

IP2IPO Management II Limited

Report and Financial Statements

Year ended 31 December 2013



Registered number
04709243

IP2IPO Management II Limited

Annual report and financial statements for the year ended 31 December 2013

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Directors

Alan Aubrey
Angela Leach
Greg Smith

Secretary and registered office

Angela Leach

24 Cornhill
London
EC3V 3ND

Company number

04709243

Independent Auditor

BDO LLP
55 Baker Street
London, W1U 7EU

IP2IPO Management II Limited

Director's report for the year ended 31 December 2013

The directors present their report together with the audited financial statements for the year ended 31 December 2013.

Business review and principal activities

During 2013, the Company continued to hold investments in spin-out companies from King's College London. Under the terms of an agreement entered into during 2003 between the Company and King's College London ("KCL") and King's College London Business Limited (formerly KCL Enterprises Limited), the Company agreed to make £5.0m available for the purposes of making investments in spin-out companies. Under the terms of the agreement, KCL was previously able to require the Company to make a further £5.0m available for investments in spin-out companies on the tenth anniversary of the partnership. However, the 2003 agreement was terminated and replaced by a revised agreement between the same parties on 12 November 2010. Under the revised agreement, KCL cannot require the Company to make any additional funds available. Other changes effected by the revised agreement included the removal of the Company's automatic entitlement to initial partner equity in every spin-out company and/or a share of KCL's licensing fees from intellectual property commercialisation and to the termination rights of the parties.

The directors are satisfied that the business has performed satisfactorily for the year under review.

Results and dividends

The results for the period are set out on page 4. The directors do not recommend payment of a dividend (2012: £nil).

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.

Future outlook

The directors believe the company will continue to trade for the foreseeable future.

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 protection of intellectual property and market risk in respect of its equity investments. Further discussion of these risks and uncertainties, in the context of the group as a whole, is provided in IP Group plc's annual report which does not form part of this report. IP Group plc ("the Group") is the ultimate parent undertaking of the Company.

Financial instruments

The Company's primary exposure to financial instruments is in relation to the equity investments made in spin-out companies and loans received from fellow subsidiaries.

The directors of IP Group plc manage the risks inherent from investing in equity instruments through the establishment, at a group-wide level, of investment appraisal processes and asset monitoring procedures which are subject to overall review by the Board. The Group has also established capital markets and communications teams dedicated to supporting portfolio companies with fundraising activities and investor relations.

Key performance indicators ("KPIs")

The directors of IP Group plc manage the Group's operations on a divisional basis. For this reason, the Company's directors believe that analysis using KPIs for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of IP Group plc, which includes the Company, is discussed in IP Group plc's annual report which does not form part of this report.

IP2IPO Management II Limited

Director's report for the year ended 31 December 2013

Directors

The directors of the company during the year were:

Alan Aubrey
Greg Smith
Angela Leach

Charitable and political contributions

During the year the Company made no charitable or political contributions (2012: £nil).

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

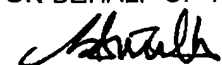
Disclosure of information to auditor

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 auditor for the purposes of its audit and to establish that the auditor is aware of that information. The directors are not aware of any relevant audit information of which the auditor is unaware.

Independent auditor

In March 2014 IP Group plc, the ultimate parent of the Company, conducted a tender for the overall Group's 2014 audit. The conclusion of the parent's audit committee at the end of this process was to recommend the appointment of KPMG LLP as auditor of IP Group plc, and its subsidiaries (including IP2IPO Management II Limited), to replace BDO LLP. The board of IP Group plc supported the recommendation of the audit committee and it was subsequently approved by IP Group plc's shareholders at its 2014 annual general meeting.

ON BEHALF OF THE BOARD



Greg Smith
Director

30 September 2014

Independent auditor's report to the shareholder of IP2IPO Management II Limited

We have audited the financial statements of IP2IPO Management II Limited for the year ended 31 December 2013 which comprise the profit and loss account, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to the exemption from the requirement to prepare a strategic report.

RDO LLP

Vanessa-Jayne Bradley (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
30 September 2014

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

IP2IPO Management II Limited

Profit and loss account for the year ended 31 December 2013

	Notes	2013 £'000	2012 £'000
Turnover		-	-
Administrative expenses	3	<u>(4)</u>	<u>(4)</u>
Operating loss		(4)	(4)
Taxation on loss on ordinary activities	6	157	-
Profit/(loss) on ordinary activities after taxation	12	<u>153</u>	<u>(4)</u>

The Company has no recognised gains or losses other than the profit above and therefore no separate statement of total recognised gains and losses has been presented.

The loss on ordinary activities before taxation and profit/(loss) after taxation has been computed on the historical cost basis.

The notes on pages 6 to 10 form part of these financial statements.

IP2IPO Management II Limited
Registered number: 04709243
Balance sheet as at 31 December 2013

	Note	2013 £'000	2012 £'000
Fixed Assets			
Investments	7	210	210
Current Assets			
Debtors	8	13,797	-
Creditors: amounts falling due within one year	9	(14,900)	(1,256)
Net current liabilities		<u>(1,103)</u>	<u>(1,256)</u>
Net liabilities		<u>(893)</u>	<u>(1,046)</u>
Capital and reserves			
Called up share capital	10	-	-
Profit and loss account	11	(893)	(1,046)
Total shareholder's deficit	12	<u>(893)</u>	<u>(1,046)</u>

The notes on page 6 to 10 form part of these financial statements.

The financial statements were approved by the Board of directors and authorised for issue on 30 September 2014 and were signed on its behalf by:



Greg Smith
Director

IP2IPO Management II Limited

Notes forming part of the financial statements for the year ended 31 December 2013

1. ACCOUNTING POLICIES

Basis of preparation

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

Equity investments

Equity investments are stated at historic cost less provision for impairment in value. 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 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.

Deferred tax

Provision is made in full for deferred tax liabilities that arise from timing differences where transactions or events, that result in an obligation to pay more tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised to the extent that it is considered more likely than not that they will be recoverable. Deferred tax is measured at the average rates that are expected to apply in the periods in which the timing differences are expected to reverse based on the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted.

Cash flow statement

The Company has taken advantage of the exemption conferred upon it by FRS 1 "Cash Flow Statements" (Revised 1996) not to prepare a cash flow statement whereby the cash flows of the Company are incorporated into those of the ultimate parent undertaking and these financial statements are publicly available.

Related party transactions

FRS 8 "Related Party Disclosures", requires the disclosure of the details of material transactions between the reporting entity and any related parties. However, transactions between the Company and other group companies including their associates and joint ventures have not been disclosed in accordance with the exemption in FRS 8 paragraph 3(c).

2. OPERATING LOSS

The loss on ordinary activities before taxation is stated after charging:

	2013 £'000	2012 £'000
Professional fees	4	4

3. AUDITOR'S REMUNERATION

	2013 £'000	2012 £'000
Audit services:		
Fees payable to company auditor for the audit of the financial statements	2	2
Non audit services:		
Other non-audit services	2	2
	<u>4</u>	<u>4</u>

IP2IPO Management II Limited

Notes forming part of the financial statements for the year ended 31 December 2013

4. EMPLOYEES

During the year the Company had no employees (2012: nil).

5. DIRECTORS' EMOLUMENTS

The directors 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 IP2IPO Management II Limited.

6. TAXATION

	2013 £	2012 £
Group relief	-	-
Adjustment in respect of previous periods	(157)	-
Current tax	(157)	-

The tax assessed for the year is different from the standard rate of corporation tax in the UK. Factors affecting the current tax charge for the year are explained below:

	2013 £'000	2012 £'000
Loss on ordinary activities before tax	(4)	(4)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)	(1)	(1)
Effects of:		
Expenses not deductible for tax purposes	-	-
Adjustments to tax charge in respect of previous periods	(157)	-
Movement on unutilised tax losses	1	1
Current tax charge for the year	(157)	-

There is a potential deferred tax asset at 31 December 2013 of £0k (2012: £147k), relating to carried forward capital losses. This asset has not been recognised in the financial statements due to current uncertainties surrounding the reversal of the underlying timing differences. The deferred tax asset would be recovered if there were future taxable profits from which the reversal of the underlying timing differences could be deducted.

IP2IPO Management II Limited

Notes forming part of the financial statements for the year ended 31 December 2013

7. FIXED ASSET INVESTMENTS

	Listed £'000	Total £'000
Cost		
At 1 January 2013	210	210
Disposal of spin-out companies	-	-
At 31 December 2013	210	210
Provision for diminution in value		
At 1 January 2013	-	-
Amounts written off spin-out companies	-	-
At 31 December 2013	-	-
Net book value		
At 31 December 2013	210	210
At 1 January 2013	210	210

At 31 December 2013 the market value of listed investments was £80k (2012: £77k).

At the year end the directors have undertaken a review of the carrying values of the fixed asset investment and identified that its carrying value is in excess of fair value. The total carrying value of the investment included in the financial statements is £210k compared to a fair value of £80k. No provision for diminution in value has been made in the financial statements as the amount at which the investment is currently stated is ultimately expected to be recovered. This expectation is based on the fact that, notwithstanding the current challenging economic environment, this portfolio business continues to increase revenues year-on-year and to make progress towards its technical and commercial milestones.

Significant equity investments

At 31 December 2013 the Company does not hold more than 20% of the issued share capital in any of its investments.

8. DEBTORS

	2013 £'000	2012 £'000
Amounts owed by group undertakings	13,797	-

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2013 £'000	2012 £'000
Trade creditors	-	1
Amounts owed to group undertakings	14,896	1,252
Accruals and deferred income	4	3
	14,900	1,256

Amounts owed to parent undertaking are unsecured, interest free and repayable on demand.

IP2IPO Management II Limited

Notes forming part of the financial statements for the year ended 31 December 2013

10. CALLED UP SHARE CAPITAL

	2013 £	2012 £
Authorised 1 ordinary share of £1 each (2012: £1)	1	1
Allotted, called up and fully paid 1 ordinary share of £1 each (2012: £1)	1	1

11. RESERVES

	Profit and loss account £'000
At 1 January 2013	(1,046)
Profit for the year	153
At 31 December 2013	(893)

12. RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS

	£'000
Shareholder's funds at 1 January 2013	(1,046)
Profit for the year	153
Shareholder's funds at 31 December 2013	(893)

13. RELATED PARTY TRANSACTIONS

The following directors at 31 December 2013 held investments in the following spin-out companies:

Director	Company name	Number of shares held at 1 January 2013	Number of shares acquired / (disposed) in the year	Number of shares held at 31 December 2013	% of issued share capital at 31 December 2013
Alan Aubrey	Avacta Group plc	20,276,113	-	20,276,113	0.6%
Angela Leach	Avacta Group plc	74,152	-	74,152	<0.1%
Greg Smith	Avacta Group plc	390,407	-	390,407	<0.1%

14. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Under the terms of an agreement entered into during 2003 between the Company and King's College London ("KCL") and King's College London Business Limited (formerly KCL Enterprises Limited), the Company agreed to make £5.0m available for the purposes of making investments in spin-out companies. Under the terms of the agreement, KCL was previously able to require the Company to make a further £5.0m available for investments in spin-out companies on the tenth anniversary of the partnership. However, the 2003 agreement was terminated and replaced by a revised agreement between the same parties on 12 November 2010. Under the revised agreement, KCL cannot require the Company to make any additional funds available. Other changes effected by the revised agreement included the removal of the Company's automatic entitlement to initial partner equity in every spin-out company and/or a share of KCL's licensing fees from intellectual property commercialisation and to the termination rights of the parties.

IP2IPO Management II Limited

Notes forming part of the financial statements for the year ended 31 December 2013

15. IMMEDIATE AND ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

IP2IPO Limited is the immediate parent company and controlling party of the Company. The ultimate parent company and the ultimate controlling party is IP Group plc. The immediate and ultimate parent companies were incorporated in the United Kingdom. Copies of the ultimate parent company's financial statements may be obtained from the Secretary of IP Group plc, 24 Cornhill, London, EC3V 3ND.

16. FINANCIAL SUPPORT

The Company's immediate parent undertaking, IP2IPO Limited, has pledged its continuing financial support for a period of not less than twelve months from the date of approval of these financial statements.