MODERN BIOSCIENCES PLC

REPORT AND FINANCIAL STATEMENTS

31 December 2008

Registered number: 05414023

Modern Biosciences Plc

Report and financial statements for the year ended 31 December 2008

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Directors

Clive Dix
Sam Williams
Bruce Campbell
Ian Wilding
IP2IPO Services Limited

Secretary and registered office

IP2IPO Services Limited

60 Cannon Street
London
EC4N 6NP

Company number

05414023

Independent Auditors

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

The directors present their report together with the audited financial statements for the year ended 31 December 2008.

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 2008, the Company primarily continued development of its OsteoRx and Rimcazole projects, with a total research and development spend of £1,266,738. Further debt financing of £1,070,000 was received in the year from the Company's parent IP Group plc.

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 continue to pursue out-license agreements with partners in the pharmaceutical and biotechnology industries through which revenues and profitability will potentially be generated.

In order to manage available cash effectively, the directors have reorganized the operations of the Company to focus on the most promising commercialisation opportunities and reduce overheads accordingly.

Furthermore, 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 £4.9 million financing loan to the extent that such repayment would cause doubt as to the Company's ability to continue as a going concern. In addition, IP Group plc has confirmed that it will make incremental working capital available, subject to a maximum of £200k, in order for the Company to meet its liabilities as they fall due.

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 2008 was 7 days (2007: 41 days).

Directors
The directors of the Company during the year were:

Alan Aubrey (Resigned 2 June 2009)
Bruce Campbell
Clive Dix
David Norwood (Resigned 8 January 2008)
Alexander Stevenson (Resigned 8 February 2008)
William Turner (Appointed 8 January 2008; Resigned 2 June 2009)
Ian Wilding
Sam Williams
IP2IPO Services Limited (Appointed 2 June 2009)

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.

On behalf of the board

Director
30 July 2009

Independent auditors're port to the shareholders of Modern Biosciences plc

We have audited the financial statements of Modern Biosciences plc for the year ended 31 December 2008 which comprise the income statement, the balance sheet,the cash flow statement, the statement of changes in equity and the related notes. 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.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 2008 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

30 July 2009

Modern Biosciences Plc

Income statement for the year ended 31 December 2008

	Note	**Year ended 31 December 2008 £**	Year ended 31 December 2007 £
Other administrative expenses		**(2,604,689)**	(1,486,156)
Impairment loss on equity investment	11	**(275,000)**	(1,541,921)
Total administrative expenses		**(2,879,689)**	(3,028,077)
Other operating income		**6,271**	-
Operating loss	3	**(2,873,418)**	(3,028,077)
Dividend income		**275,000**	-
Finance income	7	**22,538**	68,572
Finance expense	7	**(16,212)**	-
Loss before taxation		**(2,592,092)**	(2,959,505)
Taxation	8	**388,288**	(97,737)
Loss for the year attributable to equity holders of the Company		**(2,203,804)**	(3,057,242)

All amounts are derived from continuing operations in the year.

The notes on pages 8 to 19 form part of these financial statements.

Modern Biosciences Plc

Balance sheet as at 31 December 2008

	Note	2008 £	2007 £
ASSETS			
Non-current assets			
Property, plant & equipment	9	**28,535**	35,713
Equity investments	11	**263,079**	538,079
		291,614	573,792
Current assets			
Trade and other receivables	12	**338,231**	111,017
Cash and cash equivalents		**188,397**	1,427,581
		526,628	1,538,598
Total assets		**818,242**	2,112,390
EQUITY & LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	15	**51,325**	100,711
Share premium		**17,275**	66,889
Capital redemption reserve		**99,033**	-
Capital reserve		**97,273**	-
Retained earnings		**(5,489,100)**	(3,285,296)
Total shareholders' equity		**(5,224,194)**	(3,117,696)
Current liabilities			
Trade and other payables	13	**6,042,436**	5,230,086
Total equity and liabilities		**818,242**	2,112,390

The notes on pages 8 to 19 form part of these financial statements.

These financial statements were approved by the Board of directors and authorised for issue on 30 July 2009 and were signed on its behalf by:

Director

Modern Biosciences Plc

Cash flow statement for the year ended 31 December 2008

	2008 £	2007 £
Operating activities		
Loss before taxation	**(2,592,092)**	(2,959,505)
Adjusted for:		
Impairment loss on equity investment	**275,000**	1,541,921
Finance income	**(22,538)**	(68,572)
Finance expense	**16,212**	-
Depreciation of property, plant & equipment	**16,007**	7,389
Changes in working capital:		
Increase in trade and other receivables	**33,933**	(11,017)
Increase in trade and other payables	**(176,589)**	55,537
Operating cash flows:		
Research & development tax credits received	**127,174**	-
Net cash outflow from operating activities	**(2,322,893)**	(1,434,247)
Investing activities		
Purchase of property, plant and equipment	**(8,829)**	(43,021)
Interest received	**22,538**	68,572
Net cash outflow from investing activities	**13,709**	25,551
Financing activities		
Financing loan received from related party	**1,070,000**	2,800,000
Net proceeds from issue of share capital	**-**	67,600
Net cash inflow from financing activities	**1,070,000**	2,867,600
Net decrease in cash and cash equivalents	**(1,239,184)**	1,458,904
Cash and cash equivalents at the beginning of the year	**1,427,581**	(31,323)
Cash and cash equivalents at the end of the year	**188,397**	1,427,581

Statement of changes in equity for the year ended 31 December 2008

	Attributable to equity holders of the Company					
	Share capital £	Share premium £	Capital Redemption Reserve £	Capital Reserve £	Retained earnings £	Total equity £
At 1 January 2007	100,000	-	-	-	(228,054)	(128,054)
Loss & total recognised income & expense for the year	-	-	-	-	(3,057,242)	(3,057,242)
Issue of share capital	711	66,889	-	-	-	67,600
At 1 January 2008	100,711	66,889	-	-	(3,285,296)	(3,117,696)
Loss & total recognised income & expense for the year	-	-	-	-	(2,203,804)	(2,203,804)
Issue of share capital	33	-	-	-	-	33
Bonus issue (note 15)	49,614	(49,614)	-	-	-	-
Share cancellation (note 15)	(99,033)	-	99,033	-	-	-
Capital contribution (i)	-	-	-	97,273	-	97,273
At 31 December 2008	**51,325**	**17,275**	**99,033**	**97,273**	**(5,489,100)**	**(5,224,194)**

(i) The capital contribution made in the year arises as a result of the Company's parent, IP Group plc, making a non-interest bearing loan which will become repayable upon certain future contingent events. The difference between the fair value of this financial liability on initial recognition and proceeds received has been recognised as a capital contribution.

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 2008 was £188k following the receipt of a financing loan during the year. In April 2009, the Company received a further £261k in cash with respect to research and development tax credits. However, 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 additional funding during the current year.

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 £4.9 million financing loan to the extent that such repayment would cause doubt as to the Company's ability to continue as a going concern. In addition, IP Group plc has confirmed that it will make incremental working capital available, subject to a maximum of £200k, in order for the Company to meet its liabilities as they fall due. These confirmations extend for a period of not less than twelve months from the date of approval of these financial statements.

The directors have reorganised the operations of the Company to focus on the most promising commercialisation opportunities and reduce overheads. Detailed financial forecasts for the Group, primarily comprising cash flows to December 2010, have been prepared to reflect this. On the basis of these forecasts and the confirmations from IP Group plc, the directors have concluded that the going concern basis of preparation remains appropriate. The financial statements do not include any adjustments that would result if the going concern basis of preparation were no longer appropriate.

The directors continue to pursue out-license agreements with partners in the pharmaceutical and biotechnology industries which have the potential to provide additional cash injection into the Company.

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.

Interest free loans, which are not repayable on demand, are initially recognised at fair value and measured at amortised cost. The difference between fair value on initial recognition and proceeds received is recognised as income or a capital contribution, dependent upon the parties to the loan. This difference is recognised as imputed interest through the income statement using the effective interest method. The fair value on initial recognition is determined as the net present value of future cash flows discounted at a market rate of interest.

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
IAS39 & IFRS7	Reclassification of Financial Instruments (Amendment)	01/07/2008
IAS39 & IFRIC 9 *	Embedded Derivatives	30/06/2009
IFRS 1*	First time adoption of IFRS (Revision)	01/01/2009
IFRS 1*	Additional Exemptions for First-Time Adopters (Amendment)	01/01/2010
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 2*	Group Cash-settled Share-based Payment Transactions	01/01/2010
IFRS 7*	Improving Disclosures about Financial Instruments	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 (2009)	01/01/2009
	Improvements to IFRSs (2010)	01/01/2010

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.

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.

(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.

During the year, the Company's equity investments reduced in value by 51% and the directors consider that equity price movements of this level are reasonably possible. 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 £2,631 (2007: £5,381).

(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.

	2008			2007		
	Floating rate	**Interest free**	**Total**	Floating rate	Interest free	Total
	£	**£**	**£**	£	£	£
Financial assets						
Equity investments	**-**	**263,079**	**263,079**	-	538,079	538,079
Trade and other receivables	**-**	**34,094**	**34,094**	-	35,087	35,087
Cash and cash equivalents	**188,397**	**-**	**188,397**	1,427,581	-	1,427,581
	188,397	**297,173**	**485,570**	1,427,581	573,166	2,000,747
Financial liabilities						
Trade and other payables	**-**	**6,014,633**	**6,014,633**	-	5,211,781	5,211,781
	-	**6,014,633**	**6,014,633**	-	5,211,781	5,211,781

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 £3,840 (2007: £15,209) higher / lower as a result of higher interest received on floating rate cash deposits.

2. FINANCIAL RISK MANAGEMENT CONTINUED

(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 £9,449 of trade payables denominated in US$ and £nil of trade payables denominated in European Euro ("€") (2007: £12,977 in US$ and £471 in €).

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 £1,335 (2007: £1,483).

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 £nil (2007: £74).

(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 2008 and 31 December 2007, with the exception of equity investments and a £5.97 million financing loan from IP Group plc, all financial assets and liabilities mature for payment within one year.

Of the £5.97 million financing loan from IP Group plc, £4.9 million is repayable on demand and £1.07 million is only repayable upon certain contingent events. While £4.9 million of the loan is 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 £4.9 million financing loan to the extent that such repayment would cause doubt as to the Company's ability to continue as a going concern. In addition, IP Group plc has confirmed that it will make incremental working capital available, subject to a maximum of £200k, in order for the Company to meet its liabilities as they fall due. These confirmations extend 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

	2008 £	2007 £
Loss from operations is stated after charging:		
Impairment loss in respect of investment in ReOx Limited (note 11)	**275,000**	1,541,921
Depreciation of owned tangible fixed assets	**16,007**	7,389
Net foreign exchange losses	**901**	408
Operating leases – minimum lease payments	**170,364**	80,861
Research and development expenditure	**1,266,738**	619,512

4. AUDITORS' REMUNERATION

	2008 £	2007 £
Audit services:		
Fees payable to company auditor for the audit of the financial statements	**1,890**	1,800
Non audit services:		
Other taxation services	**2,750**	-
	4,640	1,800

5. DIRECTORS' EMOLUMENTS

	2008 £	2007 £
Aggregate emoluments	**398,409**	422,985
Contributions to money purchase pension scheme	**1,048**	6,188
Benefits in kind	**1,375**	953
	400,832	430,126

The highest paid director had aggregate emoluments of £118,750 (2007: £173,488) and benefits in kind of £529 (2007: £nil). Alan Aubrey and David Norwood were 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:

	2008 £	2007 £
Salaries	**620,514**	529,382
Defined contribution pension cost	**1,375**	6,188
Social security	**69,593**	39,977
	691,482	575,547

The average monthly number of persons (including executive directors) employed by the Company during the year was 8 (2007: 5), 7 of whom were involved in research and development activities (2007: 4) and one of whom was involved in administrative activities (2007: one).

7. FINANCE INCOME AND EXPENSE

	2008	2007
	£	£
Interest receivable	**22,538**	68,572
Imputed interest on financing loan	**(16,212)**	-
	6,326	68,572

The £1.07 million loan from the Company's parent, IP Group plc, is non-interest bearing. However, the difference between fair value on initial recognition and expected repayment amount is being recognised as imputed interest through the income statement over the period until anticipated repayment.

8. TAXATION

	2008	2007
	£	£
Current tax	**(261,114)**	-
Adjustment in respect of previous periods	**(127,174)**	97,737
	(388,288)	97,737

The tax assessed for the year is different than the standard rate of corporation tax in the UK (28%). Factors affecting the current tax charge for the year are explained below:

	2008	2007
	£	£
Loss on ordinary activities before taxation	**(2,592,092)**	(2,959,505)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2007: 30%)	**(725,786)**	(887,852)
Effects of:		
Non-taxable expenses	**86,033**	454,159
Non-taxable income	**(77,000)**	
Fixed asset temporary differences	**1,87[illegible]**	(843[illegible]
Adjustment in respect of previous periods	**(127,174)**	97,737
Research & development tax credits	**(261,114)**	
Additional relief for research and development	**(184,153)**	
Losses surrendered for research & development tax credit	**473,763**	
Movement on unutilised tax losses	**425,266**	434,536
Taxation on loss on ordinary activities	**(388,288)**	97,737

8. TAXATION CONTINUED

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

	2008		2007	
	Amount £	**Deferred tax £**	Amount £	Deferred tax £
Unused tax losses	**2,702,294**	**756,642**	1,740,690	487,393
Fixed asset temporary differences	**3,871**	**1,084**	2,830	792
	2,706,165	**757,726**	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.

9. PROPERTY, PLANT AND EQUIPMENT

	Office Equipment £
Cost	
At 1 January 2008	**43,104**
Additions	**8,829**
At 31 December 2008	**51,933**
Accumulated depreciation	
At 1 January 2008	**7,391**
Charge for the year	**16,007**
At 31 December 2008	**23,398**
Net book value at 31 December 2008	**28,535**
Net book value at 31 December 2007	**35,713**

	Office Equipment £
Cost	
At 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 value at 31 December 2007	35,713
Net book value at 31 December 2006	81

10. CATEGORISATION OF FINANCIAL INSTRUMENTS

Financial assets	Available-for-sale £'m	Loans and receivables £'m	Total £'m
At 31 December 2008			
Equity investments	**263,079**	**-**	**263,079**
Trade and other receivables	**-**	**34,094**	**34,094**
Cash and cash equivalents	**-**	**188,397**	**188,397**
Total	**263,079**	**222,491**	**485,570**
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

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.

11. EQUITY INVESTMENTS

	Unquoted equity investments £
At 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
Impairment loss in the year	(275,000)
At 31 December 2008	**263,079**

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 2008 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.

12. TRADE AND OTHER RECEIVABLES

	2008 £	2007 £
Prepayments	**12,151**	2,000
Amounts due from related parties	**-**	605
Research and development tax credit receivable	**261,114**	-
Other receivables	**64,966**	108,412
	338,231	111,017

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

13. TRADE AND OTHER PAYABLES

	2008 £	2007 £
Trade payables	**39,612**	143,764
Amounts due to related parties	**5,971,331**	5,026,417
Social security and other taxes	**27,803**	18,305
Accrued expenses	**3,690**	41,600
	6,042,436	5,230,086

Amounts due to related parties are unsecured, interest free and repayable on demand or certain contingent events. Of the £5.97 million financing loan from IP Group plc, £4.9 million is repayable on demand and £1.07 million is only repayable upon certain contingent events. While £4.9 million of the loan is 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 £4.9 million financing loan to the extent that such repayment would cause doubt as to the Company's ability to continue as a going concern.

14. COMMITMENTS

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

	2008	2007
From the balance sheet date:	**£**	£
No later than one year	**14,837**	178,044
Later than one year and no later than five years	**-**	14,837
	14,837	192,881

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

15. SHARE CAPITAL

	2008 £	2007 £
Authorised		
170,000,000 ordinary shares of 0.1p each (2007: 71,000,000 ordinary shares of 0.1p each)	**170,000**	71,000
nil deferred shares of £1 each (2007: 99,000 deferred shares of £1 each)	**-**	99,000
	170,000	170,000
Allotted, called up and fully paid		
51,324,660 ordinary shares of 0.1p each (2007: 1,710,821 ordinary shares of 0.1p each)	**51,325**	1,711
nil deferred shares of £1 each (2007: 99,000 deferred shares of £1 each)	**-**	99,000
	51,325	100,711

15. SHARE CAPITAL CONTINUED

The following table sets out details of transactions in the Company's share capital in 2007 and 2008:

Date	Transaction
14 June 2007	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 authorised share capital of the Company was increased from £100,000 to £170,000 by the creation of an additional 70 million new ordinary shares.
	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.
	Various individuals subscribed for 684,321 ordinary shares of 0.1 pence at par value.
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.
15 January 2008	Various individuals subscribed for 29,928 ordinary shares of 0.1 pence each at par value.
12 February 2008	3,422 ordinary shares of 0.1 pence each were issued at par value and one ordinary share of 0.1 pence was issued for 2 pence consideration.
	33,350 issued ordinary shares of 0.1 pence each were bought back by the Company for aggregate proceeds of 1 penny. The proceeds of the fresh issue of shares was applied by the Company in making this buy back.
	These ordinary shares of 0.1 pence were then cancelled. In accordance with the Companies Act 1985, the amount by which the Company's share capital was diminished has been transferred to a capital redemption reserve.
	99,000 issued deferred shares of £1 each were bought back by the Company for aggregate consideration of 1 penny. The proceeds of the fresh issue of shares was applied by the Company in making this buy back.
	These deferred shares of £1 were then cancelled. In accordance with the Companies Act 1985, the amount by which the Company's share capital was diminished has been transferred to a capital redemption reserve.
	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.

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 (2007: £60,000) of which £nil was outstanding as at the balance sheet date (2007: £60,000).

During 2008, the Company received a £1.07 million cash financing loan from IP Group plc. This loan amounts remained outstanding at the balance sheet date alongside £4.9 million further loans made in the prior year.

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:

	2008	2007
	£	£
PIMCO 2501 Limited	**12,370**	229,848
PIMCO 2664 Limited	**570,546**	119,890
Rimcazole Limited	**587,097**	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.

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. 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.