

**Modern Biosciences Plc
(Formerly Modern Biosciences Ltd)**

Report and Financial Statements

Year ended

31 December 2006

Registered number
05414023

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Modern Biosciences Plc

Report and financial statements for the year ended 31 December 2006

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Directors

Alan Aubrey
Bruce Campbell
David Norwood
Alexander Stevenson
Ian Wilding

Secretary and registered office

Magnus Goodlad

60 Cannon Street
London
EC4N 6JP

Company number

05414023

Independent Auditors

BDO Stoy Hayward LLP, 8 Baker Street, London, W1U 3LL

Modern Biosciences Plc

Report of the Directors for the year ended 31 December 2006

The directors present their report together with the audited financial statements for the year ended 31 December 2006

Re-registration as a public limited company

On 6 March 2006, the company re-registered as a public limited company

Business review and principal activities

Modern Biosciences plc ('Modern Biosciences' or 'the Company') is a specialist drug in-licensing and development company. Its objective is to operate as a channel between the life science academic research community within the UK and the pharmaceutical industry.

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

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

During 2006, Modern Biosciences commenced trading and entered into a Memorandum of Understanding with the University of Manchester relating to the commercialisation of drug related intellectual property. Costs incurred in the year ended 31 December 2006 primarily relate to staff salaries, start up costs in relation to drug related intellectual property projects and other general overheads.

Results and dividends

The income statement is set out on page 5 and shows the loss for the year.

The directors do not recommend the payment of a dividend.

Research and Development Activities

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

Future outlook

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

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the company are considered to relate to the operations being at an early stage of development, protection of intellectual property and retention of key personnel.

Modern Biosciences Plc

Report of the Directors for the year ended 31 December 2006

Key performance indicators (“KPIs”)

Given the nature of the business, the company's directors are of the opinion that analysis using financial KPI's is not necessary for an understanding of the development, performance or position of the business

Charitable and political contributions

During the year the Company made no charitable or political contributions

Creditor payment policy

It is the Company's current policy to establish payment terms with suppliers when agreeing terms of supply, to ensure that suppliers are made aware of the terms of payment, and to adhere to those terms. The company's average trade payable payment period at 31 December 2006 was 27 days (2005 nil days)

Directors

The directors of the Company during the year were

Alan Aubrey
Bruce Campbell
John Davies (Resigned 31st July 2006)
David Norwood
Alexander Stevenson (Appointed 8th June 2006)
Ian Wilding (Appointed 13th March 2006)

Post Balance Sheet Events

On 14 June 2007, there was a sub-division of the Company's £1 issued ordinary shares from 100,000 ordinary shares of £1 each to 100 million ordinary shares of 0.1 pence each. At the same time, the Company reclassified 99 million of the Company's 0.1 pence issued ordinary shares as deferred shares with no economic rights resulting in the Company having 1 million issued ordinary shares of 0.1 pence each.

The Company simultaneously increased the authorised share capital from £100,000 to £170,000 by the creation of an additional 70 million new ordinary shares.

Following this transaction, various individuals subscribed for 684,321 ordinary shares of 0.1 pence, taking the issued share capital to 1,684,321 ordinary 0.1 pence shares.

Financial support

The immediate and ultimate parent company, IP Group plc, has confirmed its financial support to the company to providing funding to enable the company to meet its obligations as they fall due for a period of not less than twelve months from the balance sheet date. The directors have therefore prepared the financial statements on a going concern basis.

Directors' responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets of the company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which comply with the requirements of the Companies Act 1985

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors have chosen to prepare financial statements for the company in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs)

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

- consistently select and apply appropriate accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

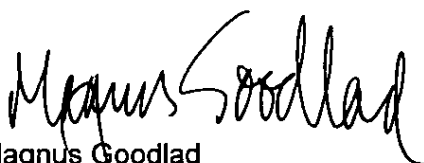
Disclosure of information to auditors

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

Auditors

BDO Stoy Hayward LLP offer themselves for re-appointment as auditors in accordance with section 385 of the Companies Act 1985 and an appropriate resolution will be put to the shareholders at the Annual General Meeting

On behalf of the board



Magnus Goodlad
26 July 2007

Independent Auditor's Report To The Shareholder Of Modern Biosciences Plc

We have audited the financial statements of Modern Biosciences Plc for the year ended 31 December 2006 on pages 5 to 12. 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

BDO Stoy Hayward LLP

BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors

Southampton

July 2007

Modern Biosciences Plc

Income statement for the year ended 31 December 2006

	Note	Year ended 31 December 2006 £	Year ended 31 December 2005 £
Revenue		-	-
Administrative expenses		(326,587)	-
Operating loss	2	<u>(326,587)</u>	<u>-</u>
Finance income - interest receivable		796	-
Loss before taxation		<u>(325,791)</u>	<u>-</u>
Taxation	4	97,737	-
Loss for the year attributable to equity holders of the company		<u>(228,054)</u>	<u>-</u>

All amounts are derived from continuing operations in the year

Modern Biosciences Plc

Balance sheet as at 31 December 2006

	Note	2006 £	2005 £
ASSETS			
Non-current assets			
Property, plant and equipment	5	<u>81</u>	-
		<u>81</u>	-
Current assets			
Trade and other receivables	6	197,737	
Cash and cash equivalents		-	1
		<u>197,737</u>	<u>1</u>
Total assets		<u>197,818</u>	<u>1</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the company			
Share capital	9	100,000	1
Retained earnings		(228,054)	-
Total shareholders' equity		<u>(128,054)</u>	<u>1</u>
Current liabilities			
Trade and other payables	7	294,549	-
Borrowings	8	31,323	
Total equity and liabilities		<u>197,818</u>	<u>1</u>

The notes on page 8 to 12 form part of these financial statements

These financial statements were approved by the Board of directors and authorised for issue on 26 July 2007 and were signed on its behalf by



Alexander Stevenson
Director

Modern Biosciences Plc**Cash flow statement for the year ended 31 December 2006**

	2006 £	2005 £
Operating activities		
Loss before taxation	(228,054)	-
Finance income - interest receivable	(796)	-
Depreciation of property, plant and equipment	2	-
Increase in trade and other receivables	(197,737)	-
Increase in trade and other payables	294,549	-
Net cash outflow from operating activities	<u>(132,036)</u>	<u>-</u>
Investing activities		
Purchases of property, plant and equipment	(83)	-
Interest received	796	-
Net cash outflow from investing activities	<u>713</u>	<u>-</u>
Financing activities		
Proceeds from issue of share capital	99,999	-
Net cash inflow from financing activities	<u>99,999</u>	<u>-</u>
Net decrease in cash and cash equivalents	(31,324)	-
Cash and cash equivalents at the beginning of the year	<u>1</u>	<u>1</u>
Cash and cash equivalents at the end of the year	<u>(31,323)</u>	<u>1</u>

Statement of changes in equity for the year ended 31 December 2006

	<u>Attributable to equity holders of the Company</u>		
	Share Capital £	Retained earnings £	Total equity £
At 1 January 2005 and 1 January 2006	1	-	1
Loss for the year	-	(228,054)	(228,054)
Issue of share capital	99,999	-	99,999
At 31 December 2006	<u>100,000</u>	<u>(228,054)</u>	<u>(128,054)</u>

1. ACCOUNTING POLICIES

Basis of preparation

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

The directors have chosen to adopt IFRS with effect from 1 January 2005 and the company has restated prior year comparatives to reflect its adoption of IFRS, unless otherwise stated. Prior to the adoption of IFRS, the company prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Principles ("UK GAAP"). Disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in note 14.

The preparation of financial statements in compliance with generally accepted accounting principles requires the use of estimates and assumptions that affect the amount reported of assets and liabilities at the balance sheet date and the amounts reported as revenue and expenditure of the reporting period.

The accounts have been prepared on a going concern basis as the Company's ultimate parent undertaking, IP Group plc, has confirmed its intention to continue its financial support of the Company so as to ensure that it is able to meet its liabilities as they fall due for at least a period of twelve months after the date of approval of these financial statements.

Property, plant and equipment

All property, plant and equipment is shown at cost less subsequent depreciation and impairment. Cost includes expenditure that is attributable to the acquisition of the items. Depreciation on assets is calculated using the straight line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

Office Equipment	Over 3 to 5 years
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Asset residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Cash and cash equivalents

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

Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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.

Modern Biosciences Plc

Notes to the financial statements for the year ended 31 December 2006

Impact of standards not yet effective

The International Accounting Standards Board ("IASB") and IFRIC have issued a number of international financial reporting standards and interpretations which are effective for future accounting periods of Modern Biosciences plc. The directors do not anticipate that the adoption of these would make a material impact on these financial statements.

2. LOSS FROM OPERATIONS

	2006 £	2005 £
Loss from operations is stated after charging		
Depreciation of owned tangible fixed assets	2	-
Auditors' remuneration is being paid and borne by another group company in the year		

3. DIRECTORS AND EMPLOYEES

Director's emoluments

	2006 £	2005 £
Aggregate emoluments	97,043	-
Benefits in kind	3,755	-
	<u>100,798</u>	<u>-</u>

Alan Aubrey, Bruce Campbell and David Norwood are remunerated for their services to other group companies within the group headed by the Company's ultimate parent, IP Group plc. No amounts were received by them as directors of Modern Biosciences Plc.

Other than directors, the Company had no employees during the year (2005: nil).

4. TAXATION

	2006 £	2005 £
Current tax	(97,737)	-
	<u>(97,737)</u>	<u>-</u>

The tax assessed for the year is no different from the standard rate of corporation tax in the UK (30%). The company has surrendered the benefit of tax losses amounting to £325,791 to a fellow subsidiary undertaking for a consideration of £97,737. Accordingly, no tax losses are available for carry-forward.

5. PROPERTY, PLANT AND EQUIPMENT

	Office Equipment £
Cost	
At 5 April 2005 and at 1 January 2006	-
Additions	83
At 31 December 2006	<u>83</u>
Accumulated depreciation	
At 5 April 2005 and at 1 January 2006	-
Charge for the year	2
At 31 December 2006	<u>2</u>
Net book amount at 31 December 2006	<u>81</u>
Net book amount at 5 April 2005 and at 31 December 2005	<u>-</u>

6. TRADE AND OTHER RECEIVABLES

	2006 £	2005 £
Amounts due from group undertakings	<u>197,737</u>	-

7. TRADE AND OTHER PAYABLES

	2006 £	2005 £
Trade payables	(38,100)	-
Amounts owed to group undertakings	(253,382)	-
Other tax and social security payable	(3,067)	-
	<u>(294,549)</u>	-

8. BORROWINGS

	2006 £	2005 £
Bank overdrafts	<u>(31,323)</u>	-

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

Modern Biosciences Plc

Notes to the financial statements for the year ended 31 December 2006

9 SHARE CAPITAL

	2006 £	2005 £
Authorised 100,000 ordinary shares of £1 each (2005 1,000)	<u>100,000</u>	1,000
Allotted, called up and fully paid 100,000 ordinary shares of £1 each (2005 1)	<u>100,000</u>	1

On 6 March 2006, the company re-registered as a public limited company, amending the articles of association to increase the authorised share capital to 100,000 ordinary shares of £1 (2005 1,000 ordinary shares of £1)

10. COMMITMENTS

In January 2007, the company entered into a license agreement for business accommodation. The future aggregate minimum lease payments under this non-cancellable operating lease are as follows:

	2006 £	2005 £
From the balance sheet date		
No later than one year	79,674	-
Later than one year and no later than five years	<u>27,930</u>	-
	<u>107,604</u>	-

11. RELATED PARTY TRANSACTIONS

The company has not sold to or purchased from any related party.

The directors consider the key management of the company to solely comprise the board of directors whose aggregate remuneration is that disclosed in note 3 to the financial statements.

The amounts owed to group undertakings arose through the settlement of expenses incurred by the company by another group undertaking. This amount is repayable on demand and does not bear interest. Its book value is considered to be its fair value at the balance sheet date.

12. IMMEDIATE AND ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The immediate parent company and the ultimate controlling party is considered to be IP Group plc. Copies of the ultimate parent company's financial statements may be obtained from the Secretary of IP Group plc, 24 Cornhill, London, EC3V 3ND.

13. FINANCIAL SUPPORT

The immediate and ultimate parent company, IP Group plc, has confirmed its financial support to the company by providing funding to enable the company to meet its obligations as they fall due for a period of not less than twelve months from the balance sheet date.

14. RECONCILIATION FROM UK GAAP TO IFRS

The Company has voluntarily adopted International Financial Reporting Standards as adopted by the European Union ("IFRSs") for the basis of preparation of the financial statements for the year ended 31 December 2006

There are no differences between UK GAAP and IFRS for

- Total equity at the date of transition to IFRS and at 31 December 2005, and
- Result for the year ended 31 December 2005