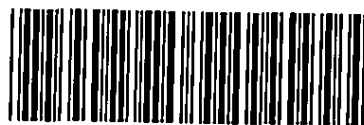


# Annual Report and Accounts 2008

**IP Group plc**  
**Company registration number** 4204490

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# About us

## Our vision

IP Group's core business is the creation of value for its shareholders and partners through the commercialisation of intellectual property originating from research intensive institutions.

We seek to provide our companies with more than just capital. We offer vision, access to networks, experience, methodology and support.

## Our partners

We are working in partnership with ten of the UK's leading research universities which gives us access to an unrivalled source of intellectual property and research capability.

1. University of Glasgow
2. University of York
3. University of Leeds
4. University of Bristol
5. University of Bath
6. University of Oxford
7. University of Southampton
8. University of Surrey
9. King's College London
10. Queen Mary, University of London

## Our history

**August 2001**  
Beeson Gregory transfers Oxford partnership to subsidiary IP Group (formerly IP2IPO)

**March 2002**  
IP Group signs agreement with the University of Southampton

**December 2002**  
Techtran signs agreement with the University of Leeds

**May 2003**  
IP Group signs agreement with King's College, London

**October 2003**  
IP Group floats on AIM

**November 2003**  
IP Group signs agreement with CNAP, the University of York

**March 2004**  
OHM floats on AIM

**June 2004**  
IP Group acquires Top Technology Ventures

**July 2004**  
IP Group acquires 19.9% stake in Techtran

**October 2004**  
Synairgen & Summit (formerly Vastox) float on AIM

**January 2005**  
IP Group acquires Techtran

**March 2005**  
Proximagen floats on AIM

**September 2005**  
GETECH floats on AIM

**December 2005**  
IP Group signs agreement with the University of Bristol

# Five year record

## Net assets (£m)

2004	88
2005	120
2006	179
2007	214
2008	174

## Portfolio value (£m)

2004	36
2005	44
2006	87
2007	126
2008	98

## Cash (£m)

2004	35
2005	40
2006	51
2007	46
2008	33

## Share price (p)

2004	131
2005	103
2006	144
2007	110
2008	54

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**February 2006**  
IP Group signs agreement with the University of Surrey

**March 2006**  
Syntopix floats on AIM

**April 2006**  
Oxford Catalysts floats on AIM

**June 2006**  
IP Group joins Official List

**July 2006**  
Avacta announces it is joining AIM via a reverse takeover of Readybuy

**July 2006**  
IP Group launches IP Venture Fund

**July 2006**  
IP Group signs agreement with Queen Mary, University of London

**September 2006**  
IP Group signs agreement with the University of Bath

**October 2006**  
IP Group signs agreement with the University of Glasgow

**December 2006**  
IP Group launches Modern Water

**January 2007**  
Perachem announces it is joining PLUS Markets via a reverse takeover of Primavera Capital

**June 2007**  
Modern Water floats on AIM

**November 2007**  
Tracsis floats on AIM

**December 2007**  
Oxford Advanced Surfaces floats on AIM via a reverse takeover and Photopharmica raises £6m

**March 2008**  
Oxford Nanopore raises £10m

**May 2008**  
Revolymmer raises £10m

# Chairman's statement

"The strength of IP Group's business lies in managing the process from identification, at low cost, of suitable intellectual property with commercial potential from our unrivalled network of UK universities, through to the establishment of spin-out companies and the growth and creation of value from them."

**Dr Bruce Smith**  
Chairman

## Summary of the Chairman's statement

- IP Group well positioned financially with £33m of cash resources and no borrowings
- Majority of largest portfolio companies are debt-free and well funded
- Portfolio continues to mature and remains well diversified

In February 2008, I wrote of being confident that the Group was well positioned for further progress despite a backdrop of global economic uncertainty. The scale of the economic crisis which subsequently unfolded across the world's markets during 2008 was greater than almost everyone's expectations, and although this has had a significant effect on the carrying value of the Group's portfolio holdings, I have been encouraged by the manner in which the Group and its portfolio businesses have responded promptly and appropriately to the increasingly challenging environment.

Despite what has been one of the most difficult funding environments for a number of years, the Group's portfolio companies raised in excess of £25m from public markets and over £30m by way of private financings during the year, in a number of cases with the support of the Group's Capital Markets team. Indeed, the majority of our largest portfolio companies, which make up around three-quarters of the value of our portfolio, are debt-free and well funded having taken advantage of opportunities to strengthen their balance sheets through equity financings during the last two years and adopting prudent growth strategies. These businesses are therefore relatively well positioned to withstand the current challenging environment and continue progress towards critical technical and commercial milestones. IP Group itself remains well positioned financially with £33m of cash resources and no borrowings.

**"IP Group itself remains well positioned financially with £33m of cash resources and no borrowings."**

Operationally, the Group's portfolio continued to mature over the period and it was encouraging to see many of our companies signing significant deals with industry partners, attracting new investors, undertaking acquisitions, achieving critical technical and commercial milestones as well as delivering products to customers.

The strength of IP Group's business lies in managing the process from identification, at low cost, of suitable intellectual property with commercial potential from our unrivalled network of UK universities, through to the establishment of spin-out companies and the growth and creation of value from them. The Group now has a portfolio of over 70 technology businesses and these are well diversified by sector and stage of development. Many of the key drivers of demand for the technologically advanced products and services being developed by these portfolio companies, which include the environment, energy supply and health, are not significantly exposed to levels of consumer spending, do not require debt financing and continue to be relevant notwithstanding economic downturns. Further, the Group holds healthy cash balances, both directly and in undrawn commitments to IP Venture Fund, which is managed by the Group and invests in the Group's portfolio, and these will continue to be deployed into opportunities emanating from some of the very best UK university scientific research in an efficient and prudent manner reflective of the current funding environment. For these reasons the directors remain confident of delivering shareholder value over the full course of the investment cycle.

This year has seen two changes to the Board. In April I was delighted to welcome Francis Carpenter to the Board as a Non-executive Director who brings to the Group a wealth of European technology transfer and venture capital market experience. Francis had previously been with the European Investment Bank for 33 years, most recently as Chief Executive Officer of the European Investment Fund. In November, we announced that David Norwood, the Group's founder and previous Executive Chairman, would step down from the Board at the end of 2008 to pursue a career outside of the business world. I have very much enjoyed working with David and am grateful to him for the enormous contribution that he has made to the development of IP Group since its formation in 2001. On behalf of the entire Board, I wish him every success in his future endeavours.

The Group's achievements would not be possible without the hard work and dedication of its staff, as well as the ongoing support of our shareholders, university partners, portfolio company management and associates and I therefore thank each of them for their contribution to the Group.

**DR BRUCE SMITH**  
CHAIRMAN  
2 March 2009

# Chief Executive Officer's statement

"At 31 December 2008, the Group's portfolio was valued at £98.4m. Notwithstanding the challenging economic environment many of our portfolio businesses continue to make strong progress towards their technical and commercial milestones..."

**Alan Aubrey**  
Chief Executive Officer

## Summary of the Chief Executive Officer's statement

- Financial performance during 2008 impacted by economic environment but Group well positioned to capitalise on long-term trends
- Further emphasis on working with portfolio companies to minimise costs and maximise business development with existing resources
- Increasing focus on fund management

### Economic environment

The Group's overall financial performance during 2008 has been heavily impacted by events in the world economy and the financial markets, most notably the large falls seen across the world's stock markets as investors' appetite for risk and illiquid holdings has reduced significantly. This wider economic environment has had a significant adverse effect on the Group's portfolio performance.

However, IP Group was established to take advantage of long-term, secular macro-economic trends and works with leading scientists to commercialise research in a systematic and cost effective way. This research addresses many of the key challenges facing the world today, such as advancing healthcare to support the world's increasingly ageing population, developing alternative and more efficient sources of energy as fossil fuel resources diminish, and identifying effective ways to combat climate change.

In the current global economic crisis, Governments in most developed Western Countries have acknowledged that, in order to remain economically competitive, their countries will need to both increase the level of investment in scientific research and to put measures in place to facilitate the growth of sustainable industries that will be based on that research. The Group believes that this recognition will lead to an increasingly favourable operating environment.

**"We continue to manage our cash balances prudently while maintaining conservative treasury policies and we are carefully monitoring our cost base."**

#### **Our response**

Whilst the Group remains confident that the medium and longer term market fundamentals remain favourable, the short-term financing climate has presented particular challenges. In response to this the Group's strategy during the period has been to manage its cash resources carefully, to take positive action in response to the immediate economic conditions, to ensure that resources are prioritised in support of the most promising assets and to encourage portfolio companies to adopt a similar approach.

We rigorously review our portfolio companies on a regular basis and we have been actively working with management teams to assist them in minimising cost and furthering the development of their businesses with existing resources.

In anticipation of a less certain capital raising environment, the Group raised IP Venture Fund in 2006, with a second closing in 2007. This Fund, which is managed by the Group's FSA-regulated fund management subsidiary, provides the Group with the ability to benefit from exposure to further financings in its portfolio and to exert greater influence over them as well as providing a recurring income stream. The Group will seek to increase the level of third party funds under management to further consolidate these benefits. The Group has also continued to invest in its Capital Markets team.

Portfolio companies have also increased engagement with industry as development partners, sources of equity financing and potential routes to market for their products and we are pleased to note a number of material investments from major commercial partners in the portfolio during the last year.

In the last quarter of 2008 we also reviewed our resourcing requirements in the light of the slowdown in the equity markets and our anticipated levels of business activity in the medium term. This review enabled us to make some organisational and process improvements. These included re-organising our university partnership sourcing and business building team into broad sectoral groups, which will enable more specialist support and therefore greater value-add for our university partners and portfolio companies. The review has resulted in an overall reduction in headcount and administrative overheads leading to an anticipated cost reduction in excess of £1m in 2009.

#### **Impact on our portfolio**

At 31 December 2008, the Group's portfolio was valued at £98.4m (2007: £126.1m). However, notwithstanding the challenging economic environment many of our portfolio businesses continue to make strong progress towards their technical and commercial milestones and details of these are given in the Portfolio Review.

#### **Outlook**

IP Group remains well positioned financially with healthy cash resources of £33m and no borrowings. We continue to carefully monitor our operating costs while also maintaining conservative treasury policies. Furthermore, we believe that our largest portfolio companies, which make up a significant proportion of the Group's net asset value, are generally well financed.

This, combined with IP Group's unrivalled, exclusive access to intellectual property from world class research institutions and its diverse and maturing portfolio with exposure to multiple sectors, gives the directors continued confidence that the Group remains well positioned to create long term shareholder value.

# Chief Executive Officer's statement (continued)

## portfolio review

"The majority of our largest portfolio companies, which make up around three quarters of the value of our portfolio, are debt-free and well funded."

### Largest portfolio businesses (portfolio businesses >£3m)

Details of the Group's portfolio holdings worth greater than £3m are as follows:

Name/Description	Recent News	Group Stake 31 December 2008 %	Quoted/ Unquoted	Company value* 31 December 2008 £m	Value* of Group holding at:	
					31 December 2008 £m	31 December 2007 £m
<b>Avacta Group plc</b> Specialist contract analysis and research services	<b>February 2009:</b> acquisition of York Test Veterinary Services <b>January 2009:</b> acquisitions of Curidium plc and Theragenetics Limited	23.9%	Quoted	16.5	3.9	6.9
<b>Green Chemicals plc</b> Environmentally friendly textiles and bleaching chemicals	<b>August 2008:</b> Martin Penny, Founder of GHD ("Good Hair Days") joins as Non-executive Director <b>March 2008:</b> successful trials of formaldehyde free and durable flame retardant products	24.3%	Quoted	24.1	6.1	7.5
<b>Iluka Technologies Limited</b> Fast-tracking materials discovery	<b>October 2008:</b> Iluka more than doubles project capacity through £3m investment in new "second generation" high throughput equipment <b>June 2008:</b> Shell Hydrogen Extends Joint Development Project with Iluka	23.6%	Unquoted	29.5	7.0	7.0
<b>Modern Water plc</b> Technologies to address the world's water crisis	<b>December 2008:</b> investment in UK-based AquaCure <b>September 2008:</b> Agreement to develop new desalination plant in Oman; Gibraltar plant produces first fresh water	23.0%	Quoted	16.5	3.8	12.2
<b>Oxford Advanced Surfaces Group plc</b> Surface modification technologies applicable to a broad range of materials	<b>November 2008:</b> enters Knowledge Transfer Partnership on advanced material solutions for solar cells <b>August 2008:</b> £5m placing with new and existing investors <b>April 2008:</b> Joint development agreement signed with DuPont Advanced Fiber Systems	15.3%	Quoted	29.7	4.5	12.0
<b>Oxford Catalysts Group plc</b> Speciality catalysts for the generation of clean fuels	<b>November 2008:</b> £10m placing and acquisition of Velocys, world leader in microchannel process technology <b>September 2008:</b> Fischer-Tropsch contract signed with Thai national oil company	11.4%	Quoted	56.7	6.4	9.7
<b>Oxford Nanopore Technologies Limited</b> Nanopore technology used for super-fast genome sequencing	<b>January 2009:</b> strategic alliance with, and equity investment by, Nasdaq-listed Illumina Inc <b>August 2008:</b> collaboration/licencing agreements signed with Harvard University and University of California <b>March 2008:</b> £10m private financing	34.9%	Unquoted	55.9	19.5	11.6
<b>Photopharmica (Holdings) Limited</b> Wound treatment using light (photodynamic therapy or "PDT")	<b>December 2008:</b> MHRA regulatory approval to commence PPA-904 repeat dose Phase II leg ulcer trial <b>October 2008:</b> Conducting proof of principle clinical trial to evaluate the use of PDT to eradicate MRSA	49.9%	Unquoted	26.0	13.0	13.0
<b>Proximagen Neuroscience plc</b> Treatments for neurodegenerative disorders such as Parkinson's disease	<b>October 2008:</b> Milestone hit, triggering \$6m equity investment from Upsher-Smith <b>July 2008:</b> Up to \$232m licensing agreement with Upsher-Smith to develop Parkinson's programme	21.8%	Quoted	32.4	7.1	5.4
<b>Revolymex Limited</b> Removable "Clean Chewing Gum"	<b>May 2008:</b> £10m private financing from institutional and private investors	11.2%	Unquoted	26.3	3.0	0.7
					"Provisions"	(1.7)
					<b>Total</b>	<b>72.6</b>

\* Values of unquoted companies are shown at price of recent investment prior to any fair value reductions (c.f. provisions)



**"The Group's investment approach is designed to enable us to incubate early stage technology businesses with low levels of cash investment, which we consider a particular strength in today's capital constrained environment."**

#### Portfolio analysis by fair value (%)

##### 2008

- 24 Chemicals & Materials
- 13 Energy & Renewables
- 31 Healthcare & Life Sciences: Non-therapeutics
- 28 Healthcare & Life Sciences: Therapeutics
- 4 IT & Communications

##### 2007

- 25 Chemicals & Materials
- 20 Energy & Renewables
- 23 Healthcare & Life Sciences: Non-therapeutics
- 28 Healthcare & Life Sciences: Therapeutics
- 4 IT & Communications

#### Portfolio analysis by number (%)

##### 2008

- 25 Chemicals & Materials
- 12 Energy & Renewables
- 31 Healthcare & Life Sciences: Non-therapeutics
- 16 Healthcare & Life Sciences: Therapeutics
- 16 IT & Communications

##### 2007

- 26 Chemicals & Materials
- 12 Energy & Renewables
- 26 Healthcare & Life Sciences: Non-therapeutics
- 19 Healthcare & Life Sciences: Therapeutics
- 17 IT & Communications

#### Portfolio overview

At 31 December 2008, the Group's portfolio consisted of holdings in 74 companies (2007: 65) with a fair value of £98.4m (2007: £126.1m). A summary analysis of portfolio gains and losses is as follows:

	2008 £m	2007 £m
Unrealised gains on the revaluation of investments	12.2	38.1
Unrealised losses on the revaluation of investments	(47.7)	(11.7)
Net fair value (losses)/gains	(35.5)	26.4
Gain on deemed disposal of subsidiaries & disposals of equity investments	—	8.6
<b>Total</b>	<b>(35.5)</b>	<b>35.0</b>

Unrealised gains on the revaluation of investments principally comprise Oxford Nanopore Technologies Limited (£7.2m) ("Oxford Nanopore", formerly Oxford Nanolabs Limited), which announced a £10.1m private fund raising in March, valuing the Group's 34.9% stake at £19.5m, Revolymer Limited (£2.3m), which announced a £10.0m private fund raising in May, valuing the Group's 11.2% stake at £3.0m, and the positive share price performance of Proximagen Neuroscience plc (£1.6m).

Unrealised losses on the revaluation of investments consist of falls in the share prices of certain companies in the Group's listed portfolio, most significantly Modern Water plc (£8.4m), Oxford Advanced Surfaces plc (£7.7m), Oxford Catalysts Group plc (£3.3m) and Summit Corporation plc (£3.2m) as well as reductions in the holding values of a number of unquoted portfolio companies. Overall, despite progress in many of the underlying businesses, the Group's portfolio of quoted companies saw unrealised net fair value losses of 45%. This compares favourably to a fall in the FTSE AIM All-Share Index of 62% during the period but constitutes a significant fall in the overall value of the portfolio. Since the period end, the Group has experienced some further weakening in the share prices of a number of its portfolio companies.

Fair values of investments in unquoted portfolio companies at each reporting date are established using valuation techniques, a detailed description of which is included in Note 1 to the Group Financial Statements. At 31 December 2008 the application of these techniques has resulted in a reduction in holding values for a number of unquoted companies totalling some £14.0m, an average of 50% of the opening holding values of these companies plus investments. Overall, excluding Oxford Nanopore and Revolymer Limited, the Group's portfolio of unquoted companies saw net unrealised fair value losses of 26% during 2008.

#### Cash investment analysis by company stage

	2008 £m	2007 £m
Incubation projects	0.8	0.5
Portfolio businesses <£3m	6.2	4.8
Portfolio businesses >£3m	1.6	1.5
<b>Total</b>	<b>8.6</b>	<b>6.8</b>
Proceeds from sales of equity investments	—	8.0

The level of cash investment into our portfolio during 2008 of £8.6m was moderately increased compared to the prior year (2007: £6.8m). The Group's investment approach is designed to enable us to incubate early stage technology businesses with low levels of cash investment, which we consider a particular strength in today's capital constrained environment. This approach allows the progressive elimination of risk with minimal capital deployment and facilitates the maintenance of a portfolio that is well diversified by stage and sector. During 2008 the level of such investment was increased; the Group invested an average of £44,000 across 17 incubation opportunities (2007: £38,000, 13).

The Group did not realise cash from any of its equity investments during the period (2007: £8.0m). The directors will continue to identify and evaluate opportunities to realise cash from the portfolio when market conditions and/or specific circumstances make this attractive to do so.

# Chief Executive Officer's statement (continued)

## portfolio review (continued)

"The Group's Capital Markets team has continued to work closely with our portfolio companies, who have raised over £30m through private financings this year despite the continued difficult equity market conditions..."

### Portfolio analysis - by investment stage

Company stage	As at 31 December 2008			
	Fair Value		Number	
	£m	%		%
Incubation projects	1.5	2%	20	27%
Portfolio businesses <£3m	24.3	24%	44	59%
<b>Portfolio businesses &gt;£3m</b>	<b>72.6</b>	<b>74%</b>	<b>10</b>	<b>14%</b>
All portfolio businesses	98.4	100%	74	100%

Company stage	As at 31 December 2007			
	Fair Value		Number	
	£m	%		%
Incubation projects	0.6	0%	14	22%
Portfolio businesses <£3m	28.6	23%	39	60%
Portfolio businesses >£3m	96.9	77%	12	18%
All portfolio businesses	126.1	100%	65	100%

The Group's Capital Markets team has continued to work closely with our portfolio companies, who have raised over £30m through private financings this year despite the continued difficult equity market conditions (2007: £30m).

### Portfolio analysis - by investment stage

Of the 74 companies in the Group's portfolio, 74% of the fair value resides in those companies in which IP Group's stake is worth over £3m. As at 31 December 2008, these businesses were valued at £72.6m (2007: £96.9m). An analysis of the Group's portfolio by investment stage is shown left:

A detailed analysis of our most significant investments (Portfolio businesses >£3m) is given below.

Portfolio businesses <£3m are generally less mature companies, which in many cases have received only seed round financing of less than £1m. Examples of interesting developments in this portfolio during the period include Xeros Limited ("Xeros") and Surrey NanoSystems Limited ("SNS").

Xeros Limited is the result of research work carried out at the University of Leeds which sought to reduce the amount of water consumed during garment cleaning and enable savings to be made in the amounts of energy and environmentally harmful chemicals that are consumed during wet processing and laundering. Xeros received seed financing during 2008 and received press attention for its developments towards a "virtually waterless" washing machine.

**"Of the 74 companies in the Group's portfolio, 74% of the fair value resides in those ten companies in which IP Group's stake is worth over £3m."**

SNS is a spin-out company from the University of Surrey's Advanced Technologies Institute, which focuses on providing production platforms for using carbon nanotubes and other nanowires in high technology applications. The company has grown significantly in the last year with orders for its advanced sputtering tools being received from diverse groups such as Munich-based Ludwig-Maximilians-Universität and Romania's National Institute of Materials Physics.

Incubation projects are generally very early stage and form an essential part of the Group's low-cost technology evaluation model. Opportunities at this stage usually involve investments of up to £50,000 allowing for proof of concept work or early commercial due diligence to be carried out. Incubation projects typically have durations of nine to 18 months, following which the opportunity is generally either progressed to seed financing or terminated.

An example of an interesting technology at this stage is Azellon Limited ("Azellon") from the University of Bristol, where Professor Anthony Hollander is developing a revolutionary stem-cell-based "cell bandage" therapy to treat torn menisci in the knee. After the period end, following an extended incubation period of nearly two and a half years, Azellon received seed financing in January 2009 from IP Group, Oxford Technology and the Wyvern Seed Fund as well as a Translation Award from the Wellcome Trust and project funding from the Technology Strategy Board.

#### **Portfolio analysis - by sector**

The Group's portfolio consists of five key sectors, and the unrealised reductions in fair value seen during the period have been reasonably evenly distributed across these. An analysis of the portfolio by sector is as overleaf:

#### **Chemicals & Materials**

The decrease in the fair value of the Chemicals & Materials portfolio can be largely attributed to the negative share price movement of Oxford Advanced Surfaces Group plc ("OAS"), which contributed an unrealised fair value reduction of £7.7m during the period. This was offset to some degree by an unrealised fair value gain in the Group's holding in Revolymer Limited, which contributed £2.3m as a result of its £10m private financing in May.

Revolymmer continues to make good commercial progress in the area of removable "clean-gum" and in September announced the appointment of Rob Cridland as Chief Financial Officer. Rob joined from seven years as part of the management team which took Renovo Group plc from a start up organisation through to IPO, most recently serving as Executive Director Finance and Business Development.

OAS's share price has seen significant volatility during the period and had contributed a fair value gain of £11.5m at the date of IP Group's half year results. Shortly thereafter, the company announced the successful completion of a £5.0m placing (before expenses) with new and existing shareholders which strengthened the company's cash position and will enable further development of a number

of significant opportunities around its patented surface-modification technology, Onto™.

#### **Energy & Renewables**

The Energy & Renewables sector has experienced the most significant reduction in fair value (approximately 50%), largely as a result of holdings in AIM-listed Modern Water plc and Oxford Catalysts Group plc ("OCG"), which have contributed unrealised fair value reductions of £8.4m and £3.3m respectively.

Based on its bid price at 31 December 2008, Modern Water plc had a market capitalisation of £16.5m which compares to £28.7m cash held by the company at its last reporting date of 30 June 2008. Modern Water plc announced in September that its Manipulated Osmosis proving plant in Gibraltar had produced its first fresh water and that it had agreed to install a further proving plant in Oman, at the heart of the company's target market of the Middle East. Modern Water plc's manipulated osmosis process is targeted at the fast-growing global desalination industry, where capital expenditure worldwide is expected to total \$56.4bn by the end of 2015, according to Global Water Intelligence.

In November, OCG announced a placing of approximately £10.3m and the acquisition of Velocys Inc, the recognised world-leader in the design and development of microchannel process technology for the production of synthetic fuels and commodity chemicals, for mainly equity-based consideration of \$35.0m.

# Chief Executive Officer's statement (continued)

## portfolio review (continued)

"Oxford Nanopore has made strong progress since its private financing in March...and in January 2009 announced a significant strategic alliance with, and \$18m equity investment by, Nasdaq-listed Illumina Inc."

### Portfolio analysis - by sector

Sector	As at 31 December 2008			
	Fair Value		Number	
	£m	%		%
Chemicals & Materials	23.9	24%	18	25%
Energy & Renewables	13.0	13%	9	12%
Healthcare & Life Sciences: Non-therapeutics	30.2	31%	23	31%
Healthcare & Life Sciences: Therapeutics	27.0	28%	12	16%
IT & Communications	4.3	4%	12	16%
	<b>98.4</b>	<b>100%</b>	<b>74</b>	<b>100%</b>

Sector	As at 31 December 2007			
	Fair Value		Number	
	£m	%		%
Chemicals & Materials	32.0	25%	17	26%
Energy & Renewables	25.4	20%	8	12%
Healthcare & Life Sciences: Non-therapeutics	28.5	23%	17	26%
Healthcare & Life Sciences: Therapeutics	35.0	28%	12	19%
IT & Communications	5.2	4%	11	17%
	<b>126.1</b>	<b>100%</b>	<b>65</b>	<b>100%</b>

Combined with OCG's innovative catalyst technologies, the company believes that the acquisition will create a leader in smaller scale synthetic fuels technologies.

### Healthcare & Life Sciences: Therapeutics

The Group's Therapeutics portfolio saw unrealised fair value losses of £9.2m during 2008 (approximately 25%), while in comparison, the FTSE AIM Health Care Index fell by some 49% over this same period.

Among the most significant contributors to this reduction were AIM-listed therapeutics companies such as Summit Corporation plc ("Summit"), Synairgen plc, and Syntopix Group plc ("Syntopix") although these were offset to some degree by positive share price performance of Proximagen Neuroscience plc ("Proximagen").

Proximagen announced in October that the successful attainment of a technical milestone had triggered a \$6m equity investment by Upsher-Smith Laboratories Inc. ("Upsher-Smith"). The company had announced earlier in the year that it had signed a licence agreement with Upsher-Smith worth a maximum of \$232m to develop its PRX1 programme for the symptomatic treatment of Parkinson's disease. Post the period end, in February 2009, Proximagen announced the appointment of Peter Allen as its new Non-executive Chairman. Peter brings a wealth of experience to the role having previously been Chief Financial Officer

**"Proximagen announced in October that the successful attainment of a technical milestone had triggered a \$6m equity investment by Upsher-Smith Laboratories Inc."**

of Abacus Group plc prior to its sale to Avnet Inc in January 2009 and of Celltech Group between 1992 and 2004 where he played a key role in a number of strategic acquisitions.

The negative share price performance of the other therapeutics companies was experienced despite positive technical and commercial advances being announced during the year. As examples, Summit announced a number of co-development deals and licensing agreements, including the signing of a worldwide licensing agreement with NASDAQ-listed BioMarin Pharmaceutical Inc. for its Duchenne Muscular Dystrophy program which could be worth up to \$143m, including an initial equity investment of \$7m; and Syntopix announced in July the signing of a joint development agreement with Procter & Gamble with the objective of improving the efficacy of one of their major consumer healthcare brands, following the announcement in February of positive results from its Phase II cosmetic study in subjects with acneic skin.

#### **Healthcare & Life Sciences: Non-therapeutics**

The Group's portfolio of Non-therapeutics or "med tech" companies experienced a broadly neutral performance with the unrealised fair value gain of £7.2m arising from Oxford Nanopore's private fund raising being offset by a number of smaller unrealised fair value reductions, most notably AIM-listed Avacta Group plc

("Avacta") whose fair value fell by £3.0m in spite of positive progress across all aspects of the business.

Oxford Nanopore has made strong progress since its private financing in March, announcing in August that it had signed an agreement with Harvard University giving exclusive rights to develop and commercialise a number of nanopore technological breakthroughs developed by Harvard and its collaborators, and then, in January 2009, a significant strategic alliance with, and \$18m equity investment by, Nasdaq-listed Illumina Inc. to exclusively market, sell, distribute, and service BASE™ Technology products developed by Oxford Nanopore for DNA sequencing.

Avacta, a biophysics company from the University of Leeds which specialises in the provision of contract services and innovative new technologies for the biopharmaceutical and other sectors, experienced negative share price performance during the year despite the announcement of the launch of its QPCR (quantitative polymerase chain reaction) contaminant detection service in September. This aims to provide a comprehensive analytical service to customers in the rapidly growing biopharmaceutical sector which outsources \$16.2bn of contract services per year. Following the period end, Avacta announced the strategic acquisitions of three companies owning complementary technologies and providing an established route to market for its products and services.

#### **IT & Communications**

The Group's holdings in IT & Communications portfolio companies decreased to a fair value of £4.3m at 31 December 2008 (2007: £5.2m). This was largely attributable to a fall in the share price of AIM-listed CCTV and surveillance technology company, COE Group plc ("COE") of £1.9m, partially offset by the appreciation of Tracsis plc (£0.3m), which develops intelligent crew optimisation scheduling software for worldwide transport markets.

COE announced in November that it had raised almost £1.0m (before expenses) by way of a placing, having announced a restructuring plan in July in order to match the company's cost base with anticipated trading. Following the restructuring, COE announced that it had recorded an operating profit (before reorganisation costs) in the quarter ended 30 September 2008 and that the placing would strengthen the company's balance sheet and enable it to take advantage of developing sales opportunities.

# Chief Executive Officer's statement (continued)

## financial review

"The Group continues to have a strong balance sheet with cash and cash equivalents of £33.3m, no borrowings and a diversified portfolio of investments in private and publicly-listed companies across five distinct sectors..."

### Venture capital fund management

Top Technology Ventures Limited, the Group's FSA regulated subsidiary, manages a number of venture capital funds, the most recent of which is the £31m IP Venture Fund ("IPVF"), a limited partnership fund that completed its second closing in August 2007. IPVF has the ability to invest up to 25% of post-seed financings in the Group's university spin-out companies and, as at 31 December 2008, had invested £10.6m into 19 portfolio businesses (at 31 December 2007: £7.6m, 13 companies).

IPVF has proved to be an excellent source of follow-on funding for a number of the Group's portfolio companies and the Group expects this to continue to be the case in the medium term. The Group considers that management of further venture capital funds has the potential to continue to benefit portfolio companies and continues to explore opportunities in this area.

### Income statement

A summary analysis of the Group's performance is provided below:

	2008 £m	2007 £m
Net portfolio (losses)/gains	(35.0)	35.0
Other income	1.9	2.0
Administrative expenses - Modern Businesses & Photopharmica	(3.0)	(2.6)
Administrative expenses - All other businesses	(6.6)	(6.6)
Finance income	2.2	2.7
(Loss)/profit for the period before tax	(40.5)	30.5

Portfolio gains consist primarily of unrealised fair value gains and losses, as well as any dividends or other distribution income received from portfolio companies (£0.5m, 2007: £nil). A detailed analysis of fair value gains and losses is provided in the portfolio review above.

Other income remained broadly in line with the prior year at £1.9m (2007: £2.0m). This income is derived principally from venture capital fund management activity and consultancy services and includes private placement fees of £0.3m (2007: £0.3m) generated by the Group's Capital Markets team. Given the difficult funding environment currently being experienced for technology companies, the Group's capital markets expertise is considered valuable support for our portfolio businesses.

During the period, the Group continued to operate ten university partnerships (2007: ten). As mentioned above, during 2008 the Group reviewed how it services those partnerships and is currently implementing a number of process changes, on a trial basis, over its existing partnership agreements with a number of partner universities. The directors believe that these improvements will further increase the success and efficiency of the sourcing and development of commercialisable intellectual property from partner universities. In some cases, the Group may forego its rights to small minority shareholdings in those spin-out companies in which it does not make an investment.

The Group has maintained control of its cost base during the period and, excluding costs attributable to those portfolio companies which are consolidated by virtue of the Group's shareholding being greater than 50% (predominantly the Group's drug-discovery subsidiary, Modern Biosciences plc, and in 2007, Photopharmica (Holdings) Limited), administrative expenses were maintained at £6.6m for the period (2007: £6.6m). However, mainly as a result of reduced interest receivable on lower average cash balances during the period, the net operating cost for the Group's core intellectual property commercialisation business increased slightly to £2.5m for the period (2007: £2.1m). It should be noted that this income statement amount includes a number of non-cash charges including a share-based payments charge of £0.6m relating to the Group's Long-Term Incentive Plan (2007: £0.3m).

**"It is the Group's policy to place cash which is surplus to near term working capital requirements in treasury funds rated "AA" or above, or on short-term and overnight deposits with financial institutions that meet the Group's treasury policy criteria."**

Finance income of £2.2m (2007: £2.7m) consists of interest earned on the Group's cash and cash equivalents. Given the falls in interest rates in the UK in the last six months, a significant reduction in this income is expected in 2009.

#### Balance sheet

The Group continues to have a strong balance sheet with cash and cash equivalents of £33.3m (2007: £46.0m), no borrowings and a diversified portfolio of investments in private and publicly-listed companies across five distinct sectors.

Although impacted by a number of significant unrealised fair value losses in the period, the Group's portfolio of 74 companies is valued at £98.4m as at 31 December 2008 (2007: £126.1m, 65 companies). A detailed analysis of the Group's portfolio of equity and debt instruments, and movements during the period, is provided in the Portfolio Review above.

The Group's balance sheet includes goodwill of £18.4m (2007: £18.7m) and an equity rights asset of £19.9m (2007: £19.9m). The goodwill balances arose as a result of the Group's historical acquisitions of Techtran Group (university partnership business, £15.5m; 2007: £15.5m) and Top Technology Ventures (venture capital fund management business, £2.9m; 2007: £2.9m), while the equity rights asset represents amounts paid to the University of Oxford giving the Group the right to receive 50% of the university's entitlement to equity in any spin-out company or of any licensing income

emanating from the University of Oxford's Chemistry Department until 2015. The carrying values of these assets have been reviewed during the period and the directors do not believe these assets to be impaired. Further details are provided in Notes 11 and 15 to the Group Financial Statements.

#### Cash

The principal constituents of the movement in cash during the period can be summarised as follows:

	2008 £m	2007 £m
Net cash used in operating activities	(3.5)	(2.6)
Net cash used in investing activities	(9.2)	(2.9)
Issued share capital	—	0.2
Movement during period	(12.7)	(5.3)

The Group has continued to invest cash in new university spin-outs and participate in some follow-on funding rounds and has invested £8.6m across 40 opportunities during the period (2007: £6.8m, 30). As no realisations were made during the period (2007: £8.0m), the net cash used in investing activities increased to £9.2m (2007: £2.9m). This figure includes the repayment of a loan of £0.6m due to an academic founder in relation to the Group's investment in Oxford Nanopore during the period, in addition to a further £0.4m investment in IP Venture Fund, and partially offset by the receipt of £0.5m of dividends and other distributions (2007: £nil).

The Group has discretion over the level of investment in portfolio opportunities and can adjust this level to suit the volume of attractive intellectual property commercialisation opportunities arising from our partner universities and the wider economic climate in any given period. The directors believe that it is an essential part of the Group's strategy to maintain a healthy pipeline of early-stage and low-cost development opportunities however the directors will continue to apply stringent qualification criteria to its investment opportunities.

It is the Group's policy to place cash which is surplus to near term working capital requirements in treasury funds rated "AA" or above, or on short-term and overnight deposits with financial institutions that meet the Group's treasury policy criteria as detailed in Note 2 to the Group Financial Statements. The Group has no borrowings or foreign currency deposits.

#### Taxation

The Group's directors continue to believe that the Group qualifies for the Substantial Shareholdings Exemption ('SSE') on chargeable gains arising on the disposal of qualifying holdings and, as such, the Group has continued not to recognise a provision for deferred taxation in respect of uplifts in value on equity stakes which meet the qualifying criteria.

**ALAN AUBREY**  
CHIEF EXECUTIVE OFFICER  
2 March 2009

# Board of directors

**Top row, left to right:** Dr Bruce Smith, Alan Aubrey, Dr Alison Fielding, Mike Townsend  
**Bottom row, left to right:** Magnus Goodlad, Professor Graham Richards, Roger Brooke, Francis Carpenter

## **Dr Bruce Smith, CBE**

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 1997. Bruce is a fellow of the Royal Academy of Engineering, the Institute of Engineering and Technology (IET) and the Institute of Physics. Bruce became a director of IP Group in September 2002.

## **Alan Aubrey, FCA**

Chief Executive Officer

Alan established Techtran Group Limited in 2002 and was its CEO when the business was acquired by IP Group in January 2005. Previously he was a partner in KPMG where he specialised in corporate finance advice to technology-based fast growth businesses and has significant experience at helping them raise money and prepare for sale or flotation. Alan joined the Board of IP Group in January 2005, becoming Chief Executive on 1 January 2006 and has overall responsibility for the operational management of the Group.

## **Dr Alison Fielding**

Chief Technology Officer

Alison co-founded Techtran Group Limited and was the Chief Operating Officer of Techtran when it was acquired by IP Group in January 2005. Previously, she spent five years at McKinsey & Co where she consulted primarily to the pharmaceutical and health care sectors. Prior to McKinsey, Alison spent four years as a development chemist for Zeneca, performing technical roles in the speciality chemicals and agrochemicals divisions. Alison holds an MBA from Manchester Business School, a Ph.D. in organic chemistry and a first class degree in chemistry from the University of Glasgow.

## **Mike Townsend**

Director of Capital Markets

Mike was formerly Managing Director within the European Equities business of Lehman Brothers with responsibility for equity sales to hedge funds. Mike has over 17 years of experience in all aspects of equity capital markets. Mike was appointed a director of IP Group in March 2007.

## **Magnus Goodlad**

Chief Operating Officer

Magnus joined Top Technology Ventures Limited, IP Group's fund management business, in June 2000 after four and a half years with Slaughter and May practising a wide range of corporate, banking and finance law. Magnus was appointed a director of IP Group in March 2006.

## **Professor Graham Richards, CBE**

Senior Non-executive Director

Graham was the scientific founder of Oxford Molecular Group plc and was for 20 years a director of the University of Oxford technology transfer company, Isis Innovation Limited. Graham was Chairman of Chemistry in the University of Oxford until 30 June 2006. Graham became a Non-executive Director of IP Group in December 2001 and Chairman in August 2004. He became Senior Non-executive Director on 1 January 2006.

## **Roger Brooke**

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. His previous directorships include: EMI, Beeson Gregory Group plc and he was previously Chairman of the Audit Commission. Roger became a director of IP Group in December 2001.

## **Francis Carpenter**

Non-executive Director

Francis was Chief Executive Officer of the European Investment Fund, holding that role for nearly six years until his retirement at the end of February 2008. Francis joined the European Investment Bank in 1975 and held a variety of roles including Secretary General, Director of Credit Risk Management and Director of Lending in the UK, Ireland, North Sea and Portugal. Francis became a director of IP Group in April 2008.

Audit Committee

Remuneration Committee

Nomination Committee



# Corporate responsibility report

The principal activities of the Group are the commercialisation of intellectual property generated from its partner universities, principally through the formation of and investment in spin-out companies.

The Group seeks to conduct all of its operating and business activities in a socially responsible manner and, in all such activities for its directors and employees to maintain integrity and professionalism, to be commercial and fair and to have due regard to the interest of all of its stakeholders including investors, university partners, employees, suppliers and the businesses in which the Group invests.

During the year, the Group employed an average of 54 people (2007: 44). The Group's management and employees are fundamental to its success and as a result we are committed to encouraging the ongoing development of our staff with the aim of maximising the Group's overall performance. Emphasis is placed on staff development through work-based learning, with senior members of staff acting as coach and mentor. All employees who are involved with the regulated business of managing investment transactions receive money laundering training and periodic refreshers.

The Group seeks to operate as a responsible employer and has adopted standards and promotes corporate values designed to help and guide employees in their conduct and business relationships. The Group seeks to comply with the laws, regulations and rules applicable to its business and to conduct the business in line with applicable established best practice.

Employees are encouraged to consider social issues and the Group is supportive of employees pursuing roles with charitable organisations. As part of this initiative, the Group works with the Brightside Trust, a charity aimed at bringing educational opportunities to children from disadvantaged backgrounds. Group employees are given the opportunity to participate in schemes such as the "Confident Futures" programme which involves mentoring young people in care to support their progress into further education or employment, or the "Scientists in Schools" programme to help raise the aspirations and interest of underprivileged school students in the sciences.

The Group considers that it is important to establish and invest in businesses which comply with current environmental, ethical and social legislation, have strategies in place to meet known future legislative and regulatory requirements, and seek to comply with their relevant industry standards and best practice.

As an intellectual property commercialisation business operating from a number of offices in the UK and employing less than 60 people, the direct environmental impact of the Group is relatively low. Major investment themes for the Group include areas which have the potential to bring significant wider social and welfare benefits to the world population. In healthcare, the Group has established companies seeking to develop diagnostics and therapeutics across a wide range of disease areas including cancer, liver diseases, asthma and Alzheimer's disease. In addition, the Group has formed and invested in companies formed to address problems of scarcity of resources critical to human existence including fresh water and hydro-carbons and to increase the efficiency of existing resources, including materials and chemicals, semi-conductors and sensors.

# Directors' report

## Report of the directors

The directors present their report together with the audited financial statements for IP Group plc (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2008.

## Principal activities

The Company acts as a holding company for the Group and is incorporated by shares in England and Wales. The Company's subsidiary undertakings are detailed in note 2 to the Company's financial statements. The business of the Group is (i) the commercialisation and exploitation of intellectual property via the formation of long term partnerships with universities; (ii) the management of venture funds focussing on early-stage UK technology companies and (iii) the in-licensing of drugable intellectual property from research intensive institutions.

## Results and dividends

During the period the Group made an overall loss after taxation for the year ended 31 December 2008 of £40.4m (2007: profit of £30.5m). The directors do not recommend the payment of a dividend (2007: £nil).

## Directors

The names of directors who held office during 2008 are as follows:

### Executive Directors:

David Norwood (resigned 31 December 2008)

Alan Aubrey

Alison Fielding

Magnus Goodlad

Mike Townend

### Non-executive Directors

Bruce Smith (Chairman)

Graham Richards

Roger Brooke

Francis Carpenter (appointed 18 April 2008)

Details of the interests of directors in the share capital of the Company are set out in the Directors' Remuneration Report on pages 19 to 23.

## Business Review

The information that fulfils the requirements of the Business Review, as required by Section 417 (5) of the Companies Act 2006, and which should be treated as forming part of this report by reference, is included in the following sections of the annual report:

- Chairman's statement on pages 2 and 3;
- Chief Executive Officer's statement on pages 4 to 13, which together include a review of the Group's external environment, key strategic aims, main trends and factors likely to affect the future development, performance and position of the Group's business;
- Corporate responsibility report on page 15 which includes information about environmental matters, employees and social and community issues;
- Corporate Governance on pages 24 to 30 including details of the Company's rules relating to the appointment and replacement of directors; and
- Details of the principal operating subsidiaries are set out in note 2 to the Company's financial statements.

Key performance indicators and a description of principal risks and uncertainties facing the Group are set out below:

	2008	2007
Total equity ("net assets") (£m)	173.8	213.8
(Loss)/profit attributable to equity holders (£m)	(40.3)	30.5
Change in fair value of equity and debt investments (£m)	(35.5)	26.4
Cash and cash equivalents (£m)	33.3	46.0
Proceeds from sale of equity investments (£m)	–	8.0
Purchase of equity and debt investments (£m)	9.2	6.8
Number of new spin-out companies (Number)	12	14
IP Group plc share price performance (% change)	(50.9)	(23.6)

### Principal risks and uncertainties and financial instruments

The Group through its operations is exposed to a number of risks. The Group's risk management objectives and policies are described in the Corporate Governance report on pages 24 to 30. Further information on the Group's financial risk management objectives and policies, including those in relation to credit risk, liquidity risk and market risk, is provided in note 2 to the consolidated financial statements, along with further information on the Group's use of financial instruments.

### Significant agreements

The Group has entered into various agreements to form partnerships with ten UK universities granting Group entities rights to purchase or receive shares in new companies founded by academics at these universities. Further, Group entities have entered into agreements to act as general partner and investment manager to two limited partnerships, as detailed in note 1(iii) to the consolidated financial statements. These agreements generally contain change of control provisions which, in the event of a change of ownership of the Group, could result in renegotiation or termination of the agreements.

There are a number of other agreements that may alter or terminate upon a change of control of the Group following a takeover bid, such as commercial contracts. None is considered to be significant in terms of their potential impact on the business of the Group as a whole.

### Share capital and related matters

Details of the structure of the Company's share capital and the rights attaching to the Company's shares are set out in note 20 to the consolidated financial statements. There are no specific restrictions on the size of a holding or on the transfer of shares, which are both governed by the general provisions of the Company's articles of association (the "Articles") and prevailing legislation.

At the last general meeting, held on 29 April 2008, authority was given to the directors to allot unissued relevant securities in the Company up to a maximum of an amount equivalent to approximately ten percent of the shares in issue at any time up to the earlier of the conclusion of the next annual general meeting ("AGM") of the company or 29 July 2009. No shares have been issued pursuant to this authority. The directors propose to replace this authority at the Company's next AGM to be held on 28 April 2009 with an authority giving the directors power to allot unissued relevant securities in the Company up to a maximum of an amount equivalent to approximately one third of the shares in issue and to also grant the directors additional authority to allot equity securities in connection with a fully pre-emptive rights issue only up to a maximum of approximately one third of the shares in issue. The authorities being sought are in accordance with recent guidance issued by the Association of British Insurers.

A further special resolution passed at that meeting granted authority to the directors to allot equity securities in the Company for cash, without regard to the pre-emption provisions of the Companies Act 1985 up to a maximum of approximately five percent of the shares in issue at any time up to the earlier of the conclusion of the next AGM of the company or 29 July 2009. The directors will seek to renew this authority for a similar period at the next AGM.

Power to purchase the Company's own shares is provided in the Company's Articles subject to statutory provisions. The directors have no existing authority to purchase the Company's own shares.

### Articles of Association

The Company's Articles may be amended by a special resolution of the shareholders. As at the date of this report the Company's Articles include a qualifying third party indemnity provision ('OTPIP') within the meaning of section 234 of the Companies Act 2006.

### Substantial shareholders

As at 27 February 2009 the Company had been advised of the following shareholders with interests of 3% or more in its ordinary share capital. Other than as shown, so far as is known, no other person holds or is beneficially interested in a disclosable interest in the Company.

	%
BlackRock, Inc.	14.0
Lansdowne Partners	13.2
Massachusetts Mutual Life Insurance Company	9.7
Artemis Investment Management	9.2
FIL Limited (Fidelity)	5.9
Tudor Investment Corporation	4.5
Legal & General Investment Management	4.3
Credit Suisse Securities (Europe) Limited	3.8

### Payment of trade payables

It is the Group's current policy to establish payment terms with suppliers when agreeing terms of supply, to ensure that suppliers are made aware of the terms of payment, and to adhere to those terms. The Group's average trade payable payment period at 31 December 2008 was 13 days (2007: 31 days). The company had trade payables of £0.1m (2007: £0.2m) at 31 December 2008.

# Directors' report (continued)

## Charitable and political donations

During 2008 the Group donated £30,000 to a charitable trust committed to creating educational opportunities (2007: £20,000 to a charitable trust committed to creating educational opportunities and £1,000 to a charitable trust offering practical solutions to help change young lives). The Group did not make any political donations in either year.

## Post balance sheet events

On 12 January 2009, Oxford Nanopore Technologies Limited ('Oxford Nanopore') entered into a worldwide strategic alliance with Illumina Inc for the development and commercialisation of its DNA sequencing technology. As part of this alliance, Illumina Inc invested \$18m of equity finance into Oxford Nanopore at a value premium to the previous funding round. Accordingly, the Group recognised a £3.2m fair value gain in January 2009 in respect of its investment in Oxford Nanopore.

Since 31 December 2008 and as at 27 February 2009, the last practical date prior to the approval of these accounts, the fair value of quoted companies in the Group's portfolio has decreased by £7.2m to a total fair value of £30.8m.

## Disclosure of information to auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

## Appointment of auditors

BDO Stoy Hayward LLP offer themselves for re-appointment as auditors in accordance with section 385 of the Companies Act 1985 and an appropriate resolution will be put to the shareholders at the AGM.

On behalf of the board



**Alan Aubrey**  
Chief Executive Officer  
2 March 2009

# Directors' Remuneration Report

The Directors' Remuneration Report has been prepared in accordance with requirements of Schedule 7A of the Companies Act 1985 introduced by the Directors' Remuneration Regulations 2002.

The Company's remuneration policy is the responsibility of the Board of Directors. The Remuneration Committee provides recommendations to the Board of Directors on the Group's remuneration policy. This Remuneration Committee consists exclusively of non-executive directors, is chaired by Graham Richards and also comprises Bruce Smith and Roger Brooke. Graham Richards and Roger Brooke are considered to be independent directors and the Remuneration Committee is authorised, if it wishes, to seek independent specialist services to provide information and advice on remuneration at the Company's expense.

The Remuneration Committee has specific responsibility for advising the Group's Board on the remuneration and other benefits of executive directors, an overall policy in respect of remuneration of other employees of the Group, and establishing the Group's policy with respect to employee incentivisation schemes. In advising the Group's Board on executive remuneration packages of individual directors the Remuneration Committee takes account of the levels of experience, performance and responsibility of each director, and the remuneration packages for similar executive positions in companies it considers are comparable. It also considers the remuneration packages offered within the Group as a whole.

## Remuneration policy

### a) Executive remuneration

The committee aims to ensure that the remuneration of executive directors is competitive, takes into account individual performance and provides a package which is sufficiently dependent on achievement to motivate and incentivise the individual executive directors. Executive remuneration currently comprises a base salary which is not performance related, an entitlement to private medical insurance, permanent health insurance, life assurance and pension contributions to individual money purchase schemes, an equity bonus scheme and a long term incentive plan. The Board believes that the interests of directors and shareholders are best aligned with a remuneration policy that provides a base salary that is not dependent on performance together with a discretionary bonus arrangement. Further details relating to bonus arrangements, pension contributions and the long term incentive plan are detailed below:

#### Bonuses

The Group operates a bonus incentive scheme linked to the equity received as a result of investments made by the Group ('the equity bonus scheme'). The Group accrues for employee bonuses at a cost to the Group of up to 17.5% of the fair value of investments made and equity received by the Group. Cash bonuses are payable on a discretionary basis in recognition of exceptional performance. Bonus awards are based on performance within the Group and/or at the relevant individual portfolio company level. No cash bonuses have been paid to executive directors in respect of the year ended 31 December 2008 (2007: Nil).

#### Pensions

The executive directors are entitled to a contribution of annual salary which is capped at 10% and paid directly into personal money purchase pension plans.

#### Share options

It is the policy of the Group not to issue new options over ordinary shares in the Company. No new options over shares were issued during the year ended 31 December 2008.

### b) Non-executive remuneration

Each of the Non-executive directors receives a fixed fee for service, which covers preparation for and attendance at meetings of the full Board and all committees thereof. The non-executive directors are also reimbursed for all reasonable expenses incurred in attending these meetings. Non-executive directors are not entitled to participate in any of the Group's incentive schemes, including the Long Term Incentive Plan and bonus schemes. The executive directors are responsible for setting the level of non-executive remuneration.

### c) Long Term Incentive Plan ("LTIP")

The LTIP and employee share ownership trust ("ESOT") were approved by shareholders at the Annual General Meeting in 2007. All employees, including full-time executive directors, of the Group are eligible to participate in the LTIP at the discretion of the Remuneration Committee. Awards will take the form of provisional awards of ordinary shares of two pence each in the Group. The maximum value of shares (as at the relevant dates of award) over which an individual may receive awards under the LTIP over any three consecutive financial years shall not exceed four times his or her basic annual rate of pay without the approval of the Remuneration Committee.

Awards will generally vest over three years following the date on which they are made, to the extent that performance conditions have been met. The Remuneration Committee will impose objective conditions on the vesting of awards and it is proposed that such conditions will be imposed as reflect the guidelines of institutional investors from time to time. At present, it is intended that the performance conditions for future grants will be based on the Group's total shareholder return ("TSR") performance. The awards granted to date will vest in full after three years in the event of TSR growth of 15% per annum on a cumulative basis being achieved. 50% of an award granted in 2007 will vest in the event of compound annual TSR growth of 10% being achieved with a sliding scale between these points.

Further details relating to LTIP awards to executive directors are detailed on page 21.

# Directors' Remuneration Report (continued)

## Remuneration policy ((continued))

### d) Service contracts

Alan Aubrey and Alison Fielding have service contracts which commenced on 20 January 2005 and contain a contractual notice period of six months by either party. Magnus Goodlad has a service contract which commenced on 30 June 2004 and contains a contractual notice period of six months by either party. Mike Townend has a service contract which commenced on 5 March 2007 and contains a contractual notice period of six months by either party. The contracts for executive directors do not provide any predetermined amounts of compensation in the event of early termination. In the event of early termination, payments for loss of office would be determined by the Remuneration Committee who would take account of the particular circumstances of each case, including the unexpired term of the service contract.

Each of the non-executive directors have service agreements which commenced on 10 August 2004 in the case of Graham Richards, on 3 September 2007 in the case of Bruce Smith, on 29 September 2003 in the case of Roger Brooke and on 3 April 2008 in the case of Francis Carpenter. Each appointment is for an initial term of three years, renewable for a further three years. The non-executive service agreements are terminable on three month's notice by either party save in the case of Roger Brooke, whose agreement is terminable on one month's notice by either party.

Executive directors may accept other outside non-executive appointments. Where an Executive director accepts an appointment to the board of a company in which the Group is a shareholder, the Group generally retains the related fees. Fees earned for directorships of companies in which the Group does not have a shareholding are normally retained by the director.

### Directors' emoluments

The following is part of the directors' remuneration report and is subject to audit.

The aggregate remuneration received by directors who served during the year, including remuneration paid through subsidiaries of the Company, was as follows:

	Base salary £'000	Equity Bonus £'000	Fees £'000	Benefits <sup>(i)</sup> £'000	Total (exc. pension) 2008 £'000	Pension £'000	Total (inc. pension) 2008 £'000	Total (exc. pension) 2007 £'000	Pension £'000	Total (inc. pension) 2007 £'000
<b>Executive</b>										
Alan Aubrey	209	25	–	4	238	22	260	358	21	379
Alison Fielding	185	20	–	3	208	18	226	300	17	317
Magnus Goodlad	175	19	–	3	197	17	214	422	17	439
David Norwood	100	11	–	2	113	10	123	150	10	160
Mike Townend <sup>(i)</sup>	198	22	–	4	224	20	244	432	17	449
<b>Non-executive</b>										
Bruce Smith	–	–	45	–	45	–	45	31	–	31
Graham Richards	–	–	35	–	35	–	35	35	–	35
Roger Brooke	–	–	25	–	25	–	25	25	–	25
Francis Carpenter	–	–	26	–	26	–	26	–	–	–
<b>Total</b>	<b>867</b>	<b>97</b>	<b>131</b>	<b>16</b>	<b>1,111</b>	<b>87</b>	<b>1,198</b>	<b>1,753</b>	<b>82</b>	<b>1,835</b>

(i) 2007 figures are in respect of the period from 5 March 2007 to 31 December 2007

(ii) Alan Aubrey was the highest paid director during the year ended 31 December 2008 (2007: Mike Townend)

(iii) Benefits represent private medical insurance and life assurance provision

(iv) In addition to the above, during the period Alan Aubrey retained fees totalling £22,000 and David Norwood retained fees totalling £57,000 in respect of non-executive director services provided to companies in which the Group is a shareholder

### Directors' long term incentives

The following is part of the directors' remuneration report and is subject to audit.

#### a) Long Term Incentive Plan

The directors' participations in the Group's Long Term Incentive Plan are as follows:

	No. of shares notionally held at 1 January 2008	Notionally awarded in the year	Potential interest in shares at 31 December 2008	Share price at date of notional award (p)	Amount charged against profit in the year £000s	Earliest vesting date
<b>Executive Directors</b>						
Alan Aubrey	671,641	-	671,641	134.75	124	20.05.10
Alison Fielding	597,015	-	597,015	134.75	109	20.05.10
Magnus Goodlad	522,388	-	522,388	134.75	96	20.05.10
Mike Townsend	597,015	-	597,015	134.75	109	20.05.10
<b>Total</b>	<b>2,388,059</b>	<b>-</b>	<b>2,388,059</b>		<b>438</b>	

(i) No notional shares vested or lapsed during the year

The fair value charge recognised in the income statement in respect of LTIP share awards granted to directors was £437,811 (2007: £268,684).

The performance criteria relating to the Long Term Incentive Plan awards are set out on page 19.

#### Co-investment and carried interest schemes

In addition to the directors' remuneration arrangements, the Group also operates co-investment and carried interest schemes relating to certain venture capital funds that are under its management. Under the co-investment scheme, executive directors make minority capital and loan commitments to IP Venture Fund alongside the Group. Executives are entitled to participate in a carried interest scheme in respect of the partnership alongside the Group. Carried interest commonly provides a preferential return to participants once the partnership has returned all funds contributed by limited partners together with a pre-agreed rate of return. The carried interest and co-investment schemes will generally contain forfeiture provisions in respect of leavers over the investment period of the partnership.

#### a) Co-investment scheme

The directors' commitments to IP Venture Fund ('IPVF') are set out below. Commitments are made indirectly through the IP Venture Fund (FP) LP which is the founder partner of IPVF.

	Total commitment £'000	Limited partnership interest of IPVF	Total invested to 1 January 2008 £'000	Invested during the year £'000	Total invested to 31 December 2008 £'000
<b>Executive Directors</b>					
Alan Aubrey	51	0.17%	15	6	21
Alison Fielding	51	0.17%	15	6	21
Magnus Goodlad	51	0.17%	15	6	21
David Norwood	51	0.17%	15	6	21
Mike Townsend	51	0.17%	15	6	21
<b>Total</b>	<b>255</b>	<b>0.85%</b>	<b>75</b>	<b>30</b>	<b>105</b>

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# Directors' Remuneration Report (continued)

## Co-investment and carried interest schemes (continued)

### b) Carried interest scheme

The directors' interests in carried interest schemes are set out below.

	Scheme <sup>(i)</sup>	Scheme interest <sup>(ii)</sup> at 1 January 2008	Awarded during the year	Lapsed during the year	Scheme interest at 31 December 2008	Accrued value <sup>(iii)</sup> of scheme interest at 31 December 2008
<b>Executive Directors</b>						
Alan Aubrey	IPVF	1.67%	–	–	1.67%	–
Alison Fielding	IPVF	1.67%	–	–	1.67%	–
Magnus Goodlad	IPVF	1.67%	–	–	1.67%	–
	TTV IV	4.36%	–	–	4.36%	–
David Norwood	IPVF	1.67%	–	–	1.67%	–
Mike Townend	IPVF	1.67%	–	–	1.67%	–

- (i) Under the IPVF scheme, payments to participants are made when all limited partners have been repaid their contributions together with a hurdle rate of 8% compound interest. Under the Top Technology Ventures IV LP ('TTV IV') scheme, payments to participants are made when all limited partners have been repaid their contributions together with a hurdle rate of 6% compound interest
- (ii) Scheme interest represents the percentage of the relevant pool of investments in respect of which the participant is entitled to participate in the realised profits
- (iii) The IPVF and TTV IV schemes contain forfeiture provisions over the investment period of the fund which may reduce the scheme interest accruing to any participant. The table reflects the maximum scheme interest receivable should no forfeiture occur
- (iv) Accrued value of scheme interests is calculated based upon the current value of the limited partnership in excess of the capital contributed together with the hurdle rate of return

### Directors' interests in ordinary shares (unaudited)

The directors, who held office at 31 December 2008, had the following beneficial interests in the ordinary shares of the Company:

	31 December 2008 Number of shares	1 January 2008 <sup>(i)</sup> Number of shares
Alan Aubrey	954,865	854,865
Alison Fielding	394,630	394,630
Magnus Goodlad	30,000	30,000
David Norwood	5,000,000	4,380,172
Mike Townend	200,000	200,000
Bruce Smith	211,875	211,875
Graham Richards	9,250	9,250
Roger Brooke	263,973	263,973

- (i) Or date of appointment if later

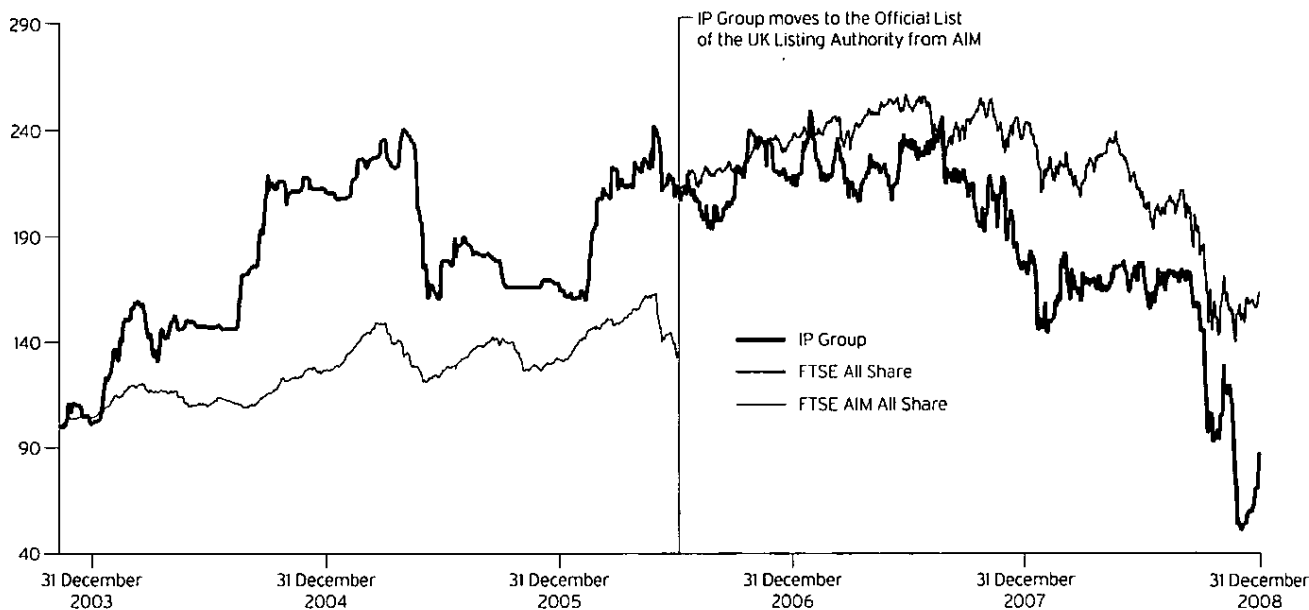
There has been no change in the interests set out above between 31 December 2008 and 27 February 2009.

Apart from the interests disclosed above, none of the directors had any interest at any time during the year ended 31 December 2008 in the share capital of the Company or its subsidiaries. However, certain directors hold interests in the shares of spin-out companies that the Group has an equity interest in. Details of these interests are disclosed in note 26 of the financial statements.



### Performance graph (unaudited)

The chart below shows the shareholder return performance for the period 15 October 2003 when the Group listed on AIM to 31 December 2008 alongside the performance of the FTSE AIM all-share and FTSE all-share indices. For ease of comparison, these figures have been rebased such that the Group's share price is equal to the FTSE AIM-all share at 15 October 2003 and FTSE all-share at 19 June 2006, the date at which the Group joined the Official List of the UK Listing Authority. The directors have selected the FTSE AIM all-share and FTSE all-share indices as, in their opinion, these indices comprise the most relevant equity indices of which the Company is a member against which total shareholder return of IP Group plc should be measured.



On behalf of the board

**Graham Richards**  
Chairman of the Remuneration Committee  
2 March 2009

# Corporate Governance

The Company is committed to high standards of corporate governance. Corporate governance can be defined as the high level system by which an organisation is directed and controlled to enable it to achieve its business objectives in a manner which is responsible and in accordance with highest standards of integrity, transparency and accountability.

This statement, together with the Directors' Remuneration Report (set out on pages 19 to 23), describes how the Company has applied the principles of good corporate governance set out in Section 1 of the Combined Code on Corporate Governance published by the Financial Reporting Council in June 2006 (the 'Code'). During the year ended 31st December 2008, the Group has been in compliance with all relevant requirements of the Code.

## **The Board**

### **Board composition and responsibilities**

The Board is responsible to shareholders for the overall management of the Group providing entrepreneurial leadership within a framework of controls for managing risk; setting the Group's strategy; maintaining the policy and decision-making framework in which this strategy is implemented; ensuring that necessary financial and human resources are in place to meet strategic aims; monitoring performance against key financial and non-financial indicators; overseeing the system of risk management; and setting values and standards in governance matters.

The responsibility of the directors is collective, taking into account their respective roles as executive directors and non-executive directors.

The Board manages these matters at its regular meetings. It receives reports and presentations from each of the executive directors responsible for the Group's operating businesses and key central functions. This ensures that all directors are aware of, and are in a position to monitor effectively, the overall performance of the Group, its development and implementation of strategy and its management of risk.

### **Board meetings and decisions**

The Group's business is managed by the Board of directors. Fourteen Board meetings were held during 2008. A discussion of current and future performance and strategy is included on the agenda for each meeting. In addition, the Board has a schedule of matters reserved for its decision, which includes, but is not restricted to, the approval of interim and annual accounts, major investments and disposals, budgets and long term plans, litigation, and Board remuneration and appointments.

Each Board member receives monthly management accounts including a review and analysis of performance against budget and other forecasts. Directors are sent an agenda and a full set of Board papers for each agenda item to be discussed at the meeting. Additional information is provided as appropriate.

Any matter requiring a decision by the Board is supported by a paper analysing the relevant aspects of the proposal – costs, benefits, potential risks and proposed management action.

### **Directors**

During 2008, the Board was made up of five executive directors (being the Chief Executive, the Chief Technology Officer, the Director of Capital Markets, the Director of Special Projects and the Chief Operating Officer), the Chairman and, following the appointment of Francis Carpenter in April 2008, three independent non-executive directors. The Director of Special Projects resigned from the Board on 31 December 2008. A list of the individual directors and their biographies is provided on page 14. Collectively, the Board believes it possesses all of the necessary range of qualities, skills and experience to lead the Company effectively.

In accordance with the Code the Company is currently deemed a 'smaller company' since it has been below the FTSE 350 throughout the year immediately prior to the reporting year.

The Company's Articles give the directors power to appoint and replace directors. All directors are required to submit themselves for re-election by the shareholders at the Company's Annual General Meeting following their first appointment and thereafter at least every three years. Notwithstanding this, no more than one third of all the directors must submit themselves for re-election each year.

### **Chairman and Chief Executive Officer**

The division of responsibilities between the Chairman and the Chief Executive Officer, is clearly established, set out in writing and agreed by the Board. The Chairman is responsible for the leadership and conduct of the Board and its conduct of the Group's affairs and strategy, and ensuring effective communication with shareholders. The Chairman facilitates the effective contribution of non-executive directors. The Chief Executive is responsible for the management of the Group's operating businesses and the development of their strategic direction. He is responsible for delivering the operating plans and budgets for the Group's businesses, monitoring business performance and reporting on these to the Board.

### **Senior Independent Director**

Professor Graham Richards is the Senior Independent Director. A key responsibility of his is to be available to shareholders in the event that they may feel it inappropriate to relay views through the Chairman or Chief Executive. In addition the senior independent director takes the lead when the non-executive directors assess the Chairman's performance and when the appointment of a new chairman is considered.

## The Board (continued)

### Non-executive directors

The non-executive directors provide a wide range of skills and experience to the Group. They bring an independent judgement on issues of strategy, performance, risk and people through their contribution at Board and committee meetings. The Board considers that each non-executive director is independent in character and judgement and that they also meet the independence criteria set out in the Code.

In a limited number of cases, directors have made de minimis investments in spin-out companies formed under the university partnerships. Details of these investments are set out in note 26 to the financial statements.

The non-executive directors receive a fixed fee for their services and the reimbursement of reasonable expenses incurred in attending meetings.

There is an agreed procedure for directors to take independent professional advice at the Company's expense. directors have direct access to the impartial advice and services of the Company Secretary. The Company Secretary is responsible for ensuring that Board procedures and applicable rules and regulations are followed.

While the Board retains overall responsibility for the Company, the day to day management of the business is conducted by the executive directors. The Board delegates specific responsibilities to certain committees. Each Committee has its own terms of reference set by the Board. These are available on request from the Company Secretary.

### Directors' conflicts of interest

With effect from 1 October 2008 a director has a duty under the Companies Act 2006 (the 'CA 2006') to avoid a situation in which he has or can have a direct or indirect interest that conflicts or possibly may conflict with the interests of the Company. This duty is in addition to the existing duty that a director owes to the Company to disclose to the Board any transaction or arrangement under consideration by the Company. The CA 2006 allows directors of public companies to authorise conflicts and potential conflicts where the Articles of Association contain a provision to that effect. Shareholders approved amendments to the Company's Articles of Association at the Annual General Meeting held on 29 April 2008 which included provisions giving the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the position that existed before 1 October 2008. The Board has a procedure when deciding whether to authorise a conflict or potential conflict of interest. The directors are subject to an overriding obligation to act in a way they consider, in good faith, will be most likely to promote the Company's success. In addition, the directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

Where potential conflicts of interest have arisen such as when a non-executive director is also a director of a spin-out company, a director has a relationship with an academic institution with whom the company has a partnership agreement or there are previous relationships between a director and the company or predecessor companies, the director does not participate in any decisions relating to that relationship. Professor Richards is a Professor of Chemistry at the University of Oxford and a director of Inhibox Limited and Crysalin Limited.

### Performance evaluation

The performance of the Chairman and each director and of each committee of the Board is formally evaluated on an annual basis. The non-executives meet annually, and whenever deemed necessary, to appraise the Chairman's performance in the absence of the Chairman. The performance of non-executive directors and the Chief Executive is reviewed by the Chairman, and the performance of executive directors is reviewed by the Chief Executive in each case on an annual basis. The last such review took place in January 2009. In addition, the performance of executive directors is reviewed by the Board, as deemed necessary, in the absence of the executive director under review.

### Attendance

The following table shows the attendance of directors at meetings of the Board, Audit, Remuneration and Nomination Committees during the year:

	Board		Audit		Remuneration		Nomination	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
David Norwood	11	14	–	–	–	–	–	–
Alan Aubrey	13	14	–	–	–	–	–	–
Alison Fielding	12	14	–	–	–	–	–	–
Magnus Goodlad	12	14	–	–	–	–	–	–
Mike Townend	13	14	–	–	–	–	–	–
Graham Richards	11	14	1	2	1	1	–	–
Roger Brooke	12	14	2	2	1	1	–	–
Bruce Smith	13	14	2	2	1	1	–	–
Francis Carpenter	9	11	1	1	–	–	–	–

# Corporate Governance (continued)

## Committees of the Board

### Audit Committee

The Audit Committee, which has written terms of reference, was established in October 2003. The committee comprises Roger Brooke (Chairman), Bruce Smith, Graham Richards and Francis Carpenter. The auditors, Chief Executive Officer and Chief Operating Officer and other members of management attend the meetings by invitation. The Audit Committee also meets with the auditors in the absence of executive directors and management. The Audit Committee examines and reviews internal controls, together with accounting policies and practices, the form and context of financial reports and statements and general matters raised by the auditors. It reviews the interim financial information and annual accounts before they are submitted to the Board. In addition the Audit Committee makes recommendations to the Board regarding the appointment of the external auditors, reviews their independence and objectivity, and monitors the scope and results of the audit. The Audit Committee is also responsible for agreeing the level of audit fees and monitoring the provision of non audit services provided by the Group's auditors. The Audit Committee assesses the likely impact on the auditors' independence and objectivity before awarding them any material contract for additional services. The Board has identified Francis Carpenter as having recent and relevant financial experience notwithstanding the fact that he is not a member of one of the professional accountancy bodies. Further, Roger Brooke is a past Chairman of the Audit Commission and the Board considers that collectively the members have the requisite skills and attributes to enable the committee to properly discharge its responsibilities.

During the year, the Audit Committee:

- considered the effectiveness of the internal control environment of the Group;
- reviewed and recommended to the Board the approval and publication of the half-yearly and annual financial statements of the Group;
- oversaw the Group's relations with its external auditors including reviewing and monitoring the scope and results of the audit and half-yearly review;
- assessed the independence and objectivity of BDO Stoy Hayward LLP as the Group's auditor, including consideration of the nature and size of non-audit fees in relation to the Group audit fee;
- recommended to the Board the reappointment of BDO Stoy Hayward as auditors and the approval of their remuneration for the year and acknowledged the appointment of a new lead partner to replace the current lead partner who reached five years' service in early 2009;
- met with the external auditors twice during the year in the absence of management to discuss any issues or concerns from either the committee or the auditors; and
- in accordance with the Combined Code, reviewed the need to establish an internal audit function, but continued to believe that in a Group of this size, where close control over operations is exercised by the executive directors, the benefits likely to be gained would be outweighed by the costs of establishing such a function. It will continue to review the requirement for such a function on an annual basis.

### Remuneration Committee

The Remuneration Committee was established in October 2003 and meets as and when required. It comprises Graham Richards (Chairman), Bruce Smith and Roger Brooke. The committee's objective is to develop remuneration packages for executive directors that enable the Group to attract, retain and motivate executives of the appropriate calibre without paying more than is necessary. No director is involved in deciding his or her remuneration. The Board's policy on executive remuneration and the details of executive directors' individual remuneration packages are fixed by the Committee or the Board. Full details of the directors' remuneration are set out in the Directors' Remuneration Report on pages 19 to 23.

### Nomination Committee

The Nomination Committee was established in October 2003 and meets as and when required. It considers the appointment of both executive and non-executive directors. It comprises Bruce Smith (Chairman), Graham Richards and Roger Brooke. The Combined Code stipulates that the Nomination Committee should comprise a majority of independent non-executive directors. The Nomination Committee met during late 2007 to consider the appointment of Francis Carpenter to the Board. The decision of the Nomination Committee was then ratified by the Board in 2008. For future appointments to the Board, the Nomination Committee will consider candidates at the request of the Board. It also advises the Board on matters generally relating to senior appointments.

### Internal control

The Board fully recognises the importance of the guidance contained in Internal Control: Guidance for directors on the Combined Code ('Turnbull'). The Group's internal controls, which were Group wide, were in place during the whole of 2008 and were reviewed by the Board of Directors and were considered to be effective throughout the year ended 31 December 2008.

The Board is responsible for establishing and monitoring internal control systems, and for reviewing the effectiveness of these systems. The Board views the effective operation of a rigorous system of internal control as critical to the success of the Group, however it recognises that such systems can provide only reasonable and not absolute assurance against material misstatement or loss. The key elements of the Group's internal control system, all of which have been in place during the financial year and up to the date these financial statements were approved, are detailed overleaf:

## **Internal control (continued)**

### **Control environment and procedures**

The Group has a clear organisational structure with defined responsibilities and accountabilities. It adopts the highest values surrounding quality, integrity and ethics, and these values are documented and communicated clearly throughout the whole organisation.

Detailed written policies and procedures have been established covering key operating and compliance risk areas. These are reviewed and updated at least annually by the Board. The Board considers that the controls have been effective for the year ended 31 December 2008.

### **Identification and evaluation of risks**

The Board actively identifies and evaluates the risks inherent in the business, and ensures that appropriate controls and procedures are in place to manage these risks. Specifically, all decisions relating to strategic partnerships and acquisitions entered into by the Group are reserved for the Board's review. The Board formally reviews the performance of university partnerships and equity investments on a quarterly basis, although performance of specific investments may be reviewed more frequently if deemed appropriate. The Board maintains an up to date Register of Risks setting out mitigations in place in each case. The key risks and uncertainties faced by the Group, as well as the relevant mitigations, are set out below.

### **Information and financial reporting systems**

The Board approves the annual operating budgets, and each month receives details of actual performance measured against the budget.

## **Principal risks and uncertainties**

The key risks and uncertainties affecting the Group and the steps taken to manage these are as follows:

### **Financial risks**

Through its normal operations, the Group is exposed to a number of financial risks, comprising liquidity, market and credit risks.

#### **Market risk**

The Group is exposed to market risks, principally equity securities price risk as a result of its equity investments and investments in limited partnerships. The Group holds investments which are publicly traded on the Alternative Investment Market ("AIM") or PLUS Markets and investments which are not traded on an active market. The valuation of quoted and unquoted investments depends on a combination of market factors, including investor sentiment, availability of liquidity and appetite for specific asset classes, as well as the specific performance of each underlying company.

The Group seeks to mitigate price risk by having an established investment appraisal process and asset-specific monitoring procedures which are subject to overall review by the Board. In a number of cases these monitoring procedures can include members of the Group's executive team and other staff serving in an advisory capacity to portfolio companies (including secondments and non-executive directorships). The Group has also established a Capital Markets team dedicated to investor relations.

#### **Liquidity risk**

The Group is exposed to liquidity risk arising from the need to have finance available to make investments in portfolio companies and to meet payments for administrative and other costs as they fall due.

The Group seeks to manage its liquidity risk to ensure sufficient cash is available to meet foreseeable needs and to invest cash assets safely and profitably. Accordingly, the Group only places working capital on overnight deposits with clearing banks or in short term treasury funds managed by reputable counterparties. The Group continuously monitors rolling cash flow forecasts to ensure sufficient cash is available for anticipated cash requirements.

#### **Credit risk**

Credit risk arises from the exposure to the risk of loss if a counterparty fails to perform its financial obligations to the Group. This could include non-repayment of cash and cash equivalents held with financial institutions or defaults of individual trade or investment debtors. Reasons for counterparty defaults include general economic or sector specific downturns, or the failure of an individual financial institution or other entity.

The Group seeks to mitigate its credit risk on cash and cash equivalents by investing in treasury funds with an "AA" credit rating or above managed by reputable institutions, or by making short term deposits with counterparties with most recently reported total assets in excess of £3 billion and, where counterparties have required a rating, a "P1" credit rating, at the time of investment (ratings determined by Standard & Poor's or Moody's).

Further details of these financial risks, including quantitative considerations of their potential impacts, are set out in note 2 to the consolidated financial statements.

### **Loss of key personnel from the Group**

The Group's employees are highly qualified and experienced, and the area in which the Group operates is a specialist area. There is a risk that the Group's management and employees will be targeted by competitors or technology companies. The loss of key employees of the Group may also have an adverse effect on the value of the Group.

The Group mitigates this risk by performing a thorough market comparison of the remuneration of its staff, balancing salary with longer-term incentive plans. All senior executives are shareholders in the business and members of the senior management and executive teams participate in the Group's long-term incentive plan and/or equity bonus scheme, both of which are described more fully on page 19.

# Corporate Governance (continued)

## **Internal control (continued)**

### **Group investments are generally into companies at an early stage of development**

Investments made by the Group in spin-out companies are made at an early stage and are subject to risks associated with early stage investments in general, including the ability to secure second round funding, the impact of competing technologies entering the market and the risk that the technology will fail. In some cases the ability to succeed will be dependent upon regulatory approval for certain trials to proceed.

The Group mitigates this risk in a number of ways. Executives and senior management collectively have many years of experience in sourcing, developing and investing in early stage technology companies and then growing these to significant value creation. This is achieved through the Group's investment and business building methodology. The risk is further mitigated through low value initial investments prior to seed funding, which enables identification and removal of potential failures at the earliest possible stage of the investment process.

### **Failure of companies within the Group's portfolio**

The Group has a portfolio of equity interests in portfolio companies and there is a high risk that certain of the Group's current and future investments in portfolio companies may fail, resulting in an impairment of the Group's profitability. In addition, failure of companies within the Group's portfolio may make it more difficult for other spin-out companies within the portfolio to raise additional capital.

The Group mitigates this by investing in a number of portfolio companies across different sectors which reduces the potential impact of the failure of any one individual portfolio company. Further, members of the Group's management team and staff frequently serve in an advisory capacity to the Group's portfolio companies (including secondments and non-executive directorships) enabling identification and remedy of business issues at an early stage.

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

There may be unforeseen changes in government policy or legislation (including taxation 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, exploit or protect intellectual property. In addition, changes in government policy or legislation (including changes to tax legislation, in particular in relation to the substantial shareholder exemption) or other terms upon which university academics are incentivised could make it commercially unattractive for research academics to participate in the commercialisation of the intellectual property that they create. Changes of this nature could represent a fundamental risk to the Group's business.

The Group's university partners are incentivised to protect their intellectual property for the Group to exploit through the structure of the partnership agreements which share the returns between the universities, the academic founders and the Group. The Group has further mitigated this risk by having client service team managers working locally at its partner universities to assist them with the management of their intellectual property and with the negotiation with research contracts to ensure that their intellectual property is not unduly compromised. The Group's university partners also maintain close links with the government to manage their position with respect to future legislative changes and the Group utilises professional advisors as appropriate to support its monitoring of, and response to, changes in tax or other legislation.

### **Termination of university partnerships and change of control provisions**

The benefits to which the Group is entitled under its university 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 could have an adverse effect on the Group's business. In addition, a number of the partnership agreements contain change of control clauses which may result in their renegotiation or termination.

The Group manages this risk by ensuring that its university partners receive the highest level of service in line with the Group's contractual obligations and continuing to generate significant value for the universities and their academic founders through the success of spin-out companies created.

### **Recoverability of the University of Oxford Equity Rights asset**

The Equity Rights asset on the Group's consolidated balance sheet relates to amounts paid to the University of Oxford to secure 50 per cent of the university's equity in any spin-out company or of any licensing income emanating from the university's chemistry department until November 2015. The accounting treatment of the Equity Rights asset is described further in note 1 on page 38, however the asset is not repayable in cash by the university and its value is therefore affected by a number of factors. In the event of evidence that the future recoverable amount of the Equity Rights asset is less than the balance sheet value, a provision for impairment would be recognised at that time through the income statement.

The key risks that could result in an impairment of the Equity Rights include: the timing and number of successful IP spin-out opportunities arising from the university, the extent to which the Group's holding is diluted through further financing of spin-out companies, and general market conditions which may impact the disposal values or IPO valuations of such companies.

The Group manages these risks by working closely with the university to jointly source and develop intellectual property spin-out companies and then utilising the knowledge and experience of the Group's management team to create value from these companies and generate exit routes.

### Relations with shareholders

The Company is committed to having a dialogue with shareholders, based on the mutual understanding of objectives, and it is the responsibility of the Board as a whole to ensure that a satisfactory dialogue does take place. The Board's primary shareholder contact is through the Chairman, Chief Executive and Director of Capital Markets. However the senior independent director and other directors as appropriate, make themselves available for contact with major shareholders in order to understand their issues and concerns. Where appropriate, major institutional shareholders are consulted on significant changes to the structure of the directors' remuneration.

The Company is committed to constructive dialogue with its shareholders. The Company uses the Annual General Meeting as an opportunity to communicate with its shareholders. Notice of the Annual General Meeting, which will be held on 29 April 2009 at 3pm at IP Group plc, 24 Cornhill, London, EC3V 3ND, is enclosed with this report. In line with the Combined Code the notice of the AGM will be sent to shareholders at least 20 working days before the meeting. Details of the resolutions and explanatory notes thereto are included with the Notice, which will include a resolution to propose appropriate amendments to the Company's articles of association reflecting provisions of the Companies Act 2006 which are now in force. A proxy form for members of the Company unable to attend will accompany the Notice.

The Group's website [www.ipgroupplc.com](http://www.ipgroupplc.com) is the primary source of information on the Group. This includes an overview of the activities of the Group, key university partnership agreements and details of all recent Group announcements.

### Political expenditure

Although it is the Board's policy not to incur political expenditure or otherwise make cash contributions to political parties and it has no intention of changing that policy, CA 2006 is very broadly drafted in this area and the Board is concerned that it may catch activities such as funding conferences or supporting certain bodies involved in policy review and law reform. Accordingly, at the AGM held on 29 April 2008, the shareholders passed a resolution on a precautionary basis to authorise the Group to incur political expenditure (as defined in section 365 of CA 2006) not exceeding £50,000 in total at any time from 28 April 2008 up to the earlier of the conclusion of the next AGM or 29 July 2009. The Board intend to seek renewed authority for the Group to incur political expenditure of not more than £50,000 in total at the Company's AGM, to be held on 28 April 2009, which they might otherwise be prohibited from making or incurring under the terms of CA 2006.

### Statement of directors' responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report and Directors' Remuneration report which comply with the requirements of the Companies Act 1985.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and Article 4 of the IAS Regulation. The directors have chosen to prepare financial statements for the company in accordance with UK Generally Accepted Accounting Practice.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

### Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Prepare the accounts on a going concern basis unless, having assessed the ability of the Group to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

# Corporate Governance (continued)

## Parent company financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

## Going concern

The directors confirm that they have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future, and accordingly they continue to adopt the going concern basis in preparing the financial statements.

## Responsibility statement

The directors of IP Group plc and their functions are listed on page 14. The annual report and accounts is the responsibility of, and has been approved by, the directors.

The directors confirm to the best of their knowledge that:

- the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union and Article 4 of the IAS regulation;
- the financial statements, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the annual report and accounts includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the board



**Bruce Smith**  
Chairman  
2 March 2009



**Alan Aubrey**  
Chief Executive Officer



# Independent auditors' report to the shareholders of IP Group plc

We have audited the group and parent company financial statements (the "financial statements") of IP Group plc for the year ended 31 December 2008 which comprise the primary financial statements such as the consolidated income statement, the consolidated and parent company balance sheets, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

We have also audited the information in the directors' remuneration report that is described as having been audited.

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the parent company financial statements and directors' remuneration report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information given in the directors' report is consistent with the financial statements. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's statement, the Chief Executive Officer's statement, the Board of directors, the Corporate Responsibility report, the Directors' report, the unaudited part of the Directors' Remuneration Report and the Corporate Governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

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

## Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2008;
- the parent company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

**BDO Stoy Hayward LLP**  
Chartered Accountants and Registered Auditors  
London  
2 March 2009



# Consolidated income statement


## for the year ended 31 December 2008

	Note	2008 £m	2007 £m
<b>Portfolio return and revenue</b>			
Change in fair value of equity and debt investments	16	<b>(35.5)</b>	26.4
Gains on deemed disposal of subsidiaries	22	–	8.1
Gains on disposal of equity investments		–	0.5
Other portfolio income		<b>0.5</b>	–
Revenue from services	4	<b>1.9</b>	2.0
		<b>(33.1)</b>	37.0
<b>Administrative expenses</b>			
Employee bonus costs	19	<b>(0.1)</b>	(1.3)
Research and development costs		<b>(1.3)</b>	(0.7)
Share based payment charge	24	<b>(0.6)</b>	(0.3)
Other administrative expenses		<b>(7.6)</b>	(6.9)
		<b>(9.6)</b>	(9.2)
<b>Operating (loss)/profit</b>	7	<b>(42.7)</b>	27.8
Finance income – interest receivable		<b>2.2</b>	2.7
<b>(Loss)/profit before taxation</b>		<b>(40.5)</b>	30.5
Taxation	9	<b>0.1</b>	–
<b>(Loss)/profit for the year</b>		<b>(40.4)</b>	30.5
<b>(Loss)/profit attributable to:</b>			
Equity holders of the parent		<b>(40.3)</b>	30.5
Minority interest	27	<b>(0.1)</b>	–
		<b>(40.4)</b>	30.5
<b>Basic earnings per ordinary share (p)</b>	10	<b>(16.10)</b>	12.25
<b>Diluted earnings per ordinary share (p)</b>	10	<b>(16.10)</b>	12.25

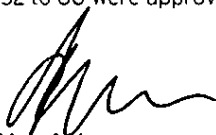
# Consolidated balance sheet as at 31 December 2008

	Note	2008 £m	2007 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets:			
Goodwill	11	18.4	18.7
Acquired intangible assets	12	0.1	0.3
Property, plant and equipment	13	0.5	0.5
Equity rights and related contract costs	15	20.2	20.2
Investment portfolio:			
Equity investments	16	96.5	125.7
Debt investments	16	1.9	0.4
Other financial asset	18	1.1	1.1
Investment in limited partnerships	25	1.4	1.0
<b>Total non-current assets</b>		<b>140.1</b>	<b>167.9</b>
<b>Current assets</b>			
Trade and other receivables	17	1.1	2.1
Cash and cash equivalents		33.3	46.0
<b>Total current assets</b>		<b>34.4</b>	<b>48.1</b>
<b>Total assets</b>		<b>174.5</b>	<b>216.0</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	20	5.0	5.0
Share premium account		96.7	96.7
Merger reserve		12.8	12.8
Retained earnings		59.3	99.0
<b>Total shareholders' equity</b>		<b>173.8</b>	<b>213.5</b>
Minority interest in equity	27	-	0.3
<b>Total equity</b>		<b>173.8</b>	<b>213.8</b>
<b>Current liabilities</b>			
Trade and other payables	19	0.7	2.2
<b>Total equity and liabilities</b>		<b>174.5</b>	<b>216.0</b>

The financial statements on pages 32 to 60 were approved by the Board of Directors and authorised for issue on 2 March 2009 and were signed on its behalf by:



**Bruce Smith**  
Chairman



**Alan Aubrey**  
Chief Executive Officer

# Consolidated cash flow statement

## for the year ended 31 December 2008

	2008 £m	2007 £m
<b>Operating activities</b>		
(Loss)/profit before taxation	(40.5)	30.5
<b>Adjusted for:</b>		
Finance income – interest receivable	(2.2)	(2.7)
Fair value movements in equity and debt investments	35.5	(26.4)
Depreciation of tangible non-current assets	0.1	0.1
Amortisation of intangible non-current assets	0.2	0.2
Profit on disposal of equity investments	–	(0.5)
Gains on deemed disposal of subsidiaries	–	(8.1)
Non cash employee bonus costs	0.1	1.3
Share-based payment charge	0.6	0.3
<b>Changes in working capital</b>		
Decrease/(increase) in trade and other receivables	0.7	(0.3)
Decrease in trade and other payables	(0.1)	(0.1)
<b>Operating cash flows</b>		
Other portfolio income classified as investing activities cash flows	(0.5)	–
Research and development tax credits received	0.1	–
Interest received	2.5	3.1
<b>Net cash outflow from operating activities</b>	<b>(3.5)</b>	<b>(2.6)</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(0.1)	(0.1)
Purchase of equity and debt investments	(9.2)	(6.8)
Investment in Limited Partnership Funds	(0.4)	(0.7)
Acquisition of subsidiaries net of cash acquired	–	(1.7)
Proceeds from sale of equity investments	–	8.0
Deemed disposal of subsidiaries net of cash disposed	–	(1.6)
Other portfolio income received	0.5	–
<b>Net cash outflow from investing activities</b>	<b>(9.2)</b>	<b>(2.9)</b>
<b>Financing activities</b>		
Proceeds from issue of share capital	–	0.2
<b>Net increase in cash and cash equivalents</b>	<b>(12.7)</b>	<b>(5.3)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>46.0</b>	<b>51.3</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>33.3</b>	<b>46.0</b>

# Consolidated statement of changes in equity for the year ended 31 December 2008

	Attributable to equity holders of the Company					Total £m	Minority interest £m	Total equity £m
	Share capital £m	Share premium <sup>(i)</sup> £m	Merger reserve <sup>(ii)</sup> £m	Retained earnings <sup>(iii)</sup> £m	Other reserve £m			
<b>At 1 January 2007</b>	4.9	92.0	12.8	69.2	–	178.9	0.3	179.2
Consolidated profit for the year <sup>(iv)</sup>	–	–	–	30.5	–	30.5	–	30.5
Pre acquisition reserves attributable to the Group	–	–	–	(0.4)	–	(0.4)	–	(0.4)
Liabilities acquired in excess of net interest in subsidiary <sup>(v)</sup>	–	–	–	–	(2.3)	(2.3)	–	(2.3)
Partial disposal of subsidiary investments to minority interests	–	–	–	(0.6)	–	(0.6)	0.6	–
Disposal of subsidiary undertakings	–	–	–	–	2.3	2.3	(0.9)	1.4
Issue of share capital in the year	0.1	4.7	–	–	–	4.8	–	4.8
Share based payment charge	–	–	–	0.3	–	0.3	–	0.3
Minority interest acquired with subsidiary	–	–	–	–	–	–	0.3	0.3
<b>At 1 January 2008</b>	5.0	96.7	12.8	99.0	–	213.5	0.3	213.8
Consolidated loss for the year <sup>(iv)</sup>	–	–	–	(40.3)	–	(40.3)	(0.1)	(40.4)
Acquisition of minority interest	–	–	–	–	–	–	(0.2)	(0.2)
Share based payment charge	–	–	–	0.6	–	0.6	–	0.6
<b>At 31 December 2008</b>	<b>5.0</b>	<b>96.7</b>	<b>12.8</b>	<b>59.3</b>	<b>–</b>	<b>173.8</b>	<b>–</b>	<b>173.8</b>

- (i) **Share premium**  
Amount subscribed for share capital in excess of nominal value, net of directly attributable issues costs
- (ii) **Merger reserve**  
Amount subscribed for share capital in excess of nominal value in relation to the qualifying acquisition of subsidiary undertakings
- (iii) **Retained earnings**  
Cumulative net gains and losses recognised in the consolidated income statement and income and expenses recognised directly in equity
- (iv) **Consolidated (loss)/profit for the year**  
This represents the total income and expense for the year
- (v) **Liabilities acquired in excess of net interest in subsidiary**  
This represents liabilities acquired upon acquisition of a subsidiary undertaking which are in excess of the Group's net interest in those liabilities. As the minority interest associated with this undertaking had no binding obligation to repay their interest in the liability, the amount is allocated to a separate component of equity. See note 21.

# Notes to the consolidated financial statements

## 1. Accounting policies

### Basis of preparation

The annual report and accounts of IP Group plc ("the Group") are for the year ended 31 December 2008. The annual report and consolidated accounts have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) issued by the International Accounting Standards Board (IASB) as adopted by European Union and with those parts of the Companies Act 1985 applicable to companies preparing their financial statements under IFRSs.

The preparation of financial statements in compliance with generally accepted accounting principles requires the use of estimates and assumptions that affect the amount reported of assets and liabilities at the balance sheet date and the amounts reported as revenue and expenditure of the reporting period.

### Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights are considered when assessing whether the Group controls an entity. Subsidiaries are fully consolidated from the date on which control is established by the Group until the date control ceases.

The purchase method of accounting is used to account for the acquisition of the Group's subsidiaries. The cost of acquisition is measured at fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the transaction. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Subsidiaries' accounting policies are amended where necessary to ensure consistency with the policies adopted by the Group.

#### (ii) Associates

Associates are entities over which the Group has significant influence, but does not control, generally accompanied by a shareholding of between 20% to 50% of the voting rights.

Investments in associates are held at fair value in the balance sheet. This treatment is permitted by IAS 28 Investment in Associates, which requires investments held by entities which are akin to venture capital organisations, to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Changes in fair value of associates are recognised in the income statement in the period of the change. The Group has no interests in associates through which it carries on its business.

#### (iii) Limited partnerships

Group entities act as General Partner to the following limited partnerships:

Name	Interest in limited partnership %
IP Venture Fund	10.0
Top Technology Ventures IV LP	1.0

IP Venture Fund has a narrow and well-defined scope of operation and, as its limited partners are predominantly parties external to the Group, the Group does not have access to substantially all the risks and rewards arising from its operation. Having due regard for the Group's minor interests in Top Technology Ventures IV LP, the Group does not have the power to govern the operations of the limited partnerships so as to obtain benefits from their activities. Accordingly, none of the limited partnerships meets the definition of a subsidiary under IAS 27 'Consolidated and separate financial statements'. The Group does have the power to exercise significant influence over the limited partnerships and accordingly the Group's accounting treatment for these interests is consistent with that of associates as described above, i.e. in accordance with IAS 39 'Financial Instruments: recognition and measurement' and designated as at fair value through profit or loss on initial recognition.

#### (iv) Deemed disposals

Where the Group ceases to control an entity by means other than physical disposal, such as the entity issuing shares to other non-group parties, the entity ceases to be a subsidiary and is no longer consolidated. Any gain or loss arising on the disposal is recognised in the income statement.

#### (v) Transactions with minority shareholders – 'economic entity approach'

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

## 1. Accounting policies (continued)

### Portfolio return and revenue

Change in fair value of equity and debt investments represents revaluation gains and losses on the Group's portfolio of investments. Gains on disposal of equity investments represent the difference between the fair value of consideration received and the carrying value at the start of the accounting period on the disposal of equity investments. Dividends receivable from equity shares are included within other portfolio income and recognised on the ex-dividend date or, where no ex-dividend date is quoted, are recognised when the Group's right to receive payment is established.

### Revenue from services

All revenue from services is generated within the United Kingdom and is stated exclusive of value added tax. Revenue from services comprises:

**Advisory fees:** Fees earned from the provision of business support services are recognised as the related services are provided. Corporate finance advisory fees are generally earned as a fixed percentage of total funds raised and recognised at the time the related transaction is successfully concluded.

**Fund management services:** Fiduciary fund management fees are generally earned as a fixed percentage of total funds under management and are recognised as the related services are provided.

### Property, plant and equipment

All property, plant and equipment is shown at cost less subsequent depreciation and impairment. Cost includes expenditure that is attributable to the acquisition of the items. Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

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

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

### Intangible assets

#### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets and allocated from the acquisition date to each of the Group's cash generating units ("CGU") that are expected to benefit from the business combination. Goodwill may be allocated to CGUs in both the acquired business and in the existing business. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

#### (ii) Acquired intangible assets – business combinations

Intangible assets that are acquired as a result of a business combination and that can be separately measured at fair value on a reliable basis, are separately recognised on acquisition at their fair value. Amortisation is charged on a straight-line basis to the income statement over their expected useful economic lives, and is included within "Other administrative expenses".

### Impairment of intangible assets (including goodwill)

Goodwill is not subject to amortisation but is tested for impairment annually and whenever events or circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment when events or a change in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use. For the purposes of assessing impairments, assets are grouped at the lowest levels for which there are identifiable cash flows (i.e. cash generating units).

### Financial assets

In respect of regular way purchases or sales, the Group uses trade date accounting to recognise or derecognise financial assets.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or the Group has transferred substantially all risks and rewards of ownership.

The Group classifies its financial assets into one of the categories listed below, depending on the purpose for which the asset was acquired. None of the Group's financial assets are categorised as held to maturity or available for sale.

#### (i) At fair value through profit or loss

Financial assets at fair value through profit or loss are either financial assets held for trading or financial assets which are designated at fair value through profit or loss on initial recognition.

This category includes equity investments, debt investments, equity rights and investments in limited partnerships. Investments in associated undertakings which are held by the Group with a view to the ultimate realisation of capital gains are also categorised as at fair value through profit or loss. This measurement basis is consistent with the fact that the Group's performance in respect of investments in equity investments, limited partnerships and associated undertakings is evaluated on a fair value basis in accordance with an established investment strategy.

Financial assets at fair value through profit and loss are initially recognised at fair value and any gains or losses arising from subsequent changes in fair value are presented in the income statement in the period which they arise.

The fair values of quoted investments are based on bid prices in an active market at the balance sheet date.

# Notes to the consolidated financial statements (continued)

## 1. Accounting policies (continued)

### Financial assets (continued)

#### (i) At fair value through profit or loss (continued)

The fair value of unlisted securities is established using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and earnings multiples. Wherever possible the Group uses valuation techniques which make maximum use of market based inputs. Accordingly, the valuation methodology used most commonly by the Group is the 'price of recent investment' contained in the International Private Equity and Venture Capital Valuation Guidelines (the "IPEVCV Guidelines") endorsed by the British & European Venture Capital Associations. The following considerations are used when calculating the fair value of unlisted securities:

#### Cost

Where the investment being valued was itself made recently, its cost will generally provide a good indication of fair value unless there is objective evidence that the investment has since been impaired, such as observable data suggesting a deterioration of the financial, technical, or commercial performance of the underlying business.

#### Price of recent investment

The Group considers that fair value estimates that are based entirely on observable market data will be of greater reliability than those based on assumptions and accordingly where there has been any recent investment by third parties, the price of that investment will generally provide a basis of the valuation. It is generally assumed that investments within a twelve month period will provide a reliable basis for valuation although the specific circumstances surrounding each investment are considered, which may result in this period being lengthened or shortened.

Where there is objective evidence that a deterioration in fair value has occurred, the Group reduces the carrying value of the investment, usually in tranches of 25% in accordance with the IPEVCV Guidelines. Where appropriate, the Group performs further validation using alternative valuation methodologies such as Discounted Cash Flows ('DCF'). DCF involves estimating the fair value of a business by calculating the present value of expected future cash flows, based on the most recent forecasts in respect of the underlying business.

#### Other valuation techniques

If there is no readily ascertainable value from following the 'price of recent investment' methodology, the Group considers alternative methodologies in the IPEVCV Guidelines, being principally price-earnings multiples. When using the earnings multiple methodology, earnings before interest and tax ("EBIT") are generally used, adjusted to a maintainable level. A suitable earnings multiple is derived from an equivalent business or group of businesses, for which the average price-earnings multiple for the relevant sector index can generally be considered a suitable proxy. This multiple is applied to earnings to derive an Enterprise Value which is then discounted by up to 60% for non-marketability and other risks inherent to businesses in early stages of operation.

#### No reliable estimate

Where a fair value cannot be estimated reliably the investment is reported at the carrying value at the previous reporting date unless there is objective evidence that the investment has since been impaired.

#### (ii) Loans and receivables

These assets are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (trade receivables) and are carried at cost less provision for impairment.

#### Equity rights

Equity rights represent consideration paid to the University of Oxford between December 2000 and June 2001.

The payment gives the Group the right to receive 50% of the University's equity in any spin-out company or of any licensing income emanating from the University's Chemistry Department. The contract expires on 23 November 2015.

The equity rights agreement is considered to be a derivative contract and is classified as a held for trading financial instrument with changes in fair value recognised in the income statement.

As described in note 15, the directors have not been able to determine a reliable fair value for this financial instrument. Until such time as the directors are able to compute a reliable fair value, the equity rights are carried at cost less provision for impairment. The directors review equity rights for impairment annually and if there is objective evidence of an impairment, then a provision would be charged to the income statement.

#### Debt investments

Debt investments are generally unquoted debt instruments which are convertible to equity at a future point in time. Such instruments are considered to be hybrid instruments containing a fixed rate debt host contract with an embedded equity derivative. The Group designates the entire hybrid contract at fair value through profit or loss on initial recognition and accordingly, the embedded derivative is not separated from the host contract and accounted for separately. The fair value of debt investments is established by calculating the present value of expected future cash flows associated with the instrument.

#### Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held with financial institutions.



## 1. Accounting policies (continued)

### Financial liabilities

Financial liabilities are comprised of trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

Unless otherwise indicated, the carrying amounts of the Group's financial liabilities are a reasonable approximation to their fair value.

### Share capital

Financial instruments issued by the Group are treated as equity if the holders have only a residual interest in the Group's assets after deducting all liabilities. The objective of the Group is to manage capital so as to provide shareholders with above average returns through capital growth over the medium to long term. The Group considers its capital to comprise its share capital, share premium, merger reserve and retained earnings.

Top Technology Ventures Limited, a Group subsidiary, is subject to external capital requirements imposed by the Financial Services Authority ("FSA") and as such must ensure that it has sufficient capital to satisfy these requirements. The Group ensures it remains compliant with these requirements as described in the financial statements of Top Technology Ventures Limited.

### Contract costs

Contract costs comprise related costs to secure university partnership arrangements and these costs are amortised over the life of the respective partnership.

### Segment reporting

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing services within a particular economic environment that is subject to different risks and returns from other segments in other economic environments.

### Employee benefits

#### (i) Pension obligations

The Group operates a stakeholder pension scheme for which all employees are eligible. The assets of the scheme are held separately from those of the Group in an independently administered fund. At present the Group does not make contributions to this scheme, but does make contributions to employee personal pension schemes on an individual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

#### (ii) Share based payments

The fair value of Long-Term Incentive Plan ("LTIP") awards are estimated at the date of award, using a Monte Carlo simulation technique, taking into account the terms and conditions of the award, including market based performance conditions.

No expense is recognised for grants that do not vest and charges previously made are reversed except where vesting is conditional upon a market condition which are treated as vesting irrespective of whether or not the market condition is satisfied, provided all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the Income Statement, with a corresponding entry in equity.

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

#### (iii) Bonus plan

The Group operates a bonus incentive scheme linked to the equity received in spin-out companies as a result of investments made by the Group ('the equity bonus scheme'). The Group accrues for employee bonuses at a cost to the Group of up to 17.5% of the fair value of investments made by the Group. Bonus awards due under the scheme are settled using shares held in companies in the Group's equity portfolio. Some of these shares have been subscribed for in cash by the Group and others have been received for no cash consideration by virtue of the Group's university partnerships.

### Deferred tax

Full provision is made for deferred tax on all temporary differences resulting from the carrying value of an asset or liability and its tax base. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability settled. Deferred tax assets are recognised to the extent that it is probable that the deferred tax asset will be recovered in the future.

### Leases

Leases where the lessor retains substantially all of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the term of the lease.

### Significant accounting estimates and judgements

Details of the significant accounting estimates and judgements are disclosed in note 3.

# Notes to the consolidated financial statements

## (continued)

### 1. Accounting policies (continued)

#### New standards and interpretations not applied

The International Accounting Standards Board and the International Financial Reporting Interpretations Committee have issued the following standards and interpretations to be applied to financial statements with periods commencing on or after the following dates:

International Accounting Standards (IAS/IFRS)		Effective Date
IFRS 1*	First time adoption of IFRS (Revision)	01/01/2009
IFRS1 & IAS27	Cost of an Investment in a subsidiary, jointly-controlled entity or associate	01/01/2009
IFRS 2	Share based payment: Vesting Conditions and Cancellations (Amendment)	01/01/2009
IFRS 3*	Business Combinations (Revision)	01/07/2009
IFRS 8	Operating Segments	01/01/2009
IAS 1	Presentation of Financial Statements: A Revised Presentation (Amendment)	01/01/2009
IAS 1 & IAS 32	Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation (Amendment)	01/01/2009
IAS 23	Borrowing costs (Amendment)	01/01/2009
IAS 27*	Consolidated and Separate Financial Statements (Amendment)	01/07/2009
IAS 39*	Financial Instruments: Recognition and Measurement: Eligible Hedged Items (Amendment)	01/07/2009
	Improvements to IFRSs	01/01/2009
International Financial Reporting Interpretations Committee (IFRIC)		Effective Date
IFRIC 12*	Service Concession Arrangements	01/01/2008
IFRIC 13	Customer Loyalty Programmes	01/07/2008
IFRIC 15*	Agreements for the Construction of Real Estate	01/01/2009
IFRIC 16*	Hedges of a Net Investment in A Foreign Operation	01/10/2008
IFRIC 17*	Distributions of Non-Cash Assets to Owners	01/07/2009
IFRIC 18*	Transfers of Assets from Customers	01/07/2009

\* Not endorsed by the EU as at the date of approval of these financial statements.

If the Group had been able to early adopt IAS 27, minority interests in the consolidated balance sheet would have been £2.4m lower and losses attributable to minority interests would have been £2.4m higher. This would have increased total shareholders' equity by £2.4m.

With the exception of IAS 27, the directors do not anticipate the adoption of these standards and interpretations will have a material impact on the financial statements in the period of initial adoption other than as relating to disclosure and presentation.

### 2. Financial risk management

As set out in the Principal risks and uncertainties section of the Corporate Governance statement on pages 27 and 28, the Group is exposed, through its normal operations, to a number of financial risks, the most significant of which are market, liquidity and credit risks.

In general, risk management is carried out throughout the Group under policies approved by the Board of Directors. The following further describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

#### (a) Market risk

##### (i) Price risk

The Group is exposed to equity securities price risk as a result of the equity investments and investments in limited partnerships held by the Group and categorised as at fair value through profit and loss.

The Group mitigates this risk by having established investment appraisal processes and asset monitoring procedures which are subject to overall review by the Board. The Group has also established a Capital Markets team dedicated to investor relations.

The Group holds investments which are publicly traded on the Alternative Investment Market ("AIM") or PLUS Markets and investments which are not traded on an active market.

The net reduction in fair value of the Group's equity investments during 2008 of £35.4m represents a 28% change against the opening balance (2007: net increase of £26.4m, 30%) and a similar increase or decrease in the prices of quoted and unquoted investments is considered to be reasonably possible. The table below summarises the impact of a 1% increase/decrease in the price of both quoted and unquoted investments on the Group's post tax profit for the year and on equity.

	2008			2007		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equity investments and investments in limited partnerships	0.4	0.6	1.0	0.7	0.6	1.3

## 2. Financial risk management (continued)

### (ii) Interest rate risk

As the Group has no significant borrowings it has only a limited interest rate risk. The primary impact to the Group is the impact on income and operating cash flow as a result of the interest-bearing cash and cash equivalents held by the Group.

The Group mitigates this risk, in co-ordination with liquidity risk, by managing its proportion of fixed to floating rate financial assets. The table below summarises the interest rate profile of the Group.

	2008				2007			
	Fixed rate £m	Floating rate £m	Interest free £m	Total £m	Fixed rate £m	Floating rate £m	Interest free £m	Total £m
<b>Financial assets</b>								
Equity rights	–	–	20.2	20.2	–	–	20.2	20.2
Equity investments	–	–	96.5	96.5	–	–	125.7	125.7
Debt investments	1.0	–	0.9	1.9	–	–	0.4	0.4
Cash and cash equivalents	15.0	18.3	–	33.3	24.0	22.0	–	46.0
Other financial asset	–	–	1.1	1.1	–	–	1.1	1.1
Trade receivables	–	–	0.2	0.2	–	–	0.6	0.6
Related parties	–	–	–	–	–	–	0.2	0.2
Other receivables	–	–	0.8	0.8	–	–	1.2	1.2
	16.0	18.3	119.7	154.0	24.0	22.0	149.4	195.4
<b>Financial liabilities</b>								
Trade payables	–	–	0.1	0.1	–	–	0.2	0.2
Accrued staff bonus	–	–	–	–	–	–	0.7	0.7
Other accruals and deferred income	–	–	0.4	0.4	–	–	1.2	1.2
	–	–	0.5	0.5	–	–	2.1	2.1

At 31 December 2008, if interest rates had been 1% higher/lower, post-tax profit for the year, and other components of equity, would have been £0.2m (2007: £0.2m) higher/lower as a result of higher interest received on floating rate cash deposits.

### (b) Liquidity risk

The Group seeks to manage liquidity risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Accordingly the Group only invests working capital in short term instruments issued by reputable counterparties. The Group continuously monitors rolling cash flow forecasts to ensure sufficient cash is available for anticipated cash requirements.

### (c) Credit risk

The Group's credit risk is primarily attributable to its cash and cash equivalents, debt investments and trade receivables. The Group seeks to mitigate its credit risk on cash and cash equivalents by investing in treasury funds with an "AA" credit rating or above managed by institutions, or by making short term deposits with counterparties with most recently reported total assets in excess of £3 billion and, where counterparties have required a rating, a "P1" credit rating, at the time of investment (ratings determined by Standard & Poor's or Moody's). An analysis of the Group's cash and cash equivalents balance analysed by credit rating as at the balance sheet date is shown in the table below. All other financial assets are unrated.

Credit rating	2008 £m	2007 £m
P1	10.0	19.0
AA	14.4	12.6
Unrated*	8.9	14.4
<b>Total cash and cash equivalents</b>	<b>33.3</b>	<b>46.0</b>

\* Unrated cash and cash equivalents includes £5m (2007: £5m) of short term instruments where the counterparty has not been required to obtain a rating as they have no commercial paper issued in public markets. These counterparties are building societies who, in accordance with the Group's treasury policy, have most recently reported total assets in excess of £3 billion at the time of investment.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Group has detailed policies and strategies which seek to minimise these associated risks.

The Group's exposure to credit risk on debt investments is managed in a similar way to equity price risk, as described above, through the Group's investment appraisal processes and asset monitoring procedures which are subject to overall review by the Board.

The maximum exposure to credit risk for debt investments, receivables and other financial assets is represented by their carrying amount.

# Notes to the consolidated financial statements

## (continued)

### 3. Significant accounting estimates and judgements

The directors make judgements and estimates concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, such as expectations of future events, and are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions that have the most significant effects on the carrying amounts of the assets and liabilities in the financial statements are discussed below.

#### (i) Impairment of goodwill

The Group is required to test, at least annually, whether goodwill has suffered any impairment. The recoverable amount is determined using value in use calculations. The use of this method requires the estimation of future cash flows and the selection of a suitable discount rate in order to calculate the present value of these cash flows.

#### (ii) Equity rights

The equity rights agreement is considered to be a derivative contract and is classified as a held for trading financial instrument with changes in fair value recognised in the income statement. The directors consider that for each of the key variables which would be relevant in determining a fair value for this financial instrument, there is a range of reasonably possible alternative values which result in a wide range of fair value estimates. None of these estimates is considered more appropriate or relevant than any other and accordingly the directors have not been able to determine a reliable fair value for this financial instrument.

#### (iii) Valuation of unquoted equity investments

The judgements required in order to determine the appropriate valuation methodology of unquoted equity investments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities. These judgements include making assessments of the future earnings potential of portfolio companies, appropriate earnings multiples to apply, and marketability and other risk discounts.

Discussion of sensitivity analyses is included in the relevant note for each of the above estimates and judgements.

### 4. Revenue from services

All revenue from services is derived from the provision of advisory and venture capital fund management services.

### 5. Business segments

For both the year ended 31 December 2008 and the year ended 31 December 2007 the Group's revenue and profit before taxation was derived entirely from its principal activity within the United Kingdom. For management purposes, the Group is currently organised into three operating divisions, (i) the commercialisation of intellectual property via the formation of long term partnerships with universities, (ii) management of venture funds focussing on early-stage UK technology companies and (iii) the in-licensing of drugable intellectual property from research intensive institutions.

Year ended 31 December 2008	University partnership business £m	Venture capital fund management £m	In-licensing activity £m	Consolidated £m
<b>Income statement</b>				
<b>Portfolio return and revenue</b>				
Change in fair value of equity and debt investments	(35.5)	–	–	(35.5)
Other portfolio income	0.5	–	–	0.5
Revenue from advisory services	0.5	0.3	–	0.8
Revenue from fund management services	–	1.1	–	1.1
Administrative expenses	(5.4)	(1.2)	(3.0)	(9.6)
<b>Operating profit/(loss)</b>	<b>(39.9)</b>	<b>0.2</b>	<b>(3.0)</b>	<b>(42.7)</b>
Finance income – interest receivable	2.0	0.1	0.1	2.2
<b>Profit/(loss) before taxation</b>	<b>(37.9)</b>	<b>0.3</b>	<b>(2.9)</b>	<b>(40.5)</b>
Taxation	–	–	0.1	0.1
<b>Profit/(loss) for the year</b>	<b>(37.9)</b>	<b>0.3</b>	<b>(2.8)</b>	<b>(40.4)</b>
<b>Balance sheet</b>				
<b>Assets</b>	<b>170.7</b>	<b>3.2</b>	<b>0.6</b>	<b>174.5</b>
<b>Liabilities</b>	<b>(0.5)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.7)</b>
<b>Net assets</b>	<b>170.2</b>	<b>3.1</b>	<b>0.5</b>	<b>173.8</b>
<b>Other segment items</b>				
Capital expenditure	0.1	–	–	0.1
Depreciation	0.1	–	–	0.1
Amortisation of intangible assets	–	0.2	–	0.2

## 5. Business segments (continued)

Year ended 31 December 2007

	University partnership business £m	Venture capital fund management £m	in-licensing activity £m	Consolidated £m
<b>Income statement</b>				
<b>Portfolio return and revenue</b>				
Change in fair value of equity and debt investments	26.4	-	-	26.4
Gains on deemed disposal of subsidiaries	8.1	-	-	8.1
Gains on disposal of equity investments	0.5	-	-	0.5
Other portfolio income	-	-	-	-
Revenue from advisory services	0.5	0.3	-	0.8
Revenue from fund management services	-	1.2	-	1.2
Administrative expenses	(5.4)	(1.2)	(2.6)	(9.2)
<b>Operating profit</b>	<b>30.1</b>	<b>0.3</b>	<b>(2.6)</b>	<b>27.8</b>
Finance income – interest receivable	2.4	0.1	0.2	2.7
<b>Profit before taxation</b>	<b>32.5</b>	<b>0.4</b>	<b>(2.4)</b>	<b>30.5</b>
Taxation	-	-	-	-
<b>Profit for the year</b>	<b>32.5</b>	<b>0.4</b>	<b>(2.4)</b>	<b>30.5</b>
<b>Balance sheet</b>				
<b>Assets</b>	<b>210.2</b>	<b>2.3</b>	<b>3.5</b>	<b>216.0</b>
<b>Liabilities</b>	<b>(1.6)</b>	<b>(0.2)</b>	<b>(0.4)</b>	<b>(2.2)</b>
<b>Net assets</b>	<b>208.6</b>	<b>2.1</b>	<b>3.1</b>	<b>213.8</b>
<b>Other segment items</b>				
Capital expenditure	(0.5)	-	-	(0.5)
Depreciation	(0.1)	-	-	(0.1)
Amortisation of intangible assets	-	(0.1)	-	(0.1)

### Secondary format – geographical segments

The Group operates exclusively in the United Kingdom and consequently no additional disclosures are given.

## 6. Auditors' remuneration

Details of the auditors' remuneration are set out below:

	2008 £'000	2007 £'000	Review of the year  Corporate governance  Financial statements
<b>Audit services</b>			
- Fees payable to company auditor for the audit of parent and consolidated accounts	<b>74</b>	67	
<b>Non-audit services</b>			
Fees payable to company auditor and its associates for other services:			
- Auditing of accounts of subsidiaries pursuant to legislation	<b>10</b>	19	
- Other services supplied under legislation	<b>13</b>	10	
- Other taxation services			
- Corporation tax compliance	<b>43</b>	23	
- Corporation tax advisory	<b>22</b>	30	
- Other tax advisory	<b>69</b>	3	
- Recruitment and remuneration services	-	10	
- All other services	<b>4</b>	3	
	<b>235</b>	165	

# Notes to the consolidated financial statements (continued)

## 7. Operating (loss)/profit

Operating (loss)/profit has been arrived at after charging/(crediting):

	2008 £m	2007 £m
Amortisation of intangible assets	0.2	0.2
Depreciation of tangible assets	0.1	0.1
Employee costs (see Note 8)	5.5	5.5
Operating leases – property	0.5	0.6
Profit on disposal of equity investments	–	(0.5)
Gain on deemed disposal of subsidiaries	–	(8.1)

## 8. Employee costs

Employee costs (including directors) comprise:

	2008 £m	2007 £m
Salaries	4.2	3.3
Defined contribution pension cost	0.1	0.2
Share based payment charge (see Note 24)	0.6	0.3
Equity bonuses accrued in the year	0.1	1.3
Social Security	0.5	0.4
	5.5	5.5

The average monthly number of persons (including executive directors) employed by the Group during the year was 54, all of whom were involved in management and administration activities (2007: 44). The Company had no employees in the year ended 31 December 2008 (2007: nil). All Group and Company employee costs were borne by other Group companies with the exception of the share based payment charge. Details of directors' remuneration and gains on the exercise of share options can be found in the Directors' Remuneration Report on pages 19 to 23.

## 9. Taxation

	2008 £m	2007 £m
Current tax	(0.1)	–
Deferred tax	–	–

The credit for the year can be reconciled to the (loss)/profit per the income statement as follows:

	2008 £m	2007 £m
(Loss)/profit before tax	(40.5)	30.5
Tax at the UK Corporation tax rate of 28% (2007: 30%)	(11.3)	9.2
Non-taxable income	(0.1)	(10.5)
Non-deductible net fair value losses	9.9	–
Schedule 23 deduction	–	(0.1)
Research and development tax credits	(0.1)	–
Tax losses arising not recognised	0.9	0.9
Other adjustments	0.6	0.5
Tax credit	(0.1)	–

## 9. Taxation (continued)

At 31 December 2008, deductible temporary differences and unused tax losses for which no deferred tax asset has been recognised totalled £16.7m (2007: £14.1m). An analysis is shown below:

	2008		2007	
	Amount £m	Deferred tax £m	Amount £m	Deferred tax £m
Share based payment costs	–	–	0.6	0.2
Unused tax losses	16.7	4.7	13.5	3.8
	16.7	4.7	14.1	4.0

This asset has not been recognised in the financial statements due to current uncertainties surrounding the reversal of the underlying temporary differences. This deferred tax asset would be recovered if there were future taxable profits from which the reversal of the underlying temporary difference could be deducted.

The directors believe that the Group qualifies for Substantial Shareholder Exemption and therefore no deferred tax is provided for in respect of the net uplift in valuation of the Group's equity investments.

## 10. Earnings per share

Earnings	2008 £m	2007 £m
Earnings for the purposes of basic and dilutive earnings per share	(40.3)	30.5
Number of shares	2008 No. of shares	2007 No. of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	250,291,965	248,952,170
Effect of dilutive potential ordinary shares:		
Share options	–	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	250,291,965	248,952,170

The Group has only one class of potentially dilutive ordinary shares. These are contingently issuable shares arising under the Group Long Term Incentive Plan ('LTIP'). Based upon information available at the end of the reporting period, none of the performance criteria for vesting of awards under the LTIP have been satisfied. Consequently, there are no potentially dilutive shares outstanding at the period end and therefore the diluted earnings per share is equal to the basic earnings per share.

## 11. Goodwill

	£m
At 1 January 2007	18.7
Recognised on acquisition of subsidiary <sup>(i)</sup> (Note 21)	3.7
Disposed with subsidiary <sup>(i),(ii)</sup> (Note 22)	(3.7)
At 1 January 2008	18.7
Acquisition of minority interests <sup>(iii)</sup>	0.1
Disposed with subsidiary <sup>(iii)</sup>	(0.4)
<b>At 31 December 2008</b>	<b>18.4</b>
At 31 December 2007	18.7

- (i) Goodwill arising on the acquisition of Poseidon Water Limited forms part of the university partnership CGU. Poseidon Water was subsequently disposed of in 2007 as part of the deemed disposal of Modern Water plc (Note 22).
- (ii) Goodwill arising on the acquisition of Modern Waste Ltd and Photopharmica (Holdings) Ltd which both form part of the in-licensing CGU. Photopharmica (Holdings) Ltd was subsequently disposed by way of a deemed disposal (Note 22).
- (iii) Goodwill arising on the Group increasing its stake in Modern Waste Limited in the year. Modern Waste Limited was then subsequently disposed of on 17 December 2008.

# Notes to the consolidated financial statements (continued)

## 11. Goodwill (continued)

The recoverable amount of the above goodwill has been determined from value in use calculations on cash flow projections from formally approved budgets in respect of the relevant cash generating unit, covering the remaining life of the related funds under management or university partnerships.

The goodwill allocated to each CGU is summarised in the following table:

	2008 £m	2007 £m
University partnership CGU	15.5	15.5
Fund management CGU	2.9	2.9
In-licensing CGU	–	0.3
	18.4	18.7

### Impairment review of venture capital fund management CGU

The following key assumptions have been used to determine value in use:

	2008	2007
Discount rate	9%	9%
Number of funds under management	3	2
Management fee	2%	2%
Cost inflation	4%	4%

The assumptions above reflect past experience. All reasonably possible changes to key assumptions do not result in the recoverable amount being less than the carrying value of goodwill.

### Impairment review of the university partnership CGU

The directors consider that for each of the key variables which would be relevant in determining a value in use for the university partnership CGU, there is a range of reasonably possible alternative values. The key variable ranges are set out below.

	2008	2007
The number of spin-out companies per year	2-8	2-8
Initial equity stake acquired by the Group under the University partnership	20%	20%
Proportion of spin-out companies failing	20-30%	20-30%
Dilution rates prior to exit as a result of financing for spin-out companies	35-50%	30-50%
Proportion of IPO exits	30-50%	30-50%
IPO exit valuations	£30m-50m	£45m-70m
Proportion of disposal exits	30-50%	30-50%
Disposal valuations	£15m-35m	£15m-35m
Discount rate	8-10%	8-10%

These key variable ranges result in a wide range of value in use estimates for the university partnership CGU. None of these estimates of value in use is considered more appropriate or relevant than any other, however none indicate that an impairment of the goodwill allocated to the CGU is required.

## 12. Acquired intangible assets

	£m
At 1 January 2007	0.5
Amortisation charge during the year ended 31 December 2007	(0.2)
At 1 January 2008	0.3
Amortisation charge during the year ended 31 December 2008	(0.2)
At 31 December 2008	0.1
At 31 December 2007	0.3

On 30 June 2004 the Group acquired the entire issued share capital of Top Technology Ventures Limited. At this time, Top Technology Ventures Limited was party to two contracts to supply fund management services. The directors calculated the fair value of this asset on a discounted cash flow basis, and concluded that the fair value of this asset at 30 June 2004 was £0.8m. The asset is being amortised on a straight-line basis over its useful life which has been determined by reference to the residual life of the two contracts to be five and a half years from the date of acquisition. At 31 December 2008 the asset had a remaining useful life of one year (2007: two years).



### 13. Property, plant and equipment

	Total £m
Cost	
At 1 January 2008	0.7
Additions	0.1
At 31 December 2008	0.8
Accumulated depreciation	
At 1 January 2008	0.2
Charge for the year	0.1
At 31 December 2008	0.3
Net book value	
<b>At 31 December 2008</b>	<b>0.5</b>
At 31 December 2007	0.5
	Total £m
Cost	
At 1 January 2007	0.2
Additions	0.5
At 31 December 2007	0.7
Accumulated depreciation	
At 1 January 2007	0.1
Charge for the year	0.1
At 31 December 2007	0.2
Net book value	
At 31 December 2007	0.5
At 31 December 2006	0.1

Depreciation on property, plant and equipment was £119,320 (2007: £80,033).

### 14. Categorisation of financial instruments

	At fair value through profit and loss			Total £m
	Held for trading £m	Designated upon initial recognition £m	Loans and receivables £m	
Financial assets				
At 31 December 2008				
Equity rights	19.9	-	-	19.9
Equity investments	-	96.5	-	96.5
Debt investments	-	1.9	-	1.9
Other financial asset	1.1	-	-	1.1
Investment in limited partnerships	-	1.4	-	1.4
Trade and other receivables	-	-	1.0	1.0
Cash and cash equivalents	-	-	33.3	33.3
<b>Total</b>	<b>21.0</b>	<b>99.8</b>	<b>34.3</b>	<b>155.1</b>
At 31 December 2007				
Equity rights	19.9	-	-	19.9
Equity investments	-	125.7	-	125.7
Debt investments	-	0.4	-	0.4
Other financial asset	1.1	-	-	1.1
Investment in limited partnerships	-	1.0	-	1.0
Trade and other receivables	-	-	2.1	2.1
Cash and cash equivalents	-	-	46.0	46.0
<b>Total</b>	<b>21.0</b>	<b>127.1</b>	<b>48.1</b>	<b>196.2</b>

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# Notes to the consolidated financial statements (continued)

## 14. Categorisation of financial instruments (continued)

All financial liabilities are categorised as other financial liabilities and recognised at amortised cost.

The Group does not consider that any change in fair value of financial assets in the year is attributable to credit risk (2007: nil).

All net fair value gains in the year are attributable to financial assets designated at fair value through profit and loss on initial recognition (2007: All net fair value gains attributable to financial assets designated at fair value through profit and loss on initial recognition).

## 15. Equity rights and related contract costs

	Equity rights £m	Contract costs £m	Total £m
<b>Cost</b>			
At 1 January 2008 and 31 December 2008	19.9	0.5	20.4
<b>Aggregate amortisation of contract costs</b>			
At 1 January 2008	–	(0.2)	(0.2)
Charge for the year	–	–	–
At 31 December 2008	–	(0.2)	(0.2)
<b>Net book value</b>			
<b>At 31 December 2008</b>	<b>19.9</b>	<b>0.3</b>	<b>20.2</b>
At 31 December 2007	19.9	0.3	20.2
	Equity rights £m	Contract costs £m	Total £m
<b>Cost</b>			
At 1 January 2007	19.9	0.5	20.4
Additions	–	–	–
At 31 December 2007	19.9	0.5	20.4
<b>Aggregate amortisation of contract costs</b>			
At 1 January 2007	–	(0.1)	(0.1)
Charge for the year	–	(0.1)	(0.1)
At 31 December 2007	–	(0.2)	(0.2)
<b>Net book value</b>			
At 31 December 2007	19.9	0.3	20.2
At 31 December 2006	19.9	0.4	20.3

## Carrying amount of equity rights

Equity rights represent consideration paid to the University of Oxford between December 2000 and June 2001. The payment gives the Group the right to receive 50% of the University's equity in any spin-out company or of any licensing income emanating from the University's Chemistry Department. The contract expires on 23 November 2015.

The directors consider that for each of the key variables which would be relevant in determining a fair value for this financial instrument, there is a range of reasonably possible alternative values. The key variable ranges are set out below.

	2008	2007
The number of spin-out companies per year from the University of Oxford chemistry department	1-3	1-4
Initial equity stake acquired by the Group under the equity rights contract	20%	20%
Proportion of spin-out companies failing	20-30%	20-30%
Dilution rates prior to exit as a result of financing for spin-out companies	35-50%	30-50%
Proportion of IPO exits	30-50%	30-50%
IPO exit valuations	£30m-50m	£45m-70m
Proportion of disposal exits	30-50%	30-50%
Disposal valuations	£15m-35m	£15m-35m
Discount rate	8-10%	8-10%

# 15. Equity rights and related contract costs (continued)

These key variable ranges result in a wide range of fair value estimates for the equity rights agreement. None of these estimates of fair value is considered more appropriate or relevant than any other and accordingly the directors have not been able to determine a reliable fair value for this financial instrument at either 1 January 2004 or any subsequent reporting date. The directors consider a fair value for this instrument could be reliably estimated when the remaining duration of the contract reaches a stage at which the above variable ranges produce a range of fair values which are sufficiently close.

Until such time as the directors are able to compute a reliable fair value, the equity rights are carried at cost less provision for impairment. The directors review equity rights for impairment annually and if there is objective evidence of an impairment, such as a continued decline in either the number of new spin-out companies from the University of Oxford Chemistry Department or the valuations achieved at IPO or disposal, then a provision would be charged to the income statement. None of the above reasonably possible estimates of fair value indicate that an impairment of carrying value of the equity rights agreement is required.

# 16. Investment portfolio

Group	Equity investments in quoted spin-out companies £m	Equity investments in unquoted spin-out companies £m	Unquoted debt investments in spin-out companies £m	Equity investments in other companies £m	Total £m
At 1 January 2007	48.7	36.9	0.1	1.7	87.4
Investments during the year	0.5	5.9	0.4	–	6.8
Reclassifications during the year	2.3	(2.2)	(0.1)	–	–
Reclassification of subsidiaries and debt to equity conversions during the year	9.2	5.4	–	–	14.6
Change in fair value in the year	13.8	12.5	–	0.1	26.4
Equity allocated to staff	–	(1.4)	–	(0.2)	(1.6)
Disposal during the year	(7.5)	–	–	–	(7.5)
At 1 January 2008	67.0	57.1	0.4	1.6	126.1
Investments during the year	1.8	5.0	1.8	–	8.6
Reclassifications during the year	0.5	(0.3)	(0.2)	–	–
Change in fair value in the year	(31.3)	(2.9)	(0.1)	(1.2)	(35.5)
Equity allocated to staff	–	(0.8)	–	–	(0.8)
<b>At 31 December 2008</b>	<b>38.0</b>	<b>58.1</b>	<b>1.9</b>	<b>0.4</b>	<b>98.4</b>

Certain fair values of unquoted spin-out companies have been determined in part or in full by valuation techniques that are not supported by observable market prices or rates. However if the assumptions used in the valuation techniques are varied by using a range of possible alternatives, there is no material difference to the carrying value of the respective spin-out company.

The net reduction in fair value for the year of £35.5m (2007: £26.4m gain) includes a net reduction of £3.6m (2007: £12.5m gain) that has been estimated using a valuation technique. Further details are contained within the accounting policy for equity investments.

## Change in fair value in the year

	2008 £m	2007 £m
Fair value gains	12.2	38.1
Fair value losses	(47.7)	(11.7)
	<b>(35.5)</b>	<b>26.4</b>

# Notes to the consolidated financial statements (continued)

## 16. Investment portfolio (continued)

### Significant equity investments

At 31 December 2008 the Group has investments where it holds 20% or more of the issued ordinary share capital of the following companies:

Undertaking	% issued share capital held	Net assets (liabilities) £'000	Profit (loss) before tax £'000	Date of financial statements
Empiricom Technologies Limited	49.9%	(23)	–	31/03/2008
Capsant Neurotechnologies Limited	49.9%	803	(557)	31/12/2007
Photopharmica (Holdings) Limited	49.9%	11,935	–	31/07/2008
Chamelic Limited	46.4%	375	–	31/07/2007
Sustainable Resource Solutions Limited	44.4%	2	–	30/04/2008
Xeros Limited	44.1%	(7)	–	31/07/2007
Leeds Reproductive Biosciences Limited	43.8%	116	–	31/07/2007
Overlay Media Limited	43.6%	–	–	–
Dispersia Limited	42.8%	102	–	31/07/2007
Structure Vision Limited	41.8%	21	–	31/07/2007
Icona Solutions Limited	40.6%	(109)	(263)	31/12/2006
Simulstrat Limited	39.8%	162	(187)	31/07/2007
Cerogenix Limited	37.7%	83	–	31/05/2008
Crysalin Limited	37.1%	–	–	–
Leeds Lithium Power Limited	36.7%	71	–	31/07/2007
Phonologica Limited	36.7%	67	–	28/02/2006
Mode Diagnostics Limited	35.4%	350	–	31/07/2007
Activotec SPP Limited	35.3%	311	–	31/12/2007
Oxford Nanopore Technologies Limited	34.9%	14,295	(2,959)	30/06/2008
COE Group plc	34.6%	–	(1,115)	30/06/2008
DyeCat Limited	33.3%	(40)	–	31/07/2007
Surrey Nano Systems Limited	33.3%	(33)	(212)	30/06/2007
Amaethon Limited	33.0%	266	(140)	31/07/2008
ReactivLab Limited	33.0%	–	–	–
Retroscreen Virology Limited	31.4%	1,532	(259)	31/07/2007
Bioniqs Limited	30.1%	192	–	31/07/2007
Plexus Planning Limited	29.3%	278	–	31/12/2007
Synairgen plc	28.7%	4,167	(2,467)	30/06/2008
Tissue Regenix Limited	27.6%	535	–	31/07/2007
Rock Deformation Research Limited <sup>(i)</sup>	27.5%	636	159	31/07/2008
Glythera Limited	26.2%	–	–	–
ImageI Limited	26.1%	–	–	31/07/2007
OxTox Limited	25.2%	319	–	31/12/2007
Theragenetics Limited	25.0%	2,157	–	31/03/2008
EMDOT Limited	24.6%	–	–	–
Green Chemicals plc	24.3%	2,630	(809)	31/03/2008
Avacta Group plc	23.9%	4,869	(1,573)	31/07/2008
Iluka Technologies Limited	23.6%	6,822	–	30/04/2008
Modern Water plc	23.0%	43,254	(1,749)	31/12/2007
Oxford RF Sensors Limited	22.9%	891	–	31/12/2007
Proximagen Neuroscience plc	21.8%	8,671	(2,934)	30/11/2007
Luto Research Limited	24.2%	759	–	31/07/2007
Karus Therapeutics Limited	20.4%	822	(564)	30/06/2007
GETECH Group plc	20.3%	4,652	900	31/07/2008
Escubed Limited	20.0%	–	–	–

(i) Shares held by University of Leeds as nominee for IP Group plc

All companies are incorporated in England and Wales. All companies are held indirectly through subsidiary companies with the exception of Photopharmica (Holdings) Limited and Modern Water plc.

## 16. Investment portfolio (continued)

No financial information is presented in respect of companies that have not filed accounts at Companies House. No profit/(loss) information is presented in respect of companies that have filed abbreviated accounts.

In addition, at 31 December 2008, the Group has the following investments in spin-out companies where it holds less than 20% of the issued share capital:

Undertaking	% of issued share capital held
Tracsis plc	19.3%
Syntopix Group plc	18.7%
iQur Limited	17.7%
Pharminox Limited	17.4%
Oxford Advanced Surfaces Group plc	15.3%
Xanic Limited	14.8%
Vision Semantics Limited	13.3%
ReOx Limited	12.2%
CoDriva Limited	11.9%
Oxford Catalysts Group plc	11.4%
Revolymex Limited	11.2%
Nanotecture Group plc	10.2%
Perpetuum Limited	8.2%
Summit Corporation plc	7.2%
Glycoform Limited	6.1%
NanoGan Limited	5.5%
Inhibox Limited	3.9%
Sigma Capital Group plc	3.9%
Nano-porous Solutions Limited	2.2%
Powerlase Limited	1.4%
Stratophase Limited	1.3%
Offshore Hydrocarbon Mapping plc	0.8%
leDeZine Limited	0.6%

All companies are incorporated in England and Wales

The Company's interests in subsidiary undertakings are listed in note 2 to the company financial statements on page 63.

## 17. Trade and other receivables

	2008 £m	2007 £m
Trade debtors	0.2	0.6
Prepayments	0.1	0.1
Amounts due from related parties	-	0.2
Other receivables	0.8	1.2
	1.1	2.1

The directors consider the carrying amount of trade and other receivables to approximate their fair value. All receivables are interest free, repayable on demand and unsecured.

## 18. Other financial assets

Other financial asset comprises of a zero cost forward contract giving the Group the right to receive sale proceeds when the University of Leeds sells down its stake in specified spin-out companies subject to a maximum receivable of £1.2m (2007: £1.2m). The asset has no set date of repayment or other rights of recourse. This asset is classified as a financial asset held for trading initially measured at fair value with subsequent changes recognised in the income statement. Fair value is determined by discounting expected cash flows at prevailing market rates of interest.

Cash and cash equivalents comprises cash held by the Group. The carrying amount of these assets approximates their fair value.

# Notes to the consolidated financial statements

## (continued)

### 19. Trade and other payables

Group	2008 £m	2007 £m
Trade payables	0.1	0.2
Social security expenses	0.2	0.1
Accrued staff bonuses	–	0.7
Other accruals and deferred income	0.4	1.2
	<b>0.7</b>	<b>2.2</b>

#### Accrued staff bonuses

During the year ended 31 December 2008, bonus entitlements were settled by the allocation of equity from investments made by the Group.

The timing of the actual allocations of equity to employees is subject to a number of factors, including the performance of the business as a whole.

Group	Current bonus accrual £m
At 1 January 2008	0.7
Charged in the income statement in the year to 31 December 2008	0.1
Settled during the year to 31 December 2008	(0.8)
<b>At 31 December 2008</b>	<b>–</b>

Group	Current bonus accrual £m
At 1 January 2007	1.4
Charged in the income statement in the year to 31 December 2007	1.3
Settled during the year to 31 December 2007	(2.0)
<b>At 31 December 2007</b>	<b>0.7</b>

### 20. Share capital

Group and Company	2008 £m	2007 £m
Authorised:		
450 million ordinary shares of 2 pence each (2007: 450 million ordinary shares of 2 pence each)	9.0	9.0
Issued and fully paid:		
250,291,965 ordinary shares of 2 pence each (2007: 250,291,965 ordinary shares of 2 pence each)	5.0	5.0

On 30 April 2007 the Company issued 500,000 new ordinary shares with a par value of 2p with respect to the exercise of share options with an exercise price of 43.5p. On 17 May 2007, the Company issued 409,353 new ordinary shares with a par value of 2p at an issue price of 139 pence as consideration for the acquisition of Photopharmica (Holdings) Limited (see note 21) and a further 2,828,057 at an issue price of 139 pence as consideration for the acquisition of various debt instruments in Photopharmica (Holdings) Limited.

The Company has one class of ordinary shares which carry equal voting rights, equal rights to income and distributions of assets on liquidation or otherwise, and no right to fixed income.

**21. Acquisitions of subsidiary undertakings during 2007****Acquisition of Photopharmica (Holdings) Limited ("Photopharmica")**

In 2005, the Group acquired a 5.2% stake in Photopharmica, by virtue of its agreement with the University of Leeds, and the fair value of consideration paid was £nil. The book and fair value of net liabilities acquired at this stage was £1.6m giving rise to goodwill of £0.1m.

On 17 May 2007, the Group acquired a further 51.4% equity stake in Photopharmica, taking the Group's total stake to 56.6%. At that date, the Group also acquired £3.5m of debt instruments and 100% of the issued redeemable preference share capital of Photopharmica.

Fair value and book value of net assets/(liabilities)  
£'000

Net liabilities acquired:	
Property, plant and equipment	43
Cash and cash equivalents	241
Trade and other receivables	45
Trade and other payables	(732)
Redeemable preference shares	(1,449)
Debt instruments acquired	(3,482)
Net liabilities	(5,334)
Less: fair value of 5.2% interest previously held	280
Share of net liabilities acquired	(5,054)
Liabilities acquired in excess of net interest in subsidiary	2,313
Goodwill (note 11)	3,310
Total consideration	569
Consideration satisfied by:	
Issue of share capital (409,353 shares at 139 pence <sup>(i)</sup> )	569
	569

(i) Being the average closing price of the shares over the 5 day period prior to 17 May 2007

As the 43.4% of minorities associated with this undertaking had no binding obligation to repay their interest of Photopharmica's net liabilities, the excess of liabilities acquired over the Group's net interest in those liabilities was allocated to a separate component of equity attributable to equity shareholders.

From the date of acquisition to the subsequent date of deemed disposal (Note 22), the acquisition contributed £39,000 to turnover and £659,000 loss for the year. If the acquisition had occurred on 1 January 2007, the acquisition would have contributed £57,000 to turnover and £1,388,000 loss for the year.

The outflow of cash and cash equivalents on the acquisition, including those cash flows in relation to the acquisition of the debt instruments, redeemable preference share capital and additional draw-downs on those instruments, can be calculated as follows:

	£'000
Cash consideration	2,000
Cash acquired	(241)
	1,759

**Acquisition of Modern Waste Limited ("Modern Waste")**

On 3 May 2007, the Group acquired an 84% equity stake in Modern Waste for cash consideration of £2m.

Fair value and book value of net assets/(liabilities)  
£'000

Net assets acquired:	
Cash and cash equivalents	2,000
	2,000
Minority interest	(312)
Goodwill (note 11)	312
Total consideration	2,000
Consideration satisfied by:	
Cash	2,000

From the date of acquisition, which was the date trading commenced, Modern Waste contributed £nil to turnover and £184,000 loss for the year.

# Notes to the consolidated financial statements

## (continued)

### 21. Acquisitions of subsidiary undertakings during 2007 (continued)

The outflow of cash and cash equivalents on the acquisition can be calculated as follows:

	£'000
Cash consideration	2,000
Cash acquired	(2,000)
	–

### 22. Disposals of subsidiary undertakings during 2007

#### Deemed disposal of Modern Water plc ("Modern Water")

On 12 June 2007 the Group announced that Modern Water had raised additional finance from non-group parties and was admitted to the Alternative Investment Market ("AIM"). As a result of this, the Group's equity stake was diluted and Modern Water ceased to be considered a subsidiary.

The following table summarises the assets disposed:

	£'000
Net assets attributable to the Group pre-disposal:	
Goodwill	277
Investments in associated undertakings	578
Property, plant and equipment	14
Trade and other receivables	21
Cash and cash equivalents	1,356
Trade and other payables	(133)
	2,113
Minority interests	(861)
Net assets disposed of	1,252

Immediately following the transaction, the Group's interest in Modern Water was 23%. At that time, Modern Water had net assets of £40.7m, giving rise to a gain on deemed disposal amounting to £8.1m. This associated undertaking was then designated as at fair value through profit and loss in accordance with the Group's accounting policies. No proceeds were received and the cash out flow on disposal was £1.4m.

#### Deemed disposal of Photopharmica (Holdings) Limited ("Photopharmica")

On 21 December 2007 the Group announced that Photopharmica had raised additional finance from non-group parties as part of a financing round. As a result of this, the Group's equity stake was diluted and Photopharmica ceased to be considered a subsidiary.

The following table summarises the net assets disposed:

	£'000
Net assets attributable to the Group pre-disposal:	
Property, plant and equipment	37
Trade and other receivables	71
Cash and cash equivalents	324
Trade and other payables	(461)
Preference share capital	(1,457)
	(1,486)
Goodwill	3,393
Liabilities acquired in excess of net interest in subsidiary	2,313
Net assets disposed of	4,220

Immediately following the transaction, the Group's interest in Photopharmica was 46.9%. At that time, Photopharmica had net assets of £4.5m plus attributable goodwill of £2.8m, giving rise to a loss on the deemed disposal of £40k, after deducting £0.7m of additional investment by the Group as part of the financing round. This associated undertaking was then designated as at fair value through profit and loss in accordance with the Group's accounting policies. No proceeds were received and the cash outflow on disposal was £0.3m.



### 23. Operating lease arrangements

	2008 £m	2007 £m
Payments under operating leases recognised in the income statement for the year	0.5	0.6
At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:		
	2008 £m	2007 £m
Within one year	0.3	0.5
In the second and fifth years inclusive	0.6	0.9
	0.9	1.4

Operating lease payments represent rentals payable by the group for certain of its office properties. Leases are negotiated for an average term of five years and rentals are fixed for an average of one year.

### 24. Share-based payments

#### Long term incentive plan ("LTIP") awards

Awards under the LTIP will take the form of provisional awards of ordinary shares of two pence each in the Group. Awards will generally vest over three years following the date on which they are made, to the extent that performance conditions have been met. The Remuneration Committee will impose objective conditions on the vesting of awards, and it is proposed that such conditions will be imposed as reflect the guidelines of institutional investors from time to time. At present, it is intended that the performance conditions for future grants will be based on the Group's total shareholder return ("TSR") performance. The awards granted in 2007 and 2008 will vest in full after three years in the event of TSR growth of 15% per annum on a cumulative basis being achieved. 50% of an award granted will vest in the event of compound annual TSR growth of 10% being achieved with a sliding scale between these points.

The movement in the number of shares notionally awarded under the LTIP is set out below:

	2008	2007
At 1 January	2,656,716	–
Notionally awarded during the year	826,293	2,656,716
At 31 December	3,483,009	2,656,716

The fair value of awards has been calculated using a Monte-Carlo pricing model with the following key assumptions:

	2008	2007
Share price at date of award	105p	135p
Exercise price	£nil	£nil
Expected volatility (median of historical 50 day moving average)	26%	23%
Expected life (years)	3	3
Expected dividend yield	0%	0%
Risk-free interest rate	4.0%	5.6%
Value per option	42p	55p

#### Share options

The Group previously granted options over the ordinary shares of the Company at not less than the market value of the Group's ordinary shares on the date of grant. The vesting period was generally 3 to 4 years. If the options remained unexercised after a period of 10 years from the date of grant, the options expire. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The movement in the number of share options is set out below:

	2008	2007
Outstanding at 1 January	–	500,000
Exercised during the year	–	500,000
Number of outstanding share options at 31 December	–	–

As at 31 December 2008, there were no share options outstanding (2007: nil). The weighted average share price at the date of exercise for share options exercised during the prior year was £1.41. The weighted average exercise price of options exercised in the prior year was 43.5p.

# Notes to the consolidated financial statements (continued)

## 24. Share-based payments (continued)

National Insurance is payable on gains and losses made by employees on exercise of share options granted to them. The Group has entered into a reciprocal arrangement with employees such that employees will reimburse the Group for any National Insurance liability. These were previously included in trade and other receivables and amounted to £nil at both 31 December 2008 and 31 December 2007. The movement in provisions is set out below:

	National insurance on options £m
At 1 January 2007	0.1
Utilised in the year	(0.1)
At 1 January 2008 and 31 December 2008	-

## 25. Investments in limited partnerships

	£m
At 1 January 2007	0.3
Additions during the year	0.7
At 1 January 2008	1.0
Additions during the year	0.4
At 31 December 2008	1.4

## 26. Related party transactions

The Group has various related parties arising from its key management, subsidiaries, equity stakes in portfolio companies and management of certain limited partnership funds.

### a) Limited partnerships

The Group manages a number of investment funds structured as limited partnerships. Group entities have a limited partnership interest (see note 1) and act as the general partners of these limited partnerships. The Group therefore has power to exert significant influence over these limited partnerships. The following amounts have been included in respect of these limited partnerships:

	2008 £m	2007 £m
Income statement		
Revenue from services	0.9	1.2
Balance sheet		
Investment in limited partnerships	1.4	1.0
Amounts due from related parties	-	0.2

### b) Key management transactions

The key management had direct shareholdings in the following spin-out companies as at 31 December 2008:

Director	Company	Number of shares held at 1 January 2008	Number of shares acquired (/disposed) in the year	Number of shares held at 31 December 2008	% of issued share capital at 31 December 2008
Alan Aubrey	Activotec SPP Limited	1,500	-	1,500	0.9%
	Amaethon Limited - A Ordinary Shares	104	-	104	3.1%
	Amaethon Limited - B Ordinary Shares	11,966	-	11,966	1.0%
	Amaethon Limited - Ordinary shares	21	-	21	0.3%
	Avacta Group plc	12,961,857	-	12,961,857	1.6%
	Bionics Limited	1,063	-	1,063	1.0%
	Capsant Neurotechnologies Limited	9,958	1,673	11,631	0.8%
	Cerogenix Limited	3,143	-	3,143	1.7%
	Chamelic Limited	26	-	26	1.6%
	COE Group plc	246,094	111,110	357,204	1.0%
	Crysalin Limited	-	1,447	1,447	0.4%
	Dispersia Limited	-	416	416	1.0%
	Empiricom Technologies Limited <sup>a</sup>	61,710,430	(61,710,430)	-	0.0%
	Getech Group plc	15,000	-	15,000	<0.1%
	Green Chemicals plc	108,350	-	108,350	1.3%
	Icona Solutions Limited	1,674	-	1,674	1.3%
	Iluka Technologies Limited	1,175	-	1,175	1.0%
	Karus Therapeutics Limited	223	-	223	0.7%
	Leeds Lithium Power Limited	178	-	178	1.2%
	Leeds Reproductive Biosciences Limited	18	-	18	1.1%
	Luto Research Limited	132	-	132	1.1%
	Mode Diagnostics Limited	-	1,863	1,863	1.2%
	Modern Biosciences plc <sup>a</sup>	39,505	1,145,645	1,185,150	2.3%
	Modern Water plc	575,000	-	575,000	1.0%

## 26. Related party transactions (continued)

### b) Key management transactions (continued)

Director	Company	Number of shares held at 1 January 2008	Number of shares acquired /(disposed) in the year	Number of shares held at 31 December 2008	% of issued share capital at 31 December 2008
Alan Aubrey (continued)	Overlay Media Limited	-	22	22	1.0%
	Oxford Advanced Surfaces Group plc	2,357,994	(185,185)	2,172,809	1.2%
	Oxford Catalysts Group plc	254,749	-	254,749	0.4%
	Oxford Nanopore Technologies Limited	11,442	-	11,442	1.2%
	Oxford RF Sensors Limited	53,639	-	53,639	0.8%
	Oxtox Limited	25,363	-	25,363	0.6%
	Pharminox Limited	685	-	685	0.3%
	Photopharmica (Holdings) Limited	37,020	-	37,020	1.0%
	Plexus Planning Limited	1,732	-	1,732	0.8%
	ReactivLab Limited	-	50	50	1.1%
	Retroscreen Virology Limited	1,858	-	1,858	0.9%
	Revolymex Limited	2,963	-	2,963	0.4%
	Simulstrat Limited - A Preference shares	24,063	-	24,063	2.8%
	Simulstrat Limited - Ordinary shares	2,255	-	2,255	1.3%
	Structure Vision Limited	212	-	212	1.3%
	Surrey Nanosystems Limited	-	393	393	1.1%
	Syntopix Group plc	63,726	13,333	77,059	1.0%
	Theragenetics Limited	3,150	-	3,150	0.7%
	Tissue Regenix Limited	89	-	89	0.8%
	Tracsis plc	203,400	-	203,400	1.1%
	Xanic Limited	-	16	16	0.6%
	Xeros Limited	86	155	241	1.4%
Alison Fielding	Activotec SPP Limited	300	-	300	0.2%
	Amaethon Limited - A Ordinary Shares	105	-	105	3.2%
	Amaethon Limited - B Ordinary Shares	12,049	-	12,049	1.0%
	Amaethon Limited - Ordinary shares	21	-	21	0.3%
	Avacta Group plc	7,522,403	-	7,522,403	0.9%
	Bioniqs Limited	1,063	-	1,063	1.0%
	Capsant Neurotechnologies Limited	6,472	1,375	7,847	0.5%
	Cerogenix Limited	874	-	874	0.5%
	Charmel Limited	21	-	21	1.3%
	COE Group plc	246,094	222,220	468,314	1.3%
	Crysalin Limited	-	1,447	1,447	0.4%
	Dispersia Limited	-	342	342	0.8%
	Green Chemicals plc	126,181	-	126,181	1.6%
	Icona Solutions Limited	1,419	-	1,419	1.1%
	Iluka Technologies Limited	328	-	328	0.3%
	Karus Therapeutics Limited	43	-	43	0.1%
	Leeds Lithium Power Limited	172	-	172	1.2%
	Leeds Reproductive Biosciences Limited	17	-	17	1.0%
	Luto Research Limited	132	-	132	1.1%
	Mode Diagnostics Limited	-	1,632	1,632	1.1%
	Modern Biosciences plc <sup>(1)</sup>	25,782	747,678	773,460	1.5%
	Modern Water plc	276,000	-	276,000	0.5%
	Overlay Media Limited	-	18	18	0.8%
	Oxford Advanced Surfaces Group plc	611,042	-	611,042	0.3%
	Oxford Catalysts Group plc	84,196	-	84,196	0.1%
	Oxford Nanopore Technologies Limited	5,721	-	5,721	0.6%
	Oxford RF Sensors Limited	15,085	-	15,085	0.2%
	Oxtox Limited	16,601	-	16,601	0.4%
	Pharminox Limited	274	-	274	0.1%
	Photopharmica (Holdings) Limited	27,350	-	27,350	0.7%
	Plexus Planning Limited	480	-	480	0.2%
	ReactivLab Limited	-	48	48	1.1%
	Retroscreen Virology Limited	1,216	-	1,216	0.6%
	Revolymex Limited	434	764	1,198	0.2%
	Simulstrat Limited - A Preference shares	15,750	-	15,750	1.8%
	Simulstrat Limited - Ordinary shares	1,476	-	1,476	0.9%
	Structure Vision Limited	195	-	195	1.2%
	Surrey Nanosystems Limited	-	323	323	0.9%
	Syntopix Group plc	27,510	7,967	35,477	0.5%
	Theragenetics Limited	1,260	-	1,260	0.3%
	Tissue Regenix Limited	85	-	85	0.8%
	Tracsis plc	197,750	-	197,750	1.0%
	Xanic Limited	-	15	15	0.5%
	Xeros Limited	70	127	197	1.2%
David Norwood	Activotec SPP Limited	1,500	-	1,500	0.9%
	Amaethon Limited - A Ordinary Shares	76	-	76	2.3%
	Amaethon Limited - B Ordinary Shares	8,703	-	8,703	0.8%
	Amaethon Limited - Ordinary shares	15	-	15	0.2%
	Avacta Group plc	5,310,841	-	5,310,841	0.6%
	Bioniqs Limited	1,063	-	1,063	1.0%
	Capsant Neurotechnologies Limited	7,287	743	8,030	0.6%
	Cerogenix Limited	3,143	-	3,143	1.7%
	Charmel Limited	13	-	13	0.8%
	COE Group plc	246,094	111,110	357,204	1.0%
	Crysalin Limited	-	-	-	0.0%
	Dispersia Limited	-	-	-	0.0%
	Green Chemicals plc	-	-	-	0.0%
	Icona Solutions Limited	718	(718)	-	0.0%
	Iluka Technologies Limited	1,175	-	1,175	1.0%
	Karus Therapeutics Limited	223	-	223	0.7%
	Leeds Lithium Power Limited	129	-	129	0.9%
	Leeds Reproductive Biosciences Limited	13	(13)	-	0.0%
	Luto Research Limited	119	-	119	1.0%

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# Notes to the consolidated financial statements (continued)

## 26. Related party transactions (continued)

### b) Key management transactions (continued)

Director	Company	Number of shares held at 1 January 2008	Number of shares acquired /(disposed) in the year	Number of shares held at 31 December 2008	% of issued share capital at 31 December 2008
David Norwood (continued)	Mode Diagnostics Limited	-	-	-	0.0%
	Modern Biosciences plc <sup>(a)</sup>	28,693	(28,693)	-	0.0%
	Modern Water plc	418,200	-	418,200	0.7%
	Overlay Media Limited	-	-	-	0.0%
	Oxford Advanced Surfaces Group plc	9,753,674	307,700	10,061,374	5.4%
	Oxford Catalysts Group plc	216,792	-	216,792	0.4%
	Oxford Medical Diagnostics Limited	-	-	-	0.0%
	Oxford Nanopore Technologies Limited	17,442	2,002	19,444	2.0%
	Oxford RF Sensors Limited	53,639	-	53,639	0.8%
	Oxtox Limited	18,446	-	18,446	0.5%
	Pharminox Limited	950	-	950	0.4%
	Photopharmica (Holdings) Limited	20,370	-	20,370	0.5%
	Plexus Planning Limited	1,732	-	1,732	0.8%
	ReactivLab Limited	-	-	-	0.0%
	Retroscreen Virology Limited	1,352	-	1,352	0.6%
	Revolymex Limited	2,963	-	2,963	0.4%
	Simulstrat Limited - A Preference shares	17,500	-	17,500	2.0%
	Simulstrat Limited - Ordinary shares	1,640	-	1,640	1.0%
	Structure Vision Limited	154	(154)	-	0.0%
	Surrey Nanosystems Limited	-	-	-	0.0%
	Syntopix Group plc	83,787	26,667	110,454	1.4%
	Theragenetics Limited	3,150	-	3,150	0.7%
	Tissue Regenix Limited	65	-	65	0.6%
	Tracsis plc	129,950	-	129,950	0.7%
	Xanix Limited	-	-	-	0.0%
	Xeros Limited	43	69	112	0.7%
Magnus Goodlad	Activotec SPP Limited	627	-	627	0.4%
	Amaethon Limited - A Ordinary Shares	31	-	31	0.9%
	Amaethon Limited - B Ordinary Shares	3,616	-	3,616	0.3%
	Amaethon Limited - Ordinary shares	6	-	6	<0.1%
	Avacta Group plc	2,297,770	-	2,297,770	0.3%
	Bionigs Limited	533	-	533	0.5%
	Capsant Neurotechnologies Limited	6,472	1,300	7,772	0.5%
	Cerogenix Limited	651	-	651	0.3%
	Chamelic Limited	20	-	20	1.3%
	COE Group plc	246,094	-	246,094	0.7%
	Crysalin Limited	-	1,125	1,125	0.3%
	Dispersia Limited	-	324	324	0.8%
	Green Chemicals plc	43,067	-	43,067	0.5%
	Icona Solutions Limited	1,355	-	1,355	1.0%
	Iluka Technologies Limited	260	-	260	0.2%
	Karus Therapeutics Limited	105	-	105	0.3%
	Leeds Lithium Power Limited	61	-	61	0.4%
	Leeds Reproductive Biosciences Limited	6	-	6	0.4%
	Luto Research Limited	30	-	30	0.3%
	Mode Diagnostics Limited	-	1,549	1,549	1.0%
	Modern Biosciences plc <sup>(a)</sup>	25,782	747,678	773,460	1.5%
	Modern Water plc	476,200	-	476,200	0.8%
	Overlay Media Limited	-	17	17	0.8%
	Oxford Advanced Surfaces Group plc	611,042	(185,185)	425,857	0.2%
	Oxford Catalysts Group plc	74,684	-	74,684	0.1%
	Oxford Medical Diagnostics Limited	-	-	-	0.0%
	Oxford Nanopore Technologies Limited	2,231	3,490	5,721	0.6%
	Oxford RF Sensors Limited	29,735	-	29,735	0.4%
	Oxtox Limited	16,601	-	16,601	0.4%
	Pharminox Limited	274	-	274	0.1%
	Photopharmica (Holdings) Limited	21,340	-	21,340	0.6%
	Plexus Planning Limited	444	-	444	0.2%
	ReactivLab Limited	-	45	45	1.0%
	Retroscreen Virology Limited	1,216	-	1,216	0.6%
	Revolymex Limited	666	562	1,228	0.2%
	Simulstrat Limited - A Preference shares	15,750	-	15,750	1.8%
	Simulstrat Limited - Ordinary shares	1,476	-	1,476	0.9%
	Structure Vision Limited	83	-	83	0.5%
	Surrey Nanosystems Limited	-	306	306	0.9%
	Syntopix Group plc	13,312	-	13,312	0.2%
	Theragenetics Limited	1,260	-	1,260	0.3%
	Tissue Regenix Limited	31	-	31	0.3%
	Tracsis plc	113,000	-	113,000	0.6%
	Xanix Limited	-	14	14	0.5%
	Xeros Limited	67	120	187	1.1%
Mike Townend	Amaethon Limited - A Ordinary Shares	104	-	104	3.1%
	Amaethon Limited - B Ordinary Shares	11,966	-	11,966	1.0%
	Amaethon Limited - Ordinary shares	21	-	21	0.3%
	Capsant Neurotechnologies Limited	9,796	1,486	11,282	0.8%
	Chamelic Limited	23	-	23	1.4%
	Crysalin Limited	-	1,286	1,286	0.4%
	Dispersia Limited	-	370	370	0.9%
	Green Chemicals plc	113,222	-	113,222	1.4%
	Icona Solutions Limited	1,515	-	1,515	1.1%
	Leeds Lithium Power Limited	178	-	178	1.2%
	Leeds Reproductive Biosciences Limited	18	-	18	1.1%
	Mode Diagnostics Limited	-	1,756	1,756	1.1%
	Modern Biosciences plc <sup>(a)</sup>	39,505	1,145,645	1,185,150	2.3%
	Modern Water plc	575,000	-	575,000	1.0%
	Overlay Media Limited	-	19	19	0.8%
	Oxford Advanced Surfaces Group plc	932,994	-	932,994	0.5%

## 26. Related party transactions (continued)

### b) Key management transactions (continued)

Director	Company	Number of shares held at 1 January 2008	Number of shares acquired / (disposed) in the year	Number of shares held at 31 December 2008	% of issued share capital at 31 December 2008
Mike Townsend (continued)	Oxford Nanopore Technologies Limited	-	3,490	3,490	0.4%
	Oxtox Limited	25,363	-	25,363	0.6%
	Photopharmica (Holdings) Limited	37,020	-	37,020	1.0%
	ReactivLab Limited	-	51	51	1.2%
	Retroscreen Virology Limited	1,858	-	1,858	0.9%
	Revolymmer Limited	-	1,198	1,198	0.2%
	Simulstrat Limited - A Preference shares	24,063	-	24,063	2.8%
	Simulstrat Limited - Ordinary shares	2,255	-	2,255	1.3%
	Structure Vision Limited	212	-	212	1.3%
	Surrey Nanosystems Limited	-	350	350	1.0%
	Tissue Regenix Limited	89	-	89	0.8%
	Tracsis plc	84,750	-	84,750	0.4%
	Xanic Limited	-	16	16	0.6%
	Xeros Limited	76	137	213	1.3%
Graham Richards	Getech Group plc	30,000	-	30,000	0.1%
	Summit Corporation plc	1,010,100	(347,142)	662,958	1.2%
Bruce Smith	Capsant Neurotechnologies Limited	8,724	12,000	20,724	1.4%
	Getech Group plc	15,000	-	15,000	<0.1%
	iOur Limited	2,000	-	2,000	0.8%
	Nanotechnology Group plc	50,000	-	50,000	0.5%
	Offshore Hydrocarbon Mapping plc	-	-	-	0.0%
	Oxford Catalysts Group plc	10,000	-	10,000	<0.1%
	Phonologica Limited	2,000	-	2,000	1.0%
	Synairgen plc	200,000	-	200,000	0.9%
	Syntopix Group plc	11,299	3,942	15,241	0.2%
Roger Brooke	Activotec SPP Limited	1,459	-	1,459	0.8%
	Avacta Group plc	-	661,318	661,318	<0.1%
	Bioniqs Limited	1,000	-	1,000	0.9%
	Capsant Neurotechnologies Limited	2,667	-	2,667	0.2%
	Getech Group plc	30,000	-	30,000	0.1%
	Glycoform Limited	937	-	937	0.3%
	Inhibox Limited	500	-	500	0.2%
	iOur Limited	1,400	-	1,400	0.6%
	Nanotechnology Group plc	33,335	-	33,335	0.3%
	Oxford Nanopore Technologies Limited	2,857	624	3,481	0.4%
	Pharminox Limited	786	-	786	0.4%
	Phonologica Limited	2,000	-	2,000	1.0%
	Proximagen Neuroscience plc	160,000	-	160,000	0.7%
	ReOx Limited	2,717	-	2,717	0.3%
	Revolymmer Limited	-	1,351	1,351	0.2%
	Stratophase Limited	4,549	-	4,549	0.5%
	Summit Corporation plc	11,400	-	11,400	<0.1%
	Syntopix Group plc	-	11,299	11,299	0.1%
	Zyentia Limited	3,766	(3,766)	-	0.0%

(i) During the year, Alan Aubrey transferred 61,710,430 shares in Empiricom Technologies Limited to the Group for nil consideration.

(ii) In April 2008, shareholders of Modern Biosciences plc received a bonus issue of 29 ordinary shares for each ordinary share held at that time.

All figures refer to ordinary shares unless indicated otherwise.

Compensation to key management comprises solely that paid to executive directors of the Group. Full details of directors' compensation are disclosed in the Directors' Remuneration Report on pages 19 to 23.

### c) Portfolio companies

The Group earns fees from the provision of business support services and corporate finance advisory to portfolio companies in which the Group has an equity stake. The following amounts have been included in respect of these fees:

	2008 £m	2007 £m
Income statement		
Revenue from services	0.8	0.8
Balance sheet		
Trade debtors	0.2	0.6

# Notes to the consolidated financial statements (continued)

## 27. Minority interest

	2008 £m	2007 £m
At 1 January	0.3	0.3
On acquisition of subsidiary undertaking	–	0.3
Acquisition of minority interest	(0.2)	–
Partial disposal of subsidiary undertaking to minority interests	–	0.6
Disposed with subsidiary undertaking	–	(0.9)
Share of loss for the year	(0.1)	–
<b>At 31 December</b>	<b>–</b>	<b>0.3</b>

## 28. Capital commitments

Partnership	Commencement of partnership Year	Original commitment £m	Invested to date £m	Remaining commitment £m
University of Southampton <sup>(i)</sup>	2002	5.0	3.0	2.0
King's College London <sup>(ii)</sup>	2003	5.0	1.8	3.2
University of York – CNAP <sup>(iii)</sup>	2003	0.8	0.2	0.6
University of Leeds <sup>(iv)</sup>	2005	5.0	5.0	–
University of Bristol <sup>(v)</sup>	2005	5.0	0.7	4.3
University of Surrey <sup>(vi)</sup>	2006	5.0	0.5	4.5
University of York <sup>(vii)</sup>	2006	5.0	0.1	4.9
Queen Mary, University of London <sup>(viii)</sup>	2006	5.0	0.1	4.9
University of Bath <sup>(viii)</sup>	2006	5.0	0.2	4.8
University of Glasgow <sup>(ix)</sup>	2006	5.0	1.0	4.0
		45.8	12.6	33.2

(i) Under the terms of an agreement entered into in 2002 between the Group, the University of Southampton and certain of the University of Southampton's subsidiaries, IP2IPO Limited agreed to make £5.0m available for the purposes of making investments in University of Southampton spin-out companies.

(ii) Under the terms of an agreement entered into during 2003 between the Group and King's College London ("KCL") and KCL Enterprises Limited, the Group agreed to make £5.0m available for the purposes of making investments in spin-out companies. Under the terms of this agreement, KCL can require the Company to make a further £5.0m available for investments in spin-out companies on the tenth anniversary of the partnership.

(iii) In 2003 the Group entered into an agreement with the University of York. The agreement relates to a specialist research centre within the University of York: the Centre for Novel Agricultural Products ("CNAP"). The Group has committed to invest up to a total of £0.8m in spin-out companies based on CNAP's intellectual property. In 2006 The Group extended its partnership with the University of York to cover the entire university. The Group has committed to invest £5.0m in University of York spin-outs over and beyond the £0.8m commitment as part of the Group's agreement with CNAP.

(iv) The Group extended its partnership with the University of Leeds in July 2005 by securing the right and obligation to invest up to £5.0m in University of Leeds spin-out companies.

(v) In December 2006, the Group entered into an agreement with the University of Bristol. The Group has committed to invest up to a total of £5.0m in University of Bristol spin-out companies.

(vi) Under the terms of an agreement entered into in 2006 between the Group and the University of Surrey ('Surrey'), the Group has committed to invest up to a total of £5.0m in spin-out companies based on Surrey's intellectual property.

(vii) In July 2006, the Group entered into an agreement with Queen Mary, University of London ('QM') to invest in QM spin-out companies. The Group has committed to invest up to a total of £5.0m in QM spin-out companies.

(viii) In September 2006, the Group entered into an agreement with the University of Bath ('Bath') to invest in Bath spin-out companies. The Group has committed to invest up to a total of £5.0m in Bath spin-out companies.

(ix) In October 2006, the Group entered into an agreement with the University of Glasgow ('Glasgow') to invest in Glasgow spin-out companies. The Group has committed to invest up to a total of £5.0m in Glasgow spin-out companies.

## 29. Post balance sheet events

On 12 January 2009, Oxford Nanopore Technologies Limited ('Oxford Nanopore') entered into a worldwide strategic alliance with Illumina Inc for the development and commercialisation of its DNA sequencing technology. As part of this alliance, Illumina Inc invested \$18m of equity finance into Oxford Nanopore at a value premium to the previous funding round. Accordingly, the Group recognised a £3.2m fair value gain in January 2009 in respect of its investment in Oxford Nanopore.

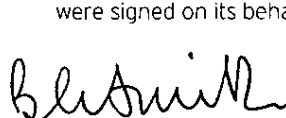
Since 31 December 2008 and as at 27 February 2009, the last practical date prior to the approval of these accounts, the fair value of quoted companies in the Group's portfolio has decreased by £7.2m to a total fair value of £30.8m.

# Company balance sheet

## as at 31 December 2008

	Note	2008 £m	2007 £m
<b>ASSETS</b>			
<b>Fixed assets</b>			
Investment in subsidiary undertakings	2	25.3	27.3
Investment in associated undertakings	3	9.8	9.8
Loans to subsidiary undertakings	4	73.2	77.9
<b>Total assets</b>		<b>108.3</b>	<b>115.0</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	5	5.0	5.0
Share premium account	5	96.7	96.7
Profit and loss reserve	5	(6.2)	0.5
Merger reserve	5	12.8	12.8
<b>Total equity shareholders' funds and liabilities</b>		<b>108.3</b>	<b>115.0</b>

The financial statements on pages 61 to 64 were approved by the Board of Directors and authorised for issue on 2 March 2009 and were signed on its behalf by:



**Bruce Smith**  
Chairman



**Alan Aubrey**  
Chief Executive Officer

# Notes to the company financial statements

## 1. Accounting policies

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

### Investments in subsidiary and associated undertakings

Investments in subsidiary and associated undertakings are stated at historic cost less any provision for impairment in value and are held for long term investment purposes.

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

### Intercompany loans

All intercompany loans are initially recognised at fair value. As all intercompany loans are repayable on demand, their carrying value approximates to their fair value.

### Impairment

If there is an indication that an asset might be impaired, the Company will perform an impairment review. An asset is impaired if the recoverable amount, being the higher of net realisable value and value in use, is less than its carrying amount. Value in use is measured based on future discounted cash flows (DCF) attributable to the asset. In such cases, the carrying value of the asset is reduced to recoverable amount with a corresponding charge recognised in the profit and loss account.

### Financial instruments

Currently the Company 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 titles pass to or from the Company.

### Share-based payments

The fair value of Long-Term Incentive Plan ("LTIP") awards are estimated at the date of award, using a Monte Carlo simulation technique, taking into account the terms and conditions of the award, including market based performance conditions.

No expense is recognised for grants that do not vest and charges previously made are reversed except where vesting is conditional upon a market condition which are treated as vesting irrespective of whether or not the market condition is satisfied, provided all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the Income Statement, with a corresponding entry in equity.

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

## 2. Investments in subsidiary undertakings

	£m
At 1 January 2008	27.3
Additions	0.1
Impairment	(0.1)
Disposals	(2.0)
<b>At 31 December 2008</b>	<b>25.3</b>



## 2. Investments in subsidiary undertakings (continued)

Details of the company's subsidiary undertakings at 31 December 2008 are as follows:

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Method used to account for investment
IP2IPO Limited	England and Wales	100.0	100.0	Acquisition
IP2IPO Management Limited <sup>(i)</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO Management II Limited <sup>(i)</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO Management III Limited <sup>(i)</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO Management IV Limited <sup>(i)</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO Management V Limited <sup>(i)</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO (Europe) Limited <sup>(i)(v)</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO Guarantee Limited <sup>(i)(v)</sup>	England and Wales	100.0	100.0	Acquisition
Top Technology Ventures Limited <sup>(ii)</sup>	England and Wales	100.0	100.0	Acquisition
HATT III GP Limited <sup>(i)(iii)</sup>	England and Wales	100.0	100.0	Acquisition
Top Technology Ventures IV GP Ltd <sup>(i)(iii)</sup>	England and Wales	100.0	100.0	Acquisition
IP Venture Fund GP Limited <sup>(i)(iii)</sup>	England and Wales	100.0	100.0	Acquisition
IP Ventures (Scotland) Limited <sup>(i)(ia)</sup>	Scotland	100.0	100.0	Acquisition
IP Europe (GP) Limited <sup>(i)(i)</sup>	England and Wales	100.0	100.0	Acquisition
Techtran Group Limited	England and Wales	100.0	100.0	Acquisition
Techtran Investments Limited <sup>(i)(ii)</sup>	England and Wales	100.0	100.0	Acquisition
Techtran Services Limited <sup>(i)(ii)</sup>	England and Wales	100.0	100.0	Acquisition
Techtran Corporate Finance Limited <sup>(i)(ii)</sup>	England and Wales	100.0	100.0	Acquisition
Techtran Limited <sup>(i)(ii)</sup>	England and Wales	100.0	100.0	Acquisition
Modern Biosciences plc <sup>(iv)</sup>	England and Wales	56.3	68.4	Acquisition
PIMCO 2501 Limited <sup>(i)(iv)</sup>	England and Wales	56.3	68.4	Acquisition
PIMCO 2664 Limited <sup>(i)(iv)</sup>	England and Wales	56.3	68.4	Acquisition
Rimazole Limited <sup>(i)(iv)</sup>	England and Wales	56.3	68.4	Acquisition
Modern Biosciences Nominees Limited <sup>(i)(ii)</sup>	England and Wales	56.3	68.4	Acquisition
MBS Secretarial Limited <sup>(i)(ii)</sup>	England and Wales	56.3	68.4	Acquisition
MBS Director Limited <sup>(i)(ii)</sup>	England and Wales	56.3	68.4	Acquisition
IP2IPO Nominees Limited <sup>(i)</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO Services Limited <sup>(i)</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO (LifeUK) Limited <sup>(i)</sup>	England and Wales	100.0	100.0	Acquisition
IP Industry Partners Limited <sup>(i)</sup>	England and Wales	100.0	100.0	Acquisition
Encos Limited <sup>(i)</sup>	England and Wales	100.0	100.0	Acquisition
Ovatus Limited <sup>(i)</sup>	England and Wales	100.0	100.0	Acquisition
Pregnopause Limited <sup>(i)</sup>	England and Wales	100.0	100.0	Acquisition
Rheokinisis Limited <sup>(i)</sup>	England and Wales	100.0	100.0	Acquisition
vVax Limited <sup>(i)</sup>	England and Wales	100.0	100.0	Acquisition

(i) Company held indirectly

(ii) Dormant company

(iii) Company engaged in fund management activity

(iv) Company engaged in in-licensing of drugable intellectual property activity

(v) Company operates a branch in Luxembourg

(vi) Company limited by guarantee

All companies above are incorporated in England with the exception of IP Ventures (Scotland) Limited which is incorporated in Scotland. All companies above undertake the activity of commercialising intellectual property unless stated otherwise.

Details of other significant interests are disclosed in note 16 to the Group consolidated financial statements, which are all held indirectly with the exception of Modern Water plc and Photopharmica (Holdings) Limited.

# Notes to the company financial statements

## (continued)

### 3. Investment in associated undertakings

	£m
At 1 January 2008 and 31 December 2008	9.8

### 4. Loans to subsidiary undertakings

	£m
At 1 January 2008	77.9
Impairment of loans in the year	(6.0)
Net advance of loans in the year	1.3
At 31 December 2008	73.2

The amounts due from subsidiary undertakings are interest free, repayable on demand and unsecured.

The impairment loss in the year is as a result of the director's consideration of the underlying business performance of its investment in certain subsidiaries. The recoverable amount of this asset has been determined based on value in use, calculated using a discounted cash flow methodology with a pre-tax discount rate of 9%.

### 5. Share capital and reserves

	Share capital £m	Merger reserve £m	Share premium £m	Profit and loss reserve £m
At 1 January 2008	5.0	12.8	96.7	0.5
Loss for the year	—	—	—	(7.3)
Share based payment charge	—	—	—	0.6
At 31 December 2008	5.0	12.8	96.7	(6.2)

Details of the Company's authorised share capital and changes in its issued share capital can be found in note 20 to the consolidated financial statements on page 52. Details of the movement in the share premium account can be found in the Consolidated statement of changes in equity on page 35.

### 6. Profit and loss account

As permitted by section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in these financial statements. The Company's loss for the year was £7.3m (2007: £0.2m profit)

Details of auditors' remuneration are disclosed in note 6 to the consolidated financial statements.

### 7. Directors' emoluments and employee information

The remuneration of the directors is borne by Group subsidiary undertakings with the exception of the share based payment charge. Full details of their remuneration can be found in the Directors' Remuneration Report on pages 19 to 23. Full details of the share-based payments charge can be found in note 24 to the consolidated financial statements.

The Company had no employees during 2008 or 2007.

# Shareholder information

<b>Company registration number</b>	4204490
<b>Registered office</b>	24 Cornhill London EC3V 3ND
<b>Directors</b>	<b>Dr Bruce Gordon Smith, CBE</b> (Non-executive Chairman) <b>Alan John Aubrey</b> (Chief Executive Officer) <b>Dr Allison Margaret Fielding</b> (Chief Technology Officer) <b>Magnus James Goodlad</b> (Chief Operating Officer) <b>Michael Charles Nettleton Townend</b> (Director of Capital Markets) <b>Professor William Graham Richards, CBE</b> (Senior Non-executive Director) <b>Christopher Roger Ettrick Brooke</b> (Non-executive Director) <b>Francis Adam Wakefield Carpenter</b> (Non-executive Director)
<b>Company secretary</b>	Angela Leach
<b>Brokers</b>	KBC Peel Hunt Ltd 111 Old Broad Street London EC2N 1PH
<b>Registrars</b>	Capita IRG plc The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
<b>Bankers</b>	Royal Bank of Scotland PO Box 333 Silbury House 300 Silbury Boulevard Milton Keynes MK9 2ZF
<b>Solicitors</b>	Pinsent Masons CityPoint One Ropemaker Street London EC2Y 9AH
<b>Independent auditors</b>	BDO Stoy Hayward LLP 55 Baker Street London W1U 7EU

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**IP Group plc**

24 Cornhill  
London  
EC3V 3ND

T +44 (0)845 074 2929  
F +44 (0)845 074 2928

[www.ipgroupplc.com](http://www.ipgroupplc.com)