

IP2IPO Management II Limited

Report and Financial Statements

Year Ended

31 December 2005

Registered number
04709243



IP2IPO Management II Limited

Annual report and financial statements for the year ended 31 December 2005

Page	Contents
1-2	Report of the directors
3	Report of the independent auditors
4	Profit and loss account
5	Balance sheet
6-9	Notes forming part of the financial statements

Directors

David Norwood
Alan Aubrey

Secretary and registered office

Magnus Goodlad

Warwick Court
5 Paternoster Square
London
EC4M 7BP

Company number

04709243

Independent auditors

BDO Stoy Hayward LLP, 8 Baker Street, London W1U 3LL

IP2IPO Management II Limited

Report of the directors for the year ended 31 December 2005

The directors present their report together with the audited financial statements for the year ended 31 December 2005.

Results and dividends

The profit and loss account is set out on page 4 and shows the result for the year.

The directors do not recommend the payment of a dividend.

Principal activities, trading review and future developments

The principal activity of the Company is to make investments in spin out companies from King's College London, ("KCL") under a 25 year partnership which was entered into in May 2003. The partnership (i) commits IP2IPO Management II Limited to invest £5 million in seed capital in KCL spin out companies over a five year period in return for equity stakes in those companies, and (ii) commits IP2IPO Limited, the Company's immediate parent undertaking, to help identify and progress intellectual commercialisation opportunities and to provide a total of £250,000 over five years to augment KCL's existing IP protection capabilities.

During 2005, one KCL spin out company, Cerogenix Limited was established in which the Company holds an equity stake as a result of this partnership.

Charitable and political contributions

During the year the company made no charitable or political contributions.

IP2IPO Management II Limited

Report of the directors for the year ended 31 December 2005 (*Continued*)

Directors

The directors of the company during the year were:

John Davies (resigned 13 September 2005)

David Norwood

Alan Aubrey (appointed 20 January 2005)

No director had any interest in the ordinary shares of the Company.

During 2005 John Davies, David Norwood and Alan Aubrey also served as directors of the ultimate parent company, IP Group plc (formerly IP2IPO Group plc), and their interests in the share capital of that company are shown in its financial statements.

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the entity will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors

BDO Stoy Hayward have indicated their willingness to continue in office.

ON BEHALF OF THE BOARD



David Norwood

30 October, 2006

IP2IPO Management II Limited

Independent auditor's report

To the shareholder of IP2IPO Management II Limited

We have audited the financial statements on pages 4 to 9 of IP2IPO Management II Limited for the year ended 31 December 2005. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements 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 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 have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005;
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward LLP

BDO STOY HAYWARD LLP
Chartered Accountants
and Registered Auditors

30 October 2006

IP2IPO Management II Limited

Profit and loss account for the year ended 31 December 2005

	Note	2005 £'000	2004 £'000
Turnover		-	-
Administrative expenses		(329)	-
Operating (loss) / result and (loss) / result on ordinary activities before taxation	2	<u>(329)</u>	<u>-</u>
Tax on (loss) / result of ordinary activities	5	-	-
(Loss) / result on ordinary activities after taxation	10	<u>(329)</u>	<u>-</u>

All amounts relate to continuing activities.

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

There is no difference between the result on ordinary activities before taxation and the retained result for the period stated above, and its historical cost equivalent.

The notes on pages 6 to 9 form part of these financial statements.

IP2IPO Management II Limited

Balance sheet at 31 December 2005

	Note	2005 £'000	2004 £'000
Fixed assets			
Investments	6	702	661
Current assets			
Debtors	7	-	-
Total assets		702	661
Creditors: amounts falling due after one year	8	<u>(1,031)</u>	<u>(661)</u>
Net liabilities		<u>(329)</u>	<u>-</u>
Capital and reserves			
Called up ordinary share capital	9	-	-
Profit and loss account	10	<u>(329)</u>	<u>-</u>
Total equity shareholders' funds	11	<u>(329)</u>	<u>-</u>

The notes on pages 6 to 9 form part of these financial statements.

The financial statements were approved by the Board of directors and authorised for issue on and were signed on its behalf by:


David Norwood
Director

30 October, 2006

1. ACCOUNTING POLICIES

Basis of preparation

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

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

Equity investments

Equity investments are stated at historic cost less provision for impairment in value, and are held for long term investment purposes. Provisions are based upon an assessment of events or changes in circumstances that indicate that an impairment has occurred such as the performance and/or prospects (including 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.

Deferred tax

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

Cash flow statement

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

Related party transactions

FRS 8 "Related Party Disclosures", requires the disclosure of the details of material transactions between the reporting entity and any related parties. However, transactions between the Company and other group companies including their associates and joint ventures have not been disclosed in accordance with the exemption in FRS 8 paragraph 3(c).

2. (LOSS) / RESULT ON ORDINARY ACTIVITIES BEFORE TAXATION

Auditors' remuneration is being paid and borne by another group company in the year.

IP2IPO Management II Limited

Notes forming part of the financial statements for the year ended 31 December 2005

3. EMPLOYEES

During the period the Company had no employees (2004: nil)

4. DIRECTORS' EMOLUMENTS

The directors are remunerated for their services to other group companies within the group headed by the Company's ultimate parent, IP Group plc. No amounts were received by them as directors of IP2IPO Management II Limited.

5. TAXATION

The tax assessed for the year is different than the standard rate of corporation tax in the UK (30%). Factors affecting the current tax charge for the year are explained below:

	2005 £'000	2004 £'000
(Loss) / result on ordinary activities before tax	(329)	-
(Loss) / result on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003: 30%)	(99)	-
Provision against investments	99	-
Current tax charge for the year	-	-

There is a potential deferred tax asset at 31 December 2005 of £99k (2004: £nil), relating to provisions against investments. This asset has not been recognised in the financial statements due to current uncertainties surrounding the reversal of the underlying timing differences. The deferred tax asset would be recovered if there were future taxable profits from which the reversal of the underlying timing differences could be deducted.

6. FIXED ASSET INVESTMENTS

	Unlisted £'000	Listed £'000	Equity investments £'000
Cost			
At 1 January 2005	661	-	661
Investment in spin out companies	370	-	370
Reclassification	(330)	330	-
Provisions	(329)	-	(329)
At 31 December 2005	372	330	702

At 31 December 2005 the market value of listed investments was £5,408,280 (2004: nil).

Significant equity investments

At 31 December 2005 the Company has investments where it holds more than 20% of the issued share capital in the following companies:

Company	Country of incorporation	Type of share held	% of issue held
Phonologica Limited	UK	Ordinary	35.8
Cerogenix Limited	UK	Ordinary	40.2

IP2IPO Management II Limited

Notes forming part of the financial statements for the year ended 31 December 2005

7. DEBTORS

	2005	2004
	£	£
Amounts due from parent undertaking	<u>1</u>	<u>1</u>

8. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2005	2004
	£'000	£'000
Amounts owed to parent undertaking	<u>1,031</u>	<u>661</u>

9. CALLED UP SHARE CAPITAL

	2005	2004
	£	£
Authorised 1 ordinary share of £1 (2004: £1)	<u>1</u>	<u>1</u>
Allotted, called up and fully paid 1 ordinary share of £1 (2004: £1)	<u>1</u>	<u>1</u>

10. RESERVES

	Profit and loss account £'000
At 1 January 2005	-
Loss for the year ended 31 December 2005	<u>(329)</u>
At 31 December 2005	<u>(329)</u>

IP2IPO Management II Limited

Notes forming part of the financial statements for the year ended 31 December 2005

11. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	£'000
Shareholders' funds at 31 December 2004	-
Loss for the period	(329)
Shareholders' funds at 31 December 2005	<u>(329)</u>

12. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

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 £5,000,000 available for the purposes of making investments in spin out companies. At 31 December 2005, £1,031,000 has been invested in three spin out companies from KCL. Under the terms of this agreement, KCL can require the Company to make a further £5,000,000 available for investments in spin out companies on the tenth anniversary of the partnership.

13. RELATED PARTY TRANSACTIONS

At 31 December 2005 the following directors had investments with the following spin out companies:

Director	Spin out company	Number of shares held at 1 January 2005	Number of shares acquired (disposed) during the year	Number of shares held at 31 December 2005	% of issued share capital held at 31 December 2005	Cost of investment at 31 December 2005 £'000
David Norwood	Pharminox	265	-	265	0.2	10
	Syntopix Limited	-	2,729	2,729	1.05	-
Alan Aubrey	GETECH plc	-	15,000	15,000	<0.1	6
	Syntopix Limited	-	2,729	2,729	1.0	-

14. IMMEDIATE AND ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The directors regard IP2IPO Limited as the immediate parent company and controlling party.

The ultimate parent company and the ultimate controlling party is considered to be IP Group plc. Copies of the ultimate parent company's financial statements may be obtained from the Secretary of IP Group plc, Warwick Court, 5 Paternoster Square, London EC4M 7BP.

15. FINANCIAL SUPPORT

The company's ultimate parent undertaking, IP Group plc, has pledged its continuing financial support for a period of not less than twelve months from the date of approval of these financial statements.