

IP2IPO Management II Limited

Report and Financial Statements

Year ended

31 December 2011



Registered number
04709243

IP2IPO Management II Limited

Annual report and financial statements for the year ended 31 December 2011

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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

Report of the directors for the year ended 31 December 2011

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

Business review and principal activities

The principal activity of IP2IPO Management II Limited ("the Company") is to hold equity and debt interests in spin-out companies from King's College London ("KCL") under a 25 year partnership which was entered into in May 2003. The partnership (i) commits IP2IPO Management II Limited to invest £5 million in seed capital in KCL spin-out companies over a five year period, in return for equity stakes in those companies, and (ii) commits IP2IPO Limited, the Company's immediate parent undertaking, to help identify and progress intellectual commercialisation opportunities and to provide a total of £250,000 over five years to augment KCL's existing IP protection capabilities. The latter commitment has now been fully paid.

During 2011, the Company continued to hold investments in spin-out companies from King's College London.

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.

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.

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

Report of the directors for the year ended 31 December 2011

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

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.

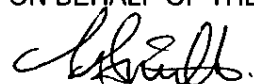
Disclosure of information to auditor

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

The auditor BDO LLP is deemed to have been re-appointed in accordance with section 487 of the Companies Act 2006.

ON BEHALF OF THE BOARD



Greg Smith
Director
28 September 2012

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 2011 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its loss for the period 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 period 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.

BDO LLP

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

28 September 2012

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 2011

	Notes	2011 £'000	2010 £'000
Turnover		-	-
Administrative expenses	2	(3)	(3)
Operating loss		(3)	(3)
Loss on disposal of fixed asset investments		-	-
Loss on ordinary activities before taxation		(3)	(3)
Taxation on loss on ordinary activities	5	-	-
Loss on ordinary activities after taxation	11	(3)	(3)

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

There is no difference between the loss on ordinary activities before taxation and the retained loss for the period stated above, and its historical cost equivalent

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 2011

	Note	2011 £'000	2010 £'000
Fixed Assets			
Investments	6	210	210
Current Assets			
Debtors	7	1	-
Creditors amounts falling due within one year	8	<u>(1,253)</u>	<u>(1,249)</u>
Net current liabilities		<u>(1,252)</u>	<u>(1,249)</u>
Net liabilities		<u>(1,042)</u>	<u>(1,039)</u>
Capital and reserves			
Called up share capital	9	-	-
Profit and loss account	10	<u>(1,042)</u>	<u>(1,039)</u>
Total shareholder's funds	11	<u>(1,042)</u>	<u>(1,039)</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 28 September 2012 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 2011

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).

IP2IPO Management II Limited

Notes forming part of the financial statements for the year ended 31 December 2011

2. AUDITOR'S REMUNERATION

	2011 £'000	2010 £'000
Audit services.		
Fees payable to company auditor for the audit of the financial statements	1	1
Non audit services		
Other non-audit services	2	2
	<u>3</u>	<u>3</u>

Auditor's remuneration is being paid and borne by another group company

3. EMPLOYEES

During the year the Company had no employees (2010 nil)

4 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

5. TAXATION

The tax assessed for the year is different from the standard rate of corporation tax in the UK (26%)
Factors affecting the current tax charge for the year are explained below

	2011 £'000	2010 £'000
Loss on ordinary activities before tax	<u>(3)</u>	<u>(3)</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26% (2010 28%)	(1)	(1)
Effects of		
Expenses not deductible for tax purposes	-	-
Movement on unutilised tax losses	<u>1</u>	<u>1</u>
Current tax charge for the year	<u>-</u>	<u>-</u>

There is a potential deferred tax asset at 31 December 2011 of £169k (2010 £171k), 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 2011

6. FIXED ASSET INVESTMENTS

	Listed £'000	Total £'000
Cost		
At 1 January 2011	210	210
Disposal of spin-out companies	-	-
At 31 December 2011	210	210
Provision for diminution in value		
At 1 January 2011	-	-
Amounts written off spin-out companies	-	-
At 31 December 2011	-	-
Net book value		
At 31 December 2011	210	210
At 1 January 2011	210	210

At 31 December 2011 the market value of listed investments was £43k (2010 £65k)

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 £43k. 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 strong progress towards its technical and commercial milestones.

Significant equity investments

At 31 December 2011 the Company does not hold more than 20% of the issued share capital in any of its investments.

7. DEBTORS

	2011 £'000	2010 £'000
Other debtors	1	-

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011 £'000	2010 £'000
Trade creditors	2	-
Amounts owed to parent undertaking	1,248	1,246
Accruals and deferred income	3	3
	1,253	1,249

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 2011

9. CALLED UP SHARE CAPITAL

	2011 £	2010 £
Authorised 1 ordinary share of £1 each (2010 1)	1	1
Allotted, called up and fully paid 1 ordinary share of £1 each (2010 1)	1	1

10. RESERVES

	Profit and loss account £'000
At 1 January 2011	(1,039)
Loss for the year	(3)
At 31 December 2011	<u>(1,042)</u>

11 RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS

	£'000
Shareholder's funds at 1 January 2011	(1,039)
Loss for the year	(3)
Shareholder's funds at 31 December 2011	<u>(1,042)</u>

12. RELATED PARTY TRANSACTIONS

The following directors at 31 December 2011 held investments in the following spin-out companies

Director	Company name	Number of shares held at 1 January 2011	Number of shares acquired / (disposed) in the year	Number of shares held at 31 December 2011	% of issued share capital at 31 December 2011
Alan Aubrey	Avacta Group plc	13,276,113	-	13,276,113	0.8%
Greg Smith	Avacta Group plc	390,407	-	390,407	<0.1%

13. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Under the terms of an agreement entered into during 2003 between the Company, IP2IPO Limited, Kings College London ("KCL") and KCL Enterprises Limited, IP2IPO Limited agreed to make £5m available for the purposes of making investments in KCL spin out. Of this amount, at 31 December 2011, £1.8m (2010: £1.8m) had been invested in spin out companies from KCL. Under the terms of the agreement, KCL can require the Company to make a further £5m available for investments in spin out companies on the tenth anniversary of the partnership.

14. IMMEDIATE AND ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The directors regard IP2IPO Limited as the immediate parent company and controlling party. The ultimate parent company and the ultimate controlling party is considered to be 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.

IP2IPO Management II Limited

Notes forming part of the financial statements for the year ended 31 December 2011

15 FINANCIAL SUPPORT

The Company's ultimate parent undertaking, IP Group plc, has pledged its continuing financial support for a period of not less than twelve months from the date of approval of these financial statements