



2005

IP2IPO Group plc
Annual Report and Accounts
For the financial year ended
31 December 2005

IP2IPO

IP2IPO's business is the generation of value from intellectual property originating from research intensive institutions.

Contents

01	Highlights
02	Our University Partners
04	Executive Chairman's Statement
06	Chief Executive's Statement
08	Board of Directors
10	Directors' Report
11	Directors' Remuneration Report
14	Corporate Governance
17	Independent Auditors' Report to the Shareholders of IP2IPO Group plc
18	Consolidated Income Statement
19	Consolidated Balance Sheet
20	Consolidated Cashflow Statement
21	Consolidated Statement of Changes in Shareholders' Equity
22	Notes to the Consolidated Financial Statements
44	Company Balance Sheet
45	Notes to the Company Financial Statements
47	Directors, Secretary and Advisors to the Group

- **Value of shares in spin-outs at 31 December 2005: £44 million** (2004: £36 million).
- **Six university partners at 31 December 2005** (2004: four).
- **37 spin-out companies at 31 December 2005** (2004: 20).
- **Successful flotation of two portfolio companies during 2005** (2004: three).
- **Realisation from the sale of shares in spin-out companies of £0.8 million** (2004: £0.8 million).
- **Profit after tax of £5.6 million** (2004: £21.0 million).
- **Cash balance at 31 December 2005 of £40 million** (2004: £35 million).
- **Acquisition of Techtran Group Limited in January 2005.**
- **25-year partnership signed with The University of Bristol .**
- **Successful launch of Modern Biosciences plc.**
- **25-year partnership signed with The University of Surrey in February 2006.**
- **Modern Biosciences entered into a Memorandum of Understanding with the University of Manchester in March 2006.**
- **Partnership with the University of York extended in March 2006 to span the entire university.**



King's College London

- Partnership with the entire university.
- IP2IPO to invest £5 million in King's spin-outs and to make a contribution to patenting costs.
- IP2IPO receives a share of King's interest in all spin-outs and license income.
- 25-year deal from May 2003.



University of Oxford Chemistry Department

- Partnership with Oxford University Chemistry Department - £20 million investment enabled the completion of a new chemistry building - IP2IPO receives half of the University's equity and license income from the Chemistry Department.
- 15-year deal from December 2000.
- IP2IPO also has a £5 million fund for investment in spin-outs from the entire University of Oxford.



University of York

- Partnership with the entire university.
- IP2IPO to invest £5 million seed capital in all York's spin-outs.
- IP2IPO receives an equity stake in all York spin-outs and a share of York's license income.
- 25-year deal from March 2006.

University of Bristol

- Partnership with the entire university.
- IP2IPO to invest £5 million seed capital in Bristol spin-outs - IP2IPO receives an equity stake in all Bristol spin-outs.
- 25-year deal from December 2005.

Life Sciences

At 31 December 2005 IP2IPO had a life sciences portfolio that comprised of shareholdings in 18 spin-out companies. These companies are developing novel diagnostic and therapeutic technologies which address a wide range of diseases. Current methods for diagnosing diseases can be expensive, unreliable and time consuming, often leading to a poor outcome for patients. IP2IPO has created companies which attack these challenges from different approaches to find new innovative solutions.

Physical Sciences

At 31 December 2005 IP2IPO had a physical sciences portfolio that comprised of shareholdings in 19 spin-out companies. These companies cover a wide range of technologies including scheduling software, nano-materials, catalysts for clean energy and environmentally friendly speciality chemicals.



University of Southampton

- Partnership with the entire university.
- IP2IPO to invest £5 million seed capital in Southampton spin-outs - IP2IPO receives a share of Southampton's interest in all spin-outs.
- 25-year deal from April 2002.

University of Surrey

- Partnership with the entire university.
- IP2IPO to invest £5 million seed capital in Surrey spin-outs - IP2IPO receives an equity stake in all Surrey spin-outs.
- 25-year deal from February 2006.



University of Leeds

- Partnership with the entire university.
- IP2IPO provides an outsourced technology transfer operation for Leeds and will invest £5 million seed capital in Leeds spin-outs - IP2IPO receives an equity stake in all Leeds spin-outs and a share of Leeds' license income.
- 25-year deal from December 2002.



Oxford Nanolabs Limited

IP2IPO has a stake of 65% in Oxford Nanolabs. Oxford Nanolab's 'NanoPore' technology is based on using protein pores for the highly sensitive detection of a range of medically important molecules. Oxford Nanolabs' objective is to develop a series of products from its platform technology, initially hand-held diagnostic devices for medical testing with longer-term applications in counter-bioterrorism and gene sequencing.

Oxford Nanolab's underlying science has been developed in the research groups of Professor Hagan Bayley, who was previously based at Texas A&M University and subsequently became Professor of Chemical Biology at the Chemistry Department in Oxford in 2003. Professor Bayley is one of the world's leading experts in membrane protein engineering and stochastic sensing.





I am pleased to report that your Company has made considerable progress in the year ended 31 December 2005.

University partnerships

IP2IPO began 2005 with four university partners. By the end of 2005, the Company had six partnerships, and since the year end your Company has entered into its seventh long-term partnership agreement.

In January 2005, the Company completed the acquisition of Techtran Group Limited. The acquisition brought a number of benefits to the Group, including an additional long-term partnership with the University of Leeds, an exciting portfolio of 10 spin-out companies and an exceptional management team. The integration of Techtran with IP2IPO has been extremely successful, with Dr Alison Fielding appointed as Director of Technology Transfer and Alan Aubrey becoming Chief Executive Officer of IP2IPO with effect from 1 January 2006.

In December 2005, the Group entered into a long-term partnership with the University of Bristol. Subsequent to the year end, the Group announced its first spin-out investment and is working on a promising pipeline of further spin-out opportunities.

Since 31 December 2005, IP2IPO has entered into a partnership with the University of Surrey. This is IP2IPO's seventh university partnership and the third IP2IPO university partner from the SETSquared group of universities. Surrey enjoys a strong reputation for innovation and enterprise. Since 31 December 2005, the Group has announced an extension of its partnership with the University of York to cover the whole university.

IP2IPO will continue to assess further opportunities and to enter into long-term partnerships with leading research universities on a selective basis where it identifies institutions with sufficient breadth and depth of research and the right innovative culture to build a diversified portfolio of high-growth

spin-out companies over the lifetime of a partnership.

Modern Biosciences

In May 2005, the Group raised £13.7 million through a placing. This enabled the Group to launch Modern Biosciences, a company formed to in-license life science intellectual property on a selective basis not only from IP2IPO's seven existing university partnerships but also from any other university or research group. Modern Biosciences will develop further the intellectual property and then either out-license to industry or form a spin-out company. This enables IP2IPO to generate value from intellectual property that either addresses too narrow a market and/or is at too early a stage at the time it is identified to support the formation of a company.

The progress of Modern Biosciences to date has been encouraging with the development of a promising pipeline of opportunities, and I am delighted to report that Dr Ian Wilding has been appointed to the Board as the Chief

Proximagen Neuroscience plc

Proximagen was spun out of King's College London in 2004 at which point IP2IPO invested £0.3 million in the company. Proximagen floated on AIM in March 2005 valuing IP2IPO's 24% stake at £6.4 million, a 21-fold increase in value.

Proximagen is based on the expertise of Professor Peter Jenner, one of the world's leading authorities on neurodegenerative diseases. Proximagen provides drug-discovery services to pharmaceutical companies with R&D programmes in Parkinson's disease and other neurodegenerative disorders.

Since formation, Proximagen's order book has expanded rapidly and the company now has significant contracts, predominantly with international pharmaceutical customers. Proximagen is building a compound pipeline to address the significant unmet medical needs of patients with neurodegenerative disease through its own discovery programme for novel, low-risk therapeutic candidates, and through the identification and licensing of existing drugs for new indications.



"I am pleased to report that your Company has made considerable progress in the year ended 31 December 2005."

Scientific Officer. Dr Wilding is recognised globally as an innovator in early drug development with extensive experience of scientific and commercial solutions to problem issues in early drug development.

Subsequent to year end, Modern Biosciences has signed a Memorandum of Understanding with the University of Manchester. Under the terms of the agreement, Modern Biosciences will work with the University of Manchester to identify and assess drug-related investment opportunities arising from research carried out across the University. Modern Biosciences will provide investment for suitable opportunities and also take on responsibility for the development and commercialisation of intellectual property.

Board changes

In January 2006, I assumed the role of Executive Chairman. Professor Graham Richards remains on the Board of IP2IPO as Senior Non-executive Director. Alan Aubrey has been appointed as Chief

Executive Officer of the Group, and I would like to welcome Alan to his new role and thank him for his contribution to the Group to date. I am also delighted to welcome Stephen Brooke to the Board as Director of Business Development. Stephen has played an important role in the strategy and direction of the Group to date, and I wish him well in his new position.

Outlook for 2006

I am confident that 2006 will prove to be another good year in the development of IP2IPO. The pipeline of spin-outs looks very promising. Potential opportunities include technologies as diverse as diagnostic tests for debilitating and currently incurable diseases, to novel fuel technologies for efficient and clean energy production.

UK universities continue to be a source of world-leading scientific innovation and achievement, but in the past have sometimes floundered in the exploitation of those ideas. I believe that the IP2IPO business model can create first-class

businesses from UK science, for the benefit of our university partners, the wider community and our shareholders.

I would like to conclude by thanking our shareholders, our university partners, the managers of our portfolio companies and our staff for their support in what has been an important year in the growth and development of IP2IPO.

David Norwood
Executive Chairman
13 March 2006

Perachem Limited

IP2IPO has a 49% stake in Perachem Ltd, a company founded in January 2004 to exploit innovative chemistry discovered in the Department of Colour and Polymer Chemistry at the University of Leeds. The Company has developed a new generation of 'green' speciality chemicals that, in comparison to existing products, demonstrate both a reduced environmental impact and an attractive cost performance profile. One of the company's first products is aimed at the flame retardants industry where it will enable a major environmental improvement. Also, in partnership with a major

industry research group, the company is developing a new chlorine-free wool processing treatment. This industry has been searching for many years for products that can eliminate or significantly reduce organic chloride emissions.





The year ended 31 December 2005 has proven to be a year of expansion for IP2IPO. With healthy cash reserves, a promising portfolio of 37 spin-out companies and an encouraging pipeline of new spin-out opportunities, your Company is extremely well positioned.

Results for the year ended 31 December 2005

During the year ended 31 December 2005, the Group made a profit after taxation of £5,605,000 (2004: £21,046,000). This profit, in the most part, can be attributed to net fair-value gains of £5,737,000 (2004: £24,014,000). Gross fair-value gains and losses are shown in the following table.

	2005 £'000	2004 £'000
Fair value gains	14,107	24,249
Fair value losses	(8,370)	(235)
	5,737	24,014

There were a number of encouraging fair-value gains during the year. The IPO of Proximagen Neuroscience plc resulted in a gain of £5,990,000. In October 2005, the University of Leeds spin-out GETECH Group plc floated on AIM, valuing the Group's stake at £1,983,000 on an initial

investment of £480,000. In 2005 we announced a multi-million dollar collaboration between ReOx Limited and a major bio-pharmaceutical company. In addition, IP2IPO received a dividend of £209,000 from ReOx in the year. These factors led to a fair-value gain of £2,300,000. Your Company also realised £762,000 from the acquisition of Toumaz Technology Limited by Nanoscience Inc and its subsequent sale of Nanoscience consideration shares.

The fall in the share price of Offshore Hydrocarbon Mapping plc ('OHM plc') led to a full year loss on IP2IPO's holding of OHM plc stock of £4,700,000. However, since 31 December 2005 the OHM plc share price has recovered somewhat. It is in the nature of IP2IPO's business that its portfolio companies, as well as having breakthroughs and successes, will also have setbacks from time to time and that when these companies are quoted and IP2IPO still has a material shareholding the impact on the Group will be greater. Over time, as the number of quoted companies increases, individual gains and losses will have a reduced proportional effect on total portfolio performance.

Portfolio

At the beginning of the year the Group

ActivotecSPP Limited

ActivotecSPP was formed in December 2002 as a spin-out from the University of Southampton. IP2IPO has a 25% stake in the company and has invested £0.4 million to date.

ActivotecSPP develops novel methods for the synthesis of proteins and peptides from their constituent parts, amino acids, enabling the production of a wide range of peptides and proteins that are difficult to make via other techniques. Particular expertise is focused on difficult-to-synthesise sequences, non-natural modifications and the design and synthesis of highly effective peptide immunogens.

ActivotecSPP also provides custom synthesis services and instrument support to an extensive customer base. The company's unique product portfolio includes: custom peptide synthesis, peptide and organic synthesizers, synthesis chemicals/resins and supercritical fluid reaction/extraction equipment.



"The year ended 31 December 2005 has proven to be a year of expansion for IP2IPO."

had a portfolio of 20 companies. During the year ended 31 December 2005, the Group added 17 spin-out businesses to its portfolio, taking the total number of spin-outs to 37. The movement in the number of spin-outs is set out below.

	Unquoted spin-outs (number)	Quoted spin-outs (number)
At 1 January 2005	17	3
New spin-out businesses	17	-
Companies floated during the year	(2)	2
At 31 December 2005	32	5

At 31 December 2005, your Company had 32 unquoted investments. These 32 investments are recorded on the balance sheet at fair value and total £18,252,000 (2004: £8,415,000). The Group invested a total of £4,209,000 (2004: £3,728,000) in spin-out companies during the year.

The Group expects to establish approximately 10 to 15 new spin-out companies per year from its existing university partnerships.

Three companies in the portfolio raised a total of £6.6 million in private equity finance from third parties during the year, and subsequent to year end Perpetuum

Limited announced the completion of a £2.2 million financing.

Cash

Your Company's cash position remains strong. Cash at the end of the year stood at £39,947,000 (2004: £34,801,000). The Group has outstanding commitments to invest significant sums in university spin-out companies under the terms of its university partnerships. As at 31 December 2005, these commitments totalled £19,570,000. Since the year end the Company has entered into a partnership with the University of Surrey and extended the terms of its partnership with the University of York to cover the entire university. These two new arrangements have resulted in a combined cash commitment of up to £10,000,000. In addition, a further commitment of £1,155,000 is payable in deferred consideration, due as a result of the acquisitions during 2005. The acquisition of Techtran in January 2005 resulted in net cash outflows of approximately £5,400,000.

IP2IPO continues to control costs carefully. In the year ended 31 December 2005, administrative expenses amounted to £4,529,000 (2004: £6,594,000). IP2IPO has continued to generate income

from the management of venture capital funds through its subsidiary, Top Technology Ventures Ltd, and revenues through the provision of advisory and private placement services to portfolio companies. The Group generated operating revenues during the year of £1,682,000 (2004: £1,183,000) and received interest income during the period of £1,744,000 (2004: £1,616,000).

Outlook for 2006

The Group has recorded significant unrealised gains to date, and we will seek to unlock this value through disposals of equity stakes when prudent to do so. The Group will continue to seek to control costs where possible, and cover operating costs with revenues from advisory services and interest on cash balances.

Your Company has made progress to date in 2006. I am confident in both the strength of the current portfolio and pipeline of new intellectual property opportunities available to IP2IPO and the ability of the IP2IPO business model and management team to turn these opportunities into value for the Group.

Alan Aubrey
Chief Executive Officer
13 March 2006

Revolymmer Limited

Revolymmer is the first company to receive funding through IP2IPO's partnership with the University of Bristol. IP2IPO has invested £0.5 million in the company and has a 40% stake.

Revolymmer is well known for the application of its technology to non-stick chewing gum. Discarded gum that litters pavements costs UK local governments millions of pounds annually in clean-up costs. Revolymmer's novel polymers can be incorporated into chewing gum which may then

prevent gum from cementing itself to the pavement. Revolymmer's polymer technology can also be applied in a number of other areas including drug delivery, medical devices, paints and coatings and personal care products.



1. David Norwood

Executive Chairman

David founded IndexIT Partnership Limited in July 1999, a technology advisory boutique, which was acquired in March 2000 by Beeson Gregory Group plc for £34 million. David served as a director of Beeson Gregory Group plc and subsequently, Evolution Group plc.

2. Alan Aubrey, FCA

Chief Executive Officer

Alan established Techtran Group Limited in 2002 and was its CEO when the business was acquired by IP2IPO Group plc 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 at helping them raise money and prepare for sale or

flotation. Alan joined the Board of IP2IPO in January 2005, becoming Chief Executive on 1 January 2006.

3. Dr Alison Fielding

Director of Technology Transfer

Alison was the Chief Operating Officer of Techtran Group Limited when it was acquired by IP2IPO Group plc in January 2005. Previously, she worked at McKinsey & Co, where she consulted primarily to the pharmaceutical and health-care sectors. Prior to McKinsey, Alison spent four years as a development chemist for Zeneca, performing technical roles in the speciality chemicals and agrochemicals divisions.

4. Dr Bruce Campbell

Chief Scientific Officer

Bruce was Senior VP of Development at Neurocrine, a NASDAQ-listed drug-development company, where he had overall responsibility for directing Neurocrine's selection and advancement of drug candidates from research into clinical development. Prior to his role at Neurocrine, Bruce spent 27 years in drug development at Servier. He is also a visiting professor in pharmacology at King's College London. Bruce became a Director of IP2IPO in October 2004.

5. Stephen Brooke

Director of Business Development

(Appointed 1 January 2006.)

Stephen is responsible for IP2IPO's business development activity and works across IP2IPO's university partnerships



Bioniqs Limited

Bioniqs was formed in December 2004 as a result of IP2IPO's collaboration with the University of York's Centre for Novel Agricultural Products (CNAP). IP2IPO owns a 41% stake in Bioniqs and has invested £0.2 million to date.

Bioniqs designs and develops proprietary ionic liquids, a novel class of solvents which can be designed with characteristics that enable them to solve major industry problems across multiple sectors. Bioniqs is designing ionic liquids that are

non-aqueous, non-volatile, have high solvation capacity and are biodegradable. In particular, Bioniqs' ionic liquids can facilitate and improve bio-chemical and bio-catalytic processes that are difficult to undertake using conventional technologies.



and spin-out portfolio. Stephen has worked for Bridgepoint Capital, European Digital Partners and Columbia University Science and Technology Ventures. In addition, Stephen has worked for the World Bank, advising member states on their technology and innovation strategies.

6. Professor Graham Richards, CBE
Senior Non-executive Director

Graham is Chairman of Chemistry at the University of Oxford. He was the scientific founder of Oxford Molecular Group plc and is a director of the University of Oxford technology transfer company, Isis Innovation Limited. Graham became a Non-executive Director of IP2IPO in December 2001 and Chairman in August 2004. He became Senior Non-executive Director on 1 January 2006.

7. Roger Brooke
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, Beeson Gregory Group plc and he was previously chairman of the Audit Commission. Roger became a director of IP2IPO in December 2001.

8. Dr Bruce Smith, CBE
Non-executive Director

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 Institution

of Electrical Engineers and the Institute of Physics. Bruce became a director of IP2IPO in September 2002.

9. Magnus Goodlad
Company Secretary

Magnus joined Top Technology Ventures Limited, IP2IPO's Fund Management business, in June 2000 after four-and-a-half years with Slaughter and May practising a wide range of corporate, banking and finance law.



Oxford Catalysts Limited

IP2IPO owns 43% of this company and has invested £0.4 million to date. Oxford Catalysts was formed by Professor Malcolm Green and Dr Tiancun Xiao to commercialise over 18 years' worth of research at the University of Oxford's world-leading Wolfson Catalysis Research Centre.

The company has platform IP in the clean fuels market, allowing it to create catalysts which match, or exceed, the performance of competing catalyst technologies, at substantially lower cost.

Oxford Catalysts' current portfolio of products includes superior catalysts for, among other applications, the production of clean synthetic petroleum from either natural gas (GTL) or coal (CTL), the treatment of gasoline to create ultra-low-sulphur fuels (HDS) and the conversion of bio-methane to 'synthesis gas' for processing into liquid fuels or building-block chemicals (CPOx). Additional applications include the removal of sulphur and reforming of hydrocarbons to produce hydrogen for fuel cells and the generation of hydrogen or steam, instantaneously, starting at ambient temperatures, from a fuel mixture containing methanol.



Report of the directors

The directors present their report together with the audited financial statements for IP2IPO Group plc (the 'Company') and its subsidiaries (the 'Group') for the year ended 31 December 2005. The annual report includes two voluntarily prepared statements; the Directors' Remuneration Report on pages 11 to 13 and the Corporate Governance statement on pages 14 to 16.

Principal activities and business review

The Company acts as a holding company for the Group. 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; and
- ii) the management of venture capital funds focused on early-stage technology companies.

Results and dividends

The Group made an overall profit attributable to equity holders of the parent company for the year ended 31 December 2005 of £5,605,000 (2004: profit attributable to equity holders of the parent company £21,046,000). The directors do not recommend the payment of a dividend (2004: £Nil).

Directors

The names of directors who held office during 2005 are as follows:

Executive directors:

David Norwood
Dr Bruce Campbell
Alan Aubrey, FCA (appointed 20 January 2005)
Dr Alison Fielding (appointed 20 January 2005)
John Davies (resigned 13 September 2005)

In addition, Stephen Brooke was appointed a director on 1 January 2006.

Non-executive directors

Professor Graham Richards
Dr Bruce Smith
Roger Brooke

Details of the interests of directors in the share capital of the Company, together with details of share options granted to them, are set out in the Remuneration Report on pages 11 to 13.

Substantial shareholders

In addition to the directors' beneficial interests shown on page 12, as at 8 March 2006 the Company had been advised of the following shareholders with interests of 3% or more in its ordinary share capital.

	%
Vidacos Nominees Limited	3.5
Barclays Capital Nominees(3) Limited	8.3
Morstan Nominees Limited	16.5
Nutraco Nominees Limited	12.9
Lehman Brothers International	6.1
Apollo Nominees Limited	3.3
Chase Nominees Limited	6.5
Nortrust Nominees Limited	5.9
HSBC Global Custody Nominee (UK)	14.9

Post balance sheet events

Full details of all significant post balance sheet events are set out in note 22 to the consolidated financial statements.

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 2005 was 42 days (2004: 37 days). The Company had no trade payables as at either 31 December 2005 or 31 December 2004.

Charitable and political donations

The Group made no charitable or political donations during the year (2004: £Nil).

Risk management

Details of the Group's financial risk management objectives and policies are disclosed in note 13 to these financial statements.

On behalf of the Board



Alan Aubrey
Chief Executive Officer

13 March 2006

The Company is not required to produce a Directors' Remuneration Report but has done so out of choice. The Company's remuneration policy is the responsibility of the Remuneration Committee. This committee is chaired by Graham Richards and also comprises Bruce Smith, Roger Brooke and David Norwood. Each member of the committee, with the exception of David Norwood, is considered an independent director, and the committee is authorised, if it wishes, to seek independent specialist services to provide information and advice on remuneration at the Company's expense.

The committee has specific responsibility for determining 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 share option schemes. David Norwood does not attend meetings where his remuneration package is discussed. In determining executive remuneration packages of individual directors the Remuneration Committee takes account of 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 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 an executive bonus scheme. 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 and pension contributions are detailed below:

Bonuses

The Group operates a bonus incentive plan linked to the value of the investments made by the Group. The accrual for employee bonuses made shall not exceed 17.5% of fair value of investments made. In respect of the year ended 31 December 2005, onward payments from the accrual for employee bonuses have primarily been settled by the allocation of equity from existing holdings in the equity investments portfolio. Bonuses relating to the year ended 31 December 2004 were settled by way of cash. Further information on the bonus policy and accrual for employee bonuses is contained in note 14 to the consolidated financial statements.

Pensions

The executive directors are entitled to a contribution of annual salary which is paid directly into personal money purchase pension plans. This contribution is capped at £12,000 per year for David Norwood, Alan Aubrey and Alison Fielding and £9,000 per year for Bruce Campbell.

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 year ended 31 December 2005. Prior to December 2003, the Company entered into option agreements with its executive directors and employees through the Company's discretionary unapproved share option scheme.

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 share option scheme and bonus schemes. The executive directors are responsible for setting the level of non-executive remuneration.

c) Service contracts

David Norwood has a service contract which commenced on 29 September 2003, and contains a contractual notice period of one year by either party. Alan Aubrey and Alison Fielding have service contracts which commenced on 20 January 2005 and contain a contractual notice period of six months by either party. Bruce Campbell has a service contract which commenced on 8 October 2004 and contains a 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 service agreements which commenced on 10 August 2004 in the case of Graham Richards and Bruce Smith and on 20 December 2001 in the case of Roger Brooke. Each appointment is for an initial term of three years, renewable for a further three years. The non-executive service agreements are terminable on one month's notice by either party save in the case of Graham Richards, whose agreement is terminable on three months' 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 retains the related fees. Fees earned for directorships of companies in which the Group does not have a shareholding are normally retained by the director.

Directors' emoluments

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

	Base salary £'000	Bonus £'000	Fees £'000	Benefit ^(iv) £'000	Total (exc. pension) £'000	Pension £'000	Total (inc. pension) 2005 £'000	Total (exc. pension) 2004 £'000	Pension 2004 £'000	Total (inc. pension) 2004 £'000
Executive										
David Norwood ⁽ⁱ⁾	100	189	-	1	290	12	302	596	12	608
Alan Aubrey ⁽ⁱⁱ⁾	92	189	-	1	282	11	293	-	-	-
Alison Fielding ⁽ⁱⁱⁱ⁾	92	117	-	1	210	11	221	-	-	-
Bruce Cambell	60	127	-	1	188	9	197	14	2	16
John Davies ⁽ⁱⁱⁱ⁾	56	-	-	1	57	7	64	332	11	343
Non-executive										
Graham Richards	-	-	25	-	25	-	25	19	-	19
Roger Brooke	-	-	15	-	15	-	15	15	-	15
Bruce Smith	-	-	15	-	15	-	15	21	-	21
Total	400	622	55	5	1,082	50	1,132	997	25	1,022

(i) David Norwood was the highest paid director during the year ended 31 December 2005.

(ii) From 20 January 2005 to 31 December 2005.

(iii) From 1 January 2005 to 13 September 2005.

(iv) Benefits represent private medical insurance and life assurance provision.

Directors' interests in ordinary shares

The directors, who held office at 31 December 2005, had the following beneficial interests in the ordinary shares of the Company:

	31 December 2005 Number of shares	1 January 2005 ⁽¹⁾ Number of shares
Roger Brooke	39,990	31,250
Alan Aubrey	150,973	-
Alison Fielding	75,526	-
David Norwood	571,136	528,636
Graham Richards	1,850	1,850
Bruce Smith	42,375	34,625
Bruce Campbell	16,363	16,363

(1) Or date of appointment if later.

There has been no change in the interests set out above between 31 December 2005 and 14 March 2006.

Alan Aubrey is a director and shareholder in Axiomlab Group plc, a company which held 1,483,217 shares in IP2IPO Group plc at 31 December 2005. Alison Fielding was also interested in these shares by virtue of her being a shareholder in Axiomlab Group plc.

Directors' options

The executive directors who have held office during the year have the following interests in options over the shares of the Company under the Group share option scheme. During the year John Davies exercised all of his share options.

	Date of grant	At 1 January 2005	Exercised during the year	At 31 December 2005	Exercise price (p)	Earliest exercise date	Expiry date
John Davies	15.01.02 ⁽ⁱ⁾	212,800	(212,800)	-	141		
	29.07.03 ⁽ⁱⁱ⁾	100,000	(100,000)	-	160		
David Norwood	29.07.03 ⁽ⁱⁱ⁾	250,000	-	250,000	160	29.07.04	28.07.13
	7.10.03 ⁽ⁱⁱ⁾	700,000	-	700,000	275	7.10.04	6.10.13

There were no reported gains on the exercise of share options in the year ended 31 December 2004. The fair value charge recognised in the income statement in respect of share options granted to directors was £266,000 (2004: £165,000).

(i) In September 2005 John Davies exercised 312,800 share options at a market price of £5.12 realising a gain of £1,141,488. At the 31 December 2005 John Davies held no further options over the ordinary shares of the Company.

(ii) During 2005 the right to exercise options was amended so that at 31 December 2005 all share options had vested. The right to exercise the options expires on 6 October 2013.

The middle market price of the ordinary shares on 31 December 2005 was 529 pence (31 December 2004: 654 pence). The high and low market prices during the year were 757 pence and 467 pence respectively (2004: 694 pence and 325 pence respectively).

Apart from the interests disclosed above, none of the directors had any interest at any time during the year ended 31 December 2005 in the share capital of the Company or its subsidiaries. However, certain directors hold interests in the shares of spin-out companies that the Group has an equity interest in. Details of these interests are disclosed in note 20 of the financial statements.

On behalf of the Board



Graham Richards

Chairman of the Remuneration Committee
13 March 2006

The Board supports the principles of corporate governance advocated by The Principles of Good Governance and Code of Best Practice (2003) (hereafter referred to as the 'Combined Code') issued by the Financial Services Authority. The Company has applied the principles of the Combined Code throughout 2005, on a voluntary basis, that it considers appropriate and explains the reasons for non-compliance.

The Board

The Group's business is managed by the Board of Directors. The full Board meets regularly, and met a total of 10 times during 2005. A discussion of current and future performance and strategy is included on the agenda for each meeting. In addition, the Board has a 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 executive 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.

On 31 December 2005, the Board consisted of seven directors, three of whom are non-executive. Their names are set out on page 10. The Company had a non-executive chairman throughout 2005, who is also considered to be the senior independent non-executive director. On 1 January 2006, David Norwood was appointed Executive Chairman. The Board considered this appointment at length and consistent with Section A.2.2 of the Combined Code, consulted with major shareholders prior to making the appointment. The Board considered that David Norwood should be appointed to the position of Chairman on the basis of his knowledge and experience of the market in which the Company operates, and the Board being satisfied that the allocation of responsibilities between the Chairman and Alan Aubrey, as Chief Executive Officer, represent the optimal combination of senior management for the Company. All of the non-executive directors are considered by the Board to be free from any business or other relationship that could materially impact their independent judgement. The non-executive directors receive a fixed fee for their services and the reimbursement of reasonable expenses incurred in attending meetings. In the post balance sheet period, one further executive director joined the Board: Stephen Brooke.

There is an agreed procedure for directors to take independent professional advice at the Company's expense. In addition, every director has direct access to the impartial advice of the Company Secretary. The Company Secretary is responsible for ensuring that Board procedures, applicable rules and regulations are followed.

Directors have made de minimis investments in spin-out companies formed under the university partnerships. Details of these investments are set out in note 20 to the consolidated financial statements. Under the Company's current policy, directors and employees are able to invest in spin-out companies at financing rounds subsequent to the initial investment by IP2IPO.

While the Board retains overall responsibility for the Company, the day-to-day management of the business is conducted by the executive directors. In addition, in accordance with best practice, the Board has established Audit, Nomination and Remuneration Committees with written terms of reference for each that set out their duties and authority.

Attendance

The directors attended each Board meeting held during the year or during their tenures as directors, with the following exceptions: Bruce Campbell and Roger Brooke were absent from two meetings during the year and Alan Aubrey and Alison Fielding were absent from one meeting during the year.

Committees of the Board

Audit Committee

The Audit Committee, which has written terms of reference, was established in October 2003 and has met twice in 2005. The committee comprises Roger Brooke (Chairman), Bruce Smith and Graham Richards. Both meetings during 2005 were attended by all three members of the committee. The Group's auditors and Chief Executive attend the meetings by invitation. 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 Group's auditors. It reviews the interim financial information and annual accounts before they are submitted to the Board. In addition the Audit Committee makes recommendations to the Board regarding the appointment of the Group's external auditors, reviews their 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 auditors. The Audit Committee assesses the likely impact on the auditors' independence and objectivity before awarding them any material contract for additional services.

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. This is non-compliant with the Combined Code because Graham Richards held the post of Non-executive Chairman of the Group during 2005 and David Norwood is an executive director. However, the Board believe that the composition of the Remuneration Committee is in the best interests of shareholders. Two meetings were held in 2005, which all

Remuneration Committee (continued)

members attended. The 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 Committee or the Board. Full details of the directors' remunerations are set out in the Remuneration Report on pages 11 to 13.

Nomination Committee

The Nomination Committee was established in October 2003 and meets as and when required. There were two meetings in 2005. It considers the appointment of both executive and non-executive directors. It comprises Bruce Smith (Chairman), David Norwood, Graham Richards and Roger Brooke. All members of the Nomination Committee attended the two meetings in 2005. The Combined Code stipulates that the Nomination Committee should comprise a majority of independent non-executive directors. For future appointments to the Board, the Nomination Committee will consider candidates at the request of the Board. It also advises the Board on matters generally relating to senior appointments.

All directors are required to submit themselves for re-election by the shareholders at the Company's Annual General Meeting (AGM) following their first appointment and thereafter at least every three years. Notwithstanding this, at least one third of all the directors must submit themselves for re-election each year. At the forthcoming AGM, David Norwood and Bruce Smith will submit themselves for re-election along with Stephen Brooke who was appointed to the Board after the year end.

Internal control

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

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.

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. 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.

Information and financial reporting systems

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

Control procedures

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 the controls to be effective for the year ended 31 December 2005. Due to the nature of the Group's operations and its size, the Board considers that there is no current requirement for an internal audit function, although it will continue to review the requirement for such a function on a periodic basis.

Performance evaluation

The performance of the Chairman and each director is formally evaluated on an annual basis. The non-executives meet annually, and whenever deemed necessary, to appraise the Chairman's performance in the absence of the Chairman. The performance of non-executive directors is reviewed by the executive directors on an annual basis. The last such review took place in December 2005. The performance of executive directors is reviewed by the Board, as deemed necessary, in the absence of the executive director under review.

Relations with shareholders

The Company is committed to constructive dialogue with its shareholders. The Company uses the AGM as an opportunity to communicate with its shareholders. Notice of the AGM, which will be held at 3pm on 25 April 2006 at Buchanan Communications, 45 Moorfields, London EC2Y 9AE, is enclosed with this report. Details of the resolutions and explanatory notes are included with the Notice along with a proxy form for members of the Company unable to attend.

Relations with shareholders (continued)

The Group's website (www.ip2ipo.com) is the primary source of information on the Group. This includes an overview of the activities of the Group, key university partnership agreements and details of all recent Group announcements.

Statement of compliance

The directors are satisfied that, with the exception of those areas indicated above, the Company has complied with the Code provisions set out in section 1 of the Combined Code from 1 January 2005 to the end of the year.

Statement of directors' responsibilities

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of financial statements that comply with the requirements of the Companies Act 1985. The directors have accepted responsibility for preparing the Directors' Remuneration Report.

Financial statements are published on the Group'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 Group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

The directors have chosen to prepare the financial statements for the Group in accordance with International Financial Reporting Standards (IFRSs) and have chosen to prepare financial statements for the Company in accordance with UK GAAP.

Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cashflows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in 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.

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;
- 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.

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.

On behalf of the Board



Alan Aubrey
Chief Executive Officer
13 March 2006

Independent Auditors' Report to the Shareholders of IP2IPO Group plc

We have audited the Group and parent company financial statements (the 'financial statements') of IP2IPO Group plc for the year ended 31 December 2005 on pages 18 to 46. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and IFRSs as adopted by the European Union and for preparing the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Executive Chairman's Statement, the Chief Executive's Statement, the Directors' Report, the Directors' Remuneration Report and the Corporate Governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and parent company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2005; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors

London

13 March 2006

Consolidated Income Statement

For the year ended 31 December 2005

IP2IPO Group plc
Annual Report and Accounts 2006
18

	Note	2005 £'000	2004 £'000
Turnover	2	1,682	1,183
Equity investments			
Fair value gains	12	14,107	24,249
Fair value losses	12	(8,370)	(235)
Surplus on disposal of equity investments		762	790
Dividends		209	-
		6,708	24,804
Administrative expenses			
Accrual for employee bonuses	14	(1,174)	(4,202)
Other administrative expenses		(3,355)	(2,392)
		(4,529)	(6,594)
Operating profit	4	3,861	19,393
Finance income - interest receivable		1,744	1,616
Profit before taxation		5,605	21,009
Taxation	6	-	37
Profit attributable to equity holders of the parent		5,605	21,046
Basic earnings per ordinary share	7	12.58p	51.61p
Diluted earnings per ordinary share	7	12.27p	49.90p

Consolidated Balance Sheet

As at 31 December 2005

IP2IPO Group plc
Annual Report and Accounts 2006
19

	Note	2005 £'000	2004 £'000
Assets			
Non-current assets			
Property, plant and equipment	10	91	55
Intangible assets:			
Goodwill	8	18,403	2,091
Acquired intangible assets	9	605	757
Investment in patents		14	15
Equity rights and related contract costs	11	20,202	20,170
Equity investments	12	44,255	35,536
Financial asset	13	1,337	-
Investment in limited partnerships	19	84	87
Total non-current assets		84,991	58,711
Current assets			
Trade and other receivables	13	1,957	2,271
Cash and cash equivalents		39,947	34,801
Total current assets		41,904	37,072
Total assets		126,895	95,783
Equity and liabilities			
Equity attributable to equity holders			
Called-up share capital	15	4,575	4,129
Share premium account		73,294	59,605
Merger reserve	15	12,797	783
Retained earnings		29,113	23,264
Total equity		119,779	87,781
Non-current liabilities			
Trade and other payables	14	3,564	3,534
Provisions	18	539	1,123
Total equity and non-current liabilities		123,882	92,438
Current liabilities			
Trade and other payables	14	3,013	3,345
Total equity and liabilities		126,895	95,783

The financial statements were approved by the Board of Directors and authorised for issue on 13 March 2006 and were signed on its behalf by:



David Norwood
Executive Chairman



Alan Aubrey
Chief Executive

Consolidated Cashflow Statement

For the year ended 31 December 2005

IP2IPO Group plc
Annual Report and Accounts 2006
20

	2005 £'000	2004 £'000
Operating activities		
Operating profit	3,861	19,393
Depreciation of property, plant and equipment	37	35
Fair value movements in equity investments	(5,737)	(24,014)
Amortisation of intangible non-current assets	216	96
Decrease/(increase) in trade and other receivables	262	(736)
(Decrease)/increase in trade and other payables and provisions	(1,689)	3,689
Profit on disposal of equity investments	(762)	(790)
Dividends	(209)	-
Profit on disposal of property, plant and equipment	-	6
Share-based payment charge	282	300
Net cash from operating activities	(3,739)	(2,021)
Investing activities		
Purchase of property, plant and equipment	(65)	(34)
Purchase of equity investments	(4,209)	(3,728)
Financial asset	(1,400)	-
Purchase of subsidiary undertaking	(3,545)	(911)
Net cash acquired with subsidiary	1,838	230
Proceeds from sale of equity investments	762	965
Dividend received	209	-
Interest received	1,346	1,374
Net cash used in investing activities	(5,064)	(2,104)
Financing activities		
Proceeds from issue of share capital	13,949	681
Net increase/(decrease) in cash and cash equivalents	5,146	(3,444)
Cash and cash equivalents at the beginning of the period	34,801	38,245
Cash and cash equivalents at the end of the period	39,947	34,801

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2005

Attributable to equity holders of the Company

	Total equity £'000	Share capital £'000	Retained earnings ⁽ⁱ⁾ £'000	Merger reserve ⁽ⁱⁱ⁾ £'000	Share premium ⁽ⁱⁱⁱ⁾ £'000
At 1 January 2004	64,954	4,064	1,918	-	58,972
Consolidated profit for the year to 31 December 2004	21,046	-	21,046	-	-
Employee share option charge in the year to 31 December 2004	300	-	300	-	-
Issue of share capital in the year to 31 December 2004	1,481	65	-	783	633
At 31 December 2004	87,781	4,129	23,264	783	59,605
Consolidated profit for the year to 31 December 2005	5,605	-	5,605	-	-
Employee share option charge in the year to 31 December 2005	282	-	282	-	-
Pre-acquisition reserves attributable to the Group	(38)	-	(38)	-	-
Issue of share capital in the year to 31 December 2005	26,149	446	-	12,014	13,689
At 31 December 2005	119,779	4,575	29,113	12,797	73,294

(i) Retained earnings: cumulative net gains and losses recognised in the Consolidated Income Statement.

(ii) Merger reserve: amount subscribed for share capital in excess of nominal value in relation to the qualifying acquisition of subsidiary undertakings.

(iii) Share premium: amount subscribed for share capital in excess of nominal value.

1. Accounting policies

Basis of preparation

The annual report and accounts of IP2IPO Group plc (the Group) are for the year ended 31 December 2005. The European Union (EU) regulation 1606/2002 requires European Companies with securities traded on an EU regulated market to prepare their consolidated financial statements in accordance with EU endorsed international financial reporting standards for accounting periods beginning on or after 1 January 2005. On 20 December 2005, the Alternative Investment Market (AIM) announced that companies listed on the exchange will have to prepare their financial statements for financial years beginning on or after 1 January 2007 in accordance with IFRS.

The directors consider the Group to be the market leader in the intellectual property commercialisation sector. Consistent with the Group's strategy, and permitted by The Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations that became law on 11 November 2004, the directors have decided to adopt IFRS for the year ended 31 December 2005.

The annual report and accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), Standing Interpretations Committee (SIC) interpretations and International Financial Interpretations Committee (IFRIC) interpretations that have been endorsed by the European Union for the year ended 31 December 2005. They have also been prepared in accordance with those parts of the Companies Act 1985 that apply to companies reporting under IFRS.

The Group's results were prepared in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP) until the year ended 31 December 2004. UK GAAP differs in a number of areas from IFRS. In preparing the Group's annual report and accounts for the year ended 31 December 2005, the directors have amended certain accounting, valuation and consolidation methods applied in the UK GAAP financial statements. The comparative figures in respect of 2004 were restated to reflect these adjustments.

The effect of the transition from UK GAAP to IFRS on the Group's profit, net assets and cash flows are provided in the numerical reconciliation and narrative statements in note 23 to the consolidated financial statements.

Basis of consolidation

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.

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 minority 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.

Associates

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

The Group's principal activity is akin to that of a venture capital organisation and, as such, investments in associates are accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and upon initial recognition are designated as *at fair value through profit or loss*.

Revenue recognition

Turnover, comprising fees for advisory work and fund management services, is recognised in the income statement when the related services are performed. All turnover is generated within the United Kingdom and is stated exclusive of value-added tax.

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 3 to 5 years
Computer equipment	Over 3 to 5 years
Motor vehicles	Over 1 to 5 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Intangible assets

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. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

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 income statement over their expected useful economic lives.

Patents

Patents are measured at cost. They have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patents over their estimated useful economic lives.

Impairment of intangible assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment 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 cashflows (cash generating units).

Equity rights

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

The payment gives the Group the right to purchase 50% of the University's equity in any spin-out company created 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 in the income statement.

The directors have not been able to determine a reliable fair value for this financial instrument at either 1 January 2004 or subsequent reporting dates due to what are considered to be immeasurable variables:

- The timing and number of spin-out companies.
- Dilution rates as a result of financing for spin out companies in the future.
- IPO valuations.
- Disposal values and timings.

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 then a provision would be charged to the income statement.

Contract costs

Contract costs comprise related costs to secure the University of Oxford equity rights and other university partnership arrangements. These costs are amortised over the life of the respective partnership.

1. Accounting policies (continued)

Segment reporting

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing services within a particular economic environment that is subject to different risks and returns from other segments in other economic environments.

Equity investments

The Group classifies all its equity investments as *financial assets at fair value through profit or loss*. Investments in associated undertakings that are held by the Group with a view to the ultimate realisation of capital gains are designated as *financial assets at fair value through profit or loss* in recognition of the Group's principal trading activity being that of a venture capital organisation. Investments in undertakings that do not meet the definition of an associate undertaking are also designated as *financial assets at fair value through profit or loss* on initial recognition.

Treatment of gains and losses arising on fair value

Realised and unrealised gains on *financial assets at fair value through profit or loss* are included in the income statement in the period they arise.

The fair values of quoted investments are based on bid prices at the balance sheet date.

The fair value of unlisted securities is established using British Venture Capital Association (BVCA) guidelines. The valuation methodology used most commonly by the Group is the 'price of recent investment' contained in the BVCA valuation guidelines. The following considerations are used when calculating the fair value using the 'price of recent investment' guidelines:

- Where the investment being valued was itself made recently, its cost will generally provide a good indication of fair value.
- Where there has been any recent investment by third parties, the price of that investment will provide a basis of the valuation.
- If there is no readily ascertainable value from following the 'price of recent investment' methodology, the Group considers alternative methodologies in the BVCA guidelines being principally discounted cashflows and price-earnings multiples requiring management to make assumptions over the timing and nature of future earnings and cash flows when calculating fair value.
- Where a fair value cannot be estimated reliably, the investment is reported at the carrying value at the previous reporting date unless there is evidence that the investment has since been impaired.

Employee benefits

Pension obligations

The Group does not operate any pension schemes for employees but makes 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.

Share-based payments

Share-based incentive arrangements are provided to management and certain employees. Share options granted after 7 November 2002 which had not vested by 1 January 2005 are valued at the date of grant using the Black-Scholes option pricing model and are charged to operating profit over the vesting period of the award. The annual charge is modified to take account of options granted to employees who leave the Group during the performance or vesting period and forfeit their rights to the share options and in the case of non-market-related performance conditions, where it becomes unlikely they will vest.

Employee benefits

Bonus plan

The Group operates a discretionary staff bonus scheme for its employees and directors. Until 31 October 2005, based on the rules of the scheme, the maximum annual bonus (including social security costs) was 17.5% of the growth in the fair value of the Group's portfolio of equity investments subject to an overriding condition that the payment of the bonus cannot change a profit before tax into a loss before tax.

From 31 October 2005, the Group implemented a revised bonus scheme linked to the value of the investments made by the Group. The accrual for employee bonuses made shall not exceed 17.5% of fair value of investments made. In respect of the year ended 31 December 2005, onward payments from the accrual for employee bonuses have been settled by the allocation of equity. Prior to the year ended 31 December 2005, the bonus accrual was settled by way of cash.

Deferred tax

Full provision is made for deferred tax on all temporary differences resulting from the carrying value of an asset or liability and its tax base. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability settled. Deferred tax assets are recognised to the extent that it is probable that the deferred tax asset will be recovered in the future.

Notes to the Consolidated Financial Statements (continued)

1. Accounting policies (continued)

Leases

Leases where the lessor retains substantially all of the risks, and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the term of the lease.

Financial assets

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired:

Fair value through profit or loss: These assets are carried in the balance sheet at fair value with changes in the fair value recognised in the income statement.

Held for trading: These assets are carried in the balance sheet at fair value with changes in the fair value recognised in the income statement.

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 debtors). They are carried at cost less provision for impairment.

Cash and cash equivalents: These assets comprise cash balances on sight deposit or longer-term deposit not greater than 12 months.

Financial liabilities

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

2. Revenue

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

3. Business segments

For both the year ended 31 December 2005 and the year ended 31 December 2004, the Group's revenue and profit before taxation was derived entirely from its principal activity within the United Kingdom. For management purposes, the Group is currently organised into two operating divisions: i) the commercialisation of intellectual property via the formation of long-term partnerships with universities; and ii) management of venture funds focusing on early-stage UK technology companies.

Year ended 31 December 2005	University partnership business £'000	Venture capital fund management £'000	Consolidation adjustments £'000	Consolidated £'000
Income statement				
Turnover	466	1,316	(100)	1,682
Change in fair value of equity investments	5,737	-	-	5,737
Surplus on disposal of equity investments	762	-	-	762
Dividends	209	-	-	209
Administrative expenses	(3,607)	(1,022)	100	(4,529)
Operating profit	3,567	294	-	3,861
Finance income - interest receivable	1,736	8	-	1,744
Profit before taxation	5,303	302	-	5,605
Taxation	-	-	-	-
Profit for the period	5,303	302	-	5,605
Balance sheet				
Assets	123,338	2,968	-	126,356
Liabilities	(6,154)	(423)	-	(6,577)
Net assets	117,234	2,545	-	119,779
Other segment items				
Capital expenditure	65	8	-	73
Depreciation	(34)	(3)	-	(37)
Amortisation of intangible assets	9	152	-	161

Notes to the Consolidated Financial Statements (continued)

3. Business segments (continued)

Year ended 31 December 2004	University partnership business £'000	Venture capital fund management £'000	Consolidated £'000
Income statement			
Turnover	523	660	1,183
Change in fair value of equity investments	24,014	-	24,014
Surplus on disposal of equity investments	790	-	790
Administrative expenses	(5,518)	(1,076)	(6,594)
Operating profit	19,809	(416)	19,393
Finance income - interest receivable	1,610	6	1,616
Profit before taxation	21,419	(410)	21,009
Taxation	-	37	37
Profit for the period	21,419	(373)	21,046
Balance sheet			
Assets	91,176	3,574	94,750
Liabilities	(6,018)	(951)	(6,969)
Net assets	85,158	2,623	87,781
Other segment items			
Capital expenditure	69	-	69
Depreciation	(31)	(4)	(35)
Amortisation of intangible assets	20	76	96

Secondary format - geographical segments

The Group operates exclusively in the United Kingdom and consequently no additional disclosures are given.

4. Operating profit

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

	At 31 December 2005 £'000	At 31 December 2004 £'000
Depreciation of property, plant and equipment	37	35
Amortisation of intangible assets	152	96
Employee costs (see note 5)	3,072	5,741
Operating leases - property	216	39
Profit on disposal of equity investments	(762)	(790)
Auditors' remuneration for audit services (Company: £5,000, (2004: £5,000))	59	49
Auditors' remuneration for non-audit services	91	36

5. Employee costs

Employee costs (including executive directors) comprise:

	2005 £'000	2004 £'000
Salaries	1,282	867
Defined contribution pension cost	181	119
Employee share option charge (see note 18)	282	300
Accrual for employee bonuses (see note 14)	1,174	3,858
Employer's national insurance contributions	153	597
	3,072	5,741

5. Employee costs (continued)

The average monthly number of persons (including executive directors) employed by the Group during the year was 21, all of whom were involved in management and administration activities (2004: 11). The Company had no employees in the year ended 31 December 2005 (2004: Nil). All Group and Company employee costs were borne by other Group companies.

Directors' emoluments

In respect of directors' remuneration, the Company has taken advantage of the permission in paragraph 1(6) of Schedule 6 to the Companies Act 1985 to omit aggregate information that is capable of being ascertained from the detailed disclosures in the report of the Remuneration Committee on pages 11 to 13 which form part of these financial statements.

	2005 £'000	2004 £'000
Aggregate emoluments	1,079	997
Company pension contribution to money purchase schemes	50	25
	1,129	1,022

6. Taxation

	2005 £'000	2004 £'000
Current tax:		
Adjustment in respect of prior periods	-	1
	-	1
Deferred tax:		
Adjustments in respect of prior periods	-	(38)
	-	(37)

The charge for the year can be reconciled to the profit per the income statement as follows:

	2005 £'000	2004 £'000
Profit before tax	5,605	21,009
Tax at the UK Corporation tax rate of 30% (2004: 30%)	1,682	6,302
Expenses not deductible for tax purposes	53	32
Non-taxable income	(1,784)	(7,204)
Movement in unrecognised deferred tax	49	870
Adjustments in respect of prior periods	-	(37)
Tax charge	Nil	(37)

At 31 December 2005 deductible temporary differences and unused tax losses for which no deferred tax assets have been recognised totalled £10,033,000 (2004: £9,338,000). An analysis is shown below.

	2005		2004	
	Amount £'000	Deferred tax £'000	Amount £'000	Deferred tax £'000
Share option costs	602	181	510	153
Other short term differences	4,610	1,383	4,704	1,411
Unused tax losses	4,821	1,446	4,124	1,237
	10,033	3,010	9,338	2,801

These assets have not been recognised in the financial statements due to current uncertainties surrounding the reversal of the underlying temporary differences. These deferred tax assets 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 Substantial Shareholder Exemption and therefore no deferred tax is provided for in respect of the movement in fair value of the Group's equity investments.

Notes to the Consolidated Financial Statements (continued)

7. Earnings per share

Earnings

	2005 £'000	2004 £'000
Earnings for the purposes of basic and dilutive earnings per share	5,605	21,046

Number of shares

	2005 No. of shares	2004 No. of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	44,562,701	40,777,614
Effect of dilutive potential ordinary shares: Share options	1,113,626	1,394,207
Weighted average number of ordinary shares for the purposes of diluted earnings per share	45,676,327	42,171,821

8. Goodwill

	£'000
At 1 January 2004	-
Recognised on acquisition of subsidiary ⁽ⁱ⁾ (note 16)	2,091
At 1 January 2005	2,091
Recognised on acquisition of subsidiary ⁽ⁱⁱ⁾ (note 16)	16,312
At 31 December 2005	18,403
At 31 December 2004	2,091

(i) Goodwill arising on the acquisition of Top Technology Ventures Limited forms part of the venture capital fund management cash generating unit (CGU). Prior to 30 June 2004 there was no goodwill ascribed to this cash generating unit.

(ii) The Group acquired the remaining share capital of Techtran Group Limited in January 2005. The goodwill arising is considered part of the university partnership CGU.

The recoverable amount of the above CGUs have been determined from the value in use calculations on cash flow projections from formally approved budgets covering a three-year period.

Impairment review of venture capital fund management CGU

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

	2005	2004
Discount rate	9%	9%
Number of funds under management	2	2
Management fee	2%	2%
Cost inflation	4%	4%

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

Impairment review of the university partnership CGU

Due to inherent uncertainties a reliable value in use cannot be determined. However there has been no objective evidence from trading activity to date or that anticipated in the future that makes the Board consider that a risk of impairment at the 31 December 2005 existed.

9. Acquired intangible assets

	£'000
At 1 January 2004	-
Recognised on acquisition of subsidiary (note 16)	833
Amortisation charge during the year ended 31 December 2004	(76)
At 1 January 2005	757
Amortisation charge during the year ended 31 December 2005	(152)
At 31 December 2005	605
At 31 December 2004	757

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 have fair valued this asset on a discounted cash flow basis and concluded that the fair value of this asset at 30 June 2004 was £833,000. The asset is being amortised on a straight-line basis over its useful life which has been determined by reference to the residual life of the two contracts to be five-and-a-half years. At 31 December 2005 the asset had a remaining useful life of four years (2004: five years).

10. Property, plant and equipment

	Motor vehicles £'000	Computer equipment £'000	Fixtures and fittings £'000	Total
Cost				
At 1 January 2005	9	91	31	131
Additions	-	65	8	73
At 31 December 2005	9	156	39	203

Accumulated depreciation

At 1 January 2005	9	58	9	76
Charge for the year	-	14	23	37
Disposals				
At 31 December 2005	9	72	32	113

Net book value

At 31 December 2005	-	84	7	91
At 31 December 2004	-	33	22	55

	Motor vehicles £'000	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost				
At 1 January 2004	-	63	20	83
Additions	9	28	32	69
Disposals	-	-	(21)	(21)
At 31 December 2004	9	91	31	131

Accumulated depreciation

At 1 January 2004	-	46	10	56
Charge for the year	9	12	14	35
Disposals	-	-	(15)	(15)
At 31 December 2004	9	58	9	76

Net book value

At 31 December 2004	-	33	22	55
At 31 December 2003	-	17	10	27

Notes to the Consolidated Financial Statements (continued)

11. Equity rights and related contract costs

	Equity rights £'000	Contract costs £'000	Total £'000
Cost			
At 1 January 2004 and 31 December 2004	19,890	354	20,244
Aggregate amortisation of contract costs			
At 1 January 2004	-	(54)	(54)
Charge for the year	-	(20)	(20)
At 31 December 2004	-	(74)	(74)
Net book value			
At 31 December 2004	19,890	280	20,170
Cost			
At 1 January 2005	19,890	354	20,244
Additions	-	41	41
At 31 December 2005	19,890	395	20,285
Aggregate amortisation of contract costs			
At 1 January 2005	-	(74)	(74)
Charge for the year	-	(9)	(9)
At 31 December 2005	-	(83)	(83)
Net book value			
At 31 December 2005	19,890	312	20,202
At 31 December 2004	19,890	280	20,170

Carrying amount of equity rights

Based on the rate at which spin-out companies from the University of Oxford Chemistry Department have been created to date, their progress towards sale or flotation, the remaining life of the partnership, the rate at which spin-out companies from the University of Oxford Chemistry Department are anticipated to be created in the future, the size of the Group's stake in such companies and the continued prestige of the chemistry department, the directors continue to believe that the equity rights carrying value is fairly stated at the balance sheet date.

12. Equity investments - designated as 'at fair value through profit or loss'

	Quoted spin-out companies £'000	Unquoted spin-out companies £'000	Other investments £'000	Total £'000
At 1 January 2004	-	6,639	1,330	7,969
Investments during the year	-	1,709	2,019	3,728
Reclassifications during the year	1,410	(1,410)	-	-
Disposal during the year	-	(175)	-	(175)
Change in fair value in the year	22,540	1,652	(178)	24,014
At 31 December 2004	23,950	8,415	3,171	35,536
At 1 January 2005	23,950	8,415	3,171	35,536
Investments during the year	-	4,736	365	5,101
Reclassifications during the year	812	(812)	-	-
Disposal during the year	-	(100)	-	(100)
Change in fair value in the year	(172)	6,013	(104)	5,737
Adjustment arising on consolidation of Techtran Group Limited	-	-	(2,019)	(2,019)
At 31 December 2005	24,590	18,252	1,413	44,255

12. Equity investments - designated as 'at fair value through profit or loss' (continued)

Certain fair values of unquoted spin-out companies have been determined in part or in full by valuation techniques that are not supported by observable market prices or rates. However, if the assumptions used in the valuation techniques are varied by using a range of possible alternatives, there is no material difference to the carrying value of the respective spin-out company.

Change in fair value in the year

	2005 £'000	2004 £'000
Fair value gains	14,107	24,249
Fair value losses	(8,370)	(235)
	5,737	24,014

Significant equity investments

At 31 December 2005 the Group has investments where it holds 20% or more of the issued share capital of the following companies:

Undertaking	% of issued share capital held	Net assets £'000	Profit/(loss) before tax £'000	Date of financial statements
Oxford Nanolabs Limited ⁽¹⁾	65.1	-	-	-
Designer Polymers Limited	50.0	-	-	-
Novmac Limited	50.0	-	-	-
Biopharms Limited	50.0	-	-	-
Perachem Limited	48.5	-	-	-
Avacta Limited	46.8	-	-	-
Cerogenix Limited	46.7	-	-	-
Oxford Catalysts Limited	42.7	-	-	-
Oxford Medical Diagnostics Limited	41.5	-	-	-
Bioniqs Limited	41.3	-	-	-
Phonologica Limited	40.7	248	(172)	28.05.05
RF Sensors Limited	35.9	-	-	-
Amaethon Limited	33.3	-	-	-
Novarc Limited ⁽²⁾	30.8	-	-	-
Synairgen plc	30.6	8,840	(610)	30.06.05
Luto Research Limited	30.0	-	-	-
Structure Vision Limited	30.0	-	-	-
Tracsis Limited	30.0	27	27	31.07.04
Identi-tree Limited	30.0	-	-	-
Ilika Technologies Limited	28.8	313	(78)	30.04.05
Karus Limited	27.4	-	-	-
Syntopix Limited	27.6	-	-	-
Rock Deformation Research Limited ⁽³⁾	27.5	326	156	31.07.05
Perpetuum Limited	26.9	-	-	-
Acsian Limited	25.1	-	-	-
ActivotecSPP Limited	25.0	-	-	-
Proximagen Neurosciences plc	23.5	-	-	-
Southampton Asset Management Limited	20.0	-	-	-

(1) Oxford Nanolabs Limited is not consolidated due to certain preferential rights afforded to seed round investors within the Oxford Nanolabs Limited Investment Agreement which expires on 19 May 2007 and until that time the Group does not have the power to control the entity. It remains therefore a *financial asset at fair value through profit or loss*.

(2) Novarc Limited entered into voluntary liquidation on 21 January 2005 and is carried at Nil in the balance sheet at 31 December 2005 (2004: Nil).

(3) Shares held by University of Leeds as nominee for IP2IPO.

All companies are incorporated in England and Wales.

No financial information is presented in respect of companies that have not filed accounts at Companies House.

Southampton Asset Management Limited holds investments in spin-out companies from Southampton University. The Company's indirect investments in spin-out companies from the University of Southampton are included within Equity Investments as this reflects the structure of the partnership with the University. Accordingly no disclosure is made above of the net assets and profit or loss of Southampton Asset Management Limited.

12. Equity investments – designated as ‘at fair value through profit or loss’ (continued)

Significant equity investments (continued)

At 31 December 2005 the Group has the following investments in spin-out companies where it holds less than 20% of the issued share capital:

Undertaking	% of issued share capital held
IQur Limited	18.8
Capsant Neurotechnologies Limited	18.4
GETECH plc	16.6
Stratophase Limited	15.1
Pharminox Limited	13.8
Zyentia Limited	13.2
VASTox plc	12.9
Reox Limited	12.2
Offshore Hydrocarbon Mapping plc	10.4
Nanotecture Limited	10.1
Glycoform Limited	9.7
Photopharmica Limited ⁽¹⁾	7.0
Sigma Technology Group plc	5.0
Inhibox Limited	4.5
Icona Solutions Limited	1.5
Powerlase Limited	<1.0

(1) Shares held by University of Leeds as nominee for IP2IPO.

All companies are incorporated in England and Wales.

13. Other financial assets and financial liabilities

Financial asset consists of a zero cost forward contract giving the Group the right to receive sale proceeds when the University of Leeds sells down its stake in specified spin-out companies subject to a maximum receivable of £1,400,000. 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 income statement. Fair value is determined by discounting expected cash flows at prevailing market rates of interest.

Trade and other receivables at the balance sheet date comprise amounts receivable from trade debtors of £296,000, prepayments of £80,000, amounts due from related parties of £223,000 and other receivables of £1,358,000 (2004: trade debtors of £398,000, prepayments of £16,000, amounts due from related parties £223,000 and other receivables of £1,634,000). The directors consider the carrying amount of trade and other receivables to approximate their fair value.

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of 12 months or less. The carrying amount of these assets approximates their fair value.

Risk management objectives

Through its normal operations, the Group is exposed to a number of risks, the most significant of which are liquidity and market risks. The management of these risks is vested in the Board of Directors.

Management of credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables and investments, which represent the Group's maximum exposure to credit in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior year experiences and their assessment of the current economic environment. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings by international credit-rating agencies. 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.

Management of liquidity risk

The Group seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs, and to invest cash assets safely and profitably. Accordingly, the Group only invests in low-risk funds with reputable institutions.

13. Other financial assets (continued)

Management of market risk

The Group is exposed to market risk in respect of its equity investments. The Group mitigates this risk by having established investment appraisal processes and asset monitoring procedures which are subject to overall review by the Board.

Interest and currency profile

All assets and liabilities are denominated in pounds sterling. The Group's assets and liabilities have the following interest rate profile:

	2005				2004			
	⁽ⁱ⁾ Fixed rate £'000	⁽ⁱⁱ⁾ Floating rate £'000	Interest free £'000	Total £'000	Fixed rate £'000	Floating rate £'000	Interest free £'000	Total £'000
Financial assets								
Equity rights	-	-	19,890	19,890	-	-	19,890	19,890
Equity investments	-	-	44,255	44,255	-	-	35,536	35,536
Cash and cash equivalents	24,500	15,447	-	39,947	20,000	14,801	-	34,801
Financial asset	-	-	1,337	1,337	-	-	-	-
Trade receivables	-	-	296	296	-	-	398	398
Related parties	-	-	223	223	-	-	223	223
Other receivables	-	-	1,314	1,314	-	-	1,591	1,591
	24,500	15,447	67,315	107,262	20,000	14,801	57,638	92,439

With the exception of the equity rights and equity investments, all amounts have maturity dates of less than 12 months.

	2005				2004			
	Fixed rate £'000	⁽ⁱⁱⁱ⁾ Floating rate £'000	Interest free £'000	Total £'000	Fixed rate £'000	Floating rate £'000	Interest free £'000	Total £'000
Financial liabilities								
Trade payables	-	-	153	153	-	-	71	71
Accrued staff bonus	-	-	4,609	4,609	-	-	4,704	4,704
Deferred consideration	-	1,265	-	1,265	-	800	-	800
	-	1,265	4,762	6,027	-	800	4,775	5,575

With the exception of the accrued staff bonus, all amounts mature for payment within one year. The maturity profile of the accrued staff bonus is £1,045,000 (2004: £1,170,000) is within one year or less and £3,564,000 (2004: £3,534,000) is more than two years but not more than five years. To the extent that financial assets and financial liabilities are not carried at fair value in the consolidated balance sheet (notes 13 and 14), book value approximates to fair value at 31 December 2004 and 2005.

(i) Fixed-rate assets attracted interest of between 4.51% and 5.17% during the year (2004: 4.80% to 5.02%).

(ii) Floating-rate assets attracted interest of 4.50% at the year end (2004: 4.75%).

(iii) Floating-rate liabilities attracted interest of 4.50% at the year end (2004: Nil).

During 2005, average fixed rate terms applied for three months (2004: three months).

14. Trade and other payables

Non-current liabilities

	At 31 December 2005 £'000	At 31 December 2004 £'000
Accrued staff bonuses	3,564	3,534

Current liabilities

	At 31 December 2005 £'000	At 31 December 2004 £'000
Trade payables	153	71
Social security expenses	45	112
Accrued staff bonuses	1,045	1,170
Other accruals and deferred consideration	1,770	1,992
	3,013	3,345

14. Trade and other payables (continued)

Accrued staff bonuses

The Group operates a discretionary staff bonus scheme for its employees and directors. Until 31 October 2005, based on the rules of the scheme, the maximum annual bonus (including social security costs) was 17.5% of the growth in the fair value of the Group's portfolio of equity investments subject to an overriding condition that the payment of the bonus cannot change a profit before tax into a loss before tax.

From 31 October 2005, the Group implemented a revised bonus scheme linked to the value of the investments made by the Group. The accrual for employee bonuses made shall not exceed 17.5% of fair value of investments made. In respect of the year ended 31 December 2005, payments from the accrual for employee bonuses have been primarily settled by the allocation of equity. Bonuses relating to the year ended 31 December 2004 were settled by way of cash.

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.

The directors are of the opinion that the bonus accrual that has been recognised from the date of transition to IFRS is consequential of the change from UK GAAP.

	Non-current bonus accrual £'000	Current bonus accrual £'000
At 1 January 2004	502	50
Charged in the income statement in the year to 31 December 2004	3,032	1,170
Paid during the year to 30 December 2004	-	(50)
At 31 December 2004	3,534	1,170
Charged in the income statement in the year to 31 December 2005	130	1,045
Paid during the year to 31 December 2005	(100)	(1,170)
At 31 December 2005	3,564	1,045

15. Share capital

Group and Company	2005 £'000	2004 £'000
Authorised:		
90 million ordinary shares of 10 pence each (2004: 90 million)	9,000	9,000
Issued and fully paid:		
45,747,387 ordinary shares of 10 pence each (2004: 41,294,140)	4,575	4,129

On 10 January 2005 the Company issued 1,862,610 new ordinary shares with a par value of 10 pence at an issue price of 655 pence as part consideration for the acquisition of Techtran Group Limited. The premium arising on the shares of £12,014,000 has been taken to a merger reserve. On 16 May 2005 the Company issued 2,157,837 new ordinary shares with a par value of 10 pence with regard to a placing of shares realising net proceeds of £13,700,000. On 30 September 2005 the Company issued 432,800 new ordinary shares with a par value of 10 pence with respect to the exercise of share options with an average exercise price of 153 pence. The Company has one class of ordinary shares which carry no right to fixed income.

16. Acquisitions of subsidiary undertakings

Acquisition of Techtran Group Limited ('Techtran')

The Group subscribed for 33,994 shares in Techtran for £2,000,000 on 16 July 2004, which represented 19.9% of the enlarged issued share capital of Techtran at that date. The book and fair value of the net assets acquired at that date was £403,000 giving rise to goodwill of £1,597,000. On 20 January 2005, the Group acquired the remaining share capital of Techtran for a consideration of £16,365,000 giving rise to goodwill of £14,715,000.

16. Acquisitions of subsidiary undertakings (continued)

The fair value and book value of assets acquired at 20 January 2005 were:

	Fair value and book value £'000
Net assets acquired:	
Property, plant and equipment	6
Equity investments	293
Trade and other receivables	34
Cash and cash equivalents	1,470
Trade and other payables	(191)
Pre-acquisition reserves attributable to the Group	38
Goodwill	14,715
Total consideration	16,365
Satisfied by:	
Cash consideration	3,400
Shares issued (1,862,610 shares at 655 pence) ⁽ⁱ⁾	12,200
Deferred cash consideration	600
Expenses	165
	16,365

(i) Denotes the closing share price of the Company at 20 January 2005.

Total losses attributable to Techtran in the period from 20 January 2005 to 31 December 2005 amounted to £173,338 (2004: £Nil). Total losses and revenue attributable to Techtran in the year ended 31 December 2005 were £291,514 and £217,470, respectively. If the acquisition had occurred on 1 January 2005, Group turnover would have been higher by £1,517 and profits lower by £118,176.

The directors have considered the requirements of IFRS 3 *Business Combinations* to consolidate the fair value of intangible assets at the date of acquisition where intangible assets can be clearly identified and the fair value measured reliably. In 2002, Techtran entered into a contractual relationship with the University of Leeds for the provision of technology transfer services. The directors consider that the fair value of the Leeds partnership cannot be estimated reliably as a result of uncertainty surrounding:

- the timing and number of spin-out companies;
- dilution rates as a result of financing spin-out companies in the future;
- IPO valuations;
- disposal values and timings; and
- the number and value of licensing deals.

As a consequence, the intangible asset is accounted for within goodwill arising on consolidation.

Acquisition of Top Technology Ventures Limited

On 30 June 2004, the Group acquired Top Technology Ventures Limited for £2,431,000 paid by cash and shares. In calculating the goodwill arising on acquisition, the fair value of the net liabilities of Top Technology Ventures Limited have been assessed and compared to book value at the time of acquisition. At 30 June 2004 the directors have increased net assets by £833,000 for the recognition of a separately identifiable intangible asset. The directors considered that no other adjustments were necessary. The table on page 36 summarises the net assets at acquisition.

16. Acquisitions of subsidiary undertakings (continued)

	Book value £'000	Fair value adjustments £'000	Fair value £'000
Net assets acquired:			
Property, plant and equipment	38	-	38
Intangible asset (note 9)	-	833	833
Equity investments	89	-	89
Trade and other receivables	91	-	91
Cash and cash equivalents	230	-	230
Trade and other payables	(733)	-	(733)
Provision for liabilities and charges	(128)	-	(128)
	(413)	833	420
Goodwill (note 8)			2,091
Total consideration			2,511
Satisfied by:			
Cash consideration			831
Shares issued (172,092 shares at 465 pence)			800
Deferred cash consideration			800
Expenses			80
			2,511

17. Operating lease arrangements

	2005 £'000	2004 £'000
Minimum lease payments under operating leases recognised in income for the year	216	39

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

	2005 £'000	2004 £'000
Within one year	222	29
In the second and fifth years inclusive	481	94
	703	123

Operating lease payments represent rentals 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.

18. Share-based payments

The Group grants options over the ordinary shares of the Company at not less than the market value of the Group's ordinary shares on the date of grant. The vesting period is generally three to four years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The movement in the number of share options is set out below:

	2005	2004
Outstanding at 1 January	1,805,767	2,338,905
Lapsed during the year	-	(50,000)
Exercised during the year	(432,800)	(483,138)
Number of outstanding share options at 31 December	1,372,967	1,805,767

As at 31 December 2005, 1,339,631 share options were capable of being exercised (2004: 868,016). The options outstanding at 31 December 2005 had a weighted average exercise price of 222 pence (2004: 185 pence), and a weighted average remaining contractual life of seven-and-a-half years (2004: eight-and-a-half years). The weighted average share price at the date of exercise for share options exercised during the year was 512 pence (2004: 661 pence).

The Group uses the Black-Scholes model to fair-value the Group's share options. The Group has elected to apply the share-based payment exemption under IFRS 1. The Group has not applied IFRS 2 to those options granted before 7 November 2002.

18. Share-based payments (continued)

Assumptions

The following assumptions are those used to determine the fair value of share options at the respective date of grant:

Date of grant £'000	Exercise price (p)	Ordinary shares under option	Share price at date of grant (p)	Expected volatility	Interest rate	Life of option (years)	Expected dividends
29 July 2003	160	250,000	160	20%	4.18%	6	Nil
14 September 2003	160	118,750	160	20%	4.42%	6	Nil
14 September 2003	275	50,000	160	20%	4.42%	6	Nil
7 October 2003	275	700,000	275	20%	4.79%	6	Nil
20 October 2003	160	25,000	332	20%	4.83%	6	Nil
20 October 2003	275	25,000	332	20%	4.83%	6	Nil

Expected volatility is derived from observation of the volatility of quoted shares in similar sectors to the Group.

The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions.

National Insurance is payable on gains and losses made by employees on exercise of share options granted to them. The Group has entered into an arrangement with employees such that employees will reimburse the Group for any National Insurance liability arising on the exercise of share options. This is included in trade and other receivables and amounts to £539,000 (2004: £1,033,000). The movement in provisions is set out below:

	National insurance on options £'000	Other £'000
At 1 January 2005	1,033	90
Utilised in the year	(198)	(90)
Other changes	(296)	-
At 31 December 2005	539	-

19. Investments in limited partnerships

Cost and net book value	£'000
At 1 January 2005	87
Share of loss for the period	(3)
At 31 December 2005	84

The Group manages as general partner two venture-capital limited partnerships, HATT III Limited Partnership and TTV IV Limited Partnership, in which it has a minority interest of 1%. The directors consider that the Group neither exercises control nor has the potential to control these partnerships and acts in a fiduciary capacity as fund manager on behalf of third-party investors. In accordance with IAS 27 *Consolidated Separate Financial Statements*, these partnerships are therefore excluded from the Group consolidation. Investments in limited partnerships are stated at the Group's share of net assets in these undertakings. In the opinion of the directors, this is the fairest method to reflect the Group's interests in these undertakings.

Notes to the Consolidated Financial Statements (continued)

20. Related party transactions

The key management had investments with the following spin-out companies as at 31 December 2005:

Director £'000	Spin-out company	Number of shares held at 1 January 2005	Number of shares acquired (disposed) during the year	Number of shares held at 31 December 2005	% of issued Share capital held at 31 December 2005	Cost of investment at 31 December 2005
David Norwood	Pharminox	265	-	265	0.2	10
	Syntopix Limited	-	2,729	2,729	1.0	-
Alan Aubrey	GETECH Group plc	-	15,000	15,000	0.1	6
	Syntopix Limited	-	2,729	2,729	1.0	-
Alison Fielding	Syntopix Limited	-	2,729	2,729	1.0	-
Bruce Campbell	ActivotecSPP Limited	-	439	439	0.3	12
	Proximagen Neuroscience plc ⁽²⁾	1,126	66,442	67,568	0.3	2
Graham Richards	VASTox plc	1,010,100	-	1,010,100	3.2	5
	GETECH Group plc	-	30,000	30,000	0.1	13
Magnus Goodlad	Syntopix Limited	-	1,024	1,024	0.4	-
Bruce Smith	Nanotecture ⁽¹⁾	10,000	40,000	50,000	0.5	15
	IQur	2,000	-	2,000	1.1	20
	Synairgen plc	200,000	-	200,000	0.2	20
	Offshore Hydrocarbon Mapping plc	79,519	-	79,519	0.3	30
	Capsant Neurotechnologies	4,000	-	4,000	2.0	30
	Phonologica	2,000	-	2,000	0.1	10
	GETECH Group plc	-	15,000	15,000	0.1	6
Roger Brooke	Nanotecture ⁽¹⁾	6,667	26,668	33,335	0.3	10
	IQur	1,000	400	1,400	0.6	10
	ReOx	4,000	-	4,000	0.3	20
	Stratophase	4,549	-	4,549	1.2	7
	Pharminox	786	-	786	0.6	10
	Zyentia	3,766	-	3,766	0.3	5
	Glycoform	312	313	625	0.2	10
	Inhibox	500	-	500	0.4	7
	Offshore Hydrocarbon Mapping plc	51,179	(51,179)	-	-	15
	Capsant Neurotechnologies	2,667	-	2,667	1.3	20
	ActivotecSPP Limited	800	659	1,459	1.1	10
	Phonologica	2,000	-	2,000	1.0	10
	GETECH Group plc	-	30,000	30,000	0.1	13
	VASTox plc	-	11,400	11,400	<0.1	18
Proximagen Neuroscience plc ⁽²⁾	3,000	177,000	180,000	0.9	15	

(1) In April 2005, Nanotecture Group plc issued shares pursuant to a 5-to-1 bonus issue.

(2) In March 2005, Proximagen Neuroscience plc issued shares pursuant to a 60-to-1 bonus issue.

As at 31 December 2005, Bruce Campbell is Chairman of Proximagen Neuroscience plc and holds an option over 600,000 ordinary shares, equal to 3% of the fully diluted share capital of that company.

Compensation to key management comprises solely of that paid to executive directors of the Group. Full details of directors' compensation is disclosed in the Directors' Remuneration Report on pages 11 to 13.

21. Capital commitments

Under the terms of an agreement entered into during the year ended 31 December 2002 between the Group, the University of Southampton and certain of the University of Southampton's subsidiaries, the Group agreed to make £5,000,000 available for the purposes of making investments in University of Southampton spin-out companies. Of this amount, at 31 December 2005, £2,909,000 had been invested in 11 spin-out companies from the university.

Under the terms of an agreement entered into during 2003 between the Group and King's College London (KCL) and KCL Enterprises Limited, the Group agreed to make £5,000,000 available for the purposes of making investments in spin-out companies. At 31 December 2005, £1,031,000 has been invested in three spin-out companies from KCL. Under the terms of this agreement, KCL can require the Group to make a further £5,000,000 available for investments in spin-out companies on the tenth anniversary of the partnership.

In October 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 £750,000 in spin-out companies based on CNAP's intellectual property. At 31 December 2005, £210,000 has been invested in one spin-out company.

The Group extended its partnership with the University of Leeds in July 2005 by securing the right and obligation to invest up to £5,000,000 in University of Leeds spin-out companies. So far £1,600,000 has been invested in four spin-out companies.

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 £5,000,000 in University of Bristol spin-out companies.

22. Post balance sheet events

Since 31 December 2005, the Group has entered into a partnership with the University of Surrey, carrying a capital commitment on the part of the Group of £5,000,000 for 13.3% of the equity of University of Surrey spin-outs.

In January 2006, the Group invested £500,000 for a 40% stake in Revolmer Limited, a company spun out of the University of Bristol.

In February 2006 Modern Biosciences plc ('Modern Biosciences'), a wholly owned subsidiary of the Group, announced it had entered into a Memorandum of Understanding with the University of Manchester allowing Modern Biosciences to identify and assess drug-related investment opportunities arising from research carried out across the university. It is intended that Modern Biosciences will provide investment for suitable opportunities and also take on responsibility for the development and commercialisation of the appropriate IP.

In March 2006, the Group extended its partnership with the University of York to cover the entire university.

23. Impact of the first time adoption of IFRS/IAS

Application of IFRS 1

The Group's consolidated financial statements for the year ended 31 December 2005 will be the first annual consolidated financial statements that comply with IFRS. These consolidated financial statements have been prepared on the basis set out in note 1.

The Group's transition date is 1 January 2004. The Group prepared its opening balance sheet date at that date. The reporting date of these consolidated financial statements is 31 December 2005.

In preparing the consolidated financial statements, the Group has applied the mandatory exceptions, as applicable, and the following exemption:

- The Group has elected to apply the share-based payment exemption. The Group has not applied IFRS 2 to those options which were granted before 7 November 2002 and which had vested by 1 January 2005.

The reconciliations and explanatory notes on pages 40 to 43 provide an explanation of the effect of the transition to IFRS.

Notes to the Consolidated Financial Statements (continued)

23. Impact of the first-time adoption of IFRS/IAS (continued)

Balance sheet reconciliation at 1 January 2004

	Note	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Assets				
Non-current assets				
Property, plant and equipment		27	-	27
Intangible assets:				
Goodwill		-	-	-
Investment in patents		12	-	12
Equity rights and related contract costs	A	17,556	2,634	20,190
Equity investments	B	5,804	2,165	7,969
Total non-current assets		23,399	4,799	28,198
Current assets				
Trade and other receivables		170	-	170
Cash and cash equivalents		38,245	-	38,245
Total current assets		38,415	-	38,415
Total assets		61,814	4,799	66,613
Equity and liabilities				
Equity attributable to equity holders				
Called-up share capital		4,064	-	4,064
Share premium account		58,972	-	58,972
Retained earnings	C	(2,379)	4,297	1,918
Total equity		60,657	4,297	64,954
Non-current liabilities				
Trade and other payables	D	383	502	885
Total equity and non-current liabilities		61,040	4,799	65,839
Current liabilities				
Trade and other payables		774	-	774
Total equity and liabilities		61,814	4,799	66,613

Notes to the Consolidated Financial Statements (continued)

23. Impact of the first-time adoption of IFRS/IAS (continued) Reconciliation of income statement year to 31 December 2004

	Note	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Turnover		1,183	-	1,183
Equity investments				
Provision against equity investments	E	(178)	178	-
Fair value gains	F	-	24,249	24,249
Fair value losses	F	-	(235)	(235)
Surplus on disposal of equity investments	G	924	(134)	790
		746	24,058	24,804
Administrative expenses				
Accrual for employee bonuses	H	-	(4,202)	(4,202)
Other administrative expenses	I	(3,260)	868	(2,392)
		(3,260)	(3,334)	(6,594)
Operating profit/(loss)		(1,331)	20,724	19,393
Finance income - interest receivable		1,616	-	1,616
Profit before taxation		285	20,724	21,009
Taxation		37	-	37
Profit attributable to equity holders of the parent		322	20,724	21,046

Notes to the Consolidated Financial Statements (continued)

23. Impact of the first-time adoption of IFRS/IAS (continued)

Balance sheet reconciliation at 31 December 2004

	Note	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Assets				
Non-current assets				
Property, plant and equipment		55	-	55
Intangible assets:				
Goodwill	J	2,850	(759)	2,091
Acquired intangible assets	K	-	757	757
Investment in patents		15	-	15
Equity rights and related contract costs	L	16,861	3,309	20,170
Equity investments	M	9,988	25,548	35,536
Investments in limited partnerships		87	-	87
Total non-current assets		29,856	28,855	58,711
Current assets				
Trade and other receivables		1,238	1,033 ⁽ⁱ⁾	2,271
Cash and cash equivalents		34,801	-	34,801
Total current assets		36,039	-	37,072
Total assets		65,895	28,855	95,783
Equity and liabilities				
Equity attributable to equity holders				
Called-up share capital		4,129	-	4,129
Share premium account		59,605	-	59,605
Merger reserve		783	-	783
Retained earnings	N	(2,057)	25,321	23,264
Total equity		62,460	25,321	87,781
Non-current liabilities				
Trade and other payables	O	-	3,534	3,534
Provisions		90	1,033 ⁽ⁱ⁾	1,123
Total equity and non-current liabilities		62,550	29,888	92,438
Current liabilities				
Trade and other payables		3,345	-	3,345
Total equity and liabilities		65,895	29,888	95,783

(i) Reflects the grossing up of National Insurance on unapproved share options recoverable from employees on the exercise of share options.

Description of adjustments

Transitional adjustments at 1 January 2004

- A The University of Oxford equity rights is a derivative financial instrument classified as a held for trading financial asset at fair value. No reliable fair value can be established and consequently the asset is carried at cost, subject to impairment. An amount has been debited against equity rights recognising the reversal of prior GAAP accounting practice (£2,634,000).
- B Equity investments have been stated at fair value (£2,165,000).
- C Retained earnings have been adjusted for fair value gains (£2,165,000), an additional employee bonus accrual charge (£502,000) and a gain as a result of acquiring shares through equity rights for nil consideration (£2,634,000).
- D In addition to a £50,000 bonus accrual that existed at transition date within current trade payables under UK GAAP, an additional bonus accrual charge has been recognised in non-current trade payables (£502,000).

Income statement for the year ended 31 December 2004

- E An impairment charge recognised under UK GAAP has been reclassified to 'fair value losses' (£178,000).
- F Current period gains comprise gains as a result of fair-valuing the portfolio of equity investments (£23,517,000), the impact of receipt of shares through equity rights for nil consideration (£675,000) and a reclassification of a provision for impairment recognised under UK GAAP (£178,000).
- G In the year to 31 December 2004, the surplus on disposal of shares in Oxford Hydrocarbon Mapping Plc has been reduced to reflect the revised base cost of the disposed shares (£134,000).
- H Accrual for employee bonuses includes a reclassification from administrative expenses of previously recognised employee bonuses under UK GAAP (£1,170,000) and an additional current period employee bonus charge (£3,032,000).
- I Adjustments to administrative expenses include a share option charge (£300,000), a write-back of previously amortised goodwill (£74,000), amortisation of an intangible asset acquired as part of the acquisition of Top Technology (£76,000) and a reclassification of bonus costs to 'accrual for employee bonuses' on the face of the income statement (£1,170,000).

Balance sheet at 31 December 2004

- J Goodwill has been reduced by the cost of an intangible asset acquired as part of the acquisition of Top Technology Ventures Limited (£833,000), previously amortised goodwill has been added back (£74,000).
- K An acquired intangible asset less amortisation to date has been recognised (£757,000).
- L The University of Oxford equity rights is a derivative financial instrument classified as a held for trading financial asset at fair value. No reliable fair value can be established and consequently the asset is carried at cost, subject to impairment. An amount has been debited against equity rights recognising the reversal of prior GAAP accounting practice in prior periods (£2,634,000) and the current period (£675,000).
- M Total fair value gains include current period gains (£23,517,000), brought forward gains (£2,165,000) and a reduction in the surplus on disposal of shares in Oxford Hydrocarbon Mapping Plc (£134,000).
- N Retained earnings have been adjusted for a brought-forward employee bonus accrual charge (£502,000), fair value gains (£25,682,000), an additional employee bonus accrual charge (£3,032,000), an add-back of previously amortised goodwill (£74,000), a reduction in the surplus on disposal of shares in Oxford Hydrocarbon Mapping Plc (£134,000), the impact of shares received through equity rights for nil consideration (£3,309,000) and a charge for the amortisation of acquired intangible assets (£76,000).
- O Non-current trade and other payables have been adjusted for a brought-forward bonus accrual charge (£502,000) and an additional employee bonus charge (£3,032,000).

Consolidated Cashflow Statement

The adoption of IFRS does not impact on the amount of cash previously disclosed under UK GAAP in any of the periods of account in the annual financial statements.

Company Balance Sheet

As at 31 December 2005

IP2IPO Group plc
Annual Report and Accounts 2006
44

	Note	2005 £'000	2004 £'000
Assets			
Fixed assets			
Investment in subsidiary undertakings	2	25,244	8,529
Loans to subsidiary undertakings	3	66,022	55,988
Total assets		91,266	64,517
Equity and liabilities			
Capital and reserves			
Called-up share capital	4	4,575	4,129
Share premium account	4	73,294	59,605
Merger reserve	4	12,797	783
Total capital and reserves		90,666	64,517
Creditors			
Creditors: amounts falling due within one year - loan notes		600	-
Total equity shareholders' funds and liabilities		91,266	64,517

The financial statements were approved by the Board of Directors and authorised for issue on 13 March 2006 and were signed on its behalf by:



David Norwood
Executive Chairman



Alan Aubrey
Chief Executive Officer

1. Accounting policies

The financial statements have been prepared under the historical cost convention, in accordance with the Companies Act 1985 and applicable United Kingdom accounting standards. A summary of the more important accounting policies which have been applied consistently throughout the year are set out below.

Investments in subsidiary undertakings

Equity 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.

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. Financial assets are stated at the lower of cost to the Company, less provision for impairment.

Format of the Company balance sheet

The directors have adopted format 2 of schedule 4 Companies Act 1985 to present the balance sheet of the Company. This is considered to make the balance sheet of the Company more comparable with the Group's consolidated balance sheet.

2. Investments in subsidiary undertakings

Company	£'000
At 1 January 2005	8,529
Additions	16,715
At 31 December 2005	25,244

During the year ended 31 December 2005, the Company capitalised £400,000 as an investment in Top Technology Ventures Limited. In January 2005, the Company acquired the remaining share capital of Techtran Group Limited for a total consideration of £16,200,000 plus expenses.

Details of the Company's subsidiary undertakings at 31 December 2005 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	100	Acquisition
IP2IPO Management Limited	England and Wales	100	100	Acquisition
IP2IPO Management II Limited	England and Wales	100	100	Acquisition
IP2IPO Acquisitions Limited	England and Wales	100	100	Acquisition
Top Technology Ventures Limited	England and Wales	100	100	Acquisition
Techtran Group Limited	England and Wales	100	100	Acquisition
Techtran Investments Limited	England and Wales	100	100	Acquisition
Techtran Services Limited	England and Wales	100	100	Acquisition
Techtran Corporate Finance Limited	England and Wales	100	100	Acquisition
Techtran Limited	England and Wales	100	100	Acquisition
IP2IPO (LifeUK) Limited	England and Wales	100	100	Acquisition
Pharmability Limited	England and Wales	100	100	Acquisition
Modern Biosciences Limited	England and Wales	100	100	Acquisition

Top Technology Ventures Limited has two wholly owned subsidiary companies, HAAT III GP Limited and TTV IV General Partner Limited, both general partners of its limited partnership funds. Top Technology Ventures Limited is registered in England and Wales and its principal activity is management of technology venture-capital funds.

Details of the Company's interests in other companies, all held indirectly through wholly owned subsidiary undertakings, are detailed in note 12 to the consolidated financial statements on pages 31 and 32.

3. Loans to subsidiary undertakings

	£'000
At 1 January 2005	55,988
Advances during the year	10,034
At 31 December 2005	66,022

The amounts due from subsidiary undertakings are interest-free, unsecured and have no fixed date of repayment.

4. Share capital and reserves

	Share capital £'000	Merger reserve £'000	Share premium £'000
At 31 December 2004	4,129	783	59,605
Issue of share capital during the year	446	12,014	13,689
At 31 December 2005	4,575	12,797	73,294

Details of the Company's authorised share capital and changes in its issued share capital can be found in note 15 to the consolidated financial statements on page 34.

Details of the movement in the merger reserve and share premium account can be found in the Consolidated Statement of Changes in Shareholders' Equity on page 21.

Potential issues of ordinary shares

Certain employees and directors hold options to subscribe for shares in the company at prices ranging from £1.40 to £2.75. Options on 432,800 shares were exercised in 2005. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below:

Date of grant	Ordinary shares under option at 31 December 2004	Ordinary shares under option at 31 December 2005	Exercise price £	Earliest exercise date	Latest exercise date
01 August 2001	385,767	172,967	1.40	02.08.02	14.01.12
26 September 2002	31,250	31,250	1.60	26.09.03	25.09.13
29 July 2003	350,000	250,000	1.60	29.07.04	28.07.13
14 September 2003	118,750	118,750	1.60	14.09.03	13.09.13
14 September 2003	50,000	50,000	2.75	14.09.03	13.09.13
17 September 2003	10,000	-	1.60	17.09.04	16.09.13
17 September 2003	10,000	-	2.75	17.09.04	16.09.13
07 October 2003	100,000	-	1.60	07.10.04	06.10.13
07 October 2003	700,000	700,000	2.75	07.10.04	06.10.13
20 October 2003	25,000	25,000	1.60	21.10.04	20.10.13
20 October 2003	25,000	25,000	2.75	21.10.04	20.10.13

5. Profit and loss account

As permitted by section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in these financial statements. The Company's result for the year was £Nil (2004: £Nil)

The audit fee for the Company was borne by another Group subsidiary company.

6. Related party transactions

The Company is exempt under FRS 8 from disclosing related party transactions with entities that are part of the Group or investees of the Group.

7. Directors' emoluments and employee information

The remuneration of the directors is borne by Group subsidiary undertakings. Full details of their remuneration can be found in the directors' remuneration report on pages 11 to 13.

The Company had no employees during 2004 or 2005.

Directors, Secretary and Advisors to the Group

Company registration number	4204490	
Registered office	Warwick Court 5 Paternoster Square London EC4M 7BP	
Directors	David Norwood (Executive Chairman) Alan Aubrey, FCA (Chief Executive Officer) Professor Graham Richards, CBE (Senior Non-executive Director) Dr Alison Fielding (Director of Technology Transfer) Dr Bruce Campbell (Chief Scientific Officer) Dr Bruce Smith, CBE (Non-executive Director) Roger Brooke (Non-executive Director) Stephen Brooke (Director of Business Development)	
Company Secretary	Magnus Goodlad	
Brokers	KBC Peel Hunt Ltd 111 Old Broad Street London EC2N 1PH	Lehman Brothers Europe Ltd 25 Bank Street London E14 5LE
Registrars	Capita IRG plc The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	
Bankers	Royal Bank of Scotland PO Box 333 Silbury House 300 Silbury Boulevard Milton Keynes MK9 2ZF	
Solicitors	Pinsent Masons 30 Aylesbury Street London EC1R 0ER	
Public relations	Buchanan Communications 45 Moorfields London EC2Y 9AE	
Independent auditors	BDO Stoy Hayward LLP 8 Baker Street London W1U 3LL	

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IP2IPO Group plc Annual Report and Accounts for the financial year ended 31 December 2005



Registered Number: 4204490