties, representations and undertakings to KBC Peel Hunt in relation, *inter alia*, to the accuracy of the information contained in this document, the financial position of the Group and as to other matters in relation to the Group and its business. In addition KBC Peel Hunt has the benefit of certain indemnities provided by the Company and each of the Directors relating to losses or liabilities incurred by KBC Peel Hunt in the performance of its duties, save to the extent that any such losses and liabilities arise from KBC Peel Hunt's wilful default, negligence or breach of its obligations under an express term of the Placing Agreement.
- (vi) KBC Peel Hunt may terminate the Placing Agreement at any time prior to Admission in certain circumstances, including a breach of any of the warranties, representations or undertakings contained in the Placing Agreement or upon the occurrence of certain *force majeure* events.
- (vii) The Directors have agreed with the Company and KBC Peel Hunt not to dispose of any of their Ordinary Shares before the first anniversary of Admission and for a further period of twelve months thereafter may only dispose of Ordinary Shares with the consent of KBC Peel Hunt.

(d) ***The Sale Share Agreements***

Each of the Sale Share Agreements (save to the extent otherwise mentioned) contain the following principal terms:

- (i) Each of the Selling Shareholders appointed KBC Peel Hunt as its agent to procure purchasers at the Placing Price of the Sale Shares. KBC Peel Hunt agreed (subject as set out in paragraph 10.5(d)(ii) below) to use its reasonable endeavours to procure purchasers at the Placing Price of the Sale Shares.
- (ii) The obligation of KBC Peel Hunt referred to in paragraph 10.5(d)(i) is conditional, *inter alia*, on Admission occurring on or about 15 October 2003 or such later date (being not later than 29 October 2003) as KBC Peel Hunt shall notify.
- (iii) Each of the Selling Shareholders has given limited warranties to the Company and KBC Peel Hunt in relation to its ownership of its Sale Shares.
- (iv) The Company has agreed with KBC Peel Hunt against delivery to the Company of duly executed and stamped stock transfer forms in respect of the Sale Shares accompanied by the relevant share certificates (or in the absence of any such certificate, an indemnity in lieu), to procure the registration (without registration fee) of the transferees of the Sale Shares as the holders thereof.
- (v) Evolution has agreed with the Company and KBC Peel Hunt that, save in limited circumstances, it will not dispose of any Ordinary Shares for a period of twelve months following Admission and that for a further period of twelve months thereafter Evolution will not dispose of such Ordinary Shares without the prior consent of KBC Peel Hunt.

**11 General**

- (a) Save as disclosed in this document, the Directors are unaware of any exceptional factors which have influenced the activities of the Company.
- (b) In the Directors' opinion, there is no minimum amount which must be raised pursuant to the Placing for the purposes of paragraph 21 of schedule 1 to the POS Regulations.
- (c) No person (other than the Group's professional advisers and trade suppliers) has received, directly or indirectly, from any member of the Group within the twelve months preceding the date of this document, or entered into contractual arrangements to receive, directly or indirectly, from any member of the Group on or after Admission any of: (i) fees totalling £10,000 or more; (ii) securities in the Company with a value of £10,000 or more (calculated by reference to the Placing Price); or (iii) any other benefit with a value of £10,000 or more at the date of this document.
- (d) KBC Peel Hunt has given and not withdrawn its written consent to the issue of this document with the references to its name in the form and context in which they appear.
- (e) The total costs, charges and expenses in connection with the Placing are estimated to be approximately £1.49 million (exclusive of VAT) and are payable by the Company. The net proceeds of the Placing will be approximately £30.0 million.
- (f) The Placing Shares being placed have a nominal value of 10 pence and the premium on issue pursuant to the Placing will be 265 pence per Ordinary Share.
- (g) Other than the application for Admission, the Ordinary Shares have not been admitted to dealings on any recognised investment exchange nor has any application for such admission been made, nor, except as stated above, are there intended to be any other arrangements for dealing in the Ordinary Shares.
- (h) Other than as described in this document, there are no patents or other intellectual property rights, licences or particular contracts which are of fundamental importance to the Group's business.

- (i) Other than pursuant to the terms of the Placing Agreement, no commissions are payable by the Company to any person in consideration of his agreeing to subscribe or his procuring or agreeing to procure subscribers for Ordinary Shares.
- (j) Save as set out in Part I of this document, there are no investments in progress which are significant.
- (k) Monies received by the applicants pursuant to the Placing will be held in accordance with the terms of the placing letters issued by KBC Peel Hunt until such time as the Placing Agreement becomes unconditional in all respects. If the Placing Agreement does not become unconditional in all respects by 29 October 2003, application monies will be returned to applicants at their own risk.

## **12 Availability of this document**

Copies of this document are available free of charge during normal business hours on any weekday (except Saturdays and public holidays) at the offices of KBC Peel Hunt Ltd, 111 Old Broad Street, London EC2N 1PH from the date of this document and for a period of at least one month from the date of Admission.

Dated: 10 October 2003