

MODERN BIOSCIENCES PLC
REPORT AND FINANCIAL STATEMENTS
31 December 2011



Registered number 05414023

Modern Biosciences Plc

Report and financial statements for the year ended 31 December 2011

Page	Contents
1	Report of the directors
4	Independent auditor's report
5	Statement of comprehensive income
6	Statement of financial position
7	Statement of cash flows
7	Statement of changes in equity
8	Notes to the financial statements

Directors

Sam Williams
Ian Wilding
IP2IPO Services Limited
Lisa Patel

Secretary and registered office

IP2IPO Services Limited

24 Cornhill
London
EC3V 3ND

Company number

05414023

Independent Auditors

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

Modern Biosciences Plc

Report of the directors for the year ended 31 December 2011

The directors present their report together with the audited financial statements for the year ended 31 December 2011

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 2011, the Company continued development of its lead programme, OsteoRx, with a total research and development spend of £214,576. The Company currently intends to continue to pursue limited early-stage pre-clinical development of selected programmes from its partner and other universities during 2011 dependent on the attractiveness of programmes following detailed due diligence at the time. Further debt financing of £245,000 was received in the year from the Company's parent IP Group plc.

Results and dividends

The statement of comprehensive income 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.

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 £6.7 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 undertaking of early-stage development programmes, protection of intellectual property and retention of key personnel.

The directors manage these risks in a variety of ways including confidentiality agreements, industry specific insurance arrangements (including clinical trial insurance where considered appropriate), employee share schemes and utilising the expertise of highly experienced officers, employees, consultants and service providers.

Modern Biosciences Plc

Report of the directors for the year ended 31 December 2011

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 2011 was 32 days (2010: 20 days)

Directors

The directors of the Company during the year were

Sam Williams
Ian Wilding
IP2IPO Services Limited
Lisa Patel (appointed 18 December 2011)
Clive Dix (resigned on 25 January 2011)

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

Post balance sheet events

Details of post balance sheet events are set out in note 16 to these financial statements

Directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they 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 judgements and accounting estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. They

Modern Biosciences Plc

Report of the directors for the year ended 31 December 2011

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

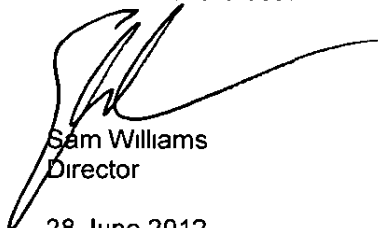
Disclosure of information to auditors

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 LLP have expressed their willingness to continue in office. Under the Companies Act 2006 section 487(2) they will be automatically reappointed as auditors 28 days after these accounts are sent to the members, unless the members exercise their rights under Companies Act 2006 to prevent their reappointment.

On behalf of the board



Sam Williams
Director

28 June 2012

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 2011 which comprise statement of financial position, the statement of comprehensive income, the statement of cash flow, the statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of the Company's loss for the year then ended,
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the Company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

BDO LLP

Neil Fung-On (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London, United Kingdom
28 June 2012

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

Modern Biosciences Plc

Statement of comprehensive income for the year ended 31 December 2011

	Note	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Other administrative expenses		(336,692)	(512,781)
Impairment loss on equity investment	11	-	-
Loss on disposal of equity investment		-	(21,642)
Total administrative expenses		<u>(336,692)</u>	<u>(534,423)</u>
Other operating income		-	-
Operating loss	3	<u>(336,692)</u>	<u>(534,423)</u>
Finance income	7	333	663
Finance expense	7	(15,720)	(39,773)
Loss before taxation		<u>(352,079)</u>	<u>(573,533)</u>
Taxation	8	<u>37,744</u>	<u>32,730</u>
Loss for the year		<u>(314,335)</u>	<u>(540,803)</u>
Other comprehensive income		-	-
Total comprehensive income		<u>(314,335)</u>	<u>(540,803)</u>

All amounts are derived from continuing operations in the year

The notes on pages 8 to 17 form part of these financial statements

Modern Biosciences Plc
Registered number: 05414023
Statement of financial position as at 31 December 2011

	Note	2011 £	2010 £
ASSETS			
Non-current assets			
Property, plant & equipment	9	494	2,075
Equity investments	11	-	-
		<u>494</u>	<u>2,075</u>
Current assets			
Trade and other receivables	12	46,711	50,521
Cash and cash equivalents		50,721	106,503
		<u>97,432</u>	<u>157,024</u>
Total assets		<u>97,926</u>	<u>159,099</u>
EQUITY & LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	14	55,162	55,162
Share premium		17,275	17,275
Capital redemption reserve		99,033	99,033
Capital reserve		165,001	142,728
Retained earnings		(7,055,449)	(6,741,114)
Total shareholders' equity		<u>(6,718,978)</u>	<u>(6,426,916)</u>
Current liabilities			
Trade and other payables	13	6,816,904	6,586,015
Total equity and liabilities		<u>97,926</u>	<u>159,099</u>

The notes on pages 8 to 17 form part of these financial statements

These financial statements were approved by the Board of directors and authorised for issue on 28 June 2012 and were signed on its behalf by


Sam Williams
Director

Modern Biosciences Plc

Statement of cash flows for the year ended 31 December 2011

	2011 £	2010 £
Operating activities		
Loss before taxation	(352,079)	(573,533)
<i>Adjusted for</i>		
Impairment loss on equity investment	-	-
Loss on sale of equity investments	-	21,642
Finance income	(333)	(663)
Finance expense	15,720	39,773
Depreciation of property, plant & equipment	1,642	9,758
<i>Changes in working capital</i>		
Decrease in trade and other receivables	8,824	15,271
Decrease in trade and other payables	(7,558)	(67,620)
<i>Operating cash flows</i>		
Research & development tax credits received	32,730	45,201
Net cash outflow from operating activities	(301,054)	(510,171)
Investing activities		
Proceeds on sale of equity investments	-	224,400
Purchase of property, plant & equipment	(61)	-
Interest received	333	663
Net cash outflow from investing activities	272	225,063
Financing activities		
Financing loan received from related party	245,000	250,000
Net cash inflow from financing activities	245,000	250,000
Net decrease in cash and cash equivalents	(55,782)	(35,108)
Cash and cash equivalents at the beginning of the year	106,503	141,611
Cash and cash equivalents at the end of the year	50,721	106,503

Statement of changes in equity for the year ended 31 December 2011

	Attributable to equity holders of the Company					
	Share capital	Share premium	Capital Redemption Reserve	Capital Reserve	Retained earnings	Total equity
	£	£	£	£	£	£
At 1 January 2010	55,162	17,275	99,033	97,273	(6,200,311)	(5,931,568)
Loss & total recognised income & expense for the year	-	-	-	-	(540,803)	(540,803)
Capital contribution (i)	-	-	-	45,455	-	45,455
At 1 January 2011	55,162	17,275	99,033	142,728	(6,741,114)	(6,426,916)
Total comprehensive income	-	-	-	-	(314,335)	(314,335)
Capital contribution (i)	-	-	-	22,273	-	22,273
At 31 December 2011	55,162	17,275	99,033	165,001	(7,055,449)	(6,718,978)

(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 2006 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 2011 was £50,721 following receipt of further financing loans of £245,000 from the Company's parent company during the year. In addition, the Company received a further £32,730 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 £6.7 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 £200,000, 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 operations of the Company are structured to focus on developing the most promising commercialisation opportunities whilst maintaining a controlled overhead base. Detailed financial forecasts for the Group, primarily comprising cash flows to June 2013, 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 400 of the Companies Act 2006 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
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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.

1. ACCOUNTING POLICIES (CONTINUED)

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 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.

Fair value hierarchy

The Group classifies financial assets using a fair value hierarchy that reflects the significance of the inputs used in making the related fair value measurements. The level in the fair value hierarchy within which a financial asset is classified is determined on the basis of the lowest level input that is significant to that asset's fair value measurement. The fair value hierarchy has the following levels:

Level 1 – Quoted prices in active markets

Level 2 – Inputs other than quoted prices that are observable, such as prices from market transactions

Level 3 – One or more inputs that are not based on observable market data

(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 subsequently 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.

1 ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

The fair value on initial recognition is determined as the net present value of future cash flows discounted at a market interest rate

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

New standards, interpretations and amendments effective from 1 January 2011

None of the new standards, interpretations and amendments, applied for the first time from 1 January 2011, have had a material effect on the Company's financial statements

New standards, interpretations and amendments not yet effective

The following new standard has not been applied in these financial statements, will or may have an effect on the Group's future financial statements

- *IFRS 9 Financial Instruments* IFRS 9 will eventually replace IAS 39 in its entirety. However, the process has been divided into three main components (classification and measurement, impairment, and, hedge accounting) and it is considered unlikely that the new standard will be endorsed until all of these components are in their final form. While the current standard is largely incomplete, its eventual adoption may result in changes to the classification and measurement of the Company's financial instruments, including any impairment thereof

None of the other new standards, interpretations and amendments not yet effective is expected to have a material effect on the Group's future 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 holds no financial assets other than cash and cash equivalents and trade and other receivables, and accordingly has little or no exposure to price risk

(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

	2011			2010		
	Floating rate £	Interest free £	Total £	Floating rate £	Interest free £	Total £
Financial assets						
Equity investments	-	-	-	-	-	-
Trade and other receivables	-	4,145	4,145	-	4,142	4,142
Cash and cash equivalents	50,721	-	50,721	106,503	-	106,503
	50,721	4,145	54,866	106,503	4,142	110,645
Financial liabilities						
Trade and other payables	-	6,813,499	6,813,499	-	6,582,539	6,582,539
	-	6,813,499	6,813,499	-	6,582,539	6,582,539

At 31 December 2011, if interest rates had been 1% higher / lower, post-tax loss for the year, and other components of equity, would have been £650 (2010: £1,069) higher / lower as a result of higher interest received on floating rate cash deposits

(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 £6,541 of trade payables denominated in US\$ and £nil of trade payables denominated in European Euro ("€") (2010: £9,613 in US\$ and £nil in €)

Modern Biosciences Plc

Notes to the financial statements for the year ended 31 December 2011

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 in post-tax loss for the year end and other components of equity of £1,635 (2010 £3,718)

(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 2011 and 31 December 2010, with the exception of equity investments and a £6.7 million financing loan from IP Group plc, all financial assets and liabilities mature for payment within one year

Of the £6.7 million financing loan from IP Group plc, £4.9 million is repayable on demand and £1.8 million is only repayable upon certain contingent events. 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 £6.7 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 £200,000, 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

	2011 £	2010 £
Loss from operations is stated after charging		
Loss on disposal of equity investments	-	21,642
Depreciation of owned tangible fixed assets	1,642	9,758
Net foreign exchange losses	287	884
Research and development expenditure	214,576	387,107

4. AUDITOR'S REMUNERATION

	2011 £	2010 £
Audit services		
Fees payable to company auditor for the audit of the financial statements	1,010	1,500
Non audit services		
Fees payable to the Company auditor and its associates for other services		
- auditing of accounts of subsidiaries pursuant to legislation	820	1,600
- other taxation services		
- corporation tax compliance	6,550	4,550
- other tax advisory	-	-
	8,380	7,650

Modern Biosciences Plc

Notes to the financial statements for the year ended 31 December 2011

5 DIRECTORS' EMOLUMENTS

	2011 £	2010 £
Aggregate emoluments	26,696	34,115
Benefits in kind	345	168
	<u>27,041</u>	<u>34,283</u>

The highest paid director had aggregate emoluments of £20,000 (2010 £15,000) and benefits in kind of £168 (2010 £607)

6. EMPLOYEE COSTS

Employee costs (including directors) comprise

	2011 £	2010 £
Salaries	93,333	81,480
Social security	11,047	9,139
	<u>104,380</u>	<u>90,619</u>

The average monthly number of persons (including executive directors) employed by the Company during the year was 2 (2010 2), all of whom were involved in research and development activities. During the year [no] options were granted under the Modern Biosciences Company Share Option Plan to employees (2010 nil options)

7. FINANCE INCOME AND EXPENSE

	2011 £	2010 £
Interest receivable	333	663
Imputed interest on financing loan	(15,720)	(39,773)
	<u>(15,387)</u>	<u>(39,110)</u>

The £1.8 million loan received from the Company's parent, IP Group plc, during 2008, 2009, 2010 and 2011 is non-interest bearing. 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

	2011 £	2010 £
Current tax	(37,744)	(32,730)
Adjustment in respect of previous periods	-	(18,416)
	<u>(37,744)</u>	<u>(51,146)</u>

Modern Biosciences Plc

Notes to the financial statements for the year ended 31 December 2011

8 TAXATION (CONTINUED)

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

	2011 £	2010 £
Loss on ordinary activities before taxation	(352,079)	(573,533)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26.5% (2010: 28%)	(93,300)	(160,589)
Effects of		
Expenses not deductible for tax purposes	573	116
Fixed asset temporary differences	59,972	8,792
Adjustment in respect of previous periods	-	(18,416)
Research & development tax credits	40,753	32,730
Additional relief for research and development	(45,742)	(52,805)
Movement on unutilised tax losses	-	139,026
Taxation on loss on ordinary activities	(37,744)	(51,146)

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

	2011		2010	
	Amount £	Deferred tax £	Amount £	Deferred tax £
Unused tax losses	4,051,237	1,012,809	3,821,922	1,031,919
Fixed asset temporary differences	22,034	5,509	20,392	5,506
	4,073,271	1,018,318	3,842,314	1,037,425

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 2011	51,933
Additions	61
At 31 December 2011	51,994
Accumulated depreciation	
At 1 January 2011	49,858
Charge for the year	1,642
At 31 December 2011	51,500
Net book value at 31 December 2011	494
Net book value at 31 December 2010	2,075

Modern Biosciences Plc

Notes to the financial statements for the year ended 31 December 2011

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Office Equipment £
Cost	
At 1 January 2010	51,933
Additions	-
At 31 December 2010	<u>51,933</u>
Accumulated depreciation	
At 1 January 2010	40,100
Charge for the year	9,758
At 31 December 2010	<u>49,858</u>
Net book value at 31 December 2010	<u>2,075</u>
Net book value at 31 December 2008	<u>11,833</u>

10. CATEGORISATION OF FINANCIAL INSTRUMENTS

Financial assets	Available-for-sale £'m	Loans and receivables £'m	Total £'m
At 31 December 2011			
Equity investments	-	-	-
Trade and other receivables	-	4,145	4,145
Cash and cash equivalents	-	50,721	50,721
Total	-	54,866	54,866
At 31 December 2010			
Equity investments	-	-	-
Trade and other receivables	-	4,142	4,142
Cash and cash equivalents	-	106,503	106,503
Total	-	110,645	110,645

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

11 EQUITY INVESTMENTS

	Unquoted equity investments £
At 1 January 2010	246,042
Investments acquired during the year	-
Disposal in the year	<u>(246,042)</u>
At 31 December 2010	-
Impairment loss in the year	-
At 31 December 2011	<u>-</u>

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

Modern Biosciences Plc

Notes to the financial statements for the year ended 31 December 2011

11. EQUITY INVESTMENTS (CONTINUED)

Details of the Company's subsidiary undertakings at 31 December 2011 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 ¹	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

¹ Company passed Ordinary Resolution in Members Voluntary Liquidation on 7 October 2011

12. TRADE AND OTHER RECEIVABLES

	2011 £	2010 £
Prepayments	1,325	3,938
Research and development tax credit receivable	37,744	32,730
Other receivables	7,642	13,853
	46,711	50,521

13. TRADE AND OTHER PAYABLES

	2011 £	2010 £
Trade payables	13,181	21,136
Amounts due to related parties	6,793,937	6,553,753
Social security and other taxes	3,406	3,476
Accrued expenses	6,380	7,650
	6,816,904	6,586,015

Amounts due to related parties are unsecured, interest free and repayable on demand or certain contingent events. Of the £6.7 million financing loan from IP Group plc, £4.9 million is repayable on demand and £1.8 million is only repayable upon certain contingent events. 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 £6.7 million financing loan to the extent that such repayment would cause doubt as to the Company's ability to continue as a going concern. This confirmation extends for a period of not less than twelve months from the date of approval of these financial statements.

Modern Biosciences Plc

Notes to the financial statements for the year ended 31 December 2011

14. SHARE CAPITAL

	2011 £	2010 £
Authorised		
170,000,000 ordinary shares of 0.1p each (2010: 170,000,000 ordinary shares of 0.1p each)	170,000	170,000
	<u>170,000</u>	<u>170,000</u>
Allotted, called up and fully paid		
55,161,615 ordinary shares of 0.1p each (2010: 55,161,615 ordinary shares of 0.1p each)	55,162	55,162
	<u>55,162</u>	<u>55,162</u>

15. RELATED PARTY TRANSACTIONS

The Company receives business support services from IP2IPO Limited, a fellow subsidiary company of IP Group plc. No amounts were invoiced or are outstanding at balance sheet date for these services during the year (2010: £nil).

During 2011, the Company received a £0.25 million cash financing loan from IP Group plc, its parent company. This loan together with £0.25 million loaned in 2010, £0.25 million loaned in 2009 and £1.07 million loaned in 2008, totals to the amount outstanding at the balance sheet date alongside the £4.91 million further loans made in the prior years.

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:

	2011 £	2010 £
PIMCO 2664 Limited	177,726	83,619
Rimcazole Limited	<u>36,850</u>	<u>303,488</u>

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.

16. POST BALANCE SHEET EVENT

On 7 February 2012, the Company received a further £0.36 million cash financing loan from IP2IPO Limited, a fellow subsidiary of IP Group plc, its parent company.

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.