MODERN BIOSCIENCES PLC

REPORT AND FINANCIAL STATEMENTS

31 December 2007

Registered number 05414023

Modern Biosciences Plc

Report and financial statements for the year ended 31 December 2007

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Directors

Clive Dix
Alan Aubrey
Sam Williams
Bruce Campbell
William Turner
Ian Wilding

Secretary and registered office

William Turner

60 Cannon Street
London
EC4N 6NP

Company number

05414023

Independent Auditors

BDO Stoy Hayward LLP, 55 Baker Street, London, W1U 7EU

Modern Biosciences Plc

Report of the directors for the year ended 31 December 2007

The directors present their report together with the audited financial statements for the year ended 31 December 2007

Business review and principal activities
Modern Biosciences plc ('Modern Biosciences' or 'the Company') is a drug in-licensing and development company

Modern Biosciences' business model provides a channel for early stage drug candidates to reach industry and is based around

- sourcing drug candidates from partner organisations,
- funding and managing development programmes, and
- forming commercial alliances with industry for later stage development and marketing

During 2007, Modern Biosciences' subsidiaries entered into two new agreements to commercialise drug related intellectual property with the University of Dundee and the University of Aberdeen Costs incurred in the year ended 31 December 2007 primarily relate to staff salaries, costs in relation to drug related intellectual property projects and other general overheads

Modern Biosciences received a £2 8 million cash financing loan in the year from a fellow group company The same group company also sold an equity investment in ReOx Limited to Modern Biosciences Subsequent to this, the directors have determined the fair value of this equity investment to have reduced and accordingly recognised a £1 5 million impairment loss in the year

Results and dividends
The income statement is set out on page 5 and shows the loss for the year The directors do not recommend the payment of a dividend

Research and development activities
The directors regard the investment in research and development, as described in the principal activities above, as integral to the continuing success of the business

Future outlook
The directors believe the Company will commercialise existing and future intellectual property in the foreseeable future, through which revenues and profitability will be generated

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 operations being at an early stage of development, protection of intellectual property and retention of key personnel

The directors manage these risks in a variety of ways including confidentiality agreements, support from intellectual property legal advisors and employee share schemes

Key performance indicators ("KPIs")
Given the nature of the business, the Company's directors are of the opinion that analysis using financial KPI's is not necessary for an understanding of the development, performance or position of the business

Charitable and political contributions
During the year the Company made no charitable or political contributions

Creditor payment policy
It is the Company'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 Company's average trade payable payment period at 31 December 2007 was 41 days (2006 27 days)

Directors
The directors of the Company during the year were

Alan Aubrey
Bruce Campbell
Clive Dix (Appointed 3 September 2007)
David Norwood (Resigned 8 January 2008)
Alexander Stevenson (Resigned 8 February 2008)
William Turner (Appointed 8 January 2008)
Ian Wilding
Sam Williams (Appointed 2 April 2007)

Post balance sheet events
Details of post balance sheet events are set out in note 17 to these financial statements

Financial instruments
Further information on the Company'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 these financial statements, along with further information on the Company's use of financial instruments

Directors' responsibilities
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, 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 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 have chosen to prepare financial statements for the Company in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs)

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company'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, and
- 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

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

20 June 2008

Independent auditor's report to the shareholders of Modern Biosciences plc

We have audited the financial statements of Modern Biosciences plc for the year ended 31 December 2007 on pages 5 to 18 (the "financial statements") 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 annual report and financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 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 IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2007 and of its loss 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

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
London

24 June 2008

Modern Biosciences Plc

Income statement for the year ended 31 December 2007

	Note	**Year ended 31 December 2007 £**	Year ended 31 December 2006 £
Other administrative expenses		**(1,486,156)**	(326,587)
Impairment loss on equity investment	10	**(1,541,921)**	-
Total administrative expenses		**(3,028,077)**	(326,587)
Operating loss	3	**(3,028,077)**	(326,587)
Finance income – interest receivable		**68,572**	796
Loss before taxation		**(2,959,505)**	(325,791)
Taxation	7	**(97,737)**	97,737
Loss for the year attributable to equity holders of the Company		**(3,057,242)**	(228,054)

All amounts are derived from continuing operations in the year

Modern Biosciences Plc

Balance sheet as at 31 December 2007

	Note	**2007**	2006
		£	£
ASSETS			
Non-current assets			
Property, plant & equipment	8	**35,713**	81
Equity investments	10	**538,079**	-
		573,792	81
Current assets			
Trade and other receivables	11	**111,017**	197,737
Cash and cash equivalents		**1,427,581**	-
		1,538,598	197,737
Total assets		**2,112,390**	197,818
EQUITY & LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	15	**100,711**	100,000
Share premium		**66,889**	-
Retained earnings		**(3,285,296)**	(228,054)
Total shareholders' equity		**(3,117,696)**	(128,054)
Current liabilities			
Trade and other payables	12	**5,230,086**	294,549
Borrowings	13	**-**	31,323
Total equity and liabilities		**2,112,390**	197,818

The notes on page 8 to 18 form part of these financial statements

These financial statements were approved by the Board of directors and authorised for issue on 20 June 2008 and were signed on its behalf by

W Turner

Director

Modern Biosciences Plc

Cash flow statement for the year ended 31 December 2007

	2007 £	2006 £
Operating activities		
Loss before taxation	**(2,959,505)**	(228,054)
Adjusted for		
Impairment loss on equity investment	**1,541,921**	-
Finance income – interest receivable	**(68,572)**	(796)
Depreciation of property, plant & equipment	**7,389**	2
Changes in working capital		
Increase in trade and other receivables	**(11,017)**	(197,737)
Increase in trade and other payables	**55,537**	294,549
Net cash outflow from operating activities	**(1,434,247)**	(132,036)
Investing activities		
Purchases of property, plant and equipment	**(43,021)**	(83)
Interest received	**68,572**	796
Net cash outflow from investing activities	**25,551**	713
Financing activities		
Financing loan received from related party	**2,800,000**	-
Net proceeds from issue of share capital	**67,600**	99,999
Net cash inflow from financing activities	**2,867,600**	99,999
Net decrease in cash and cash equivalents	**1,458,904**	(31,324)
Cash and cash equivalents at the beginning of the year	**(31,323)**	1
Cash and cash equivalents at the end of the year	**1,427,581**	(31,323)

Statement of changes in equity for the year ended 31 December 2007

	Attributable to equity holders of the Company			
	Share capital £	Share premium £	Retained earnings £	Total equity £
At 1 January 2006	1	-	-	1
Loss for the year	-	-	(228,054)	(228,054)
Issue of share capital	99,999	-	-	99,999
At 1 January 2007	100,000	-	(228,054)	(128,054)
Loss for the year	-	-	(3,057,242)	(3,057,242)
Issue of share capital	711	66,889	-	67,600
At 31 December 2007	**100,711**	**66,889**	**(3,285,296)**	**(3,117,696)**

1. ACCOUNTING POLICIES

Basis of preparation
These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations endorsed by the European Union ("EU") and with those parts of the Companies Act 1985 that apply to companies reporting under IFRS

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

Going concern
The Company's cash position at 31 December 2007 was £1 4 million following the receipt of a financing loan during the year As an emerging technology company, the Company continues to absorb cash until the related intellectual property is commercialised and the directors recognise that the Company will need to raise additional funding during the current year

The directors do expect sufficient funding to be available to allow the Company to continue operations for the foreseeable future Furthermore, the Company's ultimate parent company, IP Group plc, has confirmed, subsequent to the balance sheet date, it will not require repayment in cash of the £4 9 million financing loan for a period of not less than twelve months from the date of approval of these financial statements

Therefore, the directors consider the going concern basis of preparation to remain appropriate The financial statements do not include any adjustments that would result if the going concern basis of preparation were no longer appropriate

Preparation of consolidated financial statements
The financial statements contain information about Modern Biosciences plc as an individual company and do not contain consolidated financial information as a parent of a group The Company is exempt by virtue of section 228 of the Companies Act 1985 from the requirement to prepare group accounts on the basis that the parent company is included in the accounts of a larger group

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

Office Equipment	Over 3 to 5 years

Asset residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date

Cash and cash equivalents
Cash and cash equivalents include cash in hand and bank overdrafts Bank overdrafts are shown within borrowings in current liabilities on the balance sheet

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 substantially 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

Financial assets
In respect of regular way purchases or sales, the Company 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 Company has transferred substantially all risks and rewards of ownership

The Company classifies its financial assets into one of the categories listed below, depending on the purpose for which the asset was acquired None of the Company's financial assets are categorised as at fair value through profit or loss, held for trading or held to maturity

(i) Available-for-sale

Investments in equity securities held by the Company, classified as being available-for-sale, are initially recognised at fair value, with any gain or loss arising from subsequent changes in fair value being recognised directly in equity, with the exception of impairment losses which are recognised in the income statement When these investments are no longer recognised as assets, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement

The fair value of unlisted securities is established using the valuation following the latest round of equity funding or cost if no such valuation is available

(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 payment of expenses on behalf of other group companies and value added tax on expenses not yet recovered from HM Revenue & Customs Loans and receivables are carried at cost less provision for impairment

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 Company's financial liabilities are a reasonable approximation to their fair value

Impairment
When a decline in the fair value of an available-for-sale asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in the income statement The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the income statement

Share capital
Financial instruments issued by the Company are treated as equity if the holders have only a residual interest in the Company's assets after deducting all liabilities The objective of the Company is to manage capital so as to provide shareholders with above average returns through capital growth over the medium to long term The Company considers its capital to comprise its share capital, share premium and retained earnings The Company is not subject to any externally imposed capital requirements

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
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 considered to relate to the 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

Impact of standards and interpretations not yet effective
The International Accounting Standards Board ("IASB") and IFRIC have issued a number of international financial reporting standards and interpretations which are effective for accounting periods commencing on or after the following dates

International Accounting Standards (IAS/IFRS)		Effective Date
IFRS 2*	Share based payment (Amendment)	01/01/2009
IFRS 8	Operating Segments	01/01/2009
IAS 1*	Presentation of Financial Statements (Amendment)	01/01/2009
IAS 23*	Borrowing costs (Amendment)	01/01/2009
IAS 32*	Financial Instruments Presentation (Amendment)	01/01/2009
IAS 1*	Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation (Amendment)	01/01/2009
IFRS 3*	Business combinations (Amendment)	01/07/2009
IAS 27*	Consolidated and separate financial statements (Amendment)	01/07/2009
IFRS*	Improvements to IFRS	01/01/2009
IFRS1* / IAS 27*	Cost of an investment in a subsidiary, jointly-controlled entity or associate (Amendment)	01/01/2009

International Financial Reporting Interpretations Committee (IFRIC)		Effective Date
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	01/03/2007
IFRIC 12*	Service Concession Arrangements	01/01/2008
IFRIC 13*	Customer Loyalty Programmes	01/07/2008
IFRIC 14*	IAS 19 – The Limit on a Defined Benefit Asset Minimum Funding Requirements and their interaction	01/01/2008

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

The directors do not anticipate that the adoption of these would make a material impact on these financial statements

2. FINANCIAL RISK MANAGEMENT

Through its normal operations, the Company is exposed to a number of financial risks, the most significant of which are liquidity and market risks

In general, risk management is carried out throughout the Company and the group headed by the Company's immediate parent undertaking, IP Group plc, under policies approved by the Boards of Directors The following further describes the 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

2. FINANCIAL RISK MANAGEMENT CONTINUED

(a) Market risk

(i) Price risk

The Company is exposed to equity securities price risk as a result of an equity investment held by the Company

The Company mitigates this risk by having established investment appraisal processes and asset monitoring procedures which are subject to overall review by the Board

The impact of a 1% increase / decrease in the price of unquoted investments on the Company's post tax profit for the year and on equity would be an increase / decrease of £5,381 (2006 £nil)

(ii) Interest rate risk

As the Company has no significant interest bearing borrowings it has only a limited interest rate risk The table below summarises the interest rate profile of the Company

	2007			2006		
	Floating rate	**Interest free**	**Total**	Floating rate	Interest free	Total
	£	**£**	**£**	£	£	£
Financial assets						
Equity investments	-	**538,079**	**538,079**	-	-	-
Trade and other receivables	-	**35,087**	**35,087**	-	197,737	197,737
Cash and cash equivalents	**1,427,581**	-	**1,427,581**	-	-	-
	1,427,581	**573,166**	**2,000,747**	-	197,737	197,737
Financial liabilities						
Trade and other payables	-	**5,211,781**	**5,211,781**	-	291,482	291,482
Borrowings	-	-	-	-	31,323	31,323
	-	**5,211,781**	**5,211,781**	-	322,805	322,805

At 31 December 2007, if interest rates had been 1% higher / lower, post-tax profit for the year, and other components of equity, would have been £15,209 (2006 £231) higher / lower as a result of higher interest received on floating rate cash deposits

The amount shown under borrowings in 2006 arose due to timing differences between the cash book and the bank statement The Company did not have an overdraft facility at any point during either year

(iii) Currency rate risk

The Company purchases contract research services from overseas organisations and is therefore exposed to the risk that its operations may be effected by changes in exchange rates

The Company's policy is, where possible, to negotiate payment terms in pounds sterling Where this is not possible, the Company seeks to hedge significant currency payments through the use of forward contracts There were no outstanding forward exchange contracts outstanding at either balance sheet date

At the balance sheet date the Company had £12,977 of trade payables denominated in US$ and £471 of trade payables denominated in European Euro ("€") (2006 £nil in US$ and £nil in €)

2. FINANCIAL RISK MANAGEMENT CONTINUED

(iii) Currency rate risk continued

The effect of a 25c strengthening / weakening of the US Dollar against pounds sterling at the balance sheet date, with all other variables held constant, would have resulted in a decrease / increase in post-tax profit for the year end and other components of equity of £1,483 (2006 £nil)

The effect of a 25c strengthening / weakening of the Euro against pounds sterling at the balance sheet date, with all other variables held constant, would have resulted in a decrease / increase in post-tax profit for the year end and other components of equity of £74 (2006 £nil)

(b) Liquidity risk

The Company 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 Company only invests working capital in immediate access accounts with reputable banking institutions

As at 31 December 2007 and 31 December 2006, with the exception of equity investments and a £4 9 million financing loan from IP Group plc, all financial assets and liabilities mature for payment within one year While amounts due to related parties are repayable on demand, the Company's ultimate parent company, IP Group plc, has confirmed subsequent to the balance sheet date, that it will not require repayment in cash of the financing loan for a period of not less than twelve months from the date of approval of these financial statements

(c) Credit risk

The Company's credit risk is limited due to the low level of external receivables held Cash and cash equivalents are deposited with reputable banking institutions and are immediately available

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

3. LOSS FROM OPERATIONS

	2007 £	2006 £
Loss from operations is stated after charging		
Impairment loss in respect of investment in ReOx Limited (note 10)	1,541,921	-
Depreciation of owned tangible fixed assets	7,389	2
Net foreign exchange (gains) / losses	408	-
Operating leases – minimum lease payments	80,861	-
Research and development expenditure	619,512	33,571

4 AUDITORS' REMUNERATION

	2007 £	2006 £
Audit services:		
Fees payable to company auditor for the audit of the financial statements	1,800	1,750

5. DIRECTORS' EMOLUMENTS

	2007 £	2006 £
Aggregate emoluments	**422,985**	100,798
Contributions to money purchase pension scheme	**6,188**	6,538
Benefits in kind	**953**	-
	430,126	107,336

The highest paid director had aggregate emoluments of £ 173,488 (2006 £52,376) and benefits in kind of £nil (2006 £nil) Alan Aubrey and David Norwood 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 Modern Biosciences plc

6. EMPLOYEE COSTS

Employee costs (including directors) comprise

	2007 £	2006 £
Salaries	**529,382**	100,798
Defined contribution pension cost	**6,188**	6,538
Social security	**39,977**	7,690
	575,547	115,026

The average monthly number of persons (including executive directors) employed by the Company during the year was 5 (2006 2), 4 of whom were involved in research and development activities (2006 2) and one of whom was involved in administrative activities (2006 nil)

7. TAXATION

	2007 £	2006 £
Current tax	**-**	(97,737)
Adjustment in respect of previous periods	**97,737**	-
	97,737	(97,737)

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

	2007 £	2006 £
Loss on ordinary activities before taxation	**(2,959,505)**	(325,791)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006 30%)	**(887,852)**	(97,737)
Effects of		
Non-taxable expenses	**454,159**	-
Short term timing differences	**(843)**	-
Adjustment in respect of previous periods	**97,737**	-
Tax losses carried forward	**434,536**	-
Taxation on loss on ordinary activities	**97,737**	(97,737)

7. TAXATION (CONTINUED)

An analysis of deductible temporary differences and unused tax losses for which no deferred tax asset has been recognised is shown below

	2007 Amount £	2007 Deferred tax £	2006 Amount £	2006 Deferred tax £
Unused tax losses	**1,740,690**	**487,393**	-	-
Short term timing differences	**2,830**	**792**	-	-
	1,743,520	**488,185**	-	-

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

8. PROPERTY, PLANT AND EQUIPMENT

	Office Equipment £
Cost	
1 January 2007	**83**
Additions	**43,021**
At 31 December 2007	**43,104**
Accumulated depreciation	
At 1 January 2007	**2**
Charge for the year	**7,389**
At 31 December 2007	**7,391**
Net book amount at 31 December 2007	**35,713**
Net book amount at 31 December 2006	**81**

	Office Equipment £
Cost	
1 January 2006	-
Additions	83
At 31 December 2006	83
Accumulated depreciation	
At 1 January 2006	-
Charge for the year	2
At 31 December 2006	2
Net book amount at 31 December 2006	81
Net book amount at 31 December 2005	-

9. CATEGORISATION OF FINANCIAL INSTRUMENTS

Financial assets	Available-for-sale £'m	Loans and receivables £'m	Total £'m
At 31 December 2007			
Equity investments	**538,079**	**-**	**538,079**
Trade and other receivables	**-**	**35,087**	**35,087**
Cash and cash equivalents	**-**	**1,427,581**	**1,427,581**
Total	**538,079**	**1,462,668**	**2,000,747**
At 31 December 2006			
Equity investments	-	-	-
Trade and other receivables	-	197,737	197,737
Cash and cash equivalents	-	-	-
Total	-	197,737	197,737

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

The impairment loss in the year is attributable to available-for-sale financial assets

10. EQUITY INVESTMENTS

	Unquoted equity investments £
At 1 January 2006 and 1 January 2007	-
Investments acquired during the year	2,080,000
Impairment loss in the year	(1,541,921)
At 31 December 2007	538,079

The Company does not hold 20% or more of the issued ordinary share capital in any equity investment

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

Details of the Company's subsidiary undertakings at 31 December 2007 are as follows

Name of subsidiary	**Place of incorporation (or registration) and operation**	**Proportion of ownership interest and voting power held %**
PIMCO 2664 Limited	England & Wales	100
PIMCO 2501 Limited	England & Wales	100
Rimcazole Limited	England & Wales	100
Modern Biosciences Nominees Limited *	England & Wales	100
MBS Secretarial Limited *	England & Wales	100
MBS Director Limited *	England & Wales	100

All companies above undertake the activity of drug development with the exception of those marked with a * which are dormant

11. TRADE AND OTHER RECEIVABLES

	2007 £	2006 £
Prepayments	**2,000**	-
Amounts due from related parties	**605**	197,737
Other receivables	**108,412**	-
	111,017	197,737

Amounts due from related parties are unsecured, interest free and repayable on demand

12. TRADE AND OTHER PAYABLES

	2007 £	2006 £
Trade payables	**143,764**	38,100
Amounts due to related parties	**5,026,417**	253,382
Social security and other taxes	**18,305**	3,067
Accrued expenses	**41,600**	-
	5,230,086	294,549

Amounts due to related parties are unsecured, interest free and repayable on demand While amounts due to related parties are repayable on demand, the Company's ultimate parent Company, IP Group plc, has confirmed subsequent to the balance sheet date, that it will not require repayment in cash of the financing loan for a period of not less than twelve months from the date of approval of these financial statements

13. BORROWINGS

	2007 £	2006 £
Bank overdrafts	**-**	31,323

The amount shown under bank overdrafts in 2006 arose due to timing differences between the cash book and the bank statement The Company did not have an overdraft facility at any point during either year

14. COMMITMENTS

The future aggregate minimum lease payments under non-cancellable operating leases are as follows

From the balance sheet date	2007 £	2006 £
No later than one year	**178,044**	79,674
Later than one year and no later than five years	**14,837**	27,930
	192,881	107,604

Operating lease payments represent rentals payable by the Company for its office premises

15. SHARE CAPITAL

	2007 £	2006 £
Authorised		
71,000,000 ordinary shares of 0 1p each (2006 100,000 ordinary shares of £1 each)	**71,000**	100,000
99,000 deferred shares of £1 each (2006 nil)	**99,000**	-
	170,000	100,000
Allotted, called up and fully paid		
1,710,821 ordinary shares of 0.1p each (2006 100,000 ordinary shares of £1 each)	**1,711**	100,000
99,000 deferred shares of £1 each (2006 nil)	**99,000**	-
	100,711	**100,000**

On 14 June 2007, there was a sub-division of the Company's £1 issued ordinary shares from 100,000 ordinary shares of £1 each to 100 million ordinary shares of 0 1 pence each The Company simultaneously increased the authorised share capital from £100,000 to £170,000 by the creation of an additional 70 million new ordinary shares

At the same time, the Company reclassified 99 million of the Company's 0 1 pence issued ordinary shares as deferred shares with no economic rights resulting in the Company having 1 million issued ordinary shares of 0 1 pence each The 99 million deferred shares of 0 1 pence each were then consolidated into 99,000 deferred shares of £1 each

Immediately following this transaction, various individuals subscribed for 684,321 ordinary shares of 0 1 pence at par value

On 11 October 2007, 26,500 ordinary shares of 0 1 pence were issued at a price of £2 83, raising total proceeds of £75,000 Expenses incurred amounted to £8,085

16. RELATED PARTY TRANSACTIONS

The Company incurred a central support recharge from IP2IPO Limited, a fellow subsidiary company, for provision of business support services in the year Amounts invoiced in the year in respect of these services were £60,000 (2006 £nil) of which £60,000 was outstanding as at the balance sheet date (2006 £nil)

On 30 April 2007, the Company received a £2 8 million cash financing loan from IP2IPO Limited At the same time, IP2IPO Limited also sold an equity investment in ReOx Limited to Modern Biosciences for consideration of £2 08 million which was satisfied by a further financing loan All of these loan amounts remained outstanding at the balance sheet date

As part of the provision of ongoing financial support to a number of its subsidiaries, the Company has permitted those subsidiaries to recharge the Company for their research related expenditure in the year An analysis of the amounts recharged is as follows

PIMCO 2501 Limited	£229,848
PIMCO 2664 Limited	£119,890
Rimcazole Limited	£303,345

With the exception of the above, the Company has not sold to, or purchased from, any related party in the year The amounts owed by group undertakings arose through the settlement of expenses by the Company which were incurred by another group undertaking This amount is repayable on demand and does not bear interest Its book value is considered to be its fair value at the balance sheet date

16. RELATED PARTY TRANSACTIONS (CONTINUED)

The directors consider the key management of the Company to solely comprise the board of directors whose aggregate remuneration is that disclosed in note 5 to the financial statements

17. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following changes to the Company's share capital took place

Date	Transaction
15 January 2008	Various individuals subscribed for 29,929 ordinary shares of 0 1 pence each at par value
12 February 2008	33,350 issued ordinary shares of 0 1 pence each were bought back by the Company and cancelled
	3,422 ordinary shares of 0 1 pence each were issued at par value
	99,000 issued deferred shares of £1 each were bought back by the Company and cancelled
	The authorised share capital of the Company was increased to £170,000 through the creation of a further 99 million ordinary shares of 0 1 pence each
3 April 2008	A 29 for 1 bonus issue took place, applied to the Company's share premium account, resulting in the issue of 49,613,838 ordinary shares of 0 1 pence each

Following the above, the Company had issued share capital of £51,325, representing 51,324,660 ordinary shares of 0 1 pence each, and authorised share capital of £170,000, representing 170 million ordinary shares of 0 1 pence each

On 20 June 2008, the immediate parent company, IP Group plc confirmed it will not require repayment in cash of the £4 9 million financing loan for a period of not less than twelve months from the date of approval and issue of these financial statements

18. IMMEDIATE AND ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The immediate 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