

IP Group plc **develops intellectual property (“IP”) based businesses.** We invest from our balance sheet and also from funds that we manage on behalf of others.

### How we work

#### Our aims

- ▶ To identify compelling intellectual property based opportunities in our key target sectors
- ▶ To develop these opportunities into a diversified portfolio of robust businesses
- ▶ To grow our assets and those we manage on behalf of third parties
- ▶ To provide our shareholders with quoted access to venture returns

#### IP Group's core elements



#### Our partners

The Group pioneered the concept of a long-term partnership model with UK universities and we now have arrangements covering twelve of the country's leading universities, as shown below.



## In this report

### Review of the year

- IFC About us
- 02 Our portfolio – summary by sector
- 04 Chairman's statement
- 06 Chief Executive Officer's statement
  - 10 Portfolio overview
  - 20 Financial review

### Corporate governance

- 22 Board of directors
- 23 Corporate responsibility report
- 25 Directors' report
- 28 Directors' Remuneration Report
- 33 Corporate Governance

### Financial statements

- 41 Independent auditor's report
- 42 Consolidated statement of comprehensive income
- 43 Consolidated statement of financial position
- 44 Consolidated statement of cash flows
- 45 Consolidated statement of changes in equity
- 46 Notes to the consolidated financial statements
- 69 Company balance sheet
- 70 Notes to the Company financial statements
- IBC Shareholder information

Stay up to date with all the latest shareholder information. Visit us online at:

 [www.ipgroupplc.com](http://www.ipgroupplc.com)



## Financial highlights

Net assets:

**£173.1m**

(2009: £171.0m)

Fair value of investment portfolio:

**£110.0m**

(2009: £101.3m)

Net cash and deposits:

**£21.5m**

(2009: £28.1m)

Profit after tax:

**£1.8m**

(2009: £6.1m loss)

Investment in portfolio:

**£6.9m**

(2009: £5.7m)

Realisations from portfolio:

**£2.7m**

(2009: £0.5m)

 Read more in the Financial review on **page 20**

## Operational highlights

### Operational

- ▶ Revenue from services increased to £2.2m (2009: £1.5m)
- ▶ Successful launch of £25m North East Technology Fund managed by the Group
- ▶ Widening of partnership with University of Oxford through strategic stake in Technikos LLP

### Portfolio

- ▶ Value of ten largest holdings increased to £81.3m (2009: £72.9m), representing 74% of the portfolio (2009: 72%)
- ▶ Five new seed-stage spin-out companies, including the Group's first from the University of Cambridge (2009: two seed companies)
- ▶ Over £40m of capital raised by portfolio companies during the year, of which over £28m was raised in private financing rounds
- ▶ Tissue Regenix Group plc and Ilika plc successfully achieve listings on AIM, raising £4.5m and £5.2m respectively
- ▶ Oxford Nanopore Technologies Limited completes £17.4m financing in 2010 and announces preliminary details of its prototype GridION DNA sequencing platform
- ▶ Revolymer Limited announces the US launch of its Rev7™ removable and degradable chewing gum

 Read more in the Portfolio review on **page 10**

## Our portfolio – summary by sector

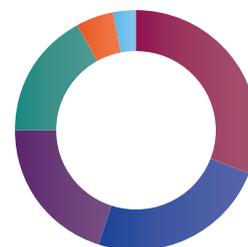
### Portfolio analysis by fair value (%) 2010

- 36** Medical Equipment & Supplies
- 24** Pharma & Biotech
- 19** Chemicals & Materials
- 14** Energy & Renewables
- 4** IT & Communications
- 3** Multiple sectors (Fusion IP plc)



### Portfolio analysis by fair value (%) 2009

- 31** Medical Equipment & Supplies
- 24** Pharma & Biotech
- 20** Chemicals & Materials
- 17** Energy & Renewables
- 5** IT & Communications
- 3** Multiple sectors (Fusion IP plc)



IP Group has a portfolio of **63 technology companies** valued at £110m, with the overall **combined value of** the companies now exceeding **£550m.**

#### Medical Equipment & Supplies



Fair value:  
**£39.8m**  
(2009: £31.0m)

Number of companies:

**16**  
(2009: 15)

#### Highlights

- ▶ The increase in the Medical Equipment & Supplies portfolio was primarily driven by Tissue Regenix Group plc's reversal onto AIM and the completion of a further £17.4m financing by Oxford Nanopore Technologies ("ONT") at a premium to the previous round.
- ▶ In January 2011, ONT disclosed the first details of its platform technology, GridION, which brings together single molecule analysis and contemporary computing. The system is designed to run in real time and can be used for DNA sequencing, protein analysis, and small molecule analysis. The next generation sequencing space saw significant activity in 2010 with two private US companies announcing major corporate transactions.
- ▶ Tissue Regenix joined AIM by way of a reverse takeover of Oxeco plc in June 2010, raising £5.4m. Tissue Regenix has developed dCELL<sup>®</sup> Technology which removes cells and other components from animal and human tissue allowing it to be used without anti-rejection drugs to replace worn out or diseased body parts.

#### Pharma & Biotech



Fair value:  
**£26.2m**  
(2009: £24.8m)

Number of companies:

**8**  
(2009: 10)

#### Highlights

- ▶ The Group's Pharma & Biotech portfolio saw a limited level of unrealised fair value gains during 2010 predominantly due to a £2.2m unrealised fair value gain arising from the positive share price performance of Proximagen Group plc ("Proximagen").
- ▶ Photopharmica (Holdings) Limited announced in February 2011 that greater than 75% of the required patients had now been randomised into its Phase IIb chronic leg ulcer trial for its PPA904 programme and PPA Lux 680 light source. The final results of the trial are anticipated during Q3 2011 and the Company will seek to enter into a licensing or co-development agreement with an appropriate partner should the trial complete successfully.
- ▶ Having completed a £2.0m financing in March 2010, Syntopix announced an agreement with Sinclair Pharma plc ("Sinclair") to identify an anti-microbial compound to synergise and augment the activity of one of Sinclair's key products.

Read more on **page 14**

Read more on **pages 15 and 16**

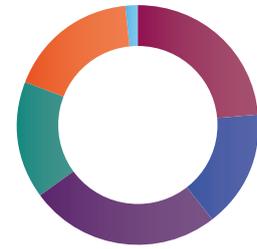
## Portfolio analysis by number 2010

- 16** Medical Equipment & Supplies
- 8** Pharma & Biotech
- 15** Chemicals & Materials
- 12** Energy & Renewables
- 11** IT & Communications
- 1** Multiple sectors (Fusion IP plc)



## Portfolio analysis by number 2009

- 15** Medical Equipment & Supplies
- 10** Pharma & Biotech
- 16** Chemicals & Materials
- 10** Energy & Renewables
- 11** IT & Communications
- 1** Multiple sectors (Fusion IP plc)



### Chemicals & Materials



Fair value:

**£20.7m**

(2009: £20.3m)

Number of companies:

**15**

(2009: 16)

#### Highlights

- ▶ The moderate unrealised fair value loss seen by the Chemicals & Materials portfolio is largely as a result of the unrealised fair value loss arising on Ilika plc's admission to AIM although this was counteracted to a degree by Oxford Advances Surfaces Group plc ("OAS").
- ▶ Following the successful completion of the GRAS regulatory approval process earlier this year, Revolymer Limited announced the US launch of its Rev7™ removable and degradable "clean gum". It is expected to be available in retail stores early in 2011.
- ▶ In addition to its AIM IPO and £5.2m placing during the year, Ilika plc announced a number of further commercial developments, including the progression of a transport fuel cell programme with a major vehicle manufacturer from a contract research relationship to a joint development partnership and an agreement with Taiwan's Industrial Technology Research Institute, to scale-up and commercialise jointly the next generation of fuel cell catalysts.

### Energy & Renewables



Fair value:

**£15.8m**

(2009: £16.8m)

Number of companies:

**12**

(2009: 10)

#### Highlights

- ▶ The Energy & Renewables sector saw a modest reduction in fair value as a result of a decrease in the share price of AIM-listed Modern Water plc ("MW") of £2.9m, which was partially offset by an increase in Oxford Catalysts Group plc's ("OCG") share price (£1.1m).
- ▶ Modern Water plc announced in December that its first evaporative cooling system in Oman had completed its trial period and proven key advantages over existing methods including typical operating expenditure savings of 50%. In February 2011, MW announced the acquisition of Cogent Environmental, a global provider of state-of-the-art environmental and process monitoring products.
- ▶ OCG achieved a number of technical and commercial advances with its development partners during the year and its share price improved as a result. OCG announced in December that SGC Energia had ordered a commercial scale Fischer-Tropsch reactor, while OCG's collaboration for land-based GTL with Thailand's national oil and gas company, PTT Public Company Limited remains on schedule.

### IT & Communications



Fair value:

**£4.4m**

(2009: £4.9m)

Number of companies:

**11**

(2009: 11)

#### Highlights

- ▶ The Group's portfolio of holdings in IT & Communications companies remained broadly stable, recording a small fair value loss of £0.1m during the year.
- ▶ In August, COE Group plc ("COE") accepted an all-cash offer by Digital Barriers plc, valuing the business at £3.3m. The Group received cash proceeds of £1.2m from the sale of its 34.8% direct equity holding in COE compared to its fair value at 31 December 2009 of £1.0m and a total investment of £1.4m.
- ▶ Tracsis plc (fair value 2010: £1.8m; 2009: £1.8m), reported its third successive year of revenue growth since its AIM IPO in 2007. This followed the launch of a new product, TRACSRoster, and the acquisition of Safety Information Systems Limited, a data analysis, process control and management reporting software developer, the latter in 2009.

Read more on **pages 17 and 18**

Read more on **pages 18 and 19**

Read more on **page 19**

## Chairman's statement



"I am very pleased with the progress made by our portfolio companies this year and remain confident that a number of them will go on to become great UK success stories."

For IP Group, 2010 has been a year of successfully building on the foundations laid in recent years.

Despite the financial crisis and subsequent recession that has affected the UK economy, the commercialisation of intellectual property created in our universities remains of the highest economic and political importance. I reported last year that the environment for small technology companies in the UK was very difficult. These conditions continued into the early part of 2010 but, towards the end of the year, there have been signs that the environment is improving. While this recovery remains tentative, as may be the case with the wider UK economy, it does nevertheless offer encouragement for the future.

IP Group was established more than ten years ago to invest in fundamental innovation developed in the UK's leading universities. Since that time we have reviewed thousands of scientific innovations and now have a portfolio of over 60 technology companies. Progress in those companies has often taken longer than was anticipated; however, I am very

pleased with the progress made by our portfolio companies this year and remain confident that a number of them will go on to become great UK success stories. Some of the successes in the past year are highlighted in the Chief Executive Officer's statement.

The Group's business model is to take a large minority stake in a select number of leading scientific innovations each year and then to grow the value of that equity over time through active participation in portfolio company development. An important aspect of this model is the ability to access a wide range of leading scientific research. To do this, the Group pioneered the concept of a long-term partnership model with universities and we now have arrangements covering twelve of the country's leading universities.

As well as making sound progress with the portfolio, IP Group delivered a satisfactory financial result in 2010. Driven by a £4.0m increase in the fair value of our portfolio of technology businesses, the Group reported an overall profit after tax for the year of £1.8m. The Group directly invested

Our strategy has remained **consistent** since our first partnership with the University of Oxford's Chemistry Department: to **identify, create and back businesses** built on leading scientific innovation.

£6.9m into new and existing portfolio businesses. Our managed funds invested a further £3.0m, while companies across the portfolio as a whole raised in excess of £40m. Cash realisations for the year increased to £2.7m compared to £0.5m in 2009, while our revenue from services increased from £1.5m to £2.2m. As a result, the Group finished the year with net assets, excluding intangibles and the Oxford Equity Rights asset, of £134.6m including £21.5m cash and no borrowings.

Our strategy has remained consistent since our first partnership with the University of Oxford's Chemistry Department: to identify, create and back businesses built on leading scientific innovation. Since its formation, the Group has backed many such businesses and now has a portfolio valued at £110.0m, having achieved a gross IRR in excess of 30% per annum. Over time, our aim is to grow shareholder value by increasing the level of investment.

As we now look forward to 2011 and beyond, I would like to conclude with the recognition that, as always, the Group's current and future achievements would not be possible

without the hard work and dedication of its staff and the management teams of our portfolio businesses, as well as the continued support of our shareholders, investors and university partners. I thank each of them for their continued commitment and contribution.

**Dr Bruce Smith**  
Chairman

### Chairman's statement in summary

- ▶ Overall profit after tax for the year of £1.8m
- ▶ £6.9m into new and existing portfolio businesses
- ▶ Companies across the portfolio as a whole raised in excess of £40m
- ▶ Cash realisations for the year increased to £2.7m compared to £0.5m in 2009
- ▶ Revenue from services increased from £1.5m to £2.2m
- ▶ Net assets, excluding intangibles and the Oxford Equity Rights asset, of £134.6m including £21.5m cash and no borrowings

## Chief Executive Officer's statement



“During the year, the Group directly invested £6.9m across 31 portfolio businesses, creating six incubation projects and progressing a total of five opportunities to seed businesses.”

### Overview

As noted in the Chairman's statement, in the early part of the year, the macro environment in which the Group operates remained challenging, however, towards the end of the year this showed some signs of improvement. This relative improvement is reflected in the improvement in the value of our portfolio and our results for the year.

IP Group's business model is to create value by growing the value of the equity it owns in its portfolio companies. This involves identifying promising research, developing businesses around this research and then attracting capital and talented management teams to these businesses. The timeline from inception to exit can be five to ten years. Progress in the portfolio can be assessed most immediately by the movement in the fair value from one period to the next. However, market volatility can mean that this does not always give an accurate or fair reflection of the progress made and, in this context, it has been particularly encouraging to see new product launches from a number of the more mature businesses in the portfolio this year as well as industry validation of their technologies through both partnership and investment. I have highlighted a few such developments in this review.

During the year, the Group directly invested £6.9m across 31 portfolio businesses, creating six incubation projects from across the Group's partner universities and progressing a total of five opportunities to seed businesses. The Group currently manages two actively investing venture capital funds and these funds invested a further £3.0m into intellectual property based businesses. Overall, the Group's portfolio of 63 technology companies raised a total in excess of £40m during 2010 from both public and private sources, including £10m by Tissue Regenix Group plc and Ilika plc, the first two companies from our portfolio to join AIM since 2007. Further detail is provided in the Portfolio review on page 10.

The slightly more favourable environment in the second half of the year resulted in a higher level of cash realisations, with the Group generating a total of £2.7m during the year compared to £0.5m in 2009.

It has been **particularly encouraging** to see new product launches from a number of the **more mature businesses** in the portfolio this year.

The Group reported an overall profit after tax for the year of £1.8m (2009: £6.1m loss). As in prior years, the most significant contributor to this was an overall increase of £4.0m in the unrealised fair value of the Group's portfolio which stood at £110.0m at 31 December 2010. The Group's net assets increased to £173.1m, or £134.6m excluding intangible assets and the Oxford Equity Rights asset, and included £21.5m of net cash and deposits with no borrowings.

Examples of portfolio companies making excellent progress in the year include: Revolymer Limited, a specialist polymer company from the University of Bristol, which launched its Rev7 removable "clean gum" in the US; Avacta Group plc, a bio-analytical instrumentation and research company from the University of Leeds, which announced the launch of its second analytical tool, the AX-1 (or "Midas") rapid point of care immunoassay system; and Oxford Nanopore Technologies Limited, a University of Oxford spin-out that uses nanopore technology for single molecule detection and analysis, that released the first details of its prototype DNA sequencing platform, GridION.

The Group has also continued to develop those businesses that are currently earlier in the development cycle with further financings being announced by Syntopix Group plc, which is developing new topical antimicrobials for healthcare and pharmaceuticals; Xeros Limited, which is developing polymer-based "virtually waterless" laundry cleaning systems; and Karus Therapeutics Limited, which is developing a range of small molecule therapeutics for the treatment of inflammation and cancer.

The Group provided seed capital for five new early-stage businesses during the year including Amantys Limited, the Group's first spin-out from the University of Cambridge, which is developing power electronics products and whose board consists of a number of former senior members of ARM Holdings plc's management team.

### Key Performance Indicators

Total equity ("net assets"):

**£173.1m**

(2009: £171.0m)

Profit/(loss) attributable to equity holders:

**£1.8m**

(2009: £(6.1)m)

Change in fair value of equity and debt investments:

**£4.0m**

(2009: £(1.4)m)

Cash, cash equivalents and deposits:

**£21.5m**

(2009: £28.1m)

Proceeds from sale of equity investments:

**£2.7m**

(2009: £0.5m)

Purchase of equity and debt investments:

**£6.9m**

(2009: £5.7m)

Number of new portfolio companies:

**7**

(2009: 4)

Share price performance (% change):

**(46.5)%**

(2009: 5.6%)

## Chief Executive Officer's statement continued

The Group has built a **strong track record** of identifying intellectual property opportunities, **nurturing** them and **helping** to create valuable businesses.

“The Group broadened its relationship with the University of Oxford through Technikos LLP, a specialist medical technology fund.”

The Group announced the expansion of its funds under management in January 2010 with the launch of the Finance for Business North East Technology Fund, a £25m, ten-year venture capital fund focusing on technology businesses in the northeast of England. The fund made its first two investments during the period and management fees from the fund contributed to the Group growing its revenue from services to £2.2m from £1.5m in 2009.

Finally, in January 2011, the Group was pleased to announce that it had broadened its relationship with the University of Oxford through the acquisition of a strategic stake in, and alliance with, Technikos LLP, a specialist medical technology fund with a long-term commercialisation agreement with the University of Oxford's Institute of Biomedical Engineering (“IBME”). The Group will provide access to its commercialisation, capital markets and scientific expertise and work alongside the Technikos team to assist with the creation of the next generation of spin-outs based on exciting University of Oxford science.

### Outlook

IP Group was formed more than ten years ago during a time when the UK and world economies were facing difficulties. Whilst the economic environment is again challenging today, the need for businesses that can leverage disruptive intellectual property and significantly contribute to the future of the UK economy has arguably never been greater. The Group has built a strong track record of identifying such intellectual property opportunities, nurturing them and helping to create valuable businesses that are now launching products and services that could have a profound impact on many people's lives. As a consequence, IP Group has interests in a high quality and diverse portfolio of 63 technology companies valued at £110m, with the overall combined value of the companies now exceeding £550m.

While the funding environment, particularly for higher-risk, early-stage businesses, continues to be constrained, IP Group remains financially strong with £21.5m of cash and funds under management of £68m. The businesses in our portfolio are generally progressing very well and give exposure to five key industry sectors. The Group's access to both capital and proprietary deal flow has further progressed in the past year. As a result, the Directors remain confident that the Group has the resources, technology and the people to create long-term shareholder value and to continue to create and build the companies of tomorrow.

### Chief Executive's review in summary

- ▶ Some signs of improvement in macro environment towards the end of the year
- ▶ New product launches from a number of the more mature businesses in the portfolio
- ▶ Two portfolio companies join AIM, the first since 2007
- ▶ Seed capital provided for five early-stage businesses
- ▶ Cash realisations increased to £2.7m from £0.5m in 2009
- ▶ Successful launch of £25m North East Technology Fund
- ▶ Widening of partnership with University of Oxford through Technikos LLP
- ▶ Group remains financially strong with £21.5m of cash and funds under management of £68m

## Chief Executive Officer's statement continued

### Portfolio review

The Group **increased** its rate of **investment** during 2010, with a total of **£6.9m** being **invested** across 31 new and existing projects.



#### Portfolio overview

At 31 December 2010, the value of the Group's portfolio had increased to £110.0m from £101.3m at the end of 2009, after the impact of net investment and the fair value movements set out below. The portfolio comprised holdings in 63 businesses (2009: 63). During the year the Group made total investments of £6.9m, increased from £5.7m for the equivalent period in 2009, and realised a total of £2.7m cash proceeds (2009: £0.5m).

A summary of the gains and losses across the portfolio is as follows:

	2010 £m	2009 £m
Unrealised gains on the revaluation of investments	<b>13.8</b>	15.3
Unrealised losses on the revaluation of investments	<b>(9.8)</b>	(16.7)
Net fair value gains/(losses)	<b>4.0</b>	(1.4)
Gains/(losses) on disposals of equity investments	<b>0.6</b>	(0.8)
Change in fair value of limited partnership investments	<b>0.2</b>	(0.1)
<b>Total</b>	<b>4.8</b>	(2.3)

Unrealised gains on the revaluation of investments principally arose from share price increases of Oxford Catalysts Group plc (£1.1m), Proximagen Group plc (£2.2m) and Tissue Regenix plc (£6.0m), the latter following its reversal onto AIM in June and concurrent £4.5m placing. In addition, in January 2010, Oxford Nanopore Technologies Limited raised £17.4m resulting in a £2.2m fair value gain and valuing the Group's 24.6% shareholding at £25.6m. IP Group and IP Venture Fund participated in this financing round which included existing investors Lansdowne Partners, Invesco Perpetual, Illumina UK Ltd and two new US-based technology investors, which illustrates the continued global interest in Oxford Nanopore's technology and its first application in next generation DNA sequencing.

Unrealised losses on the revaluation of investments included reductions in the share prices of certain of the Group's quoted companies, including Modern Water plc (£2.9m), Avacta Group plc (£0.6m) and Synairgen plc (£0.5m). In May, Ilika plc raised £5.2m when it achieved the first cleantech IPO on AIM in 2010, raising £5.2m. The price at which the IPO was achieved, mitigated to some degree by positive share price performance since that date, resulted in a fair value loss for the Group in 2010 of £1.9m.

#### Investments and realisations

The Group increased its rate of investment during 2010, with a total of £6.9m being invested across 31 new and existing projects (2009: 20) as follows:

#### Cash investment analysis by company stage

	2010 £m	2009 £m
Incubation projects	<b>0.4</b>	0.3
Seed businesses	<b>1.5</b>	1.2
Post-seed private businesses	<b>2.9</b>	0.8
Post-seed quoted businesses*	<b>2.1</b>	3.4
<b>Total*</b>	<b>6.9</b>	5.7

#### Proceeds from sales of equity investments

	2010 £m	2009 £m
Proceeds from sales of equity investments	<b>2.7</b>	0.5

\* 2009 total of £5.7m includes £2.9m in respect of Fusion IP plc satisfied by vendor-placed new share capital, the associated cash flows for which are not reflected in the Group's statement of cash flows.

Seed businesses are those which have received financing from the Group, generally up to £0.5m in total, while post-seed businesses are those which have received some level of further funding from co-investors external to the Group, with total funding generally having exceeded £0.5m. Quoted businesses consist of those which are quoted on either AIM or the PLUS market.



Tissue Regenix's dCELL® technology

## Medical Equipment & Supplies



Tissue Regenix has developed dCELL® Technology which removes cells and other components from animal and human tissue allowing it to be used without anti-rejection drugs to replace worn out or diseased body parts.

The Group has continued to mature its post-seed businesses with a number announcing further financings supported by the Group and/or IP Venture Fund ("IPVF"), the dedicated follow-on venture capital fund managed by the Group. IPVF invested a total of £2.0m into Group portfolio businesses during the year (2009: £3.2m).

Xeros Limited, which is developing polymer-based "virtually waterless" laundry cleaning systems harnessing over 30 years of research at the University of Leeds, announced a £3.5m tranching led by Entrepreneurs Fund. The Group and IPVF co-invested alongside Parkwalk Advisors, Finance Yorkshire and funds managed by Enterprise Ventures and the funding will enable Xeros to progress towards an initial launch in the commercial laundry market during 2011. Following the first £1.9m tranche of the financing, the Group holds a direct 25.6% interest in Xeros valued at £1.2m, with a further 12.3% being held by IPVF.

Crysalin Limited, the Group's first spin-out from the University of Oxford that originates from outside its partnership with the Chemistry department, announced a £1.55m fundraising in which the Group and IPVF co-invested alongside Oxford Technology Management and Oxford Spin-Out Equity Management. Crysalin is developing a revolutionary patented technology for protein structure determination, enabling a step change in the productivity and scope of structure-based

drug design. The Group's direct 33.6% interest in Crysalin is valued at £0.6m, with a further 7.0% owned by IPVF.

IP Group and IPVF invested alongside Syngenta Ventures, the venture capital arm of the leading agribusiness Syngenta, as a part of a £1.0m tranching into Chamelic Limited. Chamelic has developed an invisible, easy-to-apply "stay-clean" surface treatment that prevents the build up of dirt and dust on a wide range of surfaces. Having already launched a glazing product, Chamelic will develop further products in a range of applications, including solar panels, agricultural, household care and vehicles. The Group holds a 28.8% voting interest in Chamelic with a further 14.8% being held by IPVF.

In addition, Mode Diagnostics, a University of Glasgow spin-out, secured £0.6m of funding from the Group and Scottish Enterprise to develop home-use diagnostic screening products allowing consumers to check themselves for a range of diseases including bowel cancer. The Group has a 40% equity stake in Mode.

The Group's pipeline of commercialisable intellectual property opportunities remains strong. Six new incubation projects received initial funding during the year (2009: three). Two of these new incubation projects progressed to seed financing, while seed capital was provided to a further three new and existing opportunities, making a total of five for 2010.

## Group portfolio in brief

Fair value of investment portfolio:

**£110.0m**

(2009: £101.3m)

Number of portfolio companies:

**63**

(2009: 63)

Investment in portfolio:

**£6.9m**

(2009: £5.7m)

Realisations from portfolio:

**£2.7m**

(2009: £0.5m)

Number of new portfolio companies:

**7**

(2009: 4)

## Chief Executive Officer's statement continued

## Portfolio review continued

## Energy &amp; Renewables



## MODERNWATER

Modern Water's manipulated osmosis plant continued to provide fresh water to Oman's Al Khaluf area in 2010. Annual expenditure on water and wastewater technology in the Middle East is expected to rise to above \$50 billion by 2016.



Modern Water's facility in Oman

## Investments and realisations continued

The five seed opportunities included:

- ▶ Amantys Limited (University of Cambridge): Amantys' power electronics products are used to increase the reliability and efficiency of power transistors, with a first application in high-power wind turbines. The company has an experienced board of directors comprising a number of previous members of the senior management team of ARM Holdings plc and is a member of the Carbon Trust Fast Track Entrepreneur Programme.
- ▶ Aptuscan Limited (University of Leeds): Aptuscan is developing Scannins, unique binding agents for the diagnosis and treatment of disease. Scannins are small human proteins engineered to bind with high specificity and affinity to protein targets and provide the diagnostic and biopharmaceutical industry with a robust alternative to antibodies and antibody fragments.
- ▶ Actual Experience (Queen Mary, University of London): Actual Experience's Perceptual Quality Management software is used to quantify and improve the perceived human experience of networked applications and ultimately reduce IT infrastructure costs.

## Portfolio analysis - by stage of company maturity

At 31 December 2010, the Group's portfolio fair value of £110.0m was distributed across stages of company maturity as follows:

Company stage	As at 31 December 2010			
	Fair value		Number	
	£m	%		%
Incubation projects	0.4	1%	10	16%
Seed businesses	3.3	3%	10	16%
Post-seed private businesses	56.3	51%	28	44%
Post-seed quoted businesses	50.0	45%	15	24%
All portfolio businesses	110.0	100%	63	100%

Company stage	As at 31 December 2009			
	Fair value		Number	
	£m	%		%
Incubation projects	1.0	1%	11	17%
Seed businesses	1.9	2%	7	11%
Post-seed private businesses	57.1	56%	30	48%
Post-seed quoted businesses	41.3	41%	15	24%
All portfolio businesses	101.3	100%	63	100%

Of the 63 companies in the Group's portfolio, 74% of the fair value resides in the ten most valuable companies and the Group's holdings in these businesses are valued at a total of £81.3m (2009: £72.9m).

- ▶ Asalus Medical Instruments Limited (Cardiff University): Asalus is developing three innovative medical devices, Clearvision, Snugport and Surehold, which are designed to improve the safety and efficiency of laparoscopic surgery. The use of laparoscopic techniques has grown rapidly with over two million operations now being carried out per year in the US alone. The Group invested alongside Finance Wales and Fusion IP plc.
- ▶ Seren Photonics Limited (University of Sheffield): Seren's revolutionary new procedure for the manufacture of nitride-based ultrahigh brightness LEDs has the potential to dramatically cut energy requirements for light through the replacement of incandescent bulbs. Seren's non-executive chairman, Dr Godfrey Ainsworth, is also chairman of AIM-listed semiconductor specialist, IQE plc.

## The Group realised **£2.7m** of cash during the year, a **significant increase** from the £0.5m realised during 2009.



Seren Photonics and Asalus Medical Instruments resulted from the Group's co-investment agreement with Fusion IP plc, which was established in November 2009. The agreement grants the Group the right but not the obligation to invest in all future portfolio companies that Fusion forms from its partner universities, enhancing our proprietary access to UK research institutions and enabling us to leverage Fusion's experienced operating team.

The average investment per company increased to £220,000 from £140,000 in 2009 (excluding the non-cash investment in Fusion IP plc).

The Group realised £2.7m of cash during the year, a significant increase from the £0.5m realised during 2009.

In August, COE Group plc, which specialises in bringing innovative products to the video surveillance market, accepted an all-cash offer from Digital Barriers plc, which valued the business at £3.3m. The Group received cash proceeds of £1.2m from the sale of its 34.8% direct equity holding in COE upon completion of the transaction.

The Group also generated a modest level of cash proceeds from the more mature companies in its quoted portfolio totalling £1.3m. As the Group's portfolio businesses continue to mature, management will pursue and assess further opportunities

to realise cash when market conditions and/or specific circumstances make it attractive to do so. Given the nature of

the Group's business, however, cash realisations will inevitably retain a degree of unpredictability.

### Portfolio analysis - by sector

The Group's portfolio consists of five key sectors, as depicted in the following table:

Sector	As at 31 December 2010			
	Fair value		Number	
	£m	%		%
Medical Equipment & Supplies	39.8	36%	16	25%
Pharma & Biotech	26.2	24%	8	13%
Chemicals & Materials	20.7	19%	15	24%
Energy & Renewables	15.8	14%	12	19%
IT & Communications	4.4	4%	11	17%
Multiple sectors (Fusion IP plc)	3.1	3%	1	2%
	<b>110.0</b>	<b>100%</b>	<b>63</b>	<b>100%</b>

Sector	As at 31 December 2009			
	Fair value		Number	
	£m	%		%
Medical Equipment & Supplies	31.0	31%	15	24%
Pharma & Biotech	24.8	24%	10	16%
Chemicals & Materials	20.3	20%	16	25%
Energy & Renewables	16.8	17%	10	16%
IT & Communications	4.9	5%	11	17%
Multiple sectors (Fusion IP plc)	3.5	3%	1	2%
	101.3	100%	63	100%

A more detailed analysis of each sector is set out in the following pages.

## Chief Executive Officer's statement continued

## Portfolio review continued

The next generation sequencing space saw **significant activity** in the second half of 2010 with two private US companies **announcing major corporate transactions.**



## Medical Equipment &amp; Supplies

Company name/description	Group stake at 31 December 2010 %	Fair value of Group holding at 31 December 2009 £m	Year to 31 December 2010		Fair value of Group holding at 31 December 2010 £m
			Net investment/ (divestment) £m	Fair value movement £m	
<b>Oxford Nanopore Technologies Limited</b> Single molecule detection and analysis using nanopore technology	<b>24.6%</b>	22.7	0.7	2.2	<b>25.6</b>
<b>Tissue Regenix Group plc</b> Regenerative dCELL <sup>®</sup> tissue implants	<b>5.3%</b>	1.9	0.3	6.0	<b>8.2</b>
<b>Avacta Group plc</b> Specialist detection and analysis technologies and services	<b>21.6%</b>	2.7	0.8	(0.6)	<b>2.9</b>
<b>Other companies</b>		3.7	1.1	(1.7)	<b>3.1</b>
<b>Total</b>		31.0	2.9	5.9	<b>39.8</b>

Companies in the Group's portfolio of Medical Equipment & Supplies, or "med tech" companies, saw the most significant increase in fair value during the period (19%), driven by Tissue Regenix Group plc's reversal onto AIM and subsequent positive share price performance and the completion of a further £17.4m financing by Oxford Nanopore Technologies ("ONT") at a premium to the previous round.

Oxford Nanopore Technologies Limited, a spin-out from the University of Oxford's Chemistry Department, is developing a revolutionary technology for direct, electrical detection and analysis of single molecules. In January 2011, ONT disclosed the first

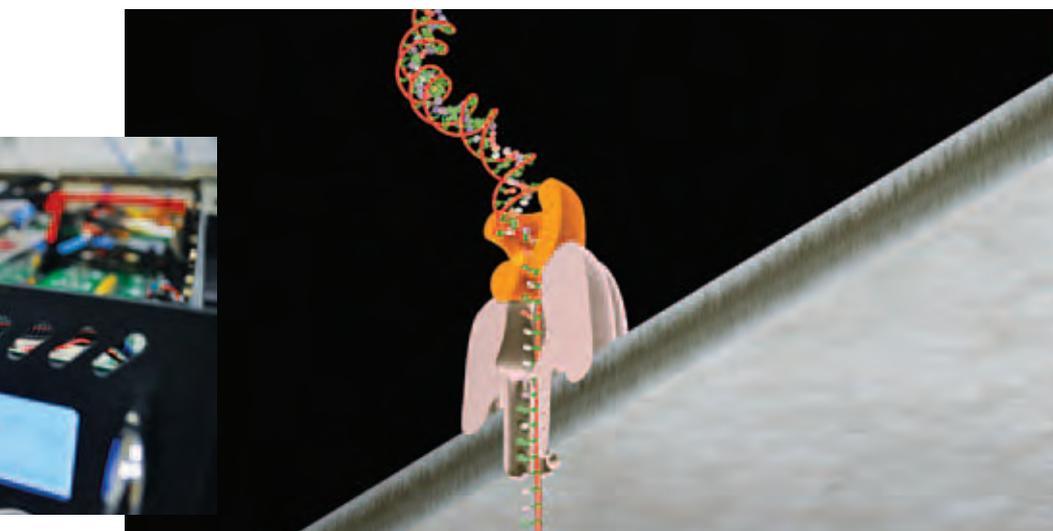
details of its platform technology, GridION. The system brings together single molecule analysis and contemporary computing, consisting of individual units (nodes) that can be used individually by a small benchtop user or in multiples as a clustered system for medium users or large scientific installations. The system is designed to run in real time and can be used for DNA sequencing, protein analysis and small molecule analysis.

ONT has a commercialisation agreement with NASDAQ-listed Illumina Inc., the world leader in the DNA sequencing market, for exonuclease DNA sequencing, in which an enzyme snips individual bases

from a single-stranded DNA molecule and drops them into a nanopore. ONT is also pursuing additional methods of nanopore analysis such as DNA "strand sequencing", for which major advances were reported by ONT's academic collaborators at University of California Santa Cruz and University of Oxford in 2010 and protein analysis, for which an internal R&D group was formed in 2010.

The next generation sequencing space saw significant activity in the second half of 2010 with two private US companies announcing major corporate transactions. In August, Ion Torrent Inc. was bought by NASDAQ-listed Life Technologies Inc. for \$725m, with \$375m payable on completion and the balance payable upon the achievement of certain technical and time-based milestones through 2012. In October, Pacific Biosciences joined NASDAQ, raising \$200m through an IPO and valuing the company at circa \$845m. ONT raised a further £17.4m in January 2010 valuing the Group's direct 24.6% holding at £25.6m, with a further 1.5% being held by IPVF.

Tissue Regenix Group plc ("Tissue Regenix") achieved admission to AIM by way of a reverse takeover of Oxeco plc in June 2010, raising £5.4m and valuing the Group's holding at £3.6m. Tissue Regenix has developed dCELL Technology which removes cells and other components from animal and human tissue, allowing it to be used without anti-rejection drugs



The first application of Oxford Nanopore's GridION platform in DNA sequencing

## Medical Equipment & Supplies



In January 2011, Oxford Nanopore Technologies disclosed the first details of its platform technology, GridION, which brings together single molecule analysis and contemporary computing. The platform's lead application is DNA sequencing.

to replace worn out or diseased body parts. The potential applications of this process are diverse and address many critical clinical needs such as vascular disease, heart valve replacement and knee repair. In August 2010, the company received European CE Marking for its first product, the dCELL Vascular Patch, granting approval for it to commence sales. In December, Tissue Regenix announced that its partner, NHS Blood and Transplant, had initiated a pilot study to evaluate the use of decellularised human donor skin grafts (dCELL Human Dermis) in the treatment of chronic, non-healing wounds, the treatment of which currently costs the NHS alone over £1 billion per annum.

The Group's holding in Avacta Group plc ("Avacta"), which develops detection and analysis technology and services aimed at the pharmaceutical, healthcare, security and industrial sectors, saw a fair value reduction during the period of £0.6m. From an operational perspective, however, Avacta has continued to perform strongly and this has been reflected in its share price following the period end. Sales momentum for Avacta's flagship Optim product is growing, with the company announcing its first sale in the US, as well as the signing of a distribution agreement in China, Hong Kong and Taiwan. In November, Avacta launched its AX-1 immunoassay system for rapid point of care testing in GP and vet surgeries.

## Pharma & Biotech

Company name/description	Group stake at 31 December 2010 %	Fair value of Group holding at 31 December 2009 £m	Year to 31 December 2010		Fair value of Group holding at 31 December 2010 £m
			Net investment/ (divestment) £m	Fair value movement £m	
<b>Photopharmica (Holdings) Limited</b> Wound treatment using light (photodynamic therapy or "PDT")	<b>49.9%</b>	13.0	–	–	<b>13.0</b>
<b>Proximagen Group plc</b> Treatments for neurodegenerative disorders such as Parkinson's disease	<b>8.4%</b>	4.9	0.1	2.2	<b>7.2</b>
<b>Synairgen plc</b> Developing new drugs for respiratory diseases	<b>10.8%</b>	2.1	–	(0.5)	<b>1.6</b>
<b>Syntopix Group plc</b> Topical antimicrobials for healthcare and pharmaceutical applications	<b>19.4%</b>	1.1	0.4	(0.4)	<b>1.1</b>
<b>Other companies</b>		3.7	–	(0.4)	<b>3.3</b>
<b>Total</b>		<b>24.8</b>	<b>0.5</b>	<b>0.9</b>	<b>26.2</b>

The Group's Pharma & Biotech portfolio experienced a limited level of unrealised fair value gains during 2010 predominantly due to a £2.2m unrealised fair value gain arising from the positive share price performance of Proximagen Group plc ("Proximagen").

Photopharmica (Holdings) Limited, based on intellectual property from the University of Leeds, is developing photosensitiser-based technology currently undergoing Phase IIb clinical trials. The company announced in February 2011 that greater than 75%

## Chief Executive Officer's statement continued

### Portfolio review continued

#### Chemicals & Materials



Following the successful completion of the GRAS regulatory approval process, Revolymer Limited announced the US launch of its Rev7 removable and degradable "clean gum" in October.



Revolymers's Rev7 removable "clean gum"

#### Pharma & Biotech continued

of the required patients had now been randomised into its Phase IIb chronic leg ulcer trial for its PPA904 programme and PPA Lux 680 light source. The final results of the trial are anticipated during Q3 2011 and the company will seek to enter into a licensing or co-development agreement with an appropriate partner should the trial complete successfully.

Proximagen, a spin-out from King's College London, which completed a £50m placing in 2009 and has subsequently made three acquisitions of complementary therapeutic programmes with a strategy of further developing those programmes before achieving an early out-licence, announced the completion of the partnering of both of the programmes acquired through the acquisition of Minster Pharmaceuticals plc. In addition, in December, Proximagen strengthened its portfolio of development

therapeutics in the CNS space with the acquisition of two programmes from GSK. The programmes are designed to develop positive allosteric modulators that have the potential to address the needs of patients suffering from a variety of disorders of the CNS including cognition, neuropathic pain and Parkinson's disease.

Both Syntopix Group plc ("Syntopix") and Synairgen plc made further positive progress with their development programmes during 2010 although both saw disappointing share price performances in the period. Having received positive Phase I safety results in 2009, Synairgen announced that the Phase II study of its lead compound, inhaled interferon beta, in exacerbation-prone asthmatics was progressing well with ten sites now initiated and recruitment scheduled to complete in Autumn 2011. The company reported the process for the identification and selection of a long-term development and licensing partner for the interferon beta programme was well underway and also that it had commenced its influenza pre-clinical programme, with results expected late Summer 2011.

Having completed a £2.0m financing in March 2010, Syntopix announced an agreement with Sinclair Pharma plc ("Sinclair") to identify an anti-microbial compound to synergise and augment the activity of one of Sinclair's key products. The success of the agreement resulted in a second agreement being signed in October 2010. In addition, in August Syntopix entered into an exclusive agreement with a world leading company in marketing home, health and personal care brands under which it expects to receive payments throughout this clinical phase.



## Chemicals & Materials

Company name/description	Group stake at 31 December 2010 %	Fair value of Group holding at 31 December 2009 £m	Year to 31 December 2010		Fair value of Group holding at 31 December 2010 £m
			Net investment/ (divestment) £m	Fair value movement £m	
<b>Oxford Advanced Surfaces Group plc</b> Surface modification technologies applicable to a broad range of materials	<b>15.4%</b>	5.7	–	0.6	<b>6.3</b>
<b>Green Chemicals plc</b> Environmentally friendly textiles and bleaching chemicals	<b>24.5%</b>	3.0	0.4	(0.2)	<b>3.2</b>
<b>Revolmer Limited</b> Novel polymers e.g. "removable chewing gum"	<b>11.1%</b>	3.0	–	–	<b>3.0</b>
<b>Ilika plc</b> High throughput materials discovery	<b>9.2%</b>	3.5	0.3	(1.9)	<b>1.9</b>
<b>Surrey Nanosystems Limited</b> Low-temperature carbon nanotube growth	<b>22.5%</b>	1.3	0.1	–	<b>1.4</b>
<b>Xeros Limited</b> "Virtually waterless" washing machines	<b>25.6%</b>	0.7	0.2	0.3	<b>1.2</b>
<b>Other companies</b>		3.1	0.4	0.2	<b>3.7</b>
<b>Total</b>		20.3	1.4	(1.0)	<b>20.7</b>

The moderate unrealised fair value loss seen by the Chemicals & Materials portfolio is largely as a result of Ilika plc's admission to AIM although this was counteracted to a degree by Oxford Advances Surfaces Group plc ("OAS"), whose share price increase contributed £0.6m of fair value gains.

Following the successful completion of the GRAS regulatory approval process earlier this year, Revolmer Limited announced the US launch of its Rev7 removable and degradable "clean gum" at the National Association of Convenience Stores Show. It is expected to be available in retail stores early in 2011 with Revolmer

working with national and regional distributors to achieve broad distribution as quickly as possible. The US is the world's largest chewing gum market and it is estimated that over 300,000 tonnes of chewing gum will be sold this year in the US alone and after chewing this results in approximately 120,000 tonnes of residual chewing gum cuds which remain in the environment every year. This underlines the positive environmental impact that could result from the Rev7 launch. Revolmer applies its innovative proprietary approach to formulate novel polymers to revolutionise consumer products. Other applications for Revolmer's technology currently under evaluation are in the medicated chewing gum, household products, personal care and coatings and adhesives sectors of the FMCG industry.

In addition to its AIM IPO and £5.2m placing during the year, Ilika plc, an advanced cleantech materials discovery company from the University of Southampton, announced a number of further commercial developments, including the progression of a transport fuel cell programme with a major vehicle manufacturer from a contract research relationship to a joint development partnership and an agreement with Taiwan's Industrial Technology Research Institute, to scale-up and commercialise jointly the next generation of fuel cell catalysts. Ilika also announced a six-month development project with the Ministry of Defence for thermoelectric screening

## Chief Executive Officer's statement continued

## Portfolio review continued

**Chemicals & Materials** continued

technology and that its subsidiary Altrika had been awarded TSB grants to develop the spray formulation of CryoSkin® for the treatment of paediatric burns and scalds.

OAS, the advanced materials company, announced in February 2011 that it had successfully developed a nano-particle based anti-reflective coating which addresses a market that is forecasted to be in the order of \$2 billion by 2015. In January 2010, the company strengthened its board with Dr David Bott, previously director of group technology at ICI, joining as a non-executive director. In June, the technology on which OAS is based received recognition when co-founder, Dr Jon-Paul Griffiths, was awarded the Royal Society of Chemistry's "Young Industrialist of the Year Award 2010" for his research into novel applications of carbene chemistry.

Elsewhere in the Chemicals & Materials portfolio, Green Chemicals plc announced a co-operation agreement with Clariant International Ltd, the Basel-based multinational which in 2009 had sales of circa £4 billion. The companies have the intention of bringing to market a new generation of flame retardants based on Green Chemicals' patented technology that are less environmentally hostile than existing treatments, which can be carcinogenic or bio-accumulative.

**Energy & Renewables**

Company name/description	Group stake at 31 December 2010 %	Fair value of Group holding at 31 December 2009 £m	Year to 31 December 2010		Fair value of Group holding at 31 December 2010 £m
			Net investment/ (divestment) £m	Fair value movement £m	
<b>Modern Water plc</b> Technologies to address the world's water crisis	<b>23.2%</b>	11.2	–	(2.9)	<b>8.3</b>
<b>Oxford Catalysts Group plc</b> Speciality catalysts for the generation of clean fuels	<b>7.5%</b>	3.2	(0.9)	1.1	<b>3.4</b>
<b>Sustainable Resource Solutions Limited</b> Low temperature carbon nanotube growth	<b>43.6%</b>	0.5	0.5	0.5	<b>1.5</b>
<b>GETECH Group plc</b> Gravity and magnetic data analysis for the oil and gas industry	<b>22.0%</b>	0.8	0.1	–	<b>0.9</b>
<b>Other companies</b>		1.1	0.6	–	<b>1.7</b>
<b>Total</b>		16.8	0.3	(1.3)	<b>15.8</b>

The Energy & Renewables sector experienced a modest reduction in fair value as a result of a decrease in the share price of AIM-listed Modern Water plc ("MW") of £2.9m, which was partially offset by an increase in Oxford Catalysts Group plc's ("OCG") share price giving rise to a net increase in fair value of £1.1m.

While MW's share price performance has been disappointing in the year, the group

has continued to develop its leading water technologies focused on addressing the scarcity of fresh water and the treatment of waste water. In December, the group announced the proving plant for its first evaporative cooling system in Oman had completed its trial period and proven key advantages over existing methods including typical operating expenditure savings of 50%. In February 2011, MW announced the acquisition of Cogent

# The **most valuable business** in the IT & Communications portfolio, **Tracsis plc**, a leading provider of operational planning software to passenger transport industries, reported its **third successive** year of **revenue growth**.

Environmental, a global provider of state-of-the-art environmental and process monitoring products, and the formation of the MW Monitoring Division. This division includes Cymtox and MW also announced in the year that a number of orders had been received in China for its Continuous Toxicity Monitor units, the only real time broadband continuous toxicity monitor currently available on the market. Finally, in June the company announced that the Omani Public Authority for Electricity and Water had agreed a six-month tariff for MW to continue to provide fresh water to the Al Khaluf area. The plant is the only one to use manipulated osmosis in the huge Middle East market, where annual expenditure on water and wastewater technology is expected to rise to above \$50 billion by 2016.

OCG has achieved a number of technical and commercial advances with its development partners during the year and its share price has reacted positively as a result. OCG announced in December that SGC Energia had ordered a commercial scale Fischer-Tropsch reactor, while OCG's relationship with Thailand's national oil and gas company, PTT Public Company Limited, continues to be very positive, with its collaboration for land-based GTL remaining on schedule. With increasing demand for oil and sustained production constraints having driven crude prices again towards \$100 per barrel, OCG reported that it was

enjoying an "exceptional level of interest" for its technology and that it expected to conclude a number of new partnership and sales opportunities with major corporations during the course of 2011.

During the year the Group made a further investment into Sustainable Resource Solutions Limited ("SRS"), a waste and resource management business. SRS announced in May that John Holt, a director and shareholder in Avondale Ltd, one of the strongest performing independently owned businesses in the waste sector, had been appointed as non-executive chairman. Alongside IP Group, SRS is also developing Encos Limited, a spin-out company using technology from the Universities of Leeds and Nottingham, which aims to replace concrete as a structural material with fully sustainable construction products made from 100% recycled and industrial waste materials.

## IT & Communications

At 31 December 2010, the Group's portfolio of holdings in IT & Communications companies was valued at £4.4m (2009: £4.9m) and recorded a small fair value loss of £0.1m (2009: £0.1m gain).

In August, COE Group plc accepted an all-cash offer from Digital Barriers plc, which valued the business at £3.3m. The Group received cash proceeds of

£1.2m from the sale of its 34.8% direct equity holding in COE compared to its fair value at 31 December 2009 of £1.0m and a total investment of £1.4m. Following trading difficulties in COE's 2008 financial year, which resulted in the company posting a loss of £1m, COE rationalised its cost base in 2009 and returned to profitability. The cash exit valued the business at £3.3m and in light of the company's previous trading difficulties this was considered to be the most satisfactory outcome.

The most valuable business in the IT & Communications portfolio, Tracsis plc (fair value 2010: £1.8m; 2009: £1.8m), a leading provider of operational planning software to passenger transport industries, reported its third successive year of revenue growth since its AIM IPO in 2007. This followed the launch of a new product, TRACSRoster, and the acquisition of Safety Information Systems Limited, a data analysis, process control and management reporting software developer, the latter in 2009.



net investment of £4.1m (2009: £101.3m; £1.4m net fair value loss; £4.3m net investment). The Portfolio review on pages 10 to 19 contains a detailed description of the Group's portfolio of equity and debt investments, including key developments and movements during the year.

The Group's statement of financial position includes goodwill of £18.4m (2009: £18.4m) and an equity rights asset of £19.9m (2009: £19.9m). The goodwill balances arose as a result of the Group's historical acquisitions of Techtran Group (university partnership business, £16.3m; 2009: £16.3m) and Top Technology Ventures (venture capital fund management business, £2.1m; 2009: £2.1m), while the equity rights asset represents amounts paid to the University of Oxford giving the Group the right to receive 50% of the university's entitlement to equity in any spin-out company or of any licensing income emanating from the University of Oxford's Chemistry Department until 2015. The carrying values of these assets have been reviewed during the period and the directors do not believe these assets to be impaired at the reporting date. The contract underpinning the Oxford Equity Rights Asset expires in November 2015, by which time the corresponding asset will have been written off by way of impairment or fair value reduction through the income statement. Based on the directors' current forecasts, it is anticipated a charge to the income statement will first occur in 2011. Further details are provided in notes 11 and 15.

Due to the nature of its activities, the Group has limited current assets or current liabilities other than its cash and short-term deposit balances, which are considered in more detail below.

### Cash and short-term deposits ("cash")

The principal constituents of the movement in cash during the year are summarised as follows:

	2010 £m	2009 £m
Net cash used in operating activities	(2.5)	(2.7)
Net cash used in investing activities	(4.1)	(2.5)
<b>Movement during year</b>	<b>(6.6)</b>	<b>(5.2)</b>

The Group's overall level of cash deployment increased during 2010, predominantly as a result of an increased net investment rate. As described in detail in the Portfolio review on pages 10 to 19, the Group invested £6.9m across 31 opportunities during the period (2009: £5.7m, 20). A further £0.2m was committed to IP Venture Fund (2009: £0.2m), which in turn invested £2.0m across eleven portfolio companies. The Group made realisations of £2.7m during the period (2009: £0.5m) and received £0.3m from the University of Leeds as partial repayment of the Group's other financial asset, further details of which are provided in note 18 to the Group's financial statements. Overall, net cash used in investing activities increased to £4.1m (2009: £2.5m).

Despite a reduction in interest received of £0.8m compared to 2009, cash used in operating activities reduced to £2.5m (2009: £2.7m) as a result of lower administrative costs and changes in working capital balances.

It remains the Group's policy to place cash which is surplus to near-term working capital requirements in low-risk treasury funds rated "AA" or above, or on short-term and overnight deposits with financial institutions that meet the Group's treasury policy criteria. The treasury policy is described in detail in note 2 to the Group financial statements alongside details of the credit ratings of the Group's cash and deposit counterparties. The Group continues to have no borrowings or foreign currency deposits.

### Taxation

As a result of the fact that the Group's activities are mainly trading in nature, the directors continue to believe that the Group qualifies for the Substantial Shareholdings Exemption ("SSE") on chargeable gains arising on the disposal of qualifying holdings and, as such, the Group has continued not to recognise a provision for deferred taxation in respect of uplifts in value on those equity stakes which meet the qualifying criteria.

**Alan Aubrey**  
Chief Executive Officer

## Board of directors

### Dr Bruce Smith CBE (aged 71)

#### Non-executive Chairman ■■■

Bruce is chairman of the Council of Smith Institute for Industrial Mathematics and System Engineering. He was the chairman and majority shareholder of Smith System Engineering Limited until 1997. Bruce is a fellow of the Royal Academy of Engineering, the Institute of Engineering and Technology ("IET") and the Institute of Physics. Bruce became a director of IP Group in September 2002.

### Alan Aubrey, FCA (aged 49)

#### Chief Executive Officer

Alan co-founded Techtran Group Limited in 2002 and was its CEO when the business was acquired by IP Group in January 2005. Previously he was a partner in KPMG where he specialised in corporate finance advice to technology-based fast growth businesses and has significant experience in helping them raise money and prepare for sale or flotation. Alan joined the Board of IP Group in January 2005, becoming Chief Executive Officer on 1 January 2006 and has overall responsibility for the operational management of the Group.

### Dr Alison Fielding (aged 46)

#### Chief Technology Officer

Alison co-founded Techtran Group Limited and was its Chief Operating Officer when it was acquired by IP Group in January 2005. Previously, she spent five years at McKinsey & Co where she consulted primarily to the pharmaceutical and healthcare sectors. Prior to McKinsey, Alison spent four years as a development chemist for Zeneca, performing technical roles in the speciality chemicals and agrochemicals divisions. Alison holds an MBA from Manchester Business School, a PhD in organic chemistry and a first-class degree in chemistry from the University of Glasgow.

### Mike Townend (aged 48)

#### Director of Capital Markets

Mike was formerly managing director within the European Equities business of Lehman Brothers with responsibility for equity sales to hedge funds. Mike has over 17 years of experience in all aspects of equity capital markets. Mike was appointed a director of IP Group in March 2007.

### Professor Graham Richards CBE (aged 71)

#### Senior Non-executive Director ■■■

Graham was the scientific founder of Oxford Molecular Group plc and was for 20 years a director of the University of Oxford technology transfer company, Isis Innovation Limited. Graham was chairman of chemistry in the University of Oxford until 30 June 2006. Graham became a non-executive director of IP Group in December 2001 and Chairman in August 2004. He became Senior Non-executive Director on 1 January 2006.

### Roger Brooke (aged 80)

#### Non-executive Director ■■■

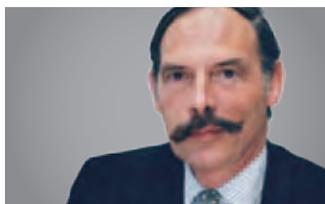
Roger founded Candover Investments and built it into one of the UK's foremost venture capital businesses. He retired from Candover as chairman in May 1999. His previous directorships include EMI and Beeson Gregory Group plc and he was previously chairman of the Audit Commission. Roger became a director of IP Group in December 2001.

### Francis Carpenter (aged 68)

#### Non-executive Director ■

Francis was chief executive officer of the European Investment Fund, holding that role for nearly six years until he stepped down at the end of February 2008. Francis joined the European Investment Bank in 1975 and held a variety of roles including secretary general, director of credit risk management and director of lending in the UK, Ireland, North Sea and Portugal. Francis became a director of IP Group in April 2008.

- Audit Committee
- Remuneration Committee
- Nomination Committee



Top row, left to right: Dr Bruce Smith, Alan Aubrey, Dr Alison Fielding, Mike Townend  
Bottom row, left to right: Professor Graham Richards, Roger Brooke, Francis Carpenter

## Corporate responsibility report

Adverse climate change and increased environmental degradation are very real threats to both the present and the future. Sustainability forms a core component of our business philosophy and we firmly recognise our responsibility to ensure that our business continues to operate in a sustainable manner.

This statement provides an overview of how the Group operates in a sustainability context, focusing on the steps we are taking as a Company both to better understand our impact and in the long term firmly embed sustainability considerations into all of our decision-making processes.

### About IP Group

The principal activities of the Group are the commercialisation of intellectual property generated from its partner universities, principally through the formation of, and investment in, spin-out companies.

The Group operates out of three main office locations in the UK and during 2010 employed an average of 33 people (2009: 35).

Sustainability features prominently in our investment agenda and we actively pursue opportunities that have the potential to improve the environment we live in and benefit society's wellbeing on a global scale. In healthcare, the Group has established companies seeking to develop diagnostics and therapeutics across a wide range of disease areas including cancer, liver diseases, asthma and Alzheimer's disease. The Group has also formed and invested in a number of companies that are pioneering the development of both clean technologies and research in the water, waste management and construction sectors.

### Our commitment to the environment

The direct environmental impact of the Group and its subsidiary companies is relatively low. The business operates from a small number of offices and employs fewer than 40 people, with the majority of our work being office based. The Group does, however, remain committed to ensuring that the environmental impacts of the business operations are minimised and reduced wherever possible. In 2008, we undertook a review of the environmental impacts of our operations and produced a Group Environmental Policy which is monitored at Board level and reviewed annually. This policy is communicated to all new staff upon induction into the business.

### Minimising our direct impact on the environment

We are committed to:

- ▶ promoting resource efficiency and the management of waste generated from our business operations according to the principles of the Waste Management Hierarchy. We prioritise the management of our waste in the following order: prevention, minimisation, reuse, recycling, recovery and finally disposal. Recycling facilities and waste awareness materials are present in all of our office locations;
- ▶ maximising the use of public transport for business travel and minimising business airline travel;
- ▶ working in partnership with our staff, suppliers, landlords and their agents to promote improved energy performance and energy efficiency; and
- ▶ wherever appropriate, making use of recycled and recyclable consumables and materials, including promotional and marketing documentation.

### Understanding the indirect environmental impacts of our business activities

As previously mentioned, the Group's day-to-day operational activities have a limited impact on the environment. We do, however, recognise that the more significant impact occurs indirectly, through the investment decisions we make and the operation of the companies we choose to invest in. The Group therefore considers it important to establish and invest in businesses which comply with existing applicable environmental, ethical and social legislation. It is also important that these businesses can demonstrate that an appropriate strategy is in place to meet future applicable legislative and regulatory requirements and that these businesses can operate to specific industry standards, striving for best practice.

Major investment themes for IP Group have included, and will continue to include, business opportunities focused on developing clean technology, environmental improvement and resource efficiency. Two case studies have been included to highlight how our investment decisions are linked to the Global Environmental and Sustainability agenda.

## Corporate responsibility report continued

### Understanding the indirect environmental impacts of our business activities continued



The construction industry is responsible for approximately 10% of the world's greenhouse gas emissions and consumes significant amounts of the planet's primary resources. In addition, the landfilling of waste materials continues to increase in line with population and GDP growth. Increasingly, governments and consumers are insisting that these unsustainable practices change through the introduction of stringent legislation and by their purchasing decisions.

Encos Limited ("Encos") has successfully developed a patented technology to help address these challenges. The process manufactures units such as bricks and blocks using vegetable oil-based binders with recovered aggregates from a wide variety of non-hazardous waste-streams. As a consequence, the technology simultaneously reduces carbon emissions, resource extraction and landfill. Manufacturing of Encos' sustainable construction products is simple, consumes no water and produces no waste. Encos, which has now commissioned a sizeable test plant, has been supported in its development by major waste management and construction enterprises.

Encos' first products, the encobrick™, encoslip™ and encoblock™ will provide sustainable, easy to use carbon-negative replacements for conventional masonry units and valuable additions to new building systems.

### Revise

Businesses are increasingly recognising that being more sustainable involves a lot more than simply improving environmental performance or being "green", it is an enhanced operating process. Where organisations can embed sustainability considerations within their operational ethos, a range of valuable benefits can be realised, including improved resource efficiency, more effective procurement practices, social inclusion and improved stakeholder engagement, cost reduction and, in some cases, revenue enhancement.

Revise Limited ("Revise") was formed by sustainability experts with the simple aim of utilising best available technologies which will allow people and businesses to better understand the concept of sustainability from a technical, operational and business perspective.

Revise is due to launch the world's first Virtual Sustainability Expert in 2011. This pioneering sustainability software, delivered through cloud computing technology and powered by cutting edge knowledge management software, will empower and enable the user to independently monitor and improve the sustainability performance of their organisation. Revise is a subsidiary of Sustainable Resource Solutions Limited, in which the Group has 39.9% equity holding.

Further qualitative and quantitative details of the Group's investments in companies in Energy & Renewables and Chemicals & Materials sectors are detailed in the Portfolio review on pages 10 to 19.

### Our business ethics and social responsibility

The Group seeks to conduct all of its operating and business activities in a socially responsible manner and, in all such activities, for its directors and employees to maintain integrity and professionalism, to be commercial and fair and to have due regard to the interest of all of its stakeholders including investors, university partners, employees, suppliers and the businesses in which the Group invests. All employees who are involved with the regulated business of managing investment transactions receive compliance and anti-money laundering training, with periodic refresher courses.

The Group's management and employees are fundamental to our success and as a result we are committed to encouraging the ongoing development of our staff with the aim of maximising the Group's overall performance. Emphasis is placed on staff development through work-based learning, with senior members of staff acting as coach and mentor.

The Group seeks to operate as a responsible employer and has adopted standards which promote corporate values designed to help and guide employees in their conduct and business relationships. The Group seeks to comply with all laws, regulations and rules applicable to its business and to conduct the business in line with applicable established best practice.

Our employees are encouraged to consider social issues and the Group is supportive of employees pursuing roles with charitable organisations.

## Directors' report

### Report of the directors

The directors present their report together with the audited financial statements for IP Group plc (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2010.

### Principal activities

The Company acts as a holding company for the Group and is incorporated by shares in England and Wales. The Company's subsidiary undertakings are detailed in note 2 to the Company's financial statements. The business of the Group is (i) the commercialisation and exploitation of intellectual property via the formation of long-term partnerships with universities; (ii) the management of venture funds focusing on early-stage UK technology companies; and (iii) the in-licensing of drugable intellectual property from research intensive institutions.

### Results and dividends

During the period the Group made an overall profit after taxation for the year ended 31 December 2010 of £1.8m (2009: £6.1m loss). The directors do not recommend the payment of a dividend (2009: £nil).

### Directors

The names of directors who held office during 2010 are as follows:

#### Executive Directors

Alan Aubrey  
Alison Fielding  
Magnus Goodlad (resigned on 10 September 2010)  
Mike Townend

#### Non-executive Directors

Bruce Smith (Chairman)  
Graham Richards  
Roger Brooke  
Francis Carpenter

Details of the interests of directors in the share capital of the Company are set out in the Directors' Remuneration Report on pages 28 to 32.

### Business review

The information that fulfils the requirements of the Business review, as required by the Companies Act 2006, and which should be treated as forming part of this report by reference, is included in the following sections of the annual report:

- ▶ Chairman's statement on pages 4 to 5;
- ▶ Chief Executive Officer's statement on pages 6 to 21, which together include a review of the Group's external environment, key strategic aims, main trends and factors likely to affect the future development, performance and position of the Group's business;
- ▶ Corporate responsibility report on pages 23 to 24, which includes information about environmental matters, employees and social and community issues;
- ▶ Corporate Governance on pages 33 to 40 including details of the Company's rules relating to the appointment and replacement of directors; and
- ▶ details of the principal operating subsidiaries are set out on note 2 to the Company's financial statements.

Key performance indicators and a description of principal risks and uncertainties facing the Group are set out below:

Key performance indicator	2010	2009
Total equity ("net assets") (£m)	<b>173.1</b>	171.0
Profit/(loss) attributable to equity holders (£m)	<b>1.8</b>	(6.1)
Change in fair value of equity and debt investments (£m)	<b>4.0</b>	(1.4)
Cash, cash equivalents and deposits (£m)	<b>21.5</b>	28.1
Proceeds from sale of equity investments (£m)	<b>2.7</b>	0.5
Purchase of equity and debt investments (£m)	<b>6.9</b>	5.7
Number of new portfolio companies (number)	<b>7</b>	4
IP Group plc share price performance (% change)	<b>(46.5)</b>	5.6

## Directors' report continued

### Principal risks and uncertainties and financial instruments

The Group through its operations is exposed to a number of risks. The Group's risk management objectives and policies are described in the Corporate Governance report on pages 33 to 40. Further information on the Group'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 the consolidated financial statements, along with further information on the Group's use of financial instruments.

### Significant agreements

The Group has entered into various agreements to form partnerships with ten UK universities granting Group entities rights to purchase or receive shares in new companies founded by academics at these universities. Further, Group entities have entered into agreements to act as general partner and investment manager to three limited partnerships, as detailed in note 1 to the consolidated financial statements. These agreements generally contain change of control provisions which, in the event of a change of ownership of the Group, could result in renegotiation or termination of the agreements.

There are a number of other agreements that may alter or terminate upon a change of control of the Group following a takeover bid, such as commercial contracts. None is considered to be significant in terms of their potential impact on the business of the Group as a whole.

### Share capital and related matters

Details of the structure of the Company's share capital and the rights attaching to the Company's shares are set out in note 20 to the consolidated financial statements. There are no specific restrictions on the size of a holding or on the transfer of shares, which are both governed by the general provisions of the Company's Articles of Association (the "Articles") and prevailing legislation.

At the last Annual General Meeting ("AGM") of the Company, held on 27 April 2010, authority was given to the directors pursuant to the relevant provisions of the Companies Act 2006 to allot unissued relevant securities in the Company up to a maximum amount equivalent to approximately one-third of the total ordinary share capital in issue on 26 March 2010 at any time up to the earlier of the conclusion of the next AGM of the company and 26 April 2011. Further, the directors were given authority effective for the same period to allot relevant securities in the Company up to a maximum of approximately two-thirds of the total ordinary share capital in issue on 26 March 2010 in connection with an offer by way of a fully pre-emptive rights issue. No shares have been issued pursuant to either authority during the year. The directors propose to renew these authorities at the Company's next AGM to be held on 3 May 2011. The authorities being sought are in accordance with guidance issued by the Association of British Insurers.

A further special resolution passed at the 2010 AGM granted authority to the directors to allot equity securities in the Company for cash, without regard to the pre-emption provisions of the Companies Act 2006, both (i) up to a maximum of approximately two-thirds of the total ordinary share capital in issue on 26 March 2010 in connection with a fully pre-emptive rights issue, and (ii) up to a maximum of approximately 5% of the aggregate nominal value of the shares in issue on 26 March 2010, each authority exercisable at any time up to the earlier of the conclusion of the next AGM of the company and 26 April 2011. Neither of these authorities have been used during the year. The directors will seek to renew these authorities for a similar period at the next AGM.

Under the Companies Act 2006, the Company has the power to purchase its own shares in accordance with Part 18, Chapter 5 of the Companies Act 2006. However, the directors have no existing authority to purchase the Company's own shares.

### Articles of Association

The Company's Articles may be amended by a special resolution of the shareholders. As at the date of this report the Company's Articles include a qualifying third party indemnity provision ("QTPIP") within the meaning of Section 234 of the Companies Act 2006.

### Substantial shareholders

As at 28 February 2011, the Company had been advised of the following shareholders with interests of 3% or more in its ordinary share capital. Other than as shown, so far as the Company (and its directors) are aware, no other person holds or is beneficially interested in a disclosable interest in the Company.

	%
Lansdowne Partners	16.3
Legal & General Investment Management	9.8
FIL Limited (Fidelity)	9.2
Massachusetts Mutual Life Insurance Company	8.9
BlackRock, Inc.	5.1
Aviva	5.1
M&G	5.0
Standard Life Investments Limited	3.6

### Payment of trade payables

It is the Group'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 Group's average trade payable payment period at 31 December 2010 was 24 days (2009: 25 days). The Company had trade payables of £0.2m (2009: £0.1m) at 31 December 2010.

### Charitable and political donations

During 2010, the Group did not make any charitable donations (2009: £nil). The Group did not make any political donations in either year.

### Disclosure of information to auditor

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditor for the purposes of its audit and to establish that the auditor is aware of that information. The directors are not aware of any relevant audit information of which the auditor is unaware.

### Appointment of auditor

BDO LLP offers itself for re-appointment as auditor and an appropriate resolution will be put to the shareholders at the AGM.

ON BEHALF OF THE BOARD

**Alan Aubrey**

**Chief Executive Officer**

28 February 2011

## Directors' Remuneration Report

The Directors' Remuneration Report has been prepared in accordance with requirements of the Companies Act 2006.

The Company's remuneration policy is the responsibility of the Board of Directors. The Remuneration Committee provides recommendations to the Board of Directors on the Group's remuneration policy. This Remuneration Committee consists exclusively of non-executive directors, is chaired by Graham Richards and also comprises Bruce Smith and Roger Brooke. Graham Richards and Roger Brooke are considered to be independent directors and the Remuneration Committee is authorised, if it wishes, to seek independent specialist services to provide information and advice on remuneration at the Company's expense.

During the year the Remuneration Committee undertook a review of the executive and non-executive director remuneration and took professional advice from Hay Group in this regard. Hay Group provided advice in respect of remuneration policy, typical levels of remuneration for the industry and sector, and advice on the mix of salary and long-term incentives. Hay Group also conducted interviews and focus groups with executive directors, management and staff. In addition to this review, Graham Richards, the Senior Independent Director, held a number of discussions with some of the Group's major shareholders on executive remuneration and the Remuneration Committee formally met on five occasions in the year to consider the outcome of these discussions. The resulting recommendations to the Board led to the equity bonus scheme being suspended and new awards being made under the LTIP, all as further detailed below.

The Remuneration Committee has specific responsibility for advising the Group's Board on the remuneration and other benefits of executive directors, an overall policy in respect of remuneration of other employees of the Group and establishing the Group's policy with respect to employee incentivisation schemes. In advising the Group's Board on executive remuneration packages of individual directors, the Remuneration Committee takes account the levels of experience, performance and responsibility of each director, and the remuneration packages for similar executive positions in companies it considers are comparable. It also considers the remuneration packages offered within the Group as a whole.

### Remuneration policy

#### a) Executive remuneration

The Remuneration Committee aims to ensure that the remuneration of executive directors is competitive, takes into account individual performance and provides a package which is sufficiently dependent on achievement to motivate and incentivise the individual executive directors. Executive remuneration currently comprises a base salary which is not performance related, an entitlement to private medical insurance, permanent health insurance, life assurance and pension contributions to individual money purchase schemes and a Long Term Incentive Plan. Historically, executive remuneration also included entitlement to an equity bonus scheme but this was suspended during 2010 as explained further below. The Board believes that the interests of directors and shareholders are best aligned with a remuneration policy that provides a base salary that is not dependent on performance together with a discretionary bonus arrangement. Further details relating to bonus arrangements, pension contributions and the Long Term Incentive Plan are detailed below.

#### Bonuses

In previous years, executive directors participated in a bonus incentive scheme linked to the equity received as a result of investments made by the Group (the "equity bonus scheme"). Following discussions with a number of major shareholders in the second half of 2010, the Remuneration Committee has agreed to suspend the operation of the equity bonus scheme. No new awards were made in 2010 to the executive directors under this scheme. Share transfers relating to one award accrued for in the 2009 statement of comprehensive income were completed in early 2010.

Whilst the Company has always had an annual discretionary cash bonus scheme in place, no cash bonuses have been paid to directors since the Company's shares became traded on the Main Market of the London Stock Exchange. Other than in exceptional circumstances, linked to both individual performance and also that of the Group, the Remuneration Committee does not currently envisage the payment of cash bonuses.

#### Carried interest

The Group allocates carried interest in funds managed by the Group to executive directors and other key staff based on the level of involvement and contribution of the relevant members of the team to the management of the fund. Details of allocations made to the executive directors are set out on pages 31 and 32.

#### Pensions

The executive directors are entitled to a contribution of annual base salary which is capped at 10% and paid directly into personal money purchase pension plans.

#### Share options

It is the policy of the Group not to issue new options over ordinary shares in the Company. No new options over shares were issued during the years ended 31 December 2010 or 31 December 2009.

## Remuneration policy *continued*

### b) Non-executive remuneration

Each of the non-executive directors receives a fixed fee for service, which covers preparation for and attendance at meetings of the full Board and all committees thereof. The non-executive directors are also reimbursed for all reasonable expenses incurred in attending these meetings. Non-executive directors are not entitled to participate in any of the Group's incentive schemes, including the LTIP and bonus schemes. The executive directors are responsible for setting the level of non-executive remuneration.

### c) Long Term Incentive Plan

The LTIP and employee share ownership trust were adopted by shareholders at the AGM in 2007. All employees, including executive directors, of the Group are eligible to participate in the LTIP at the discretion of the Remuneration Committee. Awards under the LTIP take the form of provisional awards of ordinary shares of 2p each in the Group which vest over the prescribed performance period to the extent that performance conditions have been met. The Remuneration Committee imposes objective conditions on the vesting of awards and these are set taking into consideration the guidance of the Group's institutional investors from time to time.

The 2010 LTIP awards will vest on 31 March 2013 to the extent that the performance conditions have been met. 50% of the awards are based on the performance of Group's net asset value, excluding intangible assets and the Oxford equity rights ("NAV"), and 50% are based on the Group's share price performance. The portion subject to NAV performance shall vest in full in the event of NAV increasing by 15% per year on a cumulative basis from 1 January 2010 to 31 December 2012, whilst 50% of that portion shall vest if the cumulative increase is 8% per annum over this time period. The portion subject to the Group's share price performance shall vest in full in the event of the Group's share price being equal to or exceeding 67p on 31 December 2012, whilst 50% of that portion shall vest if the Group's share price is 60p on this date. A straight-line sliding scale will be adopted for the vesting of both portions should achieved performance be between the vesting targets detailed above.

For the 2007 and 2008 awards, the performance conditions were based on the Group's total shareholder return ("TSR") performance. The awards granted in 2008 will vest in full after three years in the event of TSR growth of 15% per annum on a cumulative basis being achieved. 50% of an award granted will vest in the event of compound annual TSR growth of 10% being achieved with a sliding scale between these points. The 2007 awards lapsed during the year with no awards vesting.

Further details relating to the LTIP awards that have been made to the executive directors are detailed on page 30.

### d) Service contracts

Alan Aubrey and Dr Alison Fielding have service contracts which commenced on 20 January 2005 and contain a contractual notice period of six months' by either party. Mike Townend has a service contract which commenced on 5 March 2007 and contains a contractual notice period of six months by either party. The contracts for executive directors do not provide any predetermined amounts of compensation in the event of early termination. In the event of early termination, payments for loss of office would be determined by the Remuneration Committee who would take account of the particular circumstances of each case, including the unexpired term of the service contract.

Each of the non-executive directors have letters of appointment which commenced on 10 August 2004 in the case of Professor Graham Richards, on 3 September 2007 in the case of Dr Bruce Smith, on 29 September 2003 in the case of Roger Brooke and on 3 April 2008 in the case of Francis Carpenter. Each appointment is for an initial term of three years, renewable for a further three years. Given the Company's intention to adopt annual re-election of the Board with effect from the 2011 AGM to be held on 3 May 2011, these letters of appointment will be amended accordingly. The non-executive letters of appointment are terminable on three months' notice by either party save in the case of Roger Brooke, whose agreement is terminable on one month's notice by either party.

Executive directors may accept other outside non-executive appointments. Where an executive director accepts an appointment to the board of a company in which the Group is a shareholder, the Group generally retains the related fees. In the limited circumstances where the executive directors receive such fees directly, such sums are deducted from their base salary. Fees earned for directorships of companies in which the Group does not have a shareholding are normally retained by the director.

## Directors' Remuneration Report continued

## Directors' emoluments

The following is part of the Directors' Remuneration Report and is subject to audit.

The aggregate remuneration received by directors who served during the year, including remuneration paid through subsidiaries of the Company, was as follows:

	Base salary <sup>(ii)</sup> £000	Equity bonus <sup>(i)</sup> £000	Fees £000	Benefits <sup>(v)</sup> £000	Total (exc. pension) 2010 £000	Pension £000	Total (inc. pension) 2010 £000	Total (exc. pension) 2009 £000	Pension £000	Total (inc. pension) 2009 £000
<b>Executive</b>										
Alan Aubrey <sup>(ii)</sup>	157	13	–	4	174	19	193	204	19	223
Alison Fielding	180	12	–	2	194	18	212	215	18	233
Magnus Goodlad <sup>(iv)</sup>	133	37	–	2	172	13	185	204	17	221
Mike Townend	180	–	–	3	183	18	201	215	18	233
<b>Non-executive</b>										
Bruce Smith	–	–	41	–	41	–	41	41	–	41
Graham Richards	–	–	32	–	32	–	32	32	–	32
Roger Brooke	–	–	23	–	23	–	23	23	–	23
Francis Carpenter	–	–	32	–	32	–	32	32	–	32
<b>Total</b>	<b>650</b>	<b>62</b>	<b>128</b>	<b>11</b>	<b>851</b>	<b>68</b>	<b>919</b>	966	72	1,038

- (i) Equity bonus represents share transfers relating to one award accrued for in the 2009 statement of comprehensive income which were completed in early 2010.
- (ii) In addition to the above, during the period Alan Aubrey retained fees totalling £27,500 in respect of non-executive director services provided to companies in which the Group is a shareholder and which were deducted from the base salary during the year (2009: £13,333).
- (iii) Including those non-executive director fees retained by him and deducted from this base salary, Alan Aubrey was the highest paid director during the year (2009: Alan Aubrey). Excluding these fees, Alison Fielding was the highest paid director (2009: Alison Fielding and Mike Townend).
- (iv) Magnus Goodlad resigned as a director of the Group on 10 September 2010.
- (v) Benefits represent private medical insurance and life assurance provision.

## Directors' long-term incentives

The following is part of the directors' remuneration report and is subject to audit.

## a) Long Term Incentive Plan

The directors' participations in the Group's LTIP are as follows:

	Number of shares notionally held at 1 January 2010	Lapsed during the year	Notionally awarded in the year	Potential interest in shares at 31 December 2010	Share price at date of notional award (p)	Amount charged against profit in the year £000	Earliest vesting date
<b>Executive Directors</b>							
Alan Aubrey	671,641	(671,641)	2,556,818	2,556,818	29	62	31.03.13
Alison Fielding	597,015	(597,015)	2,090,909	2,090,909	29	53	31.03.13
Magnus Goodlad	522,388	(522,388)	–	–	29	30	31.03.13
Mike Townend	597,015	(597,015)	2,090,909	2,090,909	29	53	31.03.13
<b>Total</b>	2,388,059	(2,388,059)	6,738,636	6,738,636		198	

No notional shares vested during the year.

The fair value charge recognised in the consolidated statement of comprehensive income in respect of LTIP share awards granted to directors was £198,200 (2009: £437,811).

The performance criteria relating to the LTIP award are set out on page 29.

## Co-investment and carried interest schemes

In addition to the directors' remuneration arrangements, the Group also operates co-investment and carried interest schemes relating to certain venture capital funds that are under its management. Under the co-investment scheme, executive directors make minority capital and loan commitments to IP Venture Fund ("IPVF") alongside the Group. Executives are entitled to participate in a carried interest scheme in respect of the partnership alongside the Group. Carried interest commonly provides a preferential return to participants once the partnership has returned all funds contributed by limited partners together with a pre-agreed rate of return. The carried interest and co-investment schemes will generally contain forfeiture provisions in respect of leavers over the investment period of the partnership.

### a) Co-investment scheme

The executive directors' commitments to IPVF are set out below. Commitments are made indirectly through IP Venture Fund (FP) LP which is the founder partner of IPVF.

	Total commitment £000	Limited partnership interest of IPVF	Total invested to 1 January 2010 £000	Invested during the year £000	Total invested to 31 December 2010 £000
<b>Executive Directors</b>					
Alan Aubrey	56	0.18%	26	4	<b>30</b>
Alison Fielding	56	0.18%	26	4	<b>30</b>
Magnus Goodlad <sup>(i)</sup>	29	0.09%	26	3	<b>29</b>
Mike Townend	56	0.18%	26	4	<b>30</b>
<b>Total</b>	<b>197</b>	<b>0.63%</b>	<b>104</b>	<b>15</b>	<b>119</b>

(i) Magnus Goodlad resigned as a director of the Group on 10 September 2010. Pursuant to the terms of the IPVF Limited Partnership Agreement, Magnus Goodlad's remaining loan commitments were transferred to existing limited partners of IP Venture Fund (FP) LP, including the executive directors. The carried interest entitlements were also transferred proportionately (see (b) below).

### b) Carried interest scheme

The directors' interests in carried interest schemes are set out below:

	Scheme <sup>(i)</sup>	Scheme interest <sup>(ii)</sup> at 1 January 2010	Awarded during the year	Transferred during the year	Lapsed during the year	Scheme interest at 31 December 2010	Accrued value <sup>(iii)</sup> of scheme interest at 31 December 2010
<b>Executive Directors</b>							
Alan Aubrey	IPVF	1.67%	–	0.14%	–	<b>1.81%</b>	–
	NETF	–	1.55%	–	–	<b>1.55%</b>	–
Alison Fielding	IPVF	1.67%	–	0.14%	–	<b>1.81%</b>	–
	NETF	–	1.55%	–	–	<b>1.55%</b>	–
Magnus Goodlad <sup>(iv)</sup>	IPVF	1.67%	–	(0.72%)	–	<b>0.95%</b>	–
	TTV IV	4.36%	–	–	–	<b>4.36%</b>	–
	NETF	–	1.55%	–	(1.55%)	–	–
Mike Townend	IPVF	1.67%	–	0.14%	–	<b>1.81%</b>	–
	NETF	–	1.55%	–	–	<b>1.55%</b>	–

(i) Under the IPVF scheme, payments to participants are made when all limited partners have been repaid their contributions together with a hurdle rate of 8% compound interest. Under the Top Technology Ventures IV LP ("TTV IV") scheme, payments to participants are made when all limited partners have been repaid their contributions together with a hurdle rate of 6% compound interest. Under the North East Technology Fund ("NETF") scheme, payments to participants are made when all limited partners have been repaid their contributions together with a hurdle rate of 3.5% compound interest.

(ii) Scheme interest represents the percentage of the relevant pool of investments in respect of which the participant is entitled to participate in the realised profits.

(iii) The IPVF, NETF and TTV IV schemes contain forfeiture provisions over the investment period of the fund which may reduce the scheme interest accruing to any participant. The table reflects the maximum scheme interest receivable should no forfeiture occur.

(iv) Magnus Goodlad resigned as a director of the Group on 10 September 2010. Pursuant to the terms of the IPVF Limited Partnership Agreement, Magnus Goodlad's remaining loan commitments were transferred to existing limited partners of IP Venture Fund (FP) LP, including the executive directors. The carried interest entitlements were also transferred proportionately. Magnus Goodlad's interests in the TTV IV scheme were fully vested at the time of his leaving, while all interests under the NETF scheme were forfeited.

(v) Accrued value of scheme interests is calculated based upon the current value of the limited partnership in excess of the capital contributed together with the hurdle rate of return.

## Directors' Remuneration Report continued

### Co-investment and carried interest schemes continued

#### b) Carried interest scheme continued

During the year the Group commenced management of the NETF, a £25m ten-year venture capital fund focusing on technology businesses in the northeast of England.

Following a meeting of the Remuneration Committee in late 2009, awards under the NETF carried interest scheme were made in early 2010 in order to incentivise those individuals involved in the running of the fund to maximise returns for the fund's investors.

The Remuneration Committee determined that it would be appropriate for approximately one-third of the carried interest pool available for allocation to Group employees to be allocated to the executive directors, with the remainder being allocated to other members of staff involved in the fund's management.

#### Directors' interests in ordinary shares (unaudited)

The directors who held office at 31 December 2010 had the following beneficial interests in the ordinary shares of the Company:

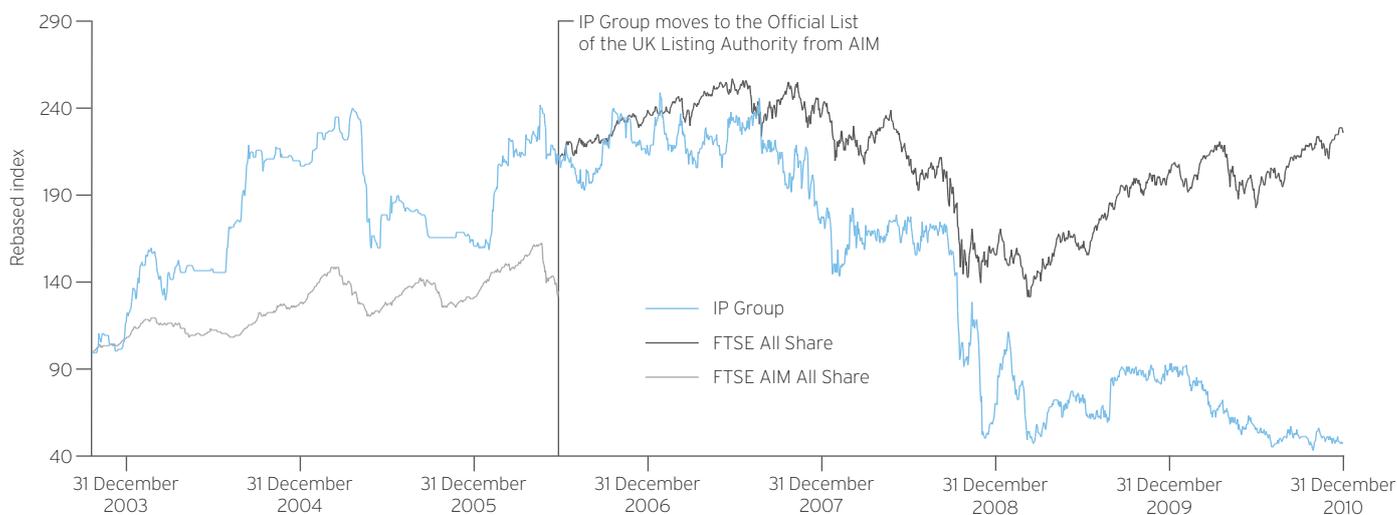
	31 December 2010 Number of shares	1 January 2010 Number of shares
Alan Aubrey	<b>1,112,170</b>	974,670
Alison Fielding	<b>394,630</b>	394,630
Mike Townend	<b>204,340</b>	204,340
Bruce Smith	<b>216,592</b>	216,592
Graham Richards	<b>9,250</b>	9,250
Roger Brooke	<b>335,092</b>	269,633
Francis Carpenter	<b>169,151</b>	109,151

There has been no change in the interests set out above between 31 December 2010 and 28 February 2011.

Apart from the interests disclosed above, none of the directors had any interest at any time during the year ended 31 December 2010 in the share capital of the Company or its subsidiaries. However, certain directors hold interests in the shares of spin-out companies in which the Group also has an equity interest in. Details of these interests are disclosed in note 24 of the financial statements.

#### Performance graph (unaudited)

The chart below shows the shareholder return performance for the period 15 October 2003 when the Group listed on AIM to 31 December 2010 alongside the performance of the FTSE AIM All-Share and FTSE All-Share indices. For ease of comparison, these figures have been rebased such that the Group's share price is equal to the FTSE AIM All-Share at 15 October 2003 and FTSE All-Share at 19 June 2006, the date at which the Group joined the Official List of the UK Listing Authority. The directors have selected the FTSE AIM All-Share and FTSE All-Share indices as, in their opinion, these indices comprise the most relevant equity indices of which the Company is a member against which total shareholder return of IP Group plc should be measured.



ON BEHALF OF THE BOARD

**Graham Richards**

**Chairman of the Remuneration Committee**

28 February 2011

## Corporate Governance

The Company is committed to high standards of corporate governance. Corporate governance can be defined as the high level system by which an organisation is directed and controlled to enable it to achieve its business objectives in a manner which is responsible and in accordance with highest standards of integrity, transparency and accountability.

This statement, together with the Directors' Remuneration Report (set out on pages 28 to 32), describes how the Company has applied the principles of good corporate governance set out in the Combined Code on Corporate Governance published by the Financial Reporting Council in June 2008 (the "Code"). During the year ended 31 December 2010, the Group has been in compliance with all relevant requirements of the Code. In addition, the Board is fully cognisant of the fact that a revised UK Corporate Governance Code was published by the Financial Reporting Council in June 2010 and, whilst this applies to accounting periods beginning on or after 29 June 2010, the Board believes that the Group has been operated since the date on which the revised Code was published in accordance with its principles.

### The Board

#### Board composition and responsibilities

The Board is responsible to shareholders for the overall management of the Group, providing entrepreneurial leadership within a framework of controls for assessing and managing risk; setting the Group's strategic aims; maintaining the policy and decision-making framework in which such strategic aims are implemented; ensuring that the necessary financial and human resources are in place to meet strategic aims; monitoring performance against key financial and non-financial indicators; overseeing the system of risk management; and setting values and standards in governance matters.

The responsibility of the directors is collective, taking into account their respective roles as executive directors and non-executive directors.

The Board manages these matters at its regular meetings. It receives reports and presentations from each of the executive directors responsible for the Group's operating businesses and key central functions. This ensures that all directors are aware of, and are in a position to monitor effectively, the overall performance of the Group, its development and implementation of strategy and its management of risk.

#### Board meetings and decisions

The Group's business is managed by the Board of Directors. 13 Board meetings were held during 2010. A discussion of current and future performance and strategy is included on the agenda for each meeting. In addition, the Board has a formal schedule of matters reserved for its decision, which includes, but is not restricted to, the approval of interim and annual accounts, major investments and disposals, budgets and long-term plans, litigation and Board remuneration and appointments.

Each Board member receives monthly management accounts including a review and analysis of performance against budget and other forecasts. Directors are sent an agenda and a full set of Board papers for each agenda item to be discussed at the meeting. Additional information is provided as appropriate or if requested.

Any matter requiring a decision by the Board is supported by a paper analysing the relevant aspects of the proposal including costs, benefits, potential risks involved and proposed management action and recommendation.

#### Directors

During 2010, the Board was made up of four executive directors (being the Chief Executive, the Chief Technology Officer, the Director of Capital Markets and the Chief Operating Officer), the Chairman and three independent non-executive directors. A list of the individual directors and their biographies is provided on page 22.

During the year the Chief Operating Officer resigned from the Company. The composition of the Board was considered by the Chairman and Chief Executive at this stage and no direct replacement was considered necessary. Collectively, the Board believes it possesses the appropriate balance of qualities, skills and experience, together with an in-depth knowledge of the Group's businesses, to enable it to lead the Company effectively.

In accordance with the Code, the Company is currently deemed a "smaller company" since it has been below the FTSE 350 throughout the year immediately prior to the reporting year.

The Company's Articles, adopted at the Company's 2010 AGM held on 27 April 2010, give the directors power to appoint and replace directors. All directors are required under the Articles to submit themselves for re-election by the shareholders at the Company's AGM following their first appointment and thereafter at each AGM in respect of which they have held office for the two preceding AGMs and did not retire at either of them. In addition, each director who has held office with the Company for a continuous period of nine years or more must retire and offer themselves up for re-election at every AGM. Notwithstanding the requirements of the Articles, it is intended that, whilst not required under the revised Code published in June 2010 by reason of the Company being a "smaller company", the Company will adopt the principle of annual re-election by its shareholders of the full Board with effect from its AGM to be held on 3 May 2011.

## Corporate Governance continued

### The Board continued

#### Chairman and Chief Executive Officer

Bruce Smith is the Chairman. The division of responsibilities between the Chairman and the Chief Executive Officer is clearly established, set out in writing and agreed by the Board. The Chairman is responsible for the leadership and conduct of the Board, its conduct of the Group's affairs and strategy and in ensuring effective communication with shareholders. The Chairman facilitates the effective contribution of non-executive directors at Board and committee meetings and ensures a constructive relationship between the executive directors and non-executive directors. The Chief Executive Officer is responsible for the management of the Group's operating businesses and the development of their strategic direction. He is responsible for delivering the operating plans and budgets for the Group's businesses, monitoring business performance and reporting on these to the Board.

#### Senior Independent Director

Professor Graham Richards is the Senior Independent Director. A key responsibility of his is to be available to shareholders in the event that they may feel it inappropriate to relay views through the Chairman or Chief Executive. In addition, the Senior Independent Director serves as an intermediary between the rest of the Board and the Chairman where necessary and takes the lead when the non-executive directors assess the Chairman's performance and when the appointment of a new chairman is considered.

#### Non-executive directors

The non-executive directors provide a wide range of skills and experience to the Group. They bring an independent judgement on issues of strategy, performance, risk and people through their contribution and constructive challenge at Board and committee meetings. The Board considers that each non-executive director is independent in character and judgement and that they also meet the independence criteria set out in the Code.

The Board has been considering proposals for appointing additional non-executive directors to the Board during the financial year ended 31 December 2010 and has identified various possible candidates with whom it intends to follow up during 2011. The Group's Nomination Committee will become involved at the appropriate stage.

In a limited number of cases, non-executive directors have made de minimis investments in spin-out companies formed under the university partnerships. Such investments were made on arms' length terms, on comparable terms to other third party angel investors participating in the same financing rounds and always represented minority participations in the relevant financing rounds. The Board does not therefore consider that such personal investments act in any way to influence the non-executive directors oversight of the Board. All potential conflicts are disclosed at the beginning of each Board meeting and the relevant non-executive director may be required by the Board to abstain from voting on the matter in question. Details of these investments are set out in note 24 to the financial statements.

The non-executive directors receive a fixed fee for their services and the reimbursement of reasonable expenses incurred in attending meetings.

There is an agreed procedure for directors to take independent professional advice at the Company's expense. Directors have direct access to the impartial advice and services of the Company secretary. The Company secretary is responsible for ensuring that Board procedures and applicable rules and regulations are followed.

Whilst the Board retains overall responsibility for the Company the day-to-day management of the business is conducted by the executive directors. The Board delegates specific responsibilities to certain committees. Each committee has its own terms of reference set by the Board. These are available on request from the Company secretary.

#### Directors' conflicts of interest

Since 1 October 2008, a director has had a duty under the Companies Act 2006 (the "CA 2006") to avoid a situation in which he has or can have a direct or indirect interest that conflicts or may potentially conflict with the interests of the Company. This duty was in addition to the existing and continuing duty that a director owes to the Company to disclose to the Board any transaction or arrangement under consideration by the company in which he is interested. The CA 2006 allows directors of public companies to authorise conflicts and potential conflicts where the Articles contain a provision to that effect. Shareholders approved amendments to the Company's Articles at the AGM held on 28 April 2009 which included provisions giving the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the position that existed before 1 October 2008. The Board has a procedure when deciding whether to authorise a conflict or potential conflict of interest. The directors are subject to an overriding obligation to act in a way they consider, in good faith, will be most likely to promote the Company's success. In addition, the directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

Where potential conflicts of interest have arisen, such as when a non-executive director is also a director of a spin-out company, a director has a relationship with an academic institution with whom the Company has a partnership agreement or there are previous relationships between a director and the company or predecessor companies, the director does not participate in any decisions relating to that relationship. Professor Graham Richards is a professor of chemistry at the University of Oxford and a director of Inhibox Limited.

## The Board *continued*

### Performance evaluation

The performance of the Chairman and each director and of each committee of the Board is formally evaluated on an annual basis. In the absence of the Chairman, the other non-executive directors, led by the Senior Independent Director, meet annually, and whenever else deemed necessary, to appraise the Chairman's performance in the absence of the Chairman. The performance of non-executive directors and the Chief Executive Officer is reviewed by the Chairman and the performance of executive directors is reviewed by the Chief Executive, in each case on an annual basis. The last such review took place in January and February 2011. In addition, the performance of executive directors is reviewed by the Board, as deemed necessary, in the absence of the executive director under review.

### Attendance

The following table shows the attendance of directors at meetings of the Board, Audit, Remuneration and Nomination Committees during the year:

	Board		Audit		Remuneration		Nomination	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
Alan Aubrey	12	13	–	–	–	–	–	–
Alison Fielding	11	13	–	–	–	–	–	–
Magnus Goodlad*	9	9	–	–	–	–	–	–
Mike Townend	11	13	–	–	–	–	–	–
Graham Richards	11	13	2	2	7	7	1	1
Roger Brooke	12	13	2	2	7	7	1	1
Bruce Smith	13	13	2	2	7	7	1	1
Francis Carpenter	11	13	2	2	–	–	–	–

\* Resigned as a director of the Group on 10 September 2010.

## Committees of the Board

### Audit Committee

The Audit Committee, which has written terms of reference, was established in October 2003. The committee comprises Roger Brooke (Chairman), Bruce Smith, Graham Richards and Francis Carpenter. The auditor, Chief Executive and other members of management attend the meetings by invitation. The Audit Committee also meets with the auditor in the absence of executive directors and management. The Audit Committee examines and reviews internal controls, together with accounting policies and practices, the form and context of financial reports and statements and general matters raised by the auditor. It reviews the interim financial information and annual accounts before they are submitted to the Board and makes recommendations to the Board in connection with their submission. In addition the Audit Committee makes recommendations to the Board regarding the appointment of the external auditor, reviews its independence and objectivity and monitors the scope and results of the audit. The Audit Committee is also responsible for agreeing the level of audit fees and monitoring the provision of non-audit services provided by the Group's auditor. The Audit Committee assesses the likely impact on the auditor's independence and objectivity before awarding it any material contract for additional services. The Board has identified Francis Carpenter as having recent and relevant financial experience notwithstanding the fact that he is not a member of one of the professional accountancy bodies. Further, Roger Brooke is a past chairman of the Audit Commission and the Board considers that collectively the members have the requisite skills and attributes to enable the committee to properly discharge its responsibilities.

During the year, the Audit Committee:

- ▶ considered the effectiveness of the internal control environment of the Group;
- ▶ reviewed and recommended to the Board the approval and publication of the half-yearly and annual financial statements of the Group;
- ▶ oversaw the Group's relations with its external auditor, including reviewing and monitoring the scope and results of the audit and half-yearly review;
- ▶ assessed the independence and objectivity of BDO LLP as the Group's auditor, including consideration of the nature and quantum of non-audit fees in relation to the Group audit fee;
- ▶ recommended to the Board the re-appointment of BDO LLP as the Group's auditor and the approval of its remuneration for the year;
- ▶ met with the external auditor twice during the year in the absence of management to discuss any issues or concerns from either the Audit Committee or the auditor; and
- ▶ in accordance with the Code, reviewed the need to establish an internal audit function, but continued to believe that, in a Group of this size, where close control over operations is exercised by the executive directors, the benefits likely to be gained would be outweighed by the costs of establishing such a function. It will continue to review the requirement for such a function on an annual basis.

The Audit Committee met twice during 2010.

## Corporate Governance continued

### Committees of the Board continued

#### Remuneration Committee

The Remuneration Committee was established in October 2003 and meets as and when required. It comprises Graham Richards (Chairman), Bruce Smith and Roger Brooke. The Remuneration Committee's objective is to develop remuneration packages for executive directors that enable the Group to attract, retain and motivate executives of the appropriate calibre without paying more than is necessary. No director is involved in deciding his or her remuneration. The Board's policy on executive remuneration and the details of executive directors' individual remuneration packages are fixed by the Remuneration Committee or the Board. It is the Group's policy to take into account the pay and employment conditions of employees throughout the Group when determining directors' remuneration. Full details of the Directors' remuneration are set out in the Remuneration Report on pages 28 to 32.

The Remuneration Committee met seven times during 2010.

#### Nomination Committee

The Nomination Committee was established in October 2003 and meets as and when required. It considers the appointment of both executive and non-executive directors. It comprises Bruce Smith (Chairman), Graham Richards and Roger Brooke. The Code stipulates that the Nomination Committee should comprise a majority of independent non-executive directors. The Nomination Committee met once in November 2010 to consider various proposals for the addition of non-executive directors to the Board. For future appointments to the Board contemplated for 2011, the Nomination Committee will consider candidates at the request of the Board. It also advises the Board on matters generally relating to senior appointments.

#### Internal control

The Board fully recognises the importance of the guidance contained in Internal Control: Guidance for Directors on the Code ("Turnbull"). The Group's internal controls, which were Group-wide, were in place during the whole of 2010 and were reviewed by the Board of Directors and were considered to be effective throughout the year ended 31 December 2010.

The Board is responsible for establishing and monitoring internal control systems and for reviewing the effectiveness of these systems. The Board views the effective operation of a rigorous system of internal control as critical to the success of the Group, however, it recognises that such systems can provide only reasonable and not absolute assurance against material misstatement or loss. The key elements of the Group's internal control system, all of which have been in place during the financial year and up to the date these financial statements were approved, are as follows:

#### Control environment and procedures

The Group has a clear organisational structure with defined responsibilities and accountabilities. It adopts the highest values surrounding quality, integrity and ethics and these values are documented and communicated clearly throughout the whole organisation.

Detailed written policies and procedures have been established covering key operating and compliance risk areas. These are reviewed and updated at least annually by the Board. The Board considers that the controls have been effective for the year ended 31 December 2010.

#### Identification and evaluation of risks

The Board actively identifies and evaluates the risks inherent in the business and ensures that appropriate controls and procedures are in place to manage these risks. Specifically, all decisions relating to strategic partnerships and acquisitions entered into by the Group are reserved for the Board's review and approved. The Board formally reviews the performance of university partnerships and equity investments on a quarterly basis, although performance of specific investments may be reviewed more frequently if deemed appropriate. The Board maintains an up to date Register of Risks setting out mitigations in place in each case. The key risks and uncertainties faced by the Group, as well as the relevant mitigations, are set out below.

#### Information and financial reporting systems

The Board approves the annual operating budgets and each month receives details of actual performance measured against the budget.

#### Principal risks and uncertainties

The operations of the Group and the implementation of its objectives and strategy are subject to a number of key risks and uncertainties. Risks are formally reviewed by the Board on an annual basis and appropriate procedures are put in place to monitor and, to the extent possible, mitigate these risks. Were more than one of the risks to occur, the overall impact on the Group may be compounded. The key risks affecting the Group and the steps taken to manage these are as follows:

#### Financial risks

Through its normal operations, the Group is exposed to a number of financial risks, comprising market, liquidity and credit risks.

#### Market risk

The Group is exposed to market risks, principally equity securities price risk as a result of its equity investments and investments in limited partnerships. The Group holds investments which are publicly traded on AIM and/or the PLUS market and investments which are not traded on an active market. The valuation of quoted and unquoted investments depends on a combination of market factors, including investor sentiment, availability of liquidity and appetite for specific asset classes, as well as the specific performance of each underlying company. As a result of the Group's focus on UK-based intellectual property, its portfolio companies tend to be based in, or have significant operations in, the UK and are therefore influenced by trading and market conditions therein.

## Principal risks and uncertainties continued

### Financial risks continued

#### Market risk continued

The Group seeks to mitigate price risk by having an established investment appraisal process and asset-specific monitoring procedures which are subject to overall review by the Board. In a number of cases these monitoring procedures can include members of the Group's executive team and other staff serving in an advisory capacity to portfolio companies (including secondments and non-executive directorships). The Group has also established capital markets and communications teams dedicated to supporting portfolio companies with fundraising activities and investor relations.

#### Liquidity risk

The Group is exposed to liquidity risk arising from the need to have finance available to make investments in portfolio companies and to meet payments for administrative and other costs as they fall due.

The Group seeks to manage its liquidity risk to ensure sufficient cash is available to meet foreseeable needs and to invest cash assets safely and profitably. Accordingly, the Group only places working capital on overnight deposits with clearing banks or in short-term treasury funds managed by reputable counterparties. The Group continually monitors rolling cash flow forecasts to ensure sufficient cash is available for anticipated cash requirements.

#### Credit risk

Credit risk arises from the exposure to the risk of loss if a counterparty fails to perform its financial obligations to the Group. This could include non-repayment of cash and cash equivalents held with financial institutions or defaults of individual trade debtors. Reasons for counterparty defaults include general economic or sector-specific downturns or the failure of an individual financial institution or other entity.

The Group's credit risk is primarily attributable to its deposits, cash and cash equivalents, debt investments and trade receivables. The Group seeks to mitigate its credit risk on cash and cash equivalents by investing in treasury funds with an "AA" credit rating or above managed by institutions, or by making short-term deposits with counterparties. Short-term deposit counterparties are required to have most recently reported total assets in excess of £3 billion and, where applicable, a prime short-term credit rating at the time of investment (ratings are generally determined by Moody's or Standard & Poor's). Moody's prime credit ratings of "P1", "P2" and "P3" indicate respectively that the rating agency considers the counterparty to have a "superior", "strong" or "acceptable" ability to repay short-term debt obligations (generally defined as having an original maturity not exceeding 13 months).

### Loss of key personnel from the Group

The Group's employees are highly qualified and experienced and the area in which the Group operates is a specialist area. There is a risk that the Group's management and employees will be targeted by competitors or technology companies. The loss of key employees of the Group may also have an adverse effect on the value of the Group.

The Group mitigates this risk by performing a thorough market comparison of the remuneration of its staff, balancing salary and "softer" benefits such as flexible working with longer-term incentive plans. All senior executives are shareholders in the business and all members of staff participate in the Group's LTIP. In 2010 the Group extended its LTIP such that all permanent members of staff became eligible to receive awards under the scheme. As described in the remuneration report, conditional LTIP awards generally vest over three years and are designed to reward increases in the Group's share price and tangible net asset value.

### Group investments are generally into companies at an early-stage of development

Investments made by the Group in spin-out companies are made at an early-stage and are subject to risks associated with early-stage investments in general, including the ability to secure later rounds of funding, the impact of competing technologies entering the market and the risk that the technology will fail. In some cases the ability to succeed will be dependent upon regulatory approval for certain trials to proceed.

The Group mitigates this risk in a number of ways. Executives and senior management collectively have many years of experience in sourcing, developing and investing in early-stage technology companies and then growing these to significant value creation. This is achieved through the Group's investment and business building methodology. The risk is further mitigated through low value initial investments prior to seed funding, which enables identification and removal of potential failures at the earliest possible stage of the investment process. The Group seeks to mitigate the risk of a company being unable to source later rounds of funding by operating a capital markets function which carries out fundraising mandates for portfolio companies and by maintaining close relationships with co-investors that focus on companies at differing stages of development.

## Corporate Governance continued

### Principal risks and uncertainties continued

#### **Failure of, loss of value of, or failure to generate realisations from companies within the Group's portfolio, which may be dominated by one or a limited number of companies**

The Group has a portfolio of equity and debt interests in technology companies and there is a high risk that certain of the Group's current and future investments in portfolio companies may fail, resulting in an impairment of the Group's value and profitability. In addition, failure of companies within the Group's portfolio may make it more difficult for other spin-out companies within the portfolio to raise additional capital. At any time, a large proportion of the overall value of the portfolio of technology companies held by the Group may be accounted for by one, or very few, technology companies which could exacerbate the impact on the Group of one or more such company failures. As equity realisations from the Group's technology businesses are expected to be achieved through liquidity events, including trade sales and IPOs, the total cash received from these sources could vary significantly from year to year.

The Group mitigates this by investing in a number of portfolio companies across different sectors which reduces the potential impact of the failure of any one individual portfolio company. Further, members of the Group's experienced management team and staff frequently serve in an advisory capacity to the Group's portfolio companies (including secondments and non-executive directorships) enabling identification and remedy of business issues at an early-stage. It is management's expectation, however, that there will always be a limited number of companies that dominate the Group's portfolio in this way.

#### **Changes in legislation and government policy**

There may be unforeseen changes in government policy or legislation (including taxation legislation) or other changes to the terms upon which public monies are made available to universities and research institutions. Such changes could result in universities and research institutions no longer being able, or for it to become commercially unattractive for them, to own, exploit or protect intellectual property. In addition, changes in government policy or legislation (including changes to tax legislation, in particular in relation to the SSE) or other terms upon which university academics are incentivised could make it commercially unattractive for research academics to participate in the commercialisation of the intellectual property that they create. Changes of this nature could represent a fundamental risk to the Group's business.

The Group's university partners are incentivised to protect their intellectual property for the Group to exploit through the structure of the partnership agreements which share the returns between the universities, the academic founders and the Group. The Group has further mitigated this risk by having client service team managers working locally at its partner universities to assist them with the management of their intellectual property and with the negotiation of research contracts to ensure that their intellectual property is not unduly compromised. The Group's university partners also maintain close links with the government to manage their position with respect to future legislative changes and the Group utilises professional advisers as appropriate to support its monitoring of, and response to, changes in tax or other legislation.

#### **Termination of university partnerships and change of control provisions**

The benefits to which the Group is entitled under its university partnerships are dependent on the continuation of those partnerships. In a number of instances (principally relating to a failure on the part of the Group to meet certain contractual obligations), the partnerships can be terminated and a number of the partnership agreements contain change of control clauses which may result in their renegotiation or termination if the situation arose.

The Group manages this risk by ensuring that its university partners receive the requisite level of service in line with the Group's contractual obligations and continuing to generate significant value for the universities and their academic founders through the success of spin-out companies created.

#### **Recoverability of the University of Oxford Equity Rights asset**

The Equity Rights asset shown in the Group's consolidated statement of financial position relates to amounts paid to the University of Oxford to secure 50% of the university's equity in any spin-out company or of any licensing income emanating from the university's chemistry department until November 2015. The accounting treatment of the Equity Rights asset is described further in the accounting policies set out below, however, the asset is not repayable in cash by the university and its value is therefore affected by a number of factors. In the event of evidence that the future recoverable amount of the Equity Rights asset is less than the value shown in the consolidated statement of financial position, a provision for impairment would be recognised at that time through the statement of comprehensive income.

The key risks that could result in an impairment of the Equity Rights include: the timing and number of successful IP spin-out opportunities arising from the university; the extent to which the Group's holding is diluted through further financing of spin-out companies; and general market conditions which may impact the disposal values or IPO valuations of such companies.

The Group manages these risks by working closely with the university to jointly source and develop intellectual property spin-out companies and then utilising the knowledge and experience of the Group's management team to create value from these companies and generate exit routes. However, as the contract nears its conclusion in November 2015, the corresponding value of the equity rights asset will be reduced from its current holding at cost through impairment or fair value reduction through the statement of comprehensive income. Based on the directors' current forecasts, it is anticipated that a charge to the statement of comprehensive income will first occur in 2011.

## Relations with shareholders

The Company is committed to having a dialogue with shareholders, based on the mutual understanding of objectives, and it is the responsibility of the Board as a whole to ensure that a satisfactory dialogue does take place. The Board's primary shareholder contact is through the Chairman, Chief Executive Officer and Director of Capital Markets. However the Senior Independent Director and other directors, as appropriate, make themselves available for contact with major shareholders in order to understand their issues and concerns. Where considered appropriate, major institutional shareholders are consulted on significant changes to the structure of the executive directors' remuneration, including on vesting conditions to attach to any vesting awards.

The Company uses the AGM as an opportunity to communicate with its shareholders. Notice of the AGM, which will be held on 3 May 2011 at 2.00pm at IP Group plc, 24 Cornhill, London EC3V 3ND, is enclosed with this report. In line with the Code, the Notice of AGM will be sent to shareholders at least 20 working days before the meeting. Details of the resolutions and explanatory notes thereto are included with the Notice. A proxy form for members of the Company unable to attend will accompany the Notice.

The Group's website, [www.ipgroupplc.com](http://www.ipgroupplc.com), is the primary source of information on the Group. This includes an overview of the activities of the Group, details of its portfolio companies, key university partnership agreements and all recent Group and portfolio announcements.

## Political expenditure

Although it is the Board's policy not to incur political expenditure or otherwise make cash contributions to political parties and it has no intention of changing that policy, the CA 2006 is very broadly drafted in this area and the Board is concerned that it may include activities such as funding conferences or supporting certain bodies involved in policy review and law reform. Accordingly, at the AGM held on 27 April 2010, the shareholders passed a resolution on a precautionary basis to authorise the Group to incur political expenditure (as defined in Section 365 of CA 2006) not exceeding £50,000 in total at any time from 27 April 2010 up to the conclusion of the next AGM. The Board intends to seek renewed authority for the Group to incur political expenditure of not more than £50,000 in total at the Company's AGM, to be held on 3 May 2011, which they might otherwise be prohibited from making or incurring under the terms of CA 2006.

## Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group'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 International Financial Reporting Standards ("IFRS"). 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;
- ▶ provide additional disclosures when compliance with the specific requirements in IFRS 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; and
- ▶ prepare the accounts on a going concern basis unless, having assessed the ability of the Group to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

## Parent company financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- ▶ select suitable accounting policies and then apply them consistently;
- ▶ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;
- ▶ make judgements and estimates that are reasonable and prudent; and
- ▶ state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

## Corporate Governance continued

### Going concern

The directors confirm that they have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future, and accordingly they continue to adopt the going concern basis in preparing the financial statements.

### Directors' responsibilities statement

The directors are responsible for preparing the annual 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 are required to prepare the Group financial statements and have elected to prepare the Company financial statements in accordance with IFRS 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 Group and Company and of the profit or loss for the Group 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 IFRS 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; and
- ▶ prepare a Director's report and Director's Remuneration Report which comply with the requirements of the Companies Act 2006.

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 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

### Directors' responsibilities pursuant to DTR4

The directors confirm to the best of their knowledge:

- ▶ the group financial statements have been prepared in accordance with IFRS as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group; and
- ▶ the annual report includes a fair review of the development and performance of the business and the financial position of the Group and the parent company, together with a description of the principal risks and uncertainties that they face.

ON BEHALF OF THE BOARD

**Bruce Smith**

**Chairman**

28 February 2011

**Alan Aubrey**

**Chief Executive Officer**

## Independent auditor's report

### To the members of IP Group plc

We have audited the financial statements of IP Group for the year ended 31 December 2010 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position and parent company balance sheet, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 auditor

As explained more fully in the directors' responsibility statement, 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](http://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 Group's and the parent company's affairs as at 31 December 2010 and of the Group's profit for the year then ended;
- ▶ the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- ▶ the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- ▶ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- ▶ the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- ▶ the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- ▶ the information given in the Corporate Governance statement set out on pages 33 to 40 of the annual report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures 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:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- ▶ adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us;
- ▶ the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns;
- ▶ certain disclosures of directors' remuneration specified by law are not made;
- ▶ we have not received all the information and explanations we require for our audit, or
- ▶ a Corporate Governance statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- ▶ the directors' statement, on page 40, in relation to going concern;
- ▶ the part of the Corporate Governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code, UK Corporate Governance Code specified for our review; and
- ▶ certain elements of the report to shareholders by the Board on directors' remuneration.

### Neil Fung-On (senior statutory auditor)

#### For and on behalf of BDO LLP, statutory auditor

London  
United Kingdom  
28 February 2011

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

## Consolidated statement of comprehensive income

### For the year ended 31 December 2010

	Note	2010 £m	2009 £m
<b>Portfolio return and revenue</b>			
Change in fair value of equity and debt investments	16	4.0	(1.4)
Profit/(loss) on disposal of equity investments		0.6	(0.8)
Change in fair value of limited partnership investments		0.2	(0.1)
Other portfolio income		–	–
Revenue from services	4	2.2	1.5
		<b>7.0</b>	(0.8)
<b>Administrative expenses</b>			
Employee bonus costs	19	–	(0.3)
Research and development costs		(0.4)	(0.5)
Share-based payment charge	22	(0.3)	(0.6)
Other administrative expenses		(4.7)	(4.9)
		<b>(5.4)</b>	(6.3)
<b>Operating profit/(loss)</b>	7	<b>1.6</b>	(7.1)
Finance income - interest receivable		0.2	0.6
<b>Profit/(loss) before taxation</b>		<b>1.8</b>	(6.5)
Taxation	9	–	0.4
<b>Profit/(loss) and total comprehensive income for the year attributable to owners of the parent</b>		<b>1.8</b>	(6.1)
<b>Basic earnings per ordinary share (p)</b>	10	<b>0.69</b>	(2.45)
<b>Diluted earnings per ordinary share (p)</b>	10	<b>0.69</b>	(2.45)

## Consolidated statement of financial position

As at 31 December 2010

	Note	2010 £m	2009 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets:			
- goodwill	11	18.4	18.4
- acquired intangible assets	12	-	-
Property, plant and equipment	13	0.3	0.4
Equity rights and related contract costs	15	20.1	20.1
Investment portfolio:			
- equity investments	16	106.3	99.0
- debt investments	16	3.7	2.3
Other financial asset	18	0.8	1.1
Investment in limited partnerships	23	1.9	1.5
<b>Total non-current assets</b>		<b>151.5</b>	142.8
<b>Current assets</b>			
Trade and other receivables	17	0.8	0.8
Deposits		7.5	15.0
Cash and cash equivalents		14.0	13.1
<b>Total current assets</b>		<b>22.3</b>	28.9
<b>Total assets</b>		<b>173.8</b>	171.7
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	20	5.1	5.1
Share premium account		99.3	99.3
Merger reserve		12.8	12.8
Retained earnings		55.9	53.8
<b>Total equity attributable to owners of the parent</b>		<b>173.1</b>	171.0
<b>Current liabilities</b>			
Trade and other payables	19	0.7	0.7
<b>Total equity and liabilities</b>		<b>173.8</b>	171.7

Registered number: 4204490

The financial statements on pages 42 to 68 were approved by the Board of Directors and authorised for issue on 28 February 2011 and were signed on its behalf by:

**Bruce Smith**  
Chairman

**Alan Aubrey**  
Chief Executive Officer

## Consolidated statement of cash flows

### For the year ended 31 December 2010

	2010 £m	2009 £m
<b>Operating activities</b>		
Profit/(loss) before taxation	1.8	(6.5)
<b>Adjusted for:</b>		
Finance income - interest receivable	(0.2)	(0.6)
Fair value movements in equity and debt investments	(4.0)	1.4
Fair value movements in limited partnership investments	(0.2)	0.1
Depreciation of property, plant and equipment	0.1	0.1
Amortisation of intangible non-current assets	-	0.2
(Loss)/gain on disposal of equity investments	(0.6)	0.8
Non-cash employee bonus costs	-	0.3
Share-based payment charge	0.3	0.6
Other portfolio income classified as investing activities cash flows	-	-
<b>Changes in working capital</b>		
Decrease in trade and other receivables	-	(0.2)
Decrease/(increase) in trade and other payables	0.1	(0.2)
<b>Other operating cash flows</b>		
Research and development tax credits received	-	0.3
Interest received	0.2	1.0
<b>Net cash outflow from operating activities</b>	<b>(2.5)</b>	<b>(2.7)</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	-	-
Purchase of equity and debt investments	(6.9)	(2.8)
Investment in Limited Partnership Funds	(0.2)	(0.2)
Proceeds from sale of equity investments	2.7	0.5
Repayments of borrowings	0.3	-
<b>Net cash outflow from investing activities</b>	<b>(4.1)</b>	<b>(2.5)</b>
<b>Financing activities</b>		
Net cash flow from/(to) deposits	7.5	(15.0)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>7.5</b>	<b>(15.0)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>0.9</b>	<b>(20.2)</b>
Cash and cash equivalents at the beginning of the year	13.1	33.3
<b>Cash and cash equivalents at the end of the year</b>	<b>14.0</b>	<b>13.1</b>

## Consolidated statement of changes in equity

### For the year ended 31 December 2010

	Attributable to owners of the parent				Total equity £m
	Share capital £m	Share premium <sup>(i)</sup> £m	Merger reserve <sup>(ii)</sup> £m	Retained earnings <sup>(iii)</sup> £m	
At 1 January 2009	5.0	96.7	12.8	59.3	173.8
Loss and total comprehensive income for the year	–	–	–	(6.1)	(6.1)
Issue of equity	0.1	2.6	–	–	2.7
Share-based payment charge	–	–	–	0.6	0.6
At 1 January 2010	5.1	99.3	12.8	53.8	171.0
Profit and total comprehensive income for the year	–	–	–	1.8	1.8
Share-based payment charge	–	–	–	0.3	0.3
<b>At 31 December 2010</b>	<b>5.1</b>	<b>99.3</b>	<b>12.8</b>	<b>55.9</b>	<b>173.1</b>

**(i) Share premium**

Amount subscribed for share capital in excess of nominal value, net of directly attributable issue costs.

**(ii) Merger reserve**

Amount subscribed for share capital in excess of nominal value in relation to the qualifying acquisition of subsidiary undertakings.

**(iii) Retained earnings**

Cumulative net gains and losses recognised in the consolidated statement of comprehensive income net of associated share-based payments credits.

## Notes to the consolidated financial statements

### 1. Accounting policies

#### Basis of preparation

The annual report and accounts of IP Group plc ("the Group") are for the year ended 31 December 2010. The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the European Union ("adopted IFRS").

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in the most appropriate application in applying the Group's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 3.

#### Changes in accounting policies

##### (i) New standards, interpretations and amendments effective from 1 January 2010

The following new standards, interpretations and amendments, applied for the first time from 1 January 2010, have had an effect on the financial statements:

- ▶ **Revised IFRS 3 Business Combinations:** Revised IFRS 3 retains the requirement to apply acquisition accounting in all cases and to identify and recognise intangible assets separately from goodwill. However, for all future acquisitions, all acquisition costs shall be written off to profit or loss instead of being included in the cost of investment, an intangible asset shall be recognised even if it cannot be reliably measured and it will be possible to gross up the statement of financial position for goodwill attributable to 'non-controlling interests' (previously "minority interests"). The revised standard will not require the restatement of the Group's previous business combinations.
- ▶ **Amendments to IAS 27 Consolidated and Separate Financial Statements:** This amendment affects in particular the acquisition of subsidiaries achieved in stages and disposals of interests, with significant differences in the accounting depending on whether or not control is obtained as a result of the transaction, or where a transaction results only in a change in the percentage of a controlling interest. The amendment will not require the restatement of previous transactions.

None of the other new standards, interpretations and amendments effective for the first time from 1 January 2010 have had a material effect on the Group's financial statements.

##### (ii) New standards, interpretations and amendments not yet effective

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

#### Basis of consolidation

##### (i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights are considered when assessing whether the Group controls an entity. Subsidiaries are fully consolidated from the date on which control is established by the Group until the date control ceases.

The purchase method of accounting is used to account for the acquisition of the Group's subsidiaries. The cost of acquisition is measured at fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the transaction. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Subsidiaries' accounting policies are amended where necessary to ensure consistency with the policies adopted by the Group.

##### (ii) Associates

Associates are entities over which the Group has significant influence, but does not control, generally accompanied by a shareholding of between 20% to 50% of the voting rights.

Investments in associates are held at fair value in the statement of financial position. This treatment is permitted by IAS 28 Investment in Associates, which requires investments held by entities which are akin to venture capital organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Changes in fair value of associates are recognised in profit or loss in the period of the change. The Group has no interests in associates through which it carries on its business.

## 1. Accounting policies *continued*

### Basis of consolidation *continued*

#### (iii) Limited partnerships

Group entities act as general partner to the following limited partnerships:

Name	Interest in limited partnership %
IP Venture Fund	10.0
Top Technology Ventures IV LP	1.0
North East Technology Fund LP	–

IP Venture Fund has a narrow and well-defined scope of operation and, as its limited partners are predominantly parties external to the Group, the Group does not have access to substantially all the risks and rewards arising from its operation. Having due regard for the Group's minor interests in Top Technology Ventures IV LP, the Group does not have the power to govern the operations of the limited partnerships so as to obtain benefits from their activities. Accordingly, none of the limited partnerships meets the definition of a subsidiary under IAS 27 Consolidated and Separate Financial Statements. The Group does have the power to exercise significant influence over the limited partnerships and accordingly the Group's accounting treatment for these interests is consistent with that of associates as described above, i.e. in accordance with IAS 39 Financial Instruments: Recognition and Measurement and designated as at fair value through profit or loss on initial recognition.

#### Portfolio return and revenue

Change in fair value of equity and debt investments represents revaluation gains and losses on the Group's portfolio of investments. Gains on disposal of equity investments represent the difference between the fair value of consideration received and the carrying value at the start of the accounting period on the disposal of equity investments. Change in fair value of limited partnership investments represents revaluation gains and losses on the Group's investments in limited partnership funds. Dividends receivable from equity shares are included within other portfolio income and recognised on the ex-dividend date or, where no ex-dividend date is quoted, are recognised when the Group's right to receive payment is established.

**Revenue from services:** All revenue from services is generated within the United Kingdom and is stated exclusive of value added tax. Revenue from services comprises:

**Advisory fees:** Fees earned from the provision of business support services are recognised as the related services are provided. Corporate finance advisory fees are generally earned as a fixed percentage of total funds raised and recognised at the time the related transaction is successfully concluded.

**Fund management services:** Fiduciary fund management fees are generally earned as a fixed percentage of total funds under management and are recognised as the related services are provided.

#### 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:

Fixtures and fittings – Over three to five years  
Computer equipment – Over three to five years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

#### Intangible assets

##### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets and allocated from the acquisition date to each of the Group's cash-generating units ("CGUs") that are expected to benefit from the business combination. Goodwill may be allocated to CGUs in both the acquired business and in the existing business.

##### (ii) Acquired intangible assets – business combinations

Intangible assets that are acquired as a result of a business combination and that can be separately measured at fair value on a reliable basis are separately recognised on acquisition at their fair value. Amortisation is charged on a straight-line basis to the statement of comprehensive income over their expected useful economic lives, and is included within "Other administrative expenses".

#### Impairment of intangible assets (including goodwill)

Goodwill is not subject to amortisation but is tested for impairment annually and whenever events or circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment when events or a change in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use. For the purposes of assessing impairments, assets are grouped at the lowest levels for which there are identifiable cash flows (i.e. CGUs).

## Notes to the consolidated financial statements continued

### 1. Accounting policies continued

#### Financial assets

In respect of regular way purchases or sales, the Group 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 Group has transferred substantially all risks and rewards of ownership.

The Group classifies its financial assets into one of the categories listed below, depending on the purpose for which the asset was acquired. None of the Group's financial assets are categorised as held to maturity or available for sale.

#### (i) At fair value through profit or loss

Financial assets at fair value through profit or loss are either financial assets held for trading or financial assets which are designated at fair value through profit or loss on initial recognition.

This category includes equity investments, debt investments, equity rights and investments in limited partnerships. Investments in associated undertakings which are held by the Group with a view to the ultimate realisation of capital gains are also categorised as at fair value through profit or loss. This measurement basis is consistent with the fact that the Group's performance in respect of investments in equity investments, limited partnerships and associated undertakings is evaluated on a fair value basis in accordance with an established investment strategy.

Financial assets at fair value through profit or loss are initially recognised at fair value and any gains or losses arising from subsequent changes in fair value are presented in profit or loss in the statement of comprehensive income in the period which they arise.

The fair values of quoted investments are based on bid prices in an active market at the reporting date.

The fair value of unlisted securities is established using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and earnings multiples. Wherever possible the Group uses valuation techniques which make maximum use of market-based inputs. Accordingly, the valuation methodology used most commonly by the Group is the "price of recent investment" contained in the International Private Equity and Venture Capital Valuation Guidelines (the "IPEVCV Guidelines") endorsed by the British and European Venture Capital Associations. The following considerations are used when calculating the fair value of unlisted securities:

#### Cost

Where the investment being valued was itself made recently, its cost may provide a good indication of fair value unless there is objective evidence that the investment has since been impaired, such as observable data suggesting a deterioration of the financial, technical, or commercial performance of the underlying business.

#### Price of recent investment

The Group considers that fair value estimates that are based entirely on observable market data will be of greater reliability than those based on assumptions and accordingly where there has been any recent investment by third parties, the price of that investment will generally provide a basis of the valuation. The length of period for which it remains appropriate to use the price of recent investment depends on the specific circumstances of the investment and the stability of the external environment. During this period the Group considers whether any changes or events subsequent to the transaction would imply a change in the fair value of the investment may be required.

Given the nature of the Group's investments in seed, start-up and early-stage companies where there are often no current and no short-term future earnings or positive cash flows it can be difficult to gauge the probability and financial impact of the success or failure of development or research activities and to make reliable cash flow forecasts. Consequently, the most appropriate approach to determine fair value is a methodology that is based on market data, that being the price of a recent investment. Where the Group considers that the price of recent investment, unadjusted, is no longer relevant and there are limited or no comparable companies or transactions from which to infer value, the Group carries out an enhanced assessment based on milestone analysis and/or industry and sector analysis. In applying the milestone analysis approach to investments in companies in early or development stages the Group seeks to determine whether there is an indication of change in fair value based on a consideration of performance against any milestones that were set at the time of the original investment decision, as well as taking into consideration the key market drivers of the investee company and the overall economic environment.

Where the Group considers that there is an indication that the fair value has changed, an estimation is made of the required amount of any adjustment from the last price of recent investment. Wherever possible, this adjustment is based on objective data from the investee company and the experience and judgement of the Group however any adjustment is, by its very nature, subjective. Where a deterioration in value has occurred, the Group reduces the carrying value of the investment to reflect the estimated decrease. If there is evidence of value creation the Group may consider increasing the carrying value of the investment however in the absence of additional financing rounds or profit generation it can be difficult to determine the value that a purchaser may place on positive developments given the potential outcome and the costs and risks to achieving that outcome and accordingly caution is applied.

Factors which the Group considers include inter alia technical measures such as product development phases and patent approvals, financial measures such as cash burn rate and profitability expectations, and market and sales measures such as testing phases, product launches and market introduction.

## 1. Accounting policies *continued*

### Financial assets *continued*

#### (i) At fair value through profit or loss *continued*

##### Other valuation techniques

If there is no readily ascertainable value from following the "price of recent investment" methodology, or there is objective evidence that a deterioration in fair value has occurred since a relevant transaction, the Group considers alternative methodologies in the IPEVCV Guidelines, such as Discounted Cash Flows ("DCF") or price-earnings multiples. DCF involves estimating the fair value of a business by calculating the present value of expected future cash flows, based on the most recent forecasts in respect of the underlying business. Given the difficulty of producing reliable cash flow forecasts for seed, start-up and early-stage companies as described above, this methodology is generally used as a confirmatory indicator of the level of any adjustment that may need to be made to the last price of recent investment.

When using the earnings multiple methodology, earnings before interest and tax ("EBIT") are generally used, adjusted to a maintainable level. A suitable earnings multiple is derived from an equivalent business or group of businesses, for which the average price-earnings multiple for the relevant sector index can generally be considered a suitable proxy. This multiple is applied to earnings to derive an enterprise value which is then discounted by up to 60% for non-marketability and other risks inherent to businesses in early-stages of operation.

##### No reliable estimate

Where a fair value cannot be estimated reliably the investment is reported at the carrying value at the previous reporting date unless there is objective evidence that the investment has since been impaired.

#### (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 provision of services to customers (trade receivables) and are carried at cost less provision for impairment.

##### 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.

##### Equity rights

Equity rights represent consideration paid to the University of Oxford between December 2000 and June 2001.

The payment gives the Group the right to receive 50% of the University's equity in any spin-out company or of any licensing income emanating from the university's chemistry department. The contract expires on 23 November 2015.

The equity rights agreement is considered to be a derivative contract and is classified as a held for trading financial instrument with changes in fair value recognised within profit or loss in the statement of comprehensive income.

As described in note 15, the directors have not been able to determine a reliable fair value for this financial instrument. Until such time as the directors are able to compute a reliable fair value, the equity rights are carried at cost less provision for impairment. The directors review equity rights for impairment annually and if there is objective evidence of impairment, then a provision would be charged to profit or loss in the statement of comprehensive income.

##### Debt investments

Debt investments are generally unquoted debt instruments which are convertible to equity at a future point in time. Such instruments are considered to be hybrid instruments containing a fixed rate debt host contract with an embedded equity derivative. The Group designates the entire hybrid contract at fair value through profit or loss on initial recognition and, accordingly, the embedded derivative is not separated from the host contract and accounted for separately. The fair value of debt investments is established by calculating the present value of expected future cash flows associated with the instrument.

##### Deposits

Deposits comprise longer-term deposits held with financial institutions with an original maturity of greater than three months.

##### Cash and cash equivalents

Cash and cash equivalents include cash in hand and short-term deposits held with financial institutions with an original maturity of three months or less.

## Notes to the consolidated financial statements continued

### 1. Accounting policies continued

#### Financial liabilities

Financial liabilities comprised trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

Unless otherwise indicated, the carrying amounts of the Group's financial liabilities are a reasonable approximation to their fair value.

#### Share capital

Financial instruments issued by the Group are treated as equity if the holders have only a residual interest in the Group's assets after deducting all liabilities. The objective of the Group is to manage capital so as to provide shareholders with above average returns through capital growth over the medium to long term. The Group considers its capital to comprise its share capital, share premium, merger reserve and retained earnings.

Top Technology Ventures Limited, a Group subsidiary, is subject to external capital requirements imposed by the Financial Services Authority ("FSA") and as such must ensure that it has sufficient capital to satisfy these requirements. The Group ensures it remains compliant with these requirements as described in the financial statements of Top Technology Ventures Limited.

#### Contract costs

Contract costs comprise related costs to secure university partnership arrangements and these costs are amortised over the life of the respective partnership.

#### Operating segments

An operating segment is a group of assets and operations which are identified on the basis of internal reports that are regularly reviewed by the Board, which analyse components of the Group in order to allocate resources to the segment and to assess its performance.

#### Employee benefits

##### (i) Pension obligations

The Group operates a stakeholder pension scheme for which all employees are eligible. The assets of the scheme are held separately from those of the Group in an independently administered fund. At present the Group does not make contributions to this scheme, but does make contributions to employee personal pension schemes on an individual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

##### (ii) Share-based payments

The fair value of Long Term Incentive Plan ("LTIP") awards are estimated at the date of grant, taking into account the terms and conditions of the award, including market based performance conditions.

No expense is recognised for grants that do not vest and charges previously made are reversed except where vesting is conditional upon a market condition which are treated as vesting irrespective of whether or not the market condition is satisfied, provided all other performance conditions are satisfied.

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous reporting date is recognised in the statement of comprehensive income, with a corresponding entry in equity.

Where the terms for an equity settled award are modified, and the modification increases the total fair value of the share-based payment, or is otherwise beneficial to the employee at the date of modification, the incremental fair value is amortised over the vesting period.

##### (iii) Bonus plan

Until mid-2010, the Group operated a bonus incentive scheme linked to the equity received in spin-out companies as a result of investments made by the Group ("the equity bonus scheme"). The Group accrues for employee bonuses when it becomes likely that an award or awards will be made under the scheme at a cost to the Group of up to 17.5% of the fair value of investments made by the Group. Bonus awards due under the scheme are settled using shares held in companies in the Group's equity portfolio. Some of these shares have been subscribed for in cash by the Group and others have been received for no cash consideration by virtue of the Group's university partnerships.

#### 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 substantively enacted by the reporting 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.

#### 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 administrative expenses in the statement of comprehensive income on a straight-line basis over the term of the lease.

## 2. Financial risk management

As set out in the Principal risks and uncertainties section on pages 36 to 38, the Group is exposed, through its normal operations, to a number of financial risks, the most significant of which are market, liquidity and credit risks.

In general, risk management is carried out throughout the Group under policies approved by the Board of Directors. The following further describes the Group's 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 Group is exposed to equity securities price risk as a result of the equity investments and investments in limited partnerships held by the Group and categorised as at fair value through profit or loss.

The Group mitigates this risk by having established investment appraisal processes and asset monitoring procedures which are subject to overall review by the Board. The Group has also established capital markets and communications teams dedicated to supporting portfolio companies with fundraising activities and investor relations.

The Group holds investments which are publicly traded on AIM or the PLUS market and investments which are not traded on an active market.

The net increase in fair value of the Group's equity investments during 2010 of £4.6m represents a 5% change against the opening balance (2009: net decrease of £1.4m, 1%) and a similar increase or decrease in the prices of quoted and unquoted investments is considered to be reasonably possible. The table below summarises the impact of a 1% increase/decrease in the price of both quoted and unquoted investments on the Group's post-tax profit for the year and on equity.

	2010			2009		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equity investments and investments in limited partnerships	<b>0.5</b>	<b>0.6</b>	<b>1.1</b>	0.4	0.6	1.0

#### (ii) Interest rate risk

As the Group has no significant borrowings it has only a limited interest rate risk. The primary impact to the Group is the impact on income and operating cash flow as a result of the interest-bearing deposits and cash and cash equivalents held by the Group.

The Group mitigates this risk, in co-ordination with liquidity risk, by managing its proportion of fixed to floating rate financial assets. The table below summarises the interest rate profile of the Group.

	2010				2009			
	Fixed rate £m	Floating rate £m	Interest free £m	Total £m	Fixed rate £m	Floating rate £m	Interest free £m	Total £m
<b>Financial assets</b>								
Equity rights	–	–	<b>19.9</b>	<b>19.9</b>	–	–	19.9	19.9
Equity investments	–	–	<b>106.3</b>	<b>106.3</b>	–	–	99.0	99.0
Debt investments	<b>1.4</b>	–	<b>2.3</b>	<b>3.7</b>	1.5	–	0.8	2.3
Deposits	<b>7.5</b>	–	–	<b>7.5</b>	15.0	–	–	15.0
Cash and cash equivalents	–	<b>14.0</b>	–	<b>14.0</b>	–	13.1	–	13.1
Other financial assets	–	–	<b>0.8</b>	<b>0.8</b>	–	–	1.1	1.1
Trade receivables	–	–	<b>0.2</b>	<b>0.2</b>	–	–	0.2	0.2
Other receivables	–	–	<b>0.6</b>	<b>0.6</b>	–	–	0.6	0.6
	<b>8.9</b>	<b>14.0</b>	<b>130.1</b>	<b>153.0</b>	16.5	13.1	121.6	151.2
<b>Financial liabilities</b>								
Trade payables	–	–	<b>0.1</b>	<b>0.1</b>	–	–	0.2	0.2
Accrued staff bonus	–	–	–	–	–	–	0.1	0.1
Other accruals and deferred income	–	–	<b>0.6</b>	<b>0.6</b>	–	–	0.4	0.4
	–	–	<b>0.7</b>	<b>0.7</b>	–	–	0.7	0.7

At 31 December 2010, if interest rates had been 1% higher/lower, post-tax profit for the year and other components of equity would have been £0.1m (2009: £0.2m) higher/lower as a result of higher interest received on floating rate cash deposits.

## Notes to the consolidated financial statements continued

**2. Financial risk management** continued**(b) Liquidity risk**

The Group 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 Group only invests working capital in short-term instruments issued by reputable counterparties. The Group continually monitors rolling cash flow forecasts to ensure sufficient cash is available for anticipated cash requirements.

**(c) Credit risk**

The Group's credit risk is primarily attributable to its deposits, cash and cash equivalents, debt investments and trade receivables. The Group seeks to mitigate its credit risk on cash and cash equivalents by investing in treasury funds with an "AA" credit rating or above managed by institutions or by making short-term deposits with counterparties. Short-term deposit counterparties are required to have most recently reported total assets in excess of £3 billion and, where applicable, a prime short-term credit rating at the time of investment (ratings are generally determined by Moody's or Standard & Poor's). Moody's prime credit ratings of "P1", "P2" and "P3" indicate respectively that the rating agency considers the counterparty to have a "superior", "strong" or "acceptable" ability to repay short-term debt obligations (generally defined as having an original maturity not exceeding 13 months). An analysis of the Group's deposits and cash and cash equivalents balance analysed by credit rating as at the reporting date is shown in the table below. All other financial assets are unrated.

Credit rating	2010 £m	2009 £m
P1	18.9	16.1
P2	–	2.5
AA	2.6	9.5
Total deposits and cash and cash equivalents	21.5	28.1

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Group has detailed policies and strategies which seek to minimise these associated risks.

The Group's exposure to credit risk on debt investments is managed in a similar way to equity price risk, as described above, through the Group's investment appraisal processes and asset monitoring procedures which are subject to overall review by the Board.

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

**3. 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 discussed below.

**(i) Impairment of goodwill**

The Group is required to test, at least annually, whether goodwill has suffered any impairment. The recoverable amount is determined using value-in-use calculations. The use of this method requires the estimation of future cash flows and the selection of a suitable discount rate in order to calculate the present value of these cash flows.

**(ii) Equity rights**

The equity rights agreement is considered to be a derivative contract and is classified as a held for trading financial instrument with changes in fair value recognised in the statement of comprehensive income. The directors consider that for each of the key variables which would be relevant in determining a fair value for this financial instrument, there is a range of reasonably possible alternative values which result in a wide range of fair value estimates. None of these estimates is considered more appropriate or relevant than any other and accordingly the directors have not been able to determine a reliable fair value for this financial instrument.

**(iii) 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. These judgements include making assessments of the future earnings potential of portfolio companies, appropriate earnings multiples to apply and marketability and other risk discounts.

Discussion of sensitivity analyses is included in the relevant note for each of the above estimates and judgements.

#### 4. Revenue from services

All revenue from services is derived from the provision of advisory and venture capital fund management services.

#### 5. Operating segments

For both the year ended 31 December 2010 and the year ended 31 December 2009 the Group's revenue and profit before taxation was derived entirely from its principal activity within the UK and accordingly no additional geographical disclosures are given. For management reporting purposes, the Group is currently organised into three operating segments: (i) the commercialisation of intellectual property via the formation of long-term partnerships with universities; (ii) management of venture funds focusing on early-stage UK technology companies; and (iii) the in-licensing of drugable intellectual property from research intensive institutions. These activities are described in further detail in the Chief Executive Officer's statement on pages 6 to 21.

Year ended 31 December 2010	University partnership business £m	Venture capital fund management £m	In-licensing activity £m	Consolidated £m
<b>STATEMENT OF COMPREHENSIVE INCOME</b>				
<b>Portfolio return and revenue</b>				
Change in fair value of equity and debt investments	4.0	-	-	4.0
Profit on disposal of equity investments	0.6	-	-	0.6
Change in fair value of limited partnership investments	0.2	-	-	0.2
Revenue from advisory services	0.4	0.1	-	0.5
Revenue from fund management services	-	1.7	-	1.7
Administrative expenses	(4.3)	(0.6)	(0.5)	(5.4)
<b>Operating profit</b>	<b>0.9</b>	<b>1.2</b>	<b>(0.5)</b>	<b>1.6</b>
Finance income - interest receivable	0.2	-	-	0.2
Loss before taxation	1.1	1.2	(0.5)	1.8
Taxation	-	-	-	-
Loss and total comprehensive income for the year	1.1	1.2	(0.5)	1.8
<b>STATEMENT OF FINANCIAL POSITION</b>				
Assets	168.2	5.5	0.1	173.8
Liabilities	(0.5)	(0.1)	(0.1)	(0.7)
Net assets	167.7	5.4	-	173.1
<b>Other segment items</b>				
Capital expenditure	-	-	-	-
Depreciation	0.1	-	-	0.1
Amortisation of intangible assets	-	-	-	-

## Notes to the consolidated financial statements continued

## 5. Operating segments continued

Year ended 31 December 2009	University partnership business £m	Venture capital fund management £m	In-licensing activity £m	Consolidated £m
<b>STATEMENT OF COMPREHENSIVE INCOME</b>				
<b>Portfolio return and revenue</b>				
Loss on disposal of equity investments	(0.8)	–	–	(0.8)
Change in fair value of limited partnership investments	(0.1)	–	–	(0.1)
Revenue from advisory services	0.4	0.1	–	0.5
Revenue from fund management services	–	1.0	–	1.0
Administrative expenses	(4.9)	(0.7)	(0.7)	(6.3)
Change in fair value of equity and debt investments	(1.4)	–	–	(1.4)
<b>Operating profit</b>	<b>(6.8)</b>	<b>0.4</b>	<b>(0.7)</b>	<b>(7.1)</b>
Finance income - interest receivable	0.6	–	–	0.6
Loss before taxation	(6.2)	0.4	(0.7)	(6.5)
Taxation	–	–	0.4	0.4
Loss and total comprehensive income for the year	(6.2)	0.4	(0.3)	(6.1)
<b>STATEMENT OF FINANCIAL POSITION</b>				
Assets	166.7	4.8	0.2	171.7
Liabilities	(0.5)	(0.1)	(0.1)	(0.7)
Net assets	166.2	4.7	0.1	171.0
<b>Other segment items</b>				
Capital expenditure	–	–	–	–
Depreciation	0.1	–	–	0.1
Amortisation of intangible assets	–	0.2	–	0.2

## 6. Auditor's remuneration

Details of the auditor's remuneration are set out below:

	2010 £000	2009 £000
<b>Audit services</b>		
- Fees payable to Company auditor for the audit of parent and consolidated accounts	<b>63</b>	60
<b>Non-audit services</b>		
Fees payable to Company auditor and its associates for other services:		
- Auditing of accounts of subsidiaries pursuant to legislation	<b>44</b>	39
- Other services supplied under legislation	<b>17</b>	13
- Other taxation services		
- Corporation tax compliance	<b>39</b>	36
- Corporation tax advisory	<b>1</b>	4
- Other tax advisory	<b>55</b>	49
- Recruitment and remuneration services	–	–
- All other services	–	11
	<b>219</b>	212

## 7. Profit/(loss) from operations

Profit/(loss) from operations has been arrived at after charging:

	2010 £m	2009 £m
Amortisation of intangible assets	–	0.2
Depreciation of tangible assets	0.1	0.1
Employee costs (see note 8)	3.1	3.9
Operating leases - property	0.4	0.4
Profit/(loss) on disposal of equity investments	0.6	(0.8)

## 8. Employee costs

Employee costs (including directors) comprise:

	2010 £m	2009 £m
Salaries	2.4	2.6
Defined contribution pension cost	0.1	0.1
Share-based payment charge (see note 22)	0.3	0.6
Equity bonuses accrued in the year	–	0.3
Social security	0.3	0.3
	3.1	3.9

The average monthly number of persons (including executive directors) employed by the Group during the year was 33, all of whom were involved in management and administration activities (2009: 35). The Company had no employees in the year ended 31 December 2010 (2009: nil). Details of directors' remuneration can be found in the Directors' Remuneration Report on pages 28 to 32.

## 9. Taxation

	2010 £m	2009 £m
Current tax	–	(0.4)
Deferred tax	–	–

The amount for the year can be reconciled to the profit per the statement of comprehensive income as follows:

	2010 £m	2009 £m
Profit/(loss) before tax	1.8	(6.5)
Tax at the UK corporation tax rate of 28% (2009: 28%)	0.5	(1.8)
Non-taxable income	(1.2)	0.5
Non-deductible net fair value losses	–	0.4
Research and development tax credits	–	(0.4)
Tax losses arising not recognised	0.8	0.8
Other adjustments	(0.1)	0.1
Tax credit	–	(0.4)

## Notes to the consolidated financial statements continued

**9. Taxation** continued

At 31 December 2010, deductible temporary differences and unused tax losses for which no deferred tax asset has been recognised totalled £27.5m (2009: £19.4m). An analysis is shown below:

	2010		2009	
	Amount £m	Deferred tax £m	Amount £m	Deferred tax £m
Unused tax losses	<b>27.5</b>	<b>7.4</b>	19.4	5.4
Total	<b>27.5</b>	<b>7.4</b>	19.4	5.4

This asset has not been recognised in the financial statements due to current uncertainties surrounding the reversal of the underlying temporary differences. This deferred tax asset would be recovered if there were future taxable profits from which the reversal of the underlying temporary difference could be deducted.

The directors believe that the Group qualifies for SSE and therefore no deferred tax is provided for in respect of the net uplift in valuation of the Group's equity investments.

**10. Earnings per share****Earnings**

	2010 £m	2009 £m
Earnings for the purposes of basic and dilutive earnings per share	<b>1.8</b>	(6.1)

**Number of shares**

	2010 Number of shares	2009 Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>255,763,664</b>	250,711,712
Effect of dilutive potential ordinary shares:		
- Share options	-	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>255,763,664</b>	250,711,712

The Group has only one class of potentially dilutive ordinary shares. These are contingently issuable shares arising under the Group LTIP. Based upon information available at the end of the reporting period, none of the performance criteria for vesting of awards under the LTIP have been satisfied. Consequently, there are no potentially dilutive shares outstanding at the period end and therefore the diluted earnings per share is equal to the basic earnings per share.

**11. Goodwill**

	£m
At 1 January 2009	18.4
At 1 January 2010	18.4
<b>At 31 December 2010</b>	<b>18.4</b>

The recoverable amount of the above goodwill has been determined from value-in-use calculations on cash flow projections from formally approved budgets in respect of the relevant CGU, covering the remaining life of the related funds under management or university partnerships.

The goodwill allocated to each CGU is summarised in the following table:

	2010 £m	2009 £m
University partnership CGU	<b>16.3</b>	16.3
Fund management CGU	<b>2.1</b>	2.1
	<b>18.4</b>	18.4

## 11. Goodwill *continued*

### Impairment review of venture capital fund management CGU

The following key assumptions have been used to determine value in use:

	2010	2009
Discount rate	8-10%	8-10%
Number of funds under management	3	3
Management fee	1-3.5%	2-3.5%
Cost inflation	4%	4%

The assumptions above reflect past experience. All reasonably possible changes to key assumptions do not result in the recoverable amount being less than the carrying value of goodwill.

### Impairment review of the university partnership CGU

The directors consider that for each of the key variables which would be relevant in determining a value in use for the university partnership CGU, there is a range of reasonably possible alternative values. The key variable ranges are set out below.

	2010	2009
Number of spin-out companies per year	2-10	2-10
Initial equity stake acquired by the Group under the university partnership	12-30%	12-30%
Proportion of spin-out companies failing	20-40%	20-40%
Dilution rates prior to exit as a result of financing for spin-out companies	35-60%	35-60%
Proportion of IPO exits	30-50%	30-50%
IPO exit valuations	£20-40m	£20-40m
Proportion of disposal exits	30-50%	30-50%
Disposal valuations	£10-30m	£10-30m
Discount rate	8-12%	8-12%

These key variable ranges result in a wide range of value-in-use estimates for the university partnership CGU. None of these estimates of value in use is considered more appropriate or relevant than any other, however, none indicate that an impairment of the goodwill allocated to the CGU is required.

## 12. Acquired intangible assets

On 30 June 2004 the Group acquired the entire issued share capital of Top Technology Ventures Limited. At this time, Top Technology Ventures Limited was party to two contracts to supply fund management services. The directors calculated the fair value of this asset on a discounted cash flow basis and concluded that the fair value of this asset at 30 June 2004 was £0.8m. The asset has been amortised on a straight-line basis over its useful life which was determined, by reference to the residual life of the two contracts, to be five and a half years from the date of acquisition. At 31 December 2010 the asset had been fully amortised.

## 13. Property, plant and equipment

	Total £m
<b>Cost</b>	
At 1 January 2010	0.8
Additions	–
<b>At 31 December 2010</b>	<b>0.8</b>
<b>Accumulated depreciation</b>	
At 1 January 2010	(0.4)
Charge for the year	(0.1)
<b>At 31 December 2010</b>	<b>(0.5)</b>
<b>Net book value</b>	
<b>At 31 December 2010</b>	<b>0.3</b>
At 31 December 2009	0.4

## Notes to the consolidated financial statements continued

## 13. Property, plant and equipment continued

	Total £m
<b>Cost</b>	
At 1 January 2009	0.8
Additions	–
At 31 December 2009	0.8
<b>Accumulated depreciation</b>	
At 1 January 2009	(0.3)
Charge for the year	(0.1)
At 31 December 2009	(0.4)
<b>Net book value</b>	
At 31 December 2009	0.4
At 31 December 2008	0.5

## 14. Categorisation of financial instruments

	At fair value through profit or loss			Total £m
	Held for trading £m	Designated upon initial recognition £m	Loans and receivables £m	
<b>Financial assets</b>				
<b>At 31 December 2010</b>				
Equity rights	19.9	–	–	19.9
Equity investments	–	106.3	–	106.3
Debt investments	–	3.7	–	3.7
Other financial assets	0.8	–	–	0.8
Investment in limited partnerships	–	1.9	–	1.9
Trade and other receivables	–	–	0.8	0.8
Deposits	–	–	7.5	7.5
Cash and cash equivalents	–	–	14.0	14.0
<b>Total</b>	<b>20.7</b>	<b>111.9</b>	<b>22.3</b>	<b>154.9</b>

	At fair value through profit or loss			Total £m
	Held for trading £m	Designated upon initial recognition £m	Loans and receivables £m	
<b>Financial assets</b>				
<b>At 31 December 2009</b>				
Equity rights	19.9	–	–	19.9
Equity investments	–	99.0	–	99.0
Debt investments	–	2.3	–	2.3
Other financial assets	1.1	–	–	1.1
Investment in limited partnerships	–	1.5	–	1.5
Trade and other receivables	–	–	0.8	0.8
Deposits	–	–	15.0	15.0
Cash and cash equivalents	–	–	13.1	13.1
<b>Total</b>	<b>21.0</b>	<b>102.8</b>	<b>28.9</b>	<b>152.7</b>

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

The Group does not consider that any change in fair value of financial assets in the year is attributable to credit risk (2009: £nil).

All net fair value gains in the year are attributable to financial assets designated at fair value through profit or loss on initial recognition (2009: all net fair value gains attributable to financial assets designated at fair value through profit or loss on initial recognition).

## 15. Equity rights and related contract costs

	Equity rights £m	Contract costs £m	Total £m
<b>Cost</b>			
<b>At 1 January 2010 and 31 December 2010</b>	<b>19.9</b>	<b>0.5</b>	<b>20.4</b>
<b>Aggregate amortisation of contract costs</b>			
At 1 January 2010	–	(0.3)	(0.3)
Charge for the year	–	–	–
<b>At 31 December 2010</b>	<b>–</b>	<b>(0.3)</b>	<b>(0.3)</b>
<b>Net book value</b>			
<b>At 31 December 2010</b>	<b>19.9</b>	<b>0.2</b>	<b>20.1</b>
At 31 December 2009	19.9	0.2	20.1
<b>Cost</b>			
At 1 January 2009 and 31 December 2009	19.9	0.5	20.4
<b>Aggregate amortisation of contract costs</b>			
At 1 January 2009	–	(0.2)	(0.2)
Charge for the year	–	(0.1)	(0.1)
At 31 December 2009	–	(0.3)	(0.3)
<b>Net book value</b>			
At 31 December 2009	19.9	0.2	20.1
At 31 December 2008	19.9	0.3	20.2

### Carrying amount of equity rights

Equity rights represent consideration paid to University of Oxford between December 2000 and June 2001. The payment gives the Group the right to receive 50% of the University's equity in any spin-out company or of any licensing income emanating from the university's chemistry department. The contract expires on 23 November 2015.

The directors consider that, for each of the key variables which would be relevant in determining a fair value for this financial instrument, there is a range of reasonably possible alternative values. The key variable ranges are set out below:

	2010	2009
Number of spin-out companies per year from University of Oxford Chemistry Department	<b>1-3</b>	1-3
Initial equity stake acquired by the Group under the equity rights contract	<b>20-25%</b>	20%
Proportion of spin-out companies failing	<b>20-30%</b>	20-30%
Dilution rates prior to exit as a result of financing for spin-out companies	<b>35-60%</b>	35-60%
Proportion of IPO exits	<b>30-40%</b>	30-40%
IPO exit valuations	<b>£30-50m</b>	£30-50m
Proportion of disposal exits	<b>30-50%</b>	30-50%
Disposal valuations	<b>£20-40m</b>	£15-35m
Discount rate	<b>8-10%</b>	8-10%

These key variable ranges result in a wide range of fair value estimates for the equity rights agreement. None of these estimates of fair value is considered more appropriate or relevant than any other and, accordingly, the directors have not been able to determine a reliable fair value for this financial instrument at the reporting date. The directors consider that it may be possible to reliably estimate a fair value for this instrument when the remaining duration of the contract reaches a stage at which the above variable ranges produce a range of fair values which are sufficiently close.

## Notes to the consolidated financial statements continued

**15. Equity rights and related contract costs** continued**Carrying amount of equity rights** continued

Until such time as the directors are able to compute a reliable fair value, the equity rights are carried at cost less provision for impairment. The directors review equity rights for impairment annually and if there is objective evidence of an impairment, such as a continued decline in either the number of new spin-out companies from the University of Oxford Chemistry Department or the valuations achieved at IPO or disposal, then a provision would be charged to the statement of comprehensive income. Another factor considered by management in assessing whether the Oxford Equity Rights Asset is impaired is the economic value received to date from the contract. Based on the fair value of the Group's holdings in University of Oxford's Chemistry Department spin-out companies, plus cash realised to date, less cash invested to date, a total of £38.2m value has been derived by the Group from the contract as at 31 December 2010. Based on the directors' forecasts, it is anticipated a charge to the statement of comprehensive income will first occur in 2011.

**16. Investment portfolio**

Group	Level 1	Level 2		Level 3	Total £m
	Equity investments in quoted spin-out companies £m	Equity investments in unquoted spin-out companies £m	Unquoted debt investments spin-out in companies £m	Equity investments in unquoted spin-out companies £m	
At 1 January 2010	40.7	30.0	2.3	28.3	101.3
Investments during the year	1.5	3.3	1.6	0.6	7.0
Reclassifications during the year	–	(0.5)	0.5	–	–
Transfers between hierarchy levels during the year	5.4	(1.4)	(0.6)	(3.4)	–
Disposals	(1.9)	–	–	(0.3)	(2.2)
Change in fair value in the year	3.4	2.8	(0.1)	(2.1)	4.0
Equity allocated to staff	(0.1)	–	–	–	(0.1)
<b>At 31 December 2010</b>	<b>49.0</b>	<b>34.2</b>	<b>3.7</b>	<b>23.1</b>	<b>110.0</b>
At 1 January 2009	38.2	46.1	1.9	12.2	98.4
Investments during the year	3.2	1.4	1.0	0.1	5.7
Reclassifications during the year	0.2	0.1	(0.1)	(0.2)	–
Transfers between hierarchy levels during the year	–	(20.8)	–	20.8	–
Disposals	(0.9)	(0.1)	–	(0.2)	(1.2)
Change in fair value in the year	–	3.5	(0.5)	(4.4)	(1.4)
Equity allocated to staff	–	(0.2)	–	–	(0.2)
At 31 December 2009	40.7	30.0	2.3	28.3	101.3

Fair values of unquoted spin-out companies classified as Level 3 in the fair value hierarchy have been determined in part or in full by valuation techniques that are not supported by observable market prices or rates. Investments in 27 companies have been classified as Level 3 and the individual valuations for each of these have been arrived at using a variety of valuation techniques and assumptions. However, if the assumptions used in the valuation techniques for the Group's holding in each company are varied by using a range of possible alternatives, there is no material difference to the carrying value of the respective spin-out company.

The net increase in fair value for the year of £4.0m (2009: £1.4m reduction) includes a net increase of £1.9m (2009: £4.4m reduction) that has been estimated using a valuation technique. Further details are contained within the accounting policy for equity investments.

**Change in fair value in the year**

	2010 £m	2009 £m
Fair value gains	<b>13.8</b>	15.3
Fair value losses	<b>(9.8)</b>	(16.7)
	<b>4.0</b>	(1.4)

The Company's interests in subsidiary undertakings are listed in note 2 of the Company's financial statements on page 71.

## 17. Trade and other receivables

	2010 £m	2009 £m
Trade debtors	0.2	0.2
Prepayments	0.2	0.2
Other receivables	0.4	0.4
	<b>0.8</b>	0.8

The directors consider the carrying amount of trade and other receivables to approximate their fair value. All receivables are interest free, repayable on demand and unsecured.

## 18. Other financial asset

Other financial asset comprises of a zero cost forward contract giving the Group the right to receive sale proceeds when University of Leeds sells down its stake in specified spin-out companies subject to a maximum receivable of £0.8m following receipt of sale proceeds totalling £0.3m during 2010 (2009: £1.2m receivable; £nil sale proceeds). The asset has no set date of repayment or other rights of recourse. This asset is classified as a financial asset held for trading initially measured at fair value with subsequent changes recognised in the statement of comprehensive income. Fair value is determined by discounting expected cash flows at prevailing market rates of interest and accordingly, the Group considers this asset to be Level 3 in the fair value hierarchy throughout the current and previous financial years.

## 19. Trade and other payables

	2010 £m	2009 £m
Trade payables	0.3	0.2
Social security expenses	0.1	0.1
Accrued staff bonuses	–	0.1
Other accruals and deferred income	0.3	0.3
	<b>0.7</b>	0.7

### Accrued staff bonuses

During the year ended 31 December 2010, bonus entitlements were settled by the allocation of equity from investments made by the Group.

The timing of the actual allocations of equity to employees is subject to a number of factors, including the performance of the business as a whole.

Group	Current bonus accrual £m
At 1 January 2010	(0.1)
Charged in the statement of comprehensive income in the year ended 31 December 2010	–
Settled during the year ended 31 December 2010	0.1
<b>At 31 December 2010</b>	<b>–</b>
Group	Current bonus accrual £m
At 1 January 2009	–
Charged in the statement of comprehensive income in the year to 31 December 2009	(0.3)
Settled during the year to 31 December 2009	0.2
At 31 December 2009	(0.1)

## Notes to the consolidated financial statements continued

**20. Share capital**

	2010 £m	2009 £m
Issued and fully paid:		
255,763,664 ordinary shares of 2p each (2009: 255,763,664 ordinary shares of 2p each)	<b>5.1</b>	5.1

The Company has one class of ordinary shares which carry equal voting rights, equal rights to income and distributions of assets on liquidation or otherwise and no right to fixed income.

**21. Operating lease arrangements**

	2010 £m	2009 £m
Payments under operating leases recognised in the statement of comprehensive income for the year	<b>0.4</b>	0.4

At the reporting date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2010 £m	2009 £m
Within one year	<b>0.3</b>	0.3
In the second to fifth years inclusive	<b>0.1</b>	0.4
	<b>0.4</b>	0.7

Operating lease payments represent rentals and other charges payable by the group for certain of its office properties. Leases are negotiated for an average term of five years and rentals are fixed for an average of one year.

**22. Share-based payments****Long Term Incentive Plan awards**

Awards under the LTIP take the form of provisional awards of ordinary shares of 2p each in the Group which vest over the prescribed performance period to the extent that performance conditions have been met. The Remuneration Committee imposes objective conditions on the vesting of awards and these are set taking into consideration the guidance of the Group's institutional investors from time to time.

The 2010 LTIP awards will vest on 31 March 2013 to the extent that the performance conditions have been met. 50% of the awards are based on the performance of Group's net asset value, excluding intangible assets and the Oxford equity rights ("NAV") and 50% are based on the Group's share price performance. The portion subject to NAV performance shall vest in full in the event of NAV increasing by 15% per year on a cumulative basis from 1 January 2010 to 31 December 2012, whilst 50% of that portion shall vest if the cumulative increase is 8% per annum over this period. The portion subject to the Group's share price performance shall vest in full in the event of the Group's share price being equal to or exceeding 67p on 31 December 2012 whilst 50% of that portion shall vest if the Group's share price is 60p on this date. A straight-line sliding scale will be adopted for the vesting of both portions should achieved performance be between the vesting targets detailed above.

For the 2007 and 2008 awards, the performance conditions were based on the Group's total shareholder return ("TSR") performance. The awards granted in 2008 will vest in full after three years in the event of TSR growth of 15% per annum on a cumulative basis being achieved. 50% of an award granted will vest in the event of compound annual TSR growth of 10% being achieved with a sliding scale between these points. The 2007 awards lapsed during the year with no awards vesting.

The movement in the number of shares notionally awarded under the LTIP is set out below:

	2010	2009
At 1 January	<b>3,483,009</b>	3,483,009
Lapsed during the year	<b>(2,656,716)</b>	–
Notionally awarded during the year	<b>12,252,766</b>	–
At 31 December	<b>13,079,059</b>	3,483,009

## 22. Share-based payments *continued*

### Long Term Incentive Plan awards *continued*

The fair value of awards made during each of the following years has been calculated using a Monte-Carlo pricing model with the following key assumptions:

	2010	2009
Share price at date of award	0.29-0.32p	–
Exercise price	£nil	–
Expected volatility (median of historical 50-day moving average)	33%	–
Expected life (years)	2.20-2.25	–
Expected dividend yield	0%	–
Risk-free interest rate	0.8-0.9%	–

The fair value charge recognised in the statement of comprehensive income during the year in respect of LTIP share awards was £0.3m (2009: £0.6m).

## 23. Investments in limited partnerships

	£m
At 1 January 2009	1.4
Additions during the year	0.2
Change in fair value during the year	(0.1)
At 1 January 2010	1.5
Additions during the year	0.2
Change in fair value during the year	0.2
<b>At 31 December 2010</b>	<b>1.9</b>

The Group considers investments in limited partnership investments to be Level 3 in the fair value hierarchy throughout the current and previous financial years.

## 24. Related party transactions

The Group has various related parties arising from its key management, subsidiaries, equity stakes in portfolio companies and management of certain limited partnership funds.

### a) Limited partnerships

The Group manages a number of investment funds structured as limited partnerships. Group entities have a limited partnership interest (see note 1) and act as the general partners of these limited partnerships. The Group therefore has power to exert significant influence over these limited partnerships. The following amounts have been included in respect of these limited partnerships:

	2010 £m	2009 £m
<b>Statement of comprehensive income</b>		
Revenue from services	1.7	0.8
<b>Statement of financial position</b>		
Investment in limited partnerships	1.9	1.5
Amounts due from related parties	–	–

## Notes to the consolidated financial statements continued

## 24. Related party transactions continued

## b) Key management transactions

The key management had investments in the following spin-out companies as at 31 December 2010:

Director	Company name	Number of shares held at 1 January 2010	Number of shares acquired/(disposed) in the period	Number of shares held at 31 December 2010	%
<b>Alan Aubrey</b>	Activotec SPP Limited <sup>(i)</sup>	1,500	-	<b>1,500</b>	0.9%
	Amaethon Limited - A Ordinary Shares	104	-	<b>104</b>	3.1%
	Amaethon Limited - B Ordinary Shares	11,966	-	<b>11,966</b>	1.0%
	Amaethon Limited - Ordinary shares	21	-	<b>21</b>	0.3%
	Avacta Group plc	13,276,113	-	<b>13,276,113</b>	1.0%
	Bioniqs Limited <sup>(i)</sup>	1,063	(1,063)	-	-
	Capsant Neurotechnologies Limited	11,631	-	<b>11,631</b>	0.8%
	Chamelic Limited	26	-	<b>26</b>	1.6%
	COE Group plc	357,204	-	<b>357,204</b>	1.0%
	Crysalin Limited	1,447	-	<b>1,447</b>	0.4%
	Dispersia Limited	416	-	<b>416</b>	1.0%
	EmDot Limited	15	-	<b>15</b>	0.9%
	GETECH Group plc	15,000	-	<b>15,000</b>	<0.1%
	Green Chemicals plc	108,350	-	<b>108,350</b>	1.3%
	Icona Solutions Limited	1,674	-	<b>1,674</b>	1.2%
	Ilika plc <sup>(ii)</sup>	1,175	116,325	<b>117,500</b>	0.3%
	Karus Therapeutics Limited	223	-	<b>223</b>	0.7%
	Leeds Lithium Power Limited <sup>(i)</sup>	178	(178)	-	-
	Leeds Reproductive Biosciences Limited	18	-	<b>18</b>	1.1%
	Mode Diagnostics Limited	1,863	-	<b>1,863</b>	1.2%
	Modern Biosciences plc	1,185,150	-	<b>1,185,150</b>	2.1%
	Modern Water plc	575,000	-	<b>575,000</b>	1.0%
	Overlay Media Limited	32	-	<b>32</b>	1.2%
	Oxford Advanced Surfaces Group plc	2,172,809	-	<b>2,172,809</b>	1.2%
	Oxford Catalysts Group plc	254,749	(47,350)	<b>207,399</b>	0.3%
	Oxford Nanopore Technologies Limited	11,442	-	<b>11,442</b>	0.8%
	Oxford RF Sensors Limited	53,639	-	<b>53,639</b>	0.8%
	Oxtox Limited	25,363	-	<b>25,363</b>	0.6%
	Pharminox Limited	685	-	<b>685</b>	0.3%
	Photopharmica (Holdings) Limited	37,020	-	<b>37,020</b>	1.0%
	Plexus Planning Limited	1,732	-	<b>1,732</b>	0.8%
	ReactivLab Limited <sup>(iii)</sup>	50	(50)	-	-
	Retroscreen Virology Limited	1,858	-	<b>1,858</b>	0.5%
Revolymer Limited	2,963	-	<b>2,963</b>	0.4%	
Simulstrat Limited - A Preference shares	24,063	-	<b>24,063</b>	2.8%	
Simulstrat Limited - Ordinary shares	2,255	-	<b>2,255</b>	1.3%	
Structure Vision Limited	212	-	<b>212</b>	1.0%	
Surrey Nanosystems Limited	393	-	<b>393</b>	0.9%	
Sustainable Resource Solutions Limited	25	-	<b>25</b>	1.3%	
Syntopix Group plc	76,731	-	<b>76,731</b>	0.7%	
Tissue Regenix Group plc <sup>(iv)</sup>	89	2,389,170	<b>2,389,259</b>	0.5%	
Tracsis plc	203,400	-	<b>203,400</b>	1.0%	
Xanic Limited <sup>(i)</sup>	16	(16)	-	-	
Xeros Limited	241	-	<b>241</b>	1.0%	
<b>Alison Fielding</b>	Activotec SPP Limited <sup>(i)</sup>	300	-	<b>300</b>	0.2%
	Amaethon Limited - A Ordinary Shares	105	-	<b>105</b>	3.2%
	Amaethon Limited - B Ordinary Shares	12,049	-	<b>12,049</b>	1.0%
	Amaethon Limited - Ordinary shares	21	-	<b>21</b>	0.3%
	Avacta Group plc	7,664,105	-	<b>7,664,105</b>	0.6%
	Bioniqs Limited <sup>(i)</sup>	1,063	(1,063)	-	-
	Capsant Neurotechnologies Limited	7,847	-	<b>7,847</b>	0.5%
	Chamelic Limited	21	-	<b>21</b>	1.3%
	COE Group plc	468,314	-	<b>468,314</b>	1.3%
	Crysalin Limited	1,447	-	<b>1,447</b>	0.4%
	Dispersia Limited	342	-	<b>342</b>	0.8%
	EmDot Limited	14	-	<b>14</b>	0.8%
	Green Chemicals plc	126,181	-	<b>126,181</b>	1.6%
	Icona Solutions Limited	1,419	-	<b>1,419</b>	1.0%
	Ilika plc <sup>(ii)</sup>	328	32,472	<b>32,800</b>	<0.1%
	Karus Therapeutics Limited	43	-	<b>43</b>	0.1%

## 24. Related party transactions continued

### b) Key management transactions continued

Director	Company name	Number of shares held at 1 January 2010	Number of shares acquired/(disposed) in the period	Number of shares held at 31 December 2010	%
<b>Alison Fielding</b> (continued)	Leeds Lithium Power Limited <sup>(i)</sup>	172	(172)	–	–
	Leeds Reproductive Biosciences Limited	17	–	<b>17</b>	1.0%
	Mode Diagnostics Limited	1,632	–	<b>1,632</b>	1.1%
	Modern Biosciences plc	1,057,343	–	<b>1,057,343</b>	1.9%
	Modern Water plc	276,000	(55,000)	<b>221,000</b>	0.4%
	Overlay Media Limited	28	–	<b>28</b>	1.1%
	Oxford Advanced Surfaces Group plc	611,042	–	<b>611,042</b>	0.3%
	Oxford Catalysts Group plc	84,196	(15,649)	<b>68,547</b>	0.1%
	Oxford Nanopore Technologies Limited	5,721	–	<b>5,721</b>	0.4%
	Oxford RF Sensors Limited	15,085	–	<b>15,085</b>	0.2%
	Oxtox Limited	16,601	–	<b>16,601</b>	0.4%
	Pharminox Limited	274	–	<b>274</b>	0.1%
	Photopharmica (Holdings) Limited	27,350	–	<b>27,350</b>	0.7%
	Plexus Planning Limited	480	–	<b>480</b>	0.2%
	ReactivLab Limited <sup>(iii)</sup>	48	(48)	–	–
	Retroscreen Virology Limited	1,216	–	<b>1,216</b>	0.3%
	Revolymr Limited	1,198	–	<b>1,198</b>	0.2%
	Simulstrat Limited - A Preference shares	15,750	–	<b>15,750</b>	1.8%
	Simulstrat Limited - Ordinary shares	1,476	–	<b>1,476</b>	0.9%
	Structure Vision Limited	195	–	<b>195</b>	0.9%
	Surrey Nanosystems Limited	323	–	<b>323</b>	0.8%
	Sustainable Resource Solutions Limited	25	–	<b>25</b>	1.3%
	Syntopix Group plc	35,477	–	<b>35,477</b>	0.3%
	Tissue Regenix Group plc <sup>(iv)</sup>	85	2,279,575	<b>2,279,660</b>	0.5%
	Tracsis plc	197,750	–	<b>197,750</b>	1.0%
	Xanic Limited <sup>(i)</sup>	15	(15)	–	–
Xeros Limited	197	–	<b>197</b>	0.8%	
<b>Magnus Goodlad</b> <sup>(v)</sup>	Activotec SPP Limited <sup>(i)</sup>	627	–	<b>627</b>	0.4%
	Amaethon Limited - A Ordinary Shares	31	–	<b>31</b>	0.9%
	Amaethon Limited - B Ordinary Shares	3,616	–	<b>3,616</b>	0.3%
	Amaethon Limited - Ordinary shares	6	–	<b>6</b>	<0.1%
	Avacta Group plc	2,439,472	–	<b>2,439,472</b>	0.2%
	Bioniqs Limited <sup>(i)</sup>	533	(533)	–	–
	Capsant Neurotechnologies Limited	7,772	–	<b>7,772</b>	0.5%
	Chamelic Limited	20	–	<b>20</b>	1.2%
	COE Group plc	246,094	–	<b>246,094</b>	0.7%
	Crysalin Limited	1,125	–	<b>1,125</b>	0.3%
	Dispersia Limited	324	–	<b>324</b>	0.8%
	EmDot Limited	14	–	<b>14</b>	0.8%
	Green Chemicals plc	21,534	–	<b>21,534</b>	0.3%
	Icona Solutions Limited	1,355	–	<b>1,355</b>	1.0%
	Ilika plc <sup>(i)</sup>	260	25,740	<b>26,000</b>	<0.1%
	Karus Therapeutics Limited	105	–	<b>105</b>	0.3%
	Leeds Lithium Power Limited <sup>(i)</sup>	61	(61)	–	–
	Leeds Reproductive Biosciences Limited	6	–	<b>6</b>	0.4%
	Mode Diagnostics Limited	1,549	–	<b>1,549</b>	1.0%
	Modern Biosciences plc	998,601	–	<b>998,601</b>	1.8%
	Modern Water plc	476,200	–	<b>476,200</b>	0.8%
	Overlay Media Limited	26	–	<b>26</b>	1.0%
	Oxford Advanced Surfaces Group plc	425,857	–	<b>425,857</b>	0.2%
	Oxford Catalysts Group plc	74,684	(13,880)	<b>60,804</b>	<0.1%
	Oxford Nanopore Technologies Limited	5,721	–	<b>5,721</b>	0.4%
	Oxford RF Sensors Limited	29,735	–	<b>29,735</b>	0.4%
	Oxtox Limited	16,601	–	<b>16,601</b>	0.4%
	Pharminox Limited	274	–	<b>274</b>	0.1%
	Photopharmica (Holdings) Limited	21,340	–	<b>21,340</b>	0.6%
	Plexus Planning Limited	444	–	<b>444</b>	0.2%
	ReactivLab Limited <sup>(iii)</sup>	45	(45)	–	–
	Retroscreen Virology Limited	1,216	–	<b>1,216</b>	0.3%
	Revolymr Limited	1,228	–	<b>1,228</b>	0.2%
	Simulstrat Limited - A Preference shares	15,750	–	<b>15,750</b>	1.8%

## Notes to the consolidated financial statements continued

## 24. Related party transactions continued

### b) Key management transactions continued

Director	Company name	Number of shares held at 1 January 2010	Number of shares acquired/(disposed) in the period	Number of shares held at 31 December 2010	%
<b>Mike Townend</b>	Simulstrat Limited - Ordinary shares	1,476	-	<b>1,476</b>	0.9%
	Structure Vision Limited	83	-	<b>83</b>	0.4%
	Surrey Nanosystems Limited	306	-	<b>306</b>	0.7%
	Sustainable Resource Solutions Limited	23	-	<b>23</b>	1.2%
	Syntopix Group plc	13,312	-	<b>13,312</b>	0.1%
	Tissue Regenix Group plc <sup>(iv)</sup>	31	1,950,831	<b>1,950,862</b>	0.4%
	Tracsis plc	113,000	-	<b>113,000</b>	0.6%
	Xanic Limited <sup>(i)</sup>	14	(14)	-	-
	Xeros Limited	187	-	<b>187</b>	0.8%
	Amaethon Limited - A Ordinary Shares	104	-	<b>104</b>	3.1%
	Amaethon Limited - B Ordinary Shares	11,966	-	<b>11,966</b>	1.0%
	Amaethon Limited - Ordinary shares	21	-	<b>21</b>	0.3%
	Capsant Neurotechnologies Limited	11,282	-	<b>11,282</b>	0.8%
	Chamelic Limited	23	-	<b>23</b>	1.4%
	Crysalin Limited	1,286	-	<b>1,286</b>	0.4%
	Dispersia Limited	370	-	<b>370</b>	0.9%
	EmDot Limited	14	-	<b>14</b>	0.8%
	Green Chemicals plc	113,222	-	<b>113,222</b>	1.4%
	Icona Solutions Limited	1,515	-	<b>1,515</b>	1.1%
	Leeds Lithium Power Limited <sup>(i)</sup>	178	(178)	-	-
	Leeds Reproductive Biosciences Limited	18	-	<b>18</b>	1.1%
	Mode Diagnostics Limited	1,756	-	<b>1,756</b>	1.1%
	Modern Biosciences plc	1,185,150	-	<b>1,185,150</b>	2.1%
	Modern Water plc	575,000	-	<b>575,000</b>	1.0%
	Overlay Media Limited	29	-	<b>29</b>	1.1%
	Oxford Advanced Surfaces Group plc	932,994	-	<b>932,994</b>	0.5%
	Oxford Nanopore Technologies Limited	3,490	-	<b>3,490</b>	0.2%
	Oxtox Limited	25,363	-	<b>25,363</b>	0.6%
	Photopharmica (Holdings) Limited	37,020	-	<b>37,020</b>	1.0%
	ReactivLab Limited <sup>(iii)</sup>	51	(51)	-	-
	Retroscreen Virology Limited	1,858	-	<b>1,858</b>	0.5%
	Revolymer Limited	1,198	-	<b>1,198</b>	0.2%
	Simulstrat Limited - A Preference shares	24,063	-	<b>24,063</b>	2.8%
Simulstrat Limited - Ordinary shares	2,255	-	<b>2,255</b>	1.3%	
Structure Vision Limited	212	-	<b>212</b>	1.0%	
Surrey Nanosystems Limited	350	-	<b>350</b>	0.8%	
Sustainable Resource Solutions Limited	25	-	<b>25</b>	1.3%	
Tissue Regenix Group plc <sup>(iv)</sup>	89	1,950,773	<b>1,950,862</b>	0.4%	
Tracsis plc	84,750	-	<b>84,750</b>	0.4%	
Xanic Limited <sup>(i)</sup>	16	(16)	-	-	
Xeros Limited	213	-	<b>213</b>	0.9%	
<b>Graham Richards</b>	GETECH Group plc	30,000	-	<b>30,000</b>	0.1%
	Oxtox Limited	-	24,194	<b>24,194</b>	0.5%
	Summit Corporation plc	662,958	-	<b>662,958</b>	0.4%
	Tissue Regenix Group plc <sup>(iv)</sup>	-	150,000	<b>150,000</b>	<0.1%
<b>Bruce Smith</b>	Capsant Neurotechnologies Limited	20,724	-	<b>20,724</b>	1.4%
	GETECH Group plc	15,000	-	<b>15,000</b>	<0.1%
	iQur Limited	2,000	-	<b>2,000</b>	0.8%
	Nanotecture Group plc	50,000	-	<b>50,000</b>	0.5%
	Oxford Catalysts Group plc	10,000	-	<b>10,000</b>	<0.1%
	Synairgen plc	200,000	-	<b>200,000</b>	0.3%
	Syntopix Group plc	15,241	-	<b>15,241</b>	0.1%
<b>Roger Brooke</b>	Activotec SPP Limited <sup>(i)</sup>	1,459	-	<b>1,459</b>	0.8%
	Avacta Group plc	661,318	-	<b>661,318</b>	<0.1%
	Bioniqs Limited <sup>(i)</sup>	1,000	(1,000)	-	-
	Capsant Neurotechnologies Limited	2,667	-	<b>2,667</b>	0.2%
	GETECH Group plc	30,000	-	<b>30,000</b>	0.1%
	Glycoform Limited	937	-	<b>937</b>	0.3%
	Inhibox Limited	500	-	<b>500</b>	<0.1%

## 24. Related party transactions continued

### b) Key management transactions continued

Director	Company name	Number of shares held at 1 January 2010	Number of shares acquired/(disposed) in the period	Number of shares held at 31 December 2010	%
<b>Roger Brooke</b> (continued)	iQur Limited	1,400	–	<b>1,400</b>	0.6%
	Nanotecture Group plc	33,335	–	<b>33,335</b>	0.3%
	Oxford Nanopore Technologies Limited	3,481	–	<b>3,481</b>	0.2%
	Pharminox Limited	786	–	<b>786</b>	0.4%
	Proximagen Neuroscience plc	135,000	–	<b>135,000</b>	0.2%
	ReOx Limited	2,717	–	<b>2,717</b>	0.3%
	Revolymmer Limited	1,351	–	<b>1,351</b>	0.2%
	Stratophase Limited	4,549	–	<b>4,549</b>	0.5%
	Summit Corporation plc	11,400	–	<b>11,400</b>	<0.1%
	Syntopix Group plc	11,299	–	<b>11,299</b>	0.1%

(i) Company in administration or dissolved.

(ii) Ilika plc acquired the entire issued share capital of Ilika Technologies Limited. Ilika Technologies Limited shareholders received 100 Ilika plc shares as consideration for each Ilika Technologies Limited share. Ilika plc then joined AIM by IPO.

(iii) ReactivLab Limited was acquired by Avacta Group plc. The ReactivLab ordinary shareholders received no initial consideration but they may receive future contingent consideration in the form of Avacta Group plc shares.

(iv) Tissue Regenix Group plc joined AIM after it completed a reverse takeover of Oxeco plc and raised £4.5m through a placing. In addition, Graham Richards owned 1,000,000 Oxeco plc shares prior to the takeover.

(v) Magnus Goodlad resigned as a director on 10 September 2010.

Compensation to key management comprises solely that paid to executive directors of the Group. Full details of directors' compensation are disclosed in the Directors' Remuneration Report on pages 28 to 32 and these amounts are included within the employee costs set out in note 8.

### c) Portfolio companies

The Group earns fees from the provision of business support services and corporate finance advisory to portfolio companies in which the Group has an equity stake. The following amounts have been included in respect of these fees:

Statement of comprehensive income	2010 £m	2009 £m
Revenue from services	<b>0.5</b>	0.5
Statement of financial position	2010 £m	2009 £m
Trade receivables	<b>0.2</b>	0.2

### d) Subsidiary companies

Subsidiary companies which are not 100% owned either directly or indirectly by the parent company have intercompany balances with other Group companies totalling as follows:

	2010 £m	2009 £m
Intercompany balances with other Group companies	<b>6.5</b>	6.3

These intercompany balances represent funding loans provided by Group companies that are interest free, repayable on demand and unsecured.

## 25. Capital management

The Group's key objective when managing capital is to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of issued new shares or dispose of interests in more mature portfolio companies.

During 2010, the Group's strategy, which was unchanged from 2009, was to maintain healthy cash and short-term deposit balances that enable it to participate in all investments ratified by the Group's investment committee, whilst having sufficient cash reserves to meet all working capital requirements in the foreseeable future.

## Notes to the consolidated financial statements continued

## 26. Capital commitments

Partnership	Year of commencement of partnership	Original commitment £m	Invested to date £m	Remaining commitment £m
University of Southampton <sup>(i)</sup>	2002	5.0	3.0	<b>2.0</b>
King's College London <sup>(ii)</sup>	2003	5.0	1.8	<b>3.2</b>
University of York - CNAP <sup>(iii)</sup>	2003	0.8	0.2	<b>0.6</b>
University of Leeds <sup>(iv)</sup>	2005	5.0	5.0	<b>–</b>
University of Bristol <sup>(v)</sup>	2005	5.0	1.0	<b>4.0</b>
University of Surrey <sup>(vi)</sup>	2006	5.0	0.5	<b>4.5</b>
University of York <sup>(iii)</sup>	2006	5.0	0.1	<b>4.9</b>
Queen Mary, University of London <sup>(vii)</sup>	2006	5.0	0.7	<b>4.3</b>
University of Bath <sup>(viii)</sup>	2006	5.0	0.2	<b>4.8</b>
University of Glasgow <sup>(ix)</sup>	2006	5.0	1.0	<b>4.0</b>
		45.8	13.5	<b>32.3</b>

(i) Under the terms of an agreement entered into in 2002 between the Group, the University of Southampton and certain of the University of Southampton's subsidiaries, IP2IPO Limited agreed to make £5.0m available for the purposes of making investments in University of Southampton spin-out companies. The basis for investment is subject to review during 2011.

(ii) Under the terms of an agreement entered into during 2003 between the Group and King's College London ("KCL") and King's College London Business Limited (formerly KCL Enterprises Limited), the Group agreed to make £5.0m available for the purposes of making investments in spin-out companies. Under the terms of this agreement, KCL was previously able to require the Company to make a further £5.0m available for investments in spin-out companies on the tenth anniversary of the partnership. However, the 2003 agreement was terminated and replaced by a revised agreement between the same parties on 12 November 2009. Under the revised agreement, the Group has agreed to target investing the remaining commitment of £3.2m over a three-year period; KCL cannot, however, require the Group to make any additional funds available. Other changes effected by the revised agreement included the removal of the Group's automatic entitlement to initial partner equity in every spin-out company and/or a share of KCL's licensing fees from intellectual property commercialisation and to the termination rights of the parties.

(iii) In 2003 the Group entered into an agreement with the University of York. The agreement relates to a specialist research centre within the University of York, the Centre for Novel Agricultural Products ("CNAP"). The Group has committed to invest up to a total of £0.8m in spin-out companies based on CNAP's intellectual property. In 2006 the Group extended its partnership with the University of York to cover the entire university. The Group has committed to invest £5.0m in University of York spin-outs over and beyond the £0.8m commitment as part of the Group's agreement with CNAP. The agreement with York was amended during the year so as to alter the process by which the Group evaluates commercialisation opportunities and the level of initial partner equity the Group is entitled to as a result. Further, the Group's automatic entitlement to share in any of York's proceeds from out-licensing has been removed from the agreement.

(iv) The Group extended its partnership with the University of Leeds in July 2005 by securing the right and obligation to invest up to £5.0m in University of Leeds spin-out companies.

(v) In December 2005, the Group entered into an agreement with the University of Bristol. The Group has committed to invest up to a total of £5.0m in University of Bristol spin-out companies.

(vi) Under the terms of an agreement entered into in 2006 between the Group and the University of Surrey ("Surrey"), the Group has committed to invest up to a total of £5.0m in spin-out companies based on Surrey's intellectual property.

(vii) In July 2006, the Group entered into an agreement with Queen Mary, University of London ("QM") to invest in QM spin-out companies. The Group has committed to invest up to a total of £5.0m in QM spin-out companies.

(viii) In September 2006, the Group entered into an agreement with the University of Bath ("Bath") to invest in Bath spin-out companies. The Group has committed to invest up to a total of £5.0m in Bath spin-out companies. The agreement with Bath was amended during the year so as to remove the Group's automatic entitlement to a share of the initial equity or licence fees (as applicable) received by Bath from the commercialisation of its intellectual property in the event the Group and its employees have not been actively involved in developing the relevant opportunity.

(ix) In October 2006, the Group entered into an agreement with the University of Glasgow ("Glasgow") to invest in Glasgow spin-out companies. The Group has committed to invest up to a total of £5.0m in Glasgow spin-out companies.

## Company balance sheet

As at 31 December 2010

	Note	2010 £m	2009 £m
<b>ASSETS</b>			
<b>Fixed assets</b>			
Investment in subsidiary undertakings	2	<b>25.3</b>	25.3
Investment in associated undertakings	3	<b>9.8</b>	9.8
Other investments	4	<b>2.9</b>	2.9
Loans to subsidiary undertakings	5	<b>72.6</b>	72.6
<b>Total assets</b>		<b>110.6</b>	110.6
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	6	<b>5.1</b>	5.1
Share premium account	6	<b>99.3</b>	99.3
Profit and loss reserve	6	<b>(6.6)</b>	(6.6)
Merger reserve	6	<b>12.8</b>	12.8
<b>Total equity shareholders' funds and liabilities</b>		<b>110.6</b>	110.6

Registered number: 4204490

The financial statements on pages 69 to 72 were approved by the Board of Directors and authorised for issue on 28 February 2011 and were signed on its behalf by:

**Bruce Smith**  
Chairman

**Alan Aubrey**  
Chief Executive Officer

## Notes to the Company financial statements

### 1. Accounting policies

The financial statements of the parent company have been prepared under the historical cost convention, in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards. A summary of the more important accounting policies which have been applied consistently throughout the year are set out below.

#### Investments

Investments are stated at historic cost less any provision for impairment in value and are held for long-term investment purposes.

Provisions are based upon an assessment of events or changes in circumstances that indicate that an impairment has occurred such as the performance and/or prospects (including the financial prospects) of the investee company being significantly below the expectations on which the investment was based, a significant adverse change in the markets in which the investee company operates or a deterioration in general market conditions.

#### Intercompany loans

All intercompany loans are initially recognised at fair value. As all intercompany loans are repayable on demand, their carrying value approximates to their fair value.

#### Impairment

If there is an indication that an asset might be impaired, the Company will perform an impairment review. An asset is impaired if the recoverable amount, being the higher of net realisable value and value in use, is less than its carrying amount. Value in use is measured based on future Discounted Cash Flows ("DCF") attributable to the asset. In such cases, the carrying value of the asset is reduced to recoverable amount with a corresponding charge recognised in the profit and loss account.

#### Financial instruments

Currently the Company does not enter into derivative financial instruments. Financial assets and financial liabilities are recognised and cease to be recognised on the basis of when the related titles pass to or from the Company.

#### Share-based payments

The fair value of the Long Term Incentive Plan ("LTIP") awards are estimated at the date of grant. This takes into account the terms and conditions of the award, including market based performance conditions.

No expense is recognised for grants that do not vest and charges previously made are reversed except where vesting is conditional upon a market condition which is treated as vesting irrespective of whether or not the market condition is satisfied, provided all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the statement of comprehensive income, with a corresponding entry in equity.

Where the terms for an equity-settled award are modified, and the modification increases the total fair value of the share-based payment, or is otherwise beneficial to the award recipient at the date of modification, the incremental fair value is amortised over the vesting period.

### 2. Investments in subsidiary undertakings

	£m
At 1 January 2010	25.3
Additions	–
Impairment	–
Disposals	–
<b>At 31 December 2010</b>	<b>25.3</b>

## 2. Investments in subsidiary undertakings *continued*

Details of the Company's subsidiary undertakings at 31 December 2010 are as follows:

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Method used to account for investment
IP2IPO Limited	England and Wales	100.0	100.0	Acquisition
IP2IPO Management Limited <sup>(i)</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO Management II Limited <sup>(i)</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO Management III Limited <sup>(i)</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO Management IV Limited <sup>(i)</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO Management V Limited <sup>(i)</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO Management VI Limited <sup>(i)</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO (Europe) Limited <sup>(i)(v)</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO Guarantee Limited <sup>(i)(vi)</sup>	England and Wales	100.0	100.0	Acquisition
Top Technology Ventures Limited <sup>(iii)</sup>	England and Wales	100.0	100.0	Acquisition
Top Technology Ventures IV GP Ltd <sup>(i)(iii)</sup>	England and Wales	100.0	100.0	Acquisition
IP Venture Fund GP Limited <sup>(i)(iii)</sup>	England and Wales	100.0	100.0	Acquisition
IP Ventures (Scotland) Limited <sup>(i)(iii)</sup>	Scotland	100.0	100.0	Acquisition
IP Europe (GP) Limited <sup>(i)(ii)(vii)</sup>	England and Wales	100.0	100.0	Acquisition
Techtran Group Limited	England and Wales	100.0	100.0	Acquisition
Techtran Investments Limited <sup>(i)(ii)</sup>	England and Wales	100.0	100.0	Acquisition
Techtran Services Limited <sup>(i)(ii)</sup>	England and Wales	100.0	100.0	Acquisition
Techtran Corporate Finance Limited <sup>(i)(iii)</sup>	England and Wales	100.0	100.0	Acquisition
Techtran Limited <sup>(i)(iii)</sup>	England and Wales	100.0	100.0	Acquisition
Modern Biosciences plc <sup>(iv)</sup>	England and Wales	54.3	69.0	Acquisition
PIMCO 2501 Limited <sup>(i)(iv)</sup>	England and Wales	54.3	69.0	Acquisition
PIMCO 2664 Limited <sup>(i)(iv)</sup>	England and Wales	54.3	69.0	Acquisition
Rimcazole Limited <sup>(i)(iv)</sup>	England and Wales	54.3	69.0	Acquisition
Modern Biosciences Nominees Limited <sup>(i)(ii)</sup>	England and Wales	54.3	69.0	Acquisition
MBS Secretarial Limited <sup>(i)(ii)</sup>	England and Wales	54.3	69.0	Acquisition
MBS Director Limited <sup>(i)(ii)</sup>	England and Wales	54.3	69.0	Acquisition
IP2IPO Nominees Limited <sup>(iii)</sup>	England and Wales	100.0	100.0	Acquisition
IP2IPO Services Limited <sup>(ii)</sup>	England and Wales	100.0	100.0	Acquisition
LifeUK (IP2IPO) Limited <sup>(ii)</sup>	England and Wales	100.0	100.0	Acquisition
IP Industry Partners Limited <sup>(ii)</sup>	England and Wales	100.0	100.0	Acquisition
C-Capture Limited <sup>(i)</sup>	England and Wales	100.0	100.0	Acquisition
Metabio Limited <sup>(i)</sup>	England and Wales	100.0	100.0	Acquisition
Organisense Limited <sup>(i)</sup>	England and Wales	100.0	100.0	Acquisition
Pregnapause Limited <sup>(i)</sup>	England and Wales	100.0	100.0	Acquisition

(i) Company held indirectly.

(ii) Dormant company.

(iii) Company engaged in fund management activity.

(iv) Company engaged in in-licensing of drugable intellectual property activity.

(v) Company operates a branch in Luxembourg.

(vi) Company limited by guarantee.

(vii) Company renamed North East Technology (GP) Limited on 7 January 2010.

All companies above are incorporated in England with the exception of IP Ventures (Scotland) Limited which is incorporated in Scotland. All companies above undertake the activity of commercialising intellectual property unless stated otherwise.

## Notes to the Company financial statements continued

**3. Investment in associated undertakings**

£m

**At 1 January 2010 and 31 December 2010****9.8**

At 31 December 2010 the Company has investments where it holds 20% or more of the issued ordinary share capital of the following companies:

Undertaking	% of issued share capital held	Net assets (liabilities) £000	Profit/(loss) before tax £000	Date of financial statements
Photopharmica (Holdings) Limited	49.9%	11,935	–	31 July 2010
Modern Water plc	23.2%	38,081	(3,627)	31 December 2009

All companies are incorporated in England and Wales.

No profit/(loss) information is presented in respect of companies that have filed abbreviated accounts.

**4. Other investments**

£m

At 1 January 2010	2.9
Additions	–
Impairment	–
Disposals	–

**At 31 December 2010****2.9****5. Loans to subsidiary undertakings**

£m

At 1 January 2010	72.6
Impairment of loans in the year	–
Net repayment of loans in the year	–

**At 31 December 2010****72.6**

The amounts due from subsidiary undertakings are interest free, repayable on demand and unsecured.

**6. Share capital and reserves**

	Share capital £m	Merger reserve £m	Share premium £m	Profit and loss reserve £m
At 1 January 2010	5.1	12.8	99.3	(6.6)
Loss for the year	–	–	–	(0.1)
Issue of equity	–	–	–	–
Share-based payments charge	–	–	–	0.1
<b>At 31 December 2010</b>	<b>5.1</b>	<b>12.8</b>	<b>99.3</b>	<b>(6.6)</b>

Details of the Company's authorised share capital and changes in its issued share capital can be found in note 20 to the consolidated financial statements on page 62. Details of the movement in the share premium account can be found in the consolidated statement of changes in equity on page 45.

**7. Profit and loss account**

As permitted by Section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The Company's loss for the year was £0.1m (2009: £0.9m).

Details of auditor's remuneration are disclosed in note 6 to the consolidated financial statements.

**8. Directors' emoluments, employee information and share-based payments**

The remuneration of the directors is borne by Group subsidiary undertakings with the exception of the share-based payment charge. Full details of their remuneration can be found in the Directors' Remuneration Report on pages 28 to 32. Full details of the share-based payments charge and related disclosures can be found in note 22 to the consolidated financial statements.

The Company had no employees during 2010 or 2009.

## Shareholder information

### Company registration number

4204490

### Registered office

24 Cornhill  
London EC3V 3ND

### Company secretary

Angela Leach

### Directors

#### Dr Bruce Gordon Smith CBE

Non-executive Chairman

#### Alan John Aubrey

Chief Executive Officer

#### Dr Alison Margaret Fielding

Chief Technology Officer

#### Michael Charles Nettleton Townend

Director of Capital Markets

#### Professor William Graham Richards CBE

Senior Non-executive Director

#### Christopher Roger Etrick Brooke

Non-executive Director

#### Francis Adam Wakefield Carpenter

Non-executive Director

### Brokers

#### Numis Securities

The London Stock Exchange  
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London EC4M 7LT

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