

Co. No 04709243

IP2IPO Management II Limited

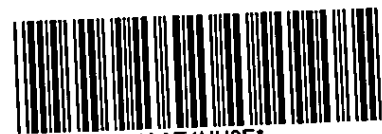
Report and Financial Statements

Year ended

31 December 2006

Registered number
04709243

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IP2IPO Management II Limited

Annual report and financial statements for the year ended 31 December 2006

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Directors

Alan Aubrey
Magnus Goodlad
David Norwood
William Turner

Secretary and registered office

Magnus Goodlad

24 Cornhill
London
EC3V 3ND

Company number

04709243

Independent Auditors

BDO Stoy Hayward LLP, 8 Baker Street, London, W12U 3LL

IP2IPO Management II Limited

Report of the directors for the year ended 31 December 2006

The directors present their report together with the audited financial statements for the year ended 31 December 2006

Business review and principal activities

The principal activity of IP2IPO Management II Limited ("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 2006, investment was made in two spin out companies, Theragenetics Limited and Simulstrat Limited, which were established in 2006 and which the Company holds an equity stake as a result of this partnership.

The directors are satisfied that the business has performed satisfactorily for the year under review.

Results and dividends

The results for the period are set out on page 4. The result for the year amounted to £nil. The directors do not recommend payment of a dividend.

Future outlook

The directors believe the company will continue to trade for the foreseeable future.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the Company are considered to relate to the protection of intellectual property and market risk in respect of its equity investments. Further discussion of these risks and uncertainties, in the context of IP Group plc as a whole, is provided in note 14 of IP Group plc's annual report which does not form part of this report.

Key performance indicators ("KPIs")

The directors of IP Group plc manage the Group's operations on a divisional basis. For this reason, the Company's directors believe that analysis using KPIs for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of IP Group plc, which includes the Company, is discussed on page 10 of IP Group plc's annual report which does not form part of this report.

Directors

The directors of the company during the year were

Alan Aubrey
Magnus Goodlad (appointed 30 October 2006)
David Norwood
William Turner (appointed 30 October 2006)

IP2IPO Management II Limited

Report of the directors for the year ended 31 December 2006

Charitable and political contributions

During the year the Company made no charitable or political contributions

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.

Disclosure of information to auditors

All of the current directors have taken the steps that they ought to have taken to make themselves aware of any information needed by the Company'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.

Independent 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 Annual General Meeting.

ON BEHALF OF THE BOARD



William Turner
Director

29 October 2007

Independent auditor's report to the shareholder of IP2IPO Management II Limited

We have audited the financial statements of IP2IPO Management II Limited for the year ended 31 December 2006 on pages 4 to 10. These financial statements have been prepared under the accounting policies set out on page 6.

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 on page 2.

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 and whether the information given in the Directors' Report is consistent with those financial statements. We also 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.

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 judgments 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 2006 and of its result for the year then ended,
- the financial statements 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
29 October 2007

IP2IPO Management II Limited

Profit and loss account for the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
Turnover		-	-
Administrative expenses		-	(329)
Result / (loss) on ordinary activities before taxation	2	-	(329)
Taxation on result / (loss) on ordinary activities	5	-	-
Result / (loss) on ordinary activities after 11 taxation		-	(329)

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 / (loss) on ordinary activities before taxation and the retained result / (loss) for the period stated above, and its historical cost equivalent

The notes on pages 6 to 10 form part of these financial statements

IP2IPO Management II Limited

Balance sheet as at 31 December 2006

	Note	2006 £'000	2005 £'000
Fixed Assets			
Investments	6	1,303	702
Current Assets			
Debtors	7	-	-
Creditors amounts falling due within one year	8	<u>(1,632)</u>	<u>(1,031)</u>
Net current liabilities		<u>(1,632)</u>	<u>(1,031)</u>
Total assets less current liabilities		<u>(329)</u>	<u>(329)</u>
Capital and reserves			
Called up share capital	9	-	-
Profit and loss account	10	<u>(329)</u>	<u>(329)</u>
Total shareholders' funds	11	<u>(329)</u>	<u>(329)</u>

The notes on page 6 to 10 form part of these financial statements

The financial statements were approved by the Board of directors and authorised by issue on 29 October 2007 and were signed on its behalf by



William Turner
Director

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 AUDITORS REMUNERATION

Auditor's remuneration in respect of audit services for the year was £2k (2005: £2k). Auditor's remuneration for other services are included within the Company's ultimate parent company, IP Group plc's, consolidated financial statements. 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 2006

3. EMPLOYEES

During the year the Company had no employees (2005 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

	2006 £'000	2005 £'000
Loss on ordinary activities before tax	-	(329)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003 30%)	-	(99)
Effects of Provision against investments	-	99
Current tax charge for the year	-	-

There is a potential deferred tax asset at 31 December 2006 of £99k (2005 £99k), 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	Total £'000
Cost			
At 1 January 2006	701	330	1,031
Investments in spin-out companies	740	-	740
Disposal of spin-out companies	(139)	-	(139)
At 31 December 2006	1,302	330	1,632
Provision for diminution in value			
At 1 January 2006 & 31 December 2006	329	-	329
Net book value			
At 31 December 2006	973	330	1,303
At 1 January 2006	372	330	702

At 31 December 2006 the market value of listed investments was £4.2 million (2005 £5.4 million)

IP2IPO Management II Limited

Notes forming part of the financial statements for the year ended 31 December 2006

Significant equity investments

At 31 December 2006 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	% of issue held	Net assets / (liabilities) ⁽¹⁾ (£'000)	Profit / (loss) ⁽¹⁾ (£'000)
Phonologica Limited	UK	Ordinary	36%	67	N/A ⁽²⁾
Cerogenix Limited	UK	Ordinary	40%	321	N/A ⁽²⁾
Theragenetics Limited	UK	Ordinary	28%	N/A ⁽³⁾	N/A ⁽³⁾
Simulstrat Limited	UK	Ordinary	48%	N/A ⁽³⁾	N/A ⁽³⁾

(1) Figures obtained from accounts most recently filed with Companies House with year end on or prior to 31 December 2006

(2) Abbreviated accounts filed with Companies House and accordingly no profit and loss account is included

(3) No accounts yet filed with Companies House

7. DEBTORS

	2006 £	2005 £
Amounts due from parent undertaking	1	1

Amounts due from parent undertaking are unsecured, interest free and repayable on demand

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006 £'000	2005 £'000
Amounts owed to parent undertaking	1,632	1,031

Amounts owed to parent undertaking are unsecured, interest free and repayable on demand

IP2IPO Management II Limited

Notes forming part of the financial statements for the year ended 31 December 2006

9. CALLED UP SHARE CAPITAL

	2006 £	2005 £
Authorised		
1 ordinary shares of £1 each (2005 1)	<u>1</u>	<u>1</u>
Allotted, called up and fully paid		
1 ordinary shares of £1 each (2005 1)	<u>1</u>	<u>1</u>

10. RESERVES

	Profit and loss account £'000
At 1 January 2006	(329)
Result for the year	-
At 31 December 2006	<u>(329)</u>

11. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	£'000
Shareholders' funds at 31 December 2005	(329)
Result for the year	-
Shareholders' funds at 31 December 2006	<u>(329)</u>

12. RELATED PARTY TRANSACTIONS

At 31 December 2006 the following directors had investments with the following spin out companies

Director	Spin out company	Number of shares held at 1 January 2006	Number of shares acquired (disposed) during the year	Number of shares held at 31 December 2006	% of issued share capital held at 31 December 2006	Cost of investment at 31 December 2006 £'000
David Norwood	Cerogenix Limited	-	3,143	3,143	1.7	-
	Theragenetics Limited	-	3,150	3,150	1.7	-
Alan Aubrey	Cerogenix Limited	-	3,143	3,143	1.7	-
	Theragenetics Limited	-	3,150	3,150	1.7	-

IP2IPO Management II Limited

Notes forming part of the financial statements for the year ended 31 December 2006

Director	Spin out company	Number of shares held at 1 January 2006	Number of shares acquired (disposed) during the year	Number of shares held at 31 December 2006	% of issued share capital held at 31 December 2006	Cost of investment at 31 December 2006 £'000
Magnus Goodlad	Cerogenix Limited	-	651	651	0.4	-
	Theragenetics Limited	-	1,260	1,260	0.7	-
William Turner	Cerogenix Limited	-	59	59	< 0.1	-
	Theragenetics Limited	-	630	630	0.4	-

13. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Under the terms of an agreement entered into during 2003 between the Company, IP2IPO Limited, Kings College London ("KCL") and KCL Enterprises Limited, IP2IPO Limited agreed to make £5 million available for the purposes of making investments in KCL spin out. Of this amount, at 31 December 2006, £1.7 million had been invested in spin out companies from KCL. Under the terms of the agreement, KCL can require the Company to make a further £5 million available for investments in spin out companies on the tenth anniversary of the partnership.

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, 24 Cornhill, London, EC3V 3ND.

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.