

IP2IPO Group plc
Annual Report and Accounts

For the year ended 31 December 2003

Highlights

- First revenues: £222,000 (2002: £nil).
- Losses reduced to £583,000 (2002: £1.56 million).
- Strong cash position: £38.2 million (2002: £4.39 million).
- Six new spin out companies formed in 2003 – IP2IPO received equity stakes in each company.
- New partnership signed with King’s College London (“KCL”) in May 2003: 25-year term covering the entire University.
- New partnership signed with the University of York in October 2003: 25-year term relating to the Centre for Novel Agricultural Products.
- £5 million seed capital fund reserved for investments in spin out opportunities across the University of Oxford – not just those originating within the Chemistry Department.

Post year end Highlights

- Offshore Hydrocarbon Mapping plc (“OHM”) floated on AIM on 11 March 2004. OHM raised more than £10 million via a placing at a placing price of £1.70 per share, valuing the company at £49 million. IP2IPO sold shares at the time of OHM’s flotation to realise proceeds of £1 million and currently holds 10.42% of OHM’s issued share capital.
- Formation of two new companies from within KCL Partnership in March 2004: Phonologica Limited and Proximagen Limited.
- On 5 March 2004, Capsant Neurotechnologies, a company in which IP2IPO holds a significant equity stake, raised over £1 million via a private placing, capitalising the company at £4 million.

1	Chairman’s Statement
2	Chief Executive Officer’s Review
4	Directors, Secretary and Advisors to the Company
5	Biographical Notes on Directors
6	Directors’ Report
8	Remuneration Report
12	Corporate Governance
15	Independent Auditors’ Report
16	Consolidated Profit and Loss Account
17	Consolidated Balance Sheet
18	Company Balance Sheet
19	Consolidated Cash Flow Statement
20	Notes to the Financial Statements

Chairman's Statement

Bruce Smith

IP2IPO's business is the commercialisation of university intellectual property. A number of trends have combined to create a climate in which IP2IPO is ideally placed to bridge the gap between the university and commercial sectors.

There is now considerable momentum within the UK universities to find effective ways of generating value from intellectual property. The UK science base is extremely well regarded: UK scientists produce 8% of the world's science papers and receive around 10% of internationally recognised scientific prizes. The public sector investment in UK university research is approximately £2.5bn per annum and the UK government is committed to deriving economic benefits from this. Universities themselves are turning to new ways of generating income and increasingly view their intellectual property assets as a means of achieving this. Individual academics have also grown increasingly aware of the benefits of transferring their research from academia to the commercial sector.

Against this general backdrop, IP2IPO has developed a unique business model, based on entering into long term partnerships with universities. Through these, IP2IPO has secured the rights to significant interests in spin outs and technology licences based on its partners' intellectual property. A partnership based approach means that IP2IPO works closely alongside its university partners to add commercial and financial expertise and resources to their technology transfer operations. This is a new way of combining public and private resources within the university sector to create value from an extensive intellectual property asset base.

IP2IPO's university partners employ over 5,000 researchers. These researchers are typically engaged in highly innovative research across a wide range of fields, in both life and physical sciences. We have been increasingly impressed with the high quality of the work being undertaken by our university partners and the excellence of their research teams, most of whom are led by world-leading academics.

IP2IPO's business model is designed to enable IP2IPO to offer a unique combination of resources to its university partners. It is not the company's objective to undertake research and development activities in-house. Similarly, IP2IPO does not manage a large portfolio of patents. Instead, IP2IPO assists its technology partners in the identification and prioritisation of new opportunities, in developing strategies for creating value from these, providing initial seed capital and working with spin out companies to maximise their chances of success. This is the deployment of highly commercial skills in an academic environment.

For the year ending 31 December 2003, IP2IPO's turnover of £222,000 (£183,000 of which was generated in the second half of the year) and loss of £583,000 were both in line with our expectations. In 2004 we aim to increase our turnover whilst continuing to maintain a careful control of operational costs and to build value in IP2IPO's portfolio of investments in spin out companies.

In view of the quality of research being carried out by our university partners, the Board is confident that the pipeline of new commercialisation operations will remain strong for the foreseeable future.

2003 proved to be a landmark year for IP2IPO. IP2IPO's flotation in October was extremely well received and I would like to express my thanks to all of IP2IPO's shareholders for their support at that time and throughout the year. I look forward to a rewarding year ahead for both our shareholders and university partners.



Bruce Smith
Chairman

Chief Executive Officer's Review

David Norwood

IP2IPO expanded its operations significantly during the year. Your company entered into two new university partnerships during 2003 and acquired interests in six new spin out companies. In May 2003, IP2IPO raised £6.25 million via a private placing and in October 2003, your company floated on the Alternative Investment Market raising £31.5 million before expenses. At the year end, IP2IPO's cash position was £38.2 million. With healthy cash reserves, four existing university partnerships and a promising portfolio of equity stakes in 16 companies at the year end, your company is extremely well positioned.

University partnerships

IP2IPO's partnership with the University of Oxford, entered into in December 2000, has a 15-year term and entitles the Company to 50% of the University of Oxford's equity in spin out companies based on intellectual property created at the University's Chemistry Department and 50% of the University of Oxford's licence fees or royalties derived from licensing intellectual property arising at the Chemistry Department.

In March 2002, IP2IPO entered into a partnership with the University of Southampton. The partnership, which covers the entire university, has a 25-year term. It (i) commits IP2IPO to invest £5 million in seed capital in University of Southampton spin out companies over a four year period in return for equity stakes in those companies and (ii) commits IP2IPO to provide technology commercialisation advice and expertise to the university. As part of the partnership, IP2IPO received

a 20% non-participating interest in Southampton Asset Management Limited, a company set up to hold the University of Southampton's equity stakes in spin out companies formed since the commencement of the partnership.

In May 2003, IP2IPO entered into a partnership with King's College London ("KCL"). The partnership with KCL has a term of 25-years and covers the entire University. It (i) commits IP2IPO 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 to help identify and progress intellectual commercialisation opportunities and to supply a total of £250,000 over five years to augment KCL's existing IP protection capabilities. As part of the partnership, IP2IPO receives 20% of KCL's interest in spin out companies and technology licences.

In October 2003, IP2IPO entered into a partnership with the Centre for Novel Agricultural Products ("CNAP"), a department of the University of York. A new company, Amaethon Limited, has been formed to commercialise CNAP's research through the formation of spin out companies and technology licences. CNAP has granted Amaethon Limited exclusive rights over CNAP's research for 25 years. The partnership commits IP2IPO to (i) invest £1.15 million over three years in Amaethon Limited in return for a one third equity stake in the company, (ii) invest £750k directly in spin out companies, in return for equity stakes in those companies and (iii) provide expertise and assistance to Amaethon Limited.

2003 spin out companies

IP2IPO acquired equity stakes in the following spin out companies formed during 2003:

Company	Description	IP2IPO % stake at 31 December 2003
VASTox	is a drug discovery company based on chemical genomics. The founder is Professor Steve Davies, (the founder of Oxford Asymmetry International Limited).	20.0%
HepCgen	specialises in developing diagnostic solutions and novel therapies for liver disorders.	23.3%
Nanotecture	develops and markets a highly innovative nano-film with multiple commercial applications (including batteries, super-capacitors and bio-filtration).	19.5%
SynAIRgen	is based on the world-leading expertise of Professor Stephen Holgate and his team in respiratory medicine.	47.4%
Stratophase	develops opto-electronic waveguides and wavelength conversion technologies with applications in materials processing, telecoms and data storage.	22.0%
ReOx	is a drug development company based on the ground-breaking work of Professor Peter Ratcliffe and Professor Chris Schofield into the cellular response to oxygen.	12.3%

IP2IPO continues to hold equity stakes in the following companies, which were formed prior to 2003:

Company	Description	IP2IPO % stake at 31 December 2003
Capsant Neurotechnologies	develops novel targets and drugs for central nervous system disorders such as stroke, trauma, epilepsy, Parkinson's and Alzheimer's.	28.0%
Glycoform	is developing drug-targeting techniques and improvements to protein-based therapies using carbohydrates.	16.5%
Inhibox	uses computational methods to predict and discover new candidates for drugs.	13.8%
Novarc	seeks to exploit intellectual property relating to the sprayforming of tools.	30.8%
Offshore Hydrocarbon Mapping, formerly known as ACTIVEem	provides seismic surveying technology that detects the presence of oil or gas under the sea surface without drilling wells.	14.9%
Pharminox	is a cancer drug development company with a portfolio of platinum and quinol based candidates.	22.0%
Powerlase	is focused on the development of new solid state lasers for industrial applications.	0.8%
Southampton Polypeptides	is developing a range of peptide synthesis technologies for diagnostic and therapeutic use.	36.3%
Toumaz	designs and develops analogue semiconductor architecture using standard fabrication techniques.	6.2%
Zyentia	is a biopharmaceutical company focused on protein folding technologies to develop novel therapeutics for a range of diseases.	17.8%

Review of operations in 2003

In 2003, IP2IPO generated modest revenues from the provision of advisory services and plans to build on this in 2004. IP2IPO has adopted a low cost structure and employs nine professionals. Your company is committed to a policy of low fixed costs and has no plans to significantly increase the headcount of the team.

IP2IPO's year end cash balance was £38.2 million. The Group has entered into a commitment to invest seed capital of £5 million in University of Southampton spin out companies, £1.8 million of which was invested prior to the year end, leaving an outstanding commitment of £3.2 million. Similarly, the Group has committed to invest seed capital of £5 million in KCL spin out companies, pursuant to its partnership with KCL. A further £250,000 is available towards the patenting protection costs of KCL. Under the terms of its partnership with the University of York, the Group has committed to invest £767,000 in CNAP and Amaethon Limited. In addition, the Company also has an opportunity to invest seed capital of £5 million in spin out companies from across the University of Oxford. Excluding these commitments, the Group has unallocated cash of £24.0 million. This will be used for investments in future opportunities and working capital purposes.

Outlook for 2004

At the end of 2003, IP2IPO had a portfolio of equity stakes in 16 university spin out companies. During 2004, your company will focus

on driving value within its portfolio of spin out companies and its policy of forming pro-active relationships with spin out companies from its university partnerships will continue. The pipeline of new opportunities arising from IP2IPO's university partnerships is extremely robust and IP2IPO will carefully monitor the rate at which new spin out companies are added to the portfolio in order to balance the resources of the company against the pool of prospects.

On 11 March 2004, Offshore Hydrocarbon Mapping plc, formerly known as ACTIVEem Limited, a spin out company from the University of Southampton which has developed geophysical surveying technology for the offshore oil industry, announced its flotation on the Alternative Investment Market of the London Stock Exchange, raising £10.8 million at a placing price of £1.70 per share. At the placing price, Offshore Hydrocarbon Mapping plc was capitalised at £49.3 million. Commensurate with the floatation, IP2IPO Management Limited sold 588,235 shares to realise gross proceeds of £1.0 million.

David Norwood

Chief Executive Officer

Directors, Secretary and Advisors to the Company

Company registration number: 4204490

Registered office: 59 St Aldates
Oxford
OX1 1ST

Directors: **Dr Bruce Gordon Smith, CBE** (Non-executive Chairman)
David Robert Norwood (Chief Executive Officer)
John Quantrill Davies (Chief Financial Officer)
Dr Steven Koon Ching Lee (Director of Life Sciences)
Andrew Nigel Wendover Beeson (Non-executive Director)
Christopher Roger Ettrick Brooke (Non-executive Director)
Harry Edward Fitzgibbons, CVO (Non-executive Director)
Professor William Graham Richards, CBE (Non-executive Director)
Alexander Charles Wallace Snow (Non-executive Director)

Secretary: Nigel Raymond Gordon

Nominated advisor and broker: **KBC Peel Hunt Ltd**
111 Old Broad Street
London
EC2N 1PH

Registrars: **Capita IRG plc**
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Bankers: **Barclays Bank plc**
PO Box 858
11 Wytham Court
Oxford
OX2 0XP

Solicitors: **Masons**
30 Aylesbury Street
London
EC1R 0ER

Public relations: **Buchanan Communications Ltd**
107 Cheapside
London
EC2V 6DN

Auditors: **PricewaterhouseCoopers LLP**
9 Greyfriars Road
Reading
Berkshire
RG1 1JG

Biographical Notes on Directors

Dr Bruce Gordon Smith, CBE

Non-executive Chairman

Bruce is Chairman of the Council of Smith Institute for Industrial Mathematics and System Engineering. He was the Chairman and majority shareholder of Smith System Engineering Limited until 1997. Bruce is a fellow of the Royal Academy of Engineering, the Institute of Electrical Engineers and the Institute of Physics. He is Vice Chairman of the Council of the University of Southampton, a Governor of Imperial College London and a Domus Fellow of St Catherine's College, University of Oxford. Bruce became a director of IP2IPO in September 2002.

David Robert Norwood

Chief Executive Officer

In July 1999, David founded IndexIT Partnership Limited, a technology advisory boutique, which was acquired in March 2000 by Beeson Gregory Group plc for £34 million. David was a director of Beeson Gregory Group plc and was key to the origination of Beeson Gregory's £20 million partnership with the University of Oxford. David became an executive director of Evolution following its merger with Beeson Gregory Group plc in July 2002 and became a non-executive director of Evolution in September 2003.

John Quantrill Davies ACA

Chief Financial Officer

John was Finance Director of IndexIT Partnership Limited with responsibility for most of that company's internal operations. After Beeson Gregory Group plc acquired IndexIT Partnership Limited, John's responsibility at Beeson Gregory Limited was to structure and control private equity placings.

Dr Steven Koon Ching Lee

Director of Life Sciences

Steven joined Beeson Gregory Limited as an Associate Director in April 2001. Prior to this, he held a number of senior commercial and business development roles with major UK biotech companies. Steven has worked for British Biotech, PA Consulting Group, Chiroscience and Datamonitor plc.

Professor William Graham Richards, CBE

Non-executive Director

Graham is Chairman of Chemistry in 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 director of IP2IPO in December 2001.

Andrew Nigel Wendover Beeson

Non-executive Director

In 1989 Andrew founded Beeson Gregory as Chief Executive. He became Chairman of Beeson Gregory Group plc in 2001 and Evolution in July 2002, following its merger with Beeson Gregory Group plc. He retired from this position in January 2003. Andrew became a director of IP2IPO in May 2001.

Christopher Roger Etrick 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 Advent 2VCT. Roger was previously Chairman of the Audit Commission. Roger became a director of IP2IPO in December 2001.

Harry Edward Fitzgibbons, CVO

Non-executive Director

Harry is the founder and Managing Director of Top Technology Ventures Limited, a London based venture capital company. Harry became a director of IP2IPO in October 2001.

Alexander Charles Wallace Snow

Non-executive Director

Alex joined Evolution as Managing Director – Capital Markets in 2000, after a period at Credit Suisse First Boston and Barclays de Zoete Wedd. He became Chief Executive of Evolution in March 2001 and a director of IP2IPO in July 2002.

Directors' Report

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 2003. This report includes the Corporate Governance Statement and Remuneration Report on pages 8 to 14.

Principal activities and business review

IP2IPO Group plc acts as a holding company and does not trade. The Company has three subsidiaries, IP2IPO Limited, IP2IPO Management Limited and IP2IPO Management II Limited, and the business of the Group is the commercialisation of intellectual property via the formation of long term partnerships with universities.

The Group's objective in respect of its holding of fixed asset investments is to build a portfolio of equity interests in spin out companies based on the intellectual property created by its university partners and to realise value from these equity stakes. The Group seeks to achieve this objective by working with its university partners to identify promising intellectual property and to develop appropriate business plans for its commercialisation, leading to the formation of spin out companies. The Group has procedures in place to monitor its fixed asset investments and, on a selective basis, provides business development services to certain spin out companies in which it has an interest.

During 2003, six spin out companies were established in which the Group holds an equity stake as a result of the above partnerships: HepCgen Limited, Nanotecture Limited, ReOx Limited, Stratophase Limited, SynAIRgen Limited and VASTox Limited.

Results and dividends

During the period the Group made an overall loss after taxation for the year ended 31 December 2003 of £583,000 (2002: loss for the year £1,559,000). The directors do not recommend the payment of a dividend (2002: £Nil).

Directors

The names of directors who held office for the whole of the year ended 31 December 2003 are as follows:

Executive directors:

J Q Davies
S K C Lee
D R Norwood

Non-executive directors:

A N W Beeson
C R E Brooke
H E Fitzgibbons
W G Richards
B G Smith
A C W Snow

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 8 to 11.

Substantial shareholders

In addition to the directors' beneficial interests shown on page 11, as at 12 March 2004 the Company had been advised of the following shareholders with interests of 3% or more in its ordinary share capital.

	%
Evolution Group plc	40.6
Barclays Capital Nominees (3) Limited	9.8
Morstan Nominees Limited	9.1
BNY (OCS) Nominees Limited	6.9
Nutraco Nominees Limited	4.8
Vidacos Nominees Limited	3.8

Change of name

The Company was re-registered as public limited company on 29 September 2003 and its name changed to IP2IPO Group plc.

Share capital

The authorised share capital of the Company was first increased by 5,000,000 ordinary shares of 10p each on 27 May 2003. The Company issued 3,906,250 new ordinary shares with a par value of 10p at an issue price of £1.60 for cash on 27 May 2003 through a private placing. The authorised share capital of the Company was further increased by 55,000,000 on 7 October 2003. The Company issued a further 11,450,000 ordinary shares with a par value of 10p at an issue price of £2.75 for cash on 15 October 2003 through a public offering. The Company was admitted to the Alternative Investment Market ("AIM") on 15 October 2003.

Post balance sheet events

Subsequent to the year end the Group has made further investments in spin out companies. Full details of all significant post balance events are set out in note 25 to the accounts.

Payment of creditors

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 creditor payment period at 31 December 2003 was 40 days (2002: 18 days). The Company has no trade creditors.

Charitable and political donations

The Group made no charitable or political donations during the year (2002: £Nil).

Cash

It is the Group's current policy to place cash surplus to working capital requirements with reputable cash fund managers. The Group has no foreign currency deposits or other financial instruments.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board

David Norwood

Chief Executive Officer

17 March 2004

Remuneration Report

This report has been prepared in compliance with the Listing Rules, the Combined Code and the Companies Act 1985 (as amended by the Directors' Remuneration Report Regulations 2002). The Company's remuneration policy is the responsibility of the remuneration committee. This committee is chaired by Bruce Smith and also comprises Andrew Beeson and Harry Fitzgibbons. Each member of the committee 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. 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 modest 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

Executive directors are eligible to receive specific bonuses at the discretion of the Remuneration Committee. Such payments do not form part of pensionable earnings.

In 2004, the Board has adopted a Company bonus scheme for the purposes of incentivising and retaining its staff. The executive directors will be eligible to participate in this scheme, which is linked to the performance of the business as a whole.

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 and £10,500 per year for both John Davies and Steven Lee.

Share options

The directors believe that the success of the Company depends to a high degree on the future performance of the management team. Accordingly the Company has entered into option agreements with its executive directors and employees through the Company's discretionary unapproved share option scheme. Executive options are granted at the middle market price of the Company's shares on the date of grant, or in respect of options granted before the Company's shares were publicly traded, the directors best estimate of fair value at the date of grant, which was determined by reference to the price of the most recent share issue by the Company.

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. John Davies and Steven Lee both have service contracts which commenced on 29 September 2003, and contain notice periods 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 29 September 2003. Each appointment is for three years commencing on the date of their original appointment to the Board of the Company, except in the case of Bruce Smith which is for three years from 4 September 2003. The original appointment dates of the non-executive directors are as follows:

Andrew Beeson	11 June 2001
Roger Brooke	20 December 2001
Harry Fitzgibbons	25 October 2001
Graham Richards	21 December 2001
Alex Snow	11 July 2002

The non-executive service agreements are terminable on one month's notice by either party, except in the case of Bruce Smith whose agreement is terminable on three month's notice by either party.

In the event of early termination, payments for loss of office for executive directors 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.

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 in which the Group does not have a shareholding are retained by the director.

Directors' emoluments (audited)

The following information has been audited by the Company's auditors, PricewaterhouseCoopers LLP, as required by Schedule 7A to the Companies Act 1985.

Remuneration Report

Continued

The aggregate remuneration received by directors who served during the year, including remuneration paid through subsidiaries of the Company, and including all remuneration paid by The Evolution Group plc and its subsidiaries up to 15 October 2003, was as follows:

	Base salary £'000	Bonus ⁽⁵⁾ £'000	Fees £'000	Benefits £'000	Total (excl. pension) £'000	Pension £'000	Total (inc. pension) 2003 £'000	Total (excl. pension) 2002 £'000	Pension 2002 £'000	Total (inc. pension) 2002 £'000
Executive										
David Norwood ⁽⁶⁾	78	–	–	4	82	3	85	61	7	68
John Davies ⁽¹⁾	74	25	–	1	100	11	111	71	10	81
Steven Lee ⁽¹⁾⁽⁷⁾	74	25	–	1	100	11	111	18	3	21
Christopher Wright ⁽²⁾	–	–	–	–	–	–	–	102	13	115
Non-executive										
Bruce Smith ⁽⁸⁾	–	–	14	–	14	–	14	2	–	2
Andrew Beeson	–	–	11	–	11	–	11	–	–	–
Roger Brooke	–	–	11	–	11	–	11	–	–	–
Harry Fitzgibbons ⁽³⁾	–	–	11	–	11	–	11	5	–	5
Graham Richards ⁽⁴⁾	–	–	11	–	11	–	11	10	–	10
Alexander Snow	–	–	–	–	–	–	–	–	–	–
Total	226	50	58	6	340	25	365	269	33	302

(1) John Davies and Steven Lee were the highest paid directors during the year ended 31 December 2003.

(2) Christopher Wright resigned as a director on 13 November 2002. From 14 November 2002, Christopher Wright has been employed as a member of staff of IP2IPO Limited.

(3) Fees are paid to Top Technology Ventures Limited for the services of Harry Fitzgibbons.

(4) Fees were paid to Oxford University Consulting for the services of Graham Richards until 15 October 2003. From that date fees have been paid to Graham Richards directly.

(5) Benefits in kind relate to the provision of private medical insurance and, for David Norwood, also includes payments relating to relocation costs.

(6) Excludes any amounts received from, and borne solely by, The Evolution Group plc in the period since IP2IPO Group plc ceased to be a subsidiary.

(7) Steven Lee was appointed to the Board on 26 September 2002 and therefore the comparative amounts only include his remuneration from that date.

(8) Bruce Smith was appointed to the Board on 11 September 2002 and therefore the comparative amounts only include his remuneration from that date.

Directors' interests in ordinary shares

The directors, who held office at 31 December 2003 had the following interests in the ordinary shares of the Company:

	2003 Number of shares	2002 Number of shares
Andrew Beeson	40,000	–
Roger Brooke	31,250	–
John Davies	3,750	–
Harry Fitzgibbons	–	–
Stephen Lee	–	–
David Norwood	363,636	–
Graham Richards	1,850	–
Bruce Smith	34,625	–
Alexander Snow	–	–

There has been no change in the interests set out above between 31 December 2003 and 17 March 2004.

Directors' options (audited)

The following information has been audited by the Company's auditors, PricewaterhouseCoopers LLP, as required by Schedule 7A to the Companies Act 1985.

Remuneration Report

Continued

The executive directors have the following interests in options over the shares of the Company under the Group share option scheme. No options have been exercised during the year by any directors.

Date of grant	At 1 January 2003	Granted during the year	At 31 December 2003	Exercise price (p)	Earliest exercise date	Expiry date
David Norwood						
29.07.03 ⁽ⁱⁱ⁾	–	250,000	250,000	160	29.07.04	28.07.13
7.10.03 ⁽ⁱⁱⁱ⁾	–	700,000	700,000	275	7.10.04	6.10.13
John Davies						
15.01.02 ⁽ⁱ⁾	212,800	–	212,800	141	2.08.02	14.01.12
29.07.03 ⁽ⁱⁱ⁾	–	100,000	100,000	160	29.07.04	28.07.13
Steven Lee						
15.01.02 ⁽ⁱ⁾	212,800	–	212,800	141	2.08.02	14.01.12
29.07.03 ⁽ⁱⁱ⁾	–	100,000	100,000	160	29.07.04	28.07.13

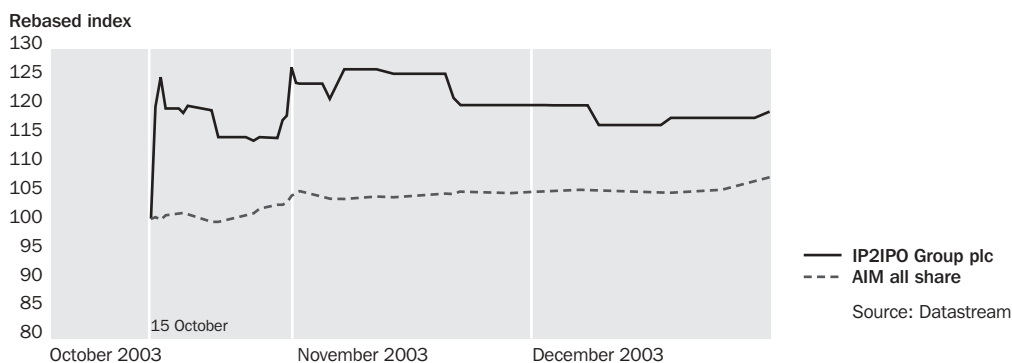
- (i) The right to exercise options vests in respect of one third of the award in August 2002, 2003 and 2004. The vesting and exercise of the options is subject to the relevant option holder continuing to be an employee or director of a company in the same Group as the Company at the relevant time. There are no further performance criteria.
- (ii) The right to exercise options vests in respect of one third of the award in July 2004, 2005 and 2006. The vesting and exercise of the options is subject to the relevant option holder continuing to be an employee or director of a company in the same Group as the Company at the relevant time. There are no further performance criteria.
- (iii) The right to exercise options vests as follows: on the first anniversary, up to 100,000 ordinary shares; on the second anniversary, up to 200,000 ordinary shares and on the third anniversary, up to 400,000 ordinary shares. Vesting is conditional upon David Norwood holding an office or being employed by the Group, and the amount of options that vest in each period is further conditional on the achievement of targets related to growth in turnover and growth in share price. In the first year the weighting attached to each of these performance criteria is equal, and for all of the options to vest the Company must achieve 100% growth in turnover and 50% growth in the share price. In subsequent years the relative weighting of each of the performance criteria is subject to review by the Board.

The middle market price of the ordinary shares on 31 December 2003 was 325 pence. The high and low market prices during the year were 350 pence and 314 pence respectively. The subscription price of the shares offered at the initial public offering was 275 pence.

Apart from the interests disclosed above, none of the directors had any interest at any time during the year ended 31 December 2003 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 26 of the financial statements.

Performance graph

The chart below shows the shareholder return performance over the period from 15 October 2003 when the Company's shares were first publicly traded on the Alternative Investment Market ("AIM") through to 31 December 2003, alongside the performance of the FTSE AIM all-share index. The directors have selected the FTSE AIM all-share index as, in their opinion, this comprises the most relevant equity index of which the Company is a member against which the total shareholder return of IP2IPO Group plc should be measured.



By order of the Board

Dr Bruce Smith

Chairman of the Remuneration Committee
 17 March 2004

Corporate Governance

The Board supports the principles of corporate governance advocated by The Principles of Good Governance and Code of Best Practice (the 'Combined Code') issued by the Financial Services Authority. The Company applied the principles of the Combined Code since the date at which its shares were listed on the Alternative Investment Market ("AIM"), as indicated below.

The Board

The Group's business is managed by the Board of directors. The full Board meets regularly, and met a total of eleven times during 2003. 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.

The Board currently consists of nine directors, six of whom are non-executive. Their names are set out on page 5. The Company has a non-executive Chairman, who is also considered to be the senior independent non-executive director. The Board believe that this arrangement is appropriate given the size of the Group but recognise that this is not in compliance with the Combined Code. The Company has a separate Chief Executive Officer. 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, with the exception of Alex Snow who is Chief Executive Officer of The Evolution Group plc, the largest single shareholder of the Company at 31 December 2003. The non-executive directors receive a fixed fee for their services and the reimbursement of reasonable expenses incurred in attending meetings.

There is an agreed procedure for directors to take independent professional advice at the Company's expense. 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 and applicable rules and regulations are followed.

Directors are entitled to make de minimis investments in spin out companies under the university partnerships in the event that following a proposal to invest by the Group in the spin out company, that spin out company has a requirement for further funds. Details of these investments are set out in note 26 to the financial statements.

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, with the following exceptions: David Norwood was absent from the January and June Board meetings; John Davies was absent from the May Board meeting; Bruce Smith was absent from the March and June Board meetings; Alex Snow was absent from the January and May Board meetings; Roger Brooke was absent from the January and February Board meetings; Harry Fitzgibbons was absent from the January and November Board meetings; Graham Richards was absent from the February, June and July Board meetings and Andrew Beeson was absent from the January Board meeting.

Committees of the Board

Audit Committee

The Audit Committee was established in October 2003 and has met twice in 2003. It will meet at least three times a year going forward. The committee comprises Roger Brooke (Chairman), Bruce Smith and Andrew Beeson. Both meetings during 2003 were attended by all three members of the committee, except the meeting in November at which Bruce Smith was unable to attend. The Auditors and Chief Financial Officer 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 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 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.

Remuneration Committee

The Remuneration Committee was established in October 2003 and meets as and when required. It comprises Bruce Smith (Chairman), Andrew Beeson and Harry Fitzgibbons. One meeting was held in 2003 at which all 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 director's individual remuneration packages are fixed by the Committee or the Board. Full details of the directors' remuneration are set out in the Remuneration Report on pages 8 to 11.

Nomination Committee

The Nomination Committee was established in October 2003 and meets as and when required. There were no meetings in 2003. It considers the appointment of both executive and non-executive directors. It comprises Bruce Smith (Chairman), David Norwood, Harry Fitzgibbons and Alex Snow. The Combined Code stipulates that the Nomination Committee should comprise a majority of independent non-executive directors. The Board believe that is appropriate that David Norwood and Alex Snow, both considered to be not independent, are members of the Nominations Committee. The Board acknowledge that this is not compliant with the Combined Code. For future appointments to the Board, the Nomination Committee will consider candidates at the request of the Board. They also advise the Board on matters generally relating to Board appointments.

All directors are required to submit themselves for re-election by the shareholders at the Company's Annual General Meeting 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 Annual General Meeting David Norwood, John Davies and Roger Brooke will submit themselves for re-election.

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 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 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 financial operating and compliance risk areas. These will be reviewed and updated at least annually by the Board. 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 first meeting is due to take place in May 2004. The performance of non-executive directors, other than the Chairman, is reviewed by the Chairman and executive directors on an annual basis. The first meeting is due to take place in May 2004. 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 Annual General Meeting as an opportunity to communicate with its shareholders. Notice of the Annual General Meeting, which will be held at 11am on 5 May 2004 at Buchanan Communications, 107 Cheapside, London, EC2V 6DN, is enclosed with this report. In line with the Combined Code the notice of the AGM is sent to shareholders at least 20 working days before the meeting. Details of the resolutions and explanatory notes thereon are included with the Notice along with a proxy form for members of the Company unable to attend.

The Group's website (www.ip2ipo.com) is the primary source of information on the Group. This includes 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 15 October 2003, being the date at which the Company's shares were listed on the Alternative Investment Market ("AIM") to the end of the accounting period.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2003. The directors also confirm that applicable accounting standards have been followed.

The directors are also responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for the maintenance and integrity of the IP2IPO Group plc website. The uncertainty regarding legal requirements in this regard is compounded as the information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of 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.

By order of the Board

John Davies

Chief Financial Officer

17 March 2004

Independent Auditors' Report to the Members of IP2IPO Group plc

We have audited the financial statements which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and the related notes. We have also audited the disclosures required by part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ("the auditable part").

Respective responsibilities of directors and Auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the directors' remuneration report.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report 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 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 transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the unaudited part of the remuneration report, the chairman's statement, the chief executive officer's review and the corporate governance statement.

We also, at the request of the directors (because the company applies the Financial Services Authority listing rules as if it were a listed company), review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified by the Financial Services Authority for review by auditors of listed companies, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

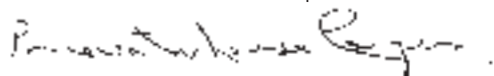
We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 of the state of affairs of the Company and the Group at 31 December 2003 and of the loss and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985;
- and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Reading

17 March 2004

Consolidated Profit and Loss Account

For the year ended 31 December 2003

	Note	2003 £'000	2002 £'000
Turnover	2	222	–
Administrative expenses			
Provision against fixed asset investments	13	(109)	(1,537)
Other		(1,170)	(845)
Total		(1,279)	(2,382)
Other operating income	3	–	650
Operating loss		(1,057)	(1,732)
Interest receivable and similar income	7	474	173
Loss on ordinary activities before taxation	2, 4	(583)	(1,559)
Tax on loss on ordinary activities	8	–	–
Loss on ordinary activities after taxation	19	(583)	(1,559)
Basic and diluted loss per ordinary share	9	(1.9p)	(6.3p)

There is no difference between the loss on ordinary activities before taxation and the loss for the years stated above, and their historical cost equivalents.

All results arise from continuing activities.

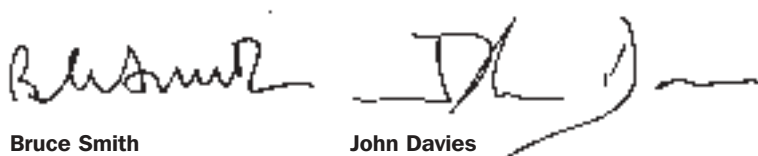
There are no recognised gains and losses other than the losses above and therefore no separate statement of total recognised gains and losses has been presented.

Consolidated Balance Sheet

As at 31 December 2003

	Note	2003 £'000	2002 £'000
Fixed assets			
Intangible fixed assets	11	12	–
Tangible fixed assets	12	27	47
Investments			
Equity rights	13	17,556	18,056
Equity investments	13	5,804	2,849
		23,360	20,905
		23,399	20,952
Current assets			
Debtors	14	170	47
Cash at bank and in hand		38,245	4,388
		38,415	4,435
Creditors: Amounts falling due within one year	15	(774)	(73)
Net current assets		37,641	4,362
Total assets less current liabilities		61,040	25,314
Creditors: Amounts falling due after more than one year	16	(383)	–
Net assets		60,657	25,314
Capital and reserves			
Called up share capital	18	4,064	2,528
Share premium account	19	58,972	24,582
Profit and loss account (deficit)	19	(2,379)	(1,796)
Total equity shareholders' funds	20	60,657	25,314

The financial statements on pages 16 to 34 were approved by the Board of directors on 17 March 2004 and were signed on its behalf by:



Bruce Smith
Chairman

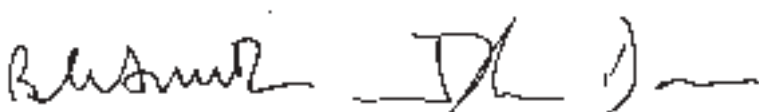
John Davies
Director

Company Balance Sheet

As at 31 December 2003

	Note	2003 £'000	2002 £'000
Fixed assets			
Investment in subsidiary undertakings	13	4,000	–
Loans to subsidiary undertakings	13	59,036	27,110
Net assets		63,036	27,110
Capital and reserves			
Called up share capital	18	4,064	2,528
Share premium account	19	58,972	24,582
Profit and loss account	19	–	–
Total equity shareholders' funds		63,036	27,110

The financial statements on pages 16 to 34 were approved by the Board of directors on 17 March 2004 and were signed on its behalf by:



Bruce Smith
Chairman

John Davies
Director

Consolidated Cash Flow Statement

For the year ended 31 December 2003

	Note	2003 £'000	2002 £'000
Net cash outflow from operating activities	21	(708)	(770)
Returns on investments and servicing of finance			
Interest received		474	173
Net cash inflow from returns on investment and servicing of finance		474	173
Taxation		-	89
Capital expenditure and financial investment			
Purchase of intangible fixed assets		(12)	-
Purchase of tangible fixed assets		(5)	(50)
Purchase of fixed asset investments		(1,818)	(557)
Net cash outflow from capital expenditure and financial investments		(1,835)	(607)
Net cash outflow before financing		(2,069)	(1,115)
Financing			
Issue of ordinary shares		37,738	3,000
Share issue costs		(1,812)	(96)
Net cash inflow from financing		35,926	2,904
Increase in cash	21	33,857	1,789

Notes to the Financial Statements

1. Accounting policies

Basis of preparation

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

Basis of consolidation

The Group's consolidated financial statements comprise the financial statements of the Company and all its subsidiary undertakings made up to the end of the financial year. Intercompany transactions are eliminated on consolidation and the consolidated accounts reflect external transactions only.

The directors consider that in general the Group's equity investments do not fall within the Companies Act 1985 definition of associated undertakings, on the basis that the Group does not exercise significant influence over the operating and financial policies of the investees. The Companies Act 1985 requires investments where there is significant influence to be treated as associated undertakings and to be accounted for using the equity method of accounting.

The directors consider that as these equity investments are held as part of the Group's portfolio with a view to the ultimate realisation of capital gains, equity accounting would not give a true and fair view of the Group's interest in these investments. Accordingly these investments have not been equity accounted for in the Group accounts. This treatment is in accordance with the accounting for venture capital and investment trusts as laid out in Financial Reporting Standard ("FRS") 9 – Associates and Joint Ventures.

The effect of this departure on the financial statements is disclosed in note 13.

Turnover

Turnover, comprising fees for various advisory services is recognised in the profit and loss account when the related services are performed and when considered recoverable. All turnover is generated within the United Kingdom and is stated exclusive of value added tax.

Intangible fixed assets – intellectual property rights

Intangible fixed assets are stated at historical cost less amortisation and provision for any impairment. Historical cost comprises the purchase price together with any incidental costs of acquisition. Amortisation is calculated so as to write off the cost of intangible fixed assets on a straight line basis over their expected useful economic lives. In the case of intellectual property rights this period is considered to be the expiry of the related patents, which is twenty years.

Tangible fixed assets

Tangible fixed assets are stated at historical cost less depreciation and provision for any impairment. Historical cost comprises the purchase price together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost, less estimated residual values, of tangible fixed assets on a straight line basis over their expected useful economic lives. The annual depreciation charge is based on the following expected useful economic lives:

Fixtures and fittings	Over 3 to 5 years
Computer equipment	Over 3 to 5 years

Equity rights and acquisition costs

Equity rights represent sums paid to the University of Oxford between December 2000 and June 2001. The equity rights are only realised by the receipt of shares in spin-out companies from the University of Oxford chemistry department. Accordingly, the equity rights are held at cost, less any reduction on account of the acquisition of the interests in spin out companies, less any impairment in value.

Equity rights are treated in the balance sheet as a financial asset.

1. Accounting policies continued

The directors review the carrying value of the University of Oxford chemistry department equity rights at each period end by reference to the rate at which relevant spin out companies are created, the pipeline of future opportunities at the time, historic cost of the Group's interest in such spin out companies, overall market conditions and the remaining life of the Partnership.

The acquisition costs comprise related costs to secure the equity rights and other university Partnership arrangements. These costs are amortised over the life of the Partnership, or in respect of the University of Oxford Partnership, the shorter of the Partnership period and the period over which the equity rights are realised.

The life of the Partnership with the University of Oxford is 15 years. The lives of the partnerships with the University of Southampton, University of York and King's College London are all 25 years.

Equity investments

Equity investments are stated at historic cost less 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.

Pension commitments

The Group makes defined contributions to employees' approved personal pension plans. Contributions are charged to the profit and loss account in the period in which payments are payable to the pension funds.

Operating leases

Costs in respect of operating leases, where substantially all the benefits and risks of ownerships remain with the lessor, are charged to the profit and loss account on a straight line basis over the lease term.

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 tax 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.

Financial instruments

Currently the Group 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 Group. Financial assets are stated at the lower of cost to the Group, less provision for amortisation and impairment.

Related party transactions

In accordance with FRS 8, "Related Party Disclosures", the Company discloses details of material transactions between the reporting entity and related parties. However, transactions between the Company and other Group companies have not been disclosed in accordance with the exemption in FRS 8 paragraph 3(a).

2. Turnover and loss on ordinary activities before taxation

The Group's turnover and loss on ordinary activities before taxation are derived entirely from its principal activity within the United Kingdom.

3. Other operating income

	2003	2002
	£'000	£'000
Waiver of loan	–	650

The waiver relates to the waiver of a loan between the Group and Evolution Beeson Gregory Limited (formerly Beeson Gregory Limited). The balance of £650,000 was waived in accordance with a Deed of Waiver on 31 December 2002. The loan had originally been made to fund a contingent commitment to provide further funding to an investment in Novarc Limited that existed when the Group acquired its interest in Novarc Limited from Beeson Gregory Technology Investments Limited. Following the payment of £650,000 to Novarc Limited this investment was fully written down in the year ended 31 December 2002 and Evolution Beeson Gregory Limited agreed to waive the original loan to the Group.

4. Loss on ordinary activities before taxation

	2003	2002
	£'000	£'000
Loss on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets	25	23
Amortisation of acquisition costs	20	18
Provision against fixed asset investments	109	1,537
Auditors remuneration – audit services (company: £5,000 (2002: £nil))	35	8
Auditors remuneration – non audit services	10	–
Operating lease charges – leasehold properties	23	11

In addition to the above amounts, the Group paid its auditors £232,000 (2002: £nil) in relation to non-audit services relating to work undertaken as reporting accountants in respect of the Admission to AIM and Placing undertaken during the year. These expenses have been taken to the share premium account.

5. 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 8 to 11 which form part of these financial statements.

	2003	2002
	£'000	£'000
Aggregate emoluments	340	269
Company pension contribution to money purchase schemes	25	33
Total	365	302

The company pension contributions during the year are in respect of three directors (2002: four directors).

6. Employees

The average monthly number of persons (including executive directors) employed by the Group during the year was 8 all of whom were involved in management and administration activities (2002: 6 employees).

Total staff costs for the year were as follows:

	2003	2002
	£'000	£'000
Wages and salaries	511	449
Social security costs	62	51
Pension costs	44	64
	617	564

7. Interest receivable and similar income

	2003 £'000	2002 £'000
Bank interest receivable	474	173

8. Tax on loss on ordinary activities

	2003 £'000	2002 £'000
Current tax:		
Group relief receivable	-	1
Deferred tax:		
Current year movement	-	(1)
Tax on loss on ordinary activities	-	-

The tax assessed for the year is higher than the standard rate of corporation tax in the UK (30%).

Factors affecting the current tax charge for the year are explained below:

	2003 £'000	2002 £'000
Loss on ordinary activities before tax	(583)	(1,559)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	(175)	(468)
Effects of:		
Costs not deductible for tax purposes	11	461
Non taxable income	-	(195)
Capital allowances in excess of depreciation	4	2
Group relief surrendered (not paid)	-	201
Losses carried forward to future periods	127	-
Other short term timing differences	33	-
Current tax charge	-	1

There is a potential deferred tax asset at 31 December 2003 of £1,091,000 (2002: £462,000), relating to accelerated capital allowances and provisions against investments. 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 could be deducted.

9. Basic and diluted loss per ordinary share

The basic loss per share has been calculated by dividing the loss for the year of £583,000 (2002: £1,559,000) by the weighted average number of shares of 30,031,187 in issue during the year (2002: 24,738,139).

The Group had no dilutive potential ordinary shares in either the current year or preceding years which would serve to increase the loss per ordinary share. There is therefore no difference between the loss per ordinary share and the diluted loss per ordinary share in either the current or preceding year.

10. Result/profit for the financial period

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 financial year was £nil (2002: profit of £237,000).

11. Intangible fixed assets

Group	Intellectual property rights £'000	Total £'000
Cost		
At 1 January 2003	–	–
Additions	12	12
At 31 December 2003	12	12
Aggregate amortisation		
At 1 January 2003 and 31 December 2003	–	–
Net book value		
At 31 December 2003	12	12
At 31 December 2002	–	–

The rights over intellectual property to which the intangible fixed assets relate were acquired in December 2003 and accordingly no charge for amortisation has been made in the current year.

12. Tangible fixed assets

Group	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost			
At 1 January 2003	58	20	78
Additions	5	–	5
At 31 December 2003	63	20	83
Accumulated depreciation			
At 1 January 2003	27	4	31
Charge for the year	19	6	25
At 31 December 2003	46	10	56
Net book value			
At 31 December 2003	17	10	27
At 31 December 2002	31	16	47

13. Fixed asset investments

Equity rights

Group	Oxford University chemistry department equity rights £'000	Acquisition costs £'000	Total £'000
Cost			
At 1 January 2003	17,806	284	18,090
Investment in spin out companies	(550)	–	(550)
Additions	–	70	70
At 31 December 2003	17,256	354	17,610

Aggregate amortisation of acquisition costs

At 1 January 2003	–	(34)	(34)
Charge for the year	–	(20)	(20)
At 31 December 2003	–	(54)	(54)

Net book value

At 31 December 2003	17,256	300	17,556
At 31 December 2002	17,806	250	18,056

The University of Oxford chemistry department equity rights

The Group has the right to 50% of The University of Oxford's shareholdings in companies spun out of its chemistry department for 15 years up to 2015, at a price equivalent to that subscribed by external investors. It also has the right to 50% of the royalties due to the University of Oxford under licences generated by the chemistry department entered into during the same period.

This agreement was signed in December 2000 and the equity rights remaining at the year end of £17.3 million will only be realised by the receipt of shares in spin out companies from the University of Oxford chemistry department. In the event that the equity rights are fully realised prior to November 2015, then the Group will be entitled to acquire the shares in spin out companies from the chemistry department to which it is entitled under the terms of the agreement at par value. In the event that the value of shares received in spin out companies is insufficient to utilise the full £17.3 million by March 2016 the asset will be written off.

Realisation of the equity rights in the way described above, depends upon:

- The availability and quality of research from the chemistry department at the University of Oxford, which will provide a continued pipeline of IP spin out opportunities from the University of Oxford chemistry department over the remaining period of the agreement to March 2016;
- The valuation and volume of successful IP spin out opportunities arising from the chemistry department, which will allow the utilisation of the equity rights within the remaining time frame of the agreement;
- Market conditions in general including the availability of external funds to invest in the spin out companies, which will be largely dependent upon the appetite for investment in the life science and other sectors; and,
- The availability and skill of IP2IPO staff to negotiate with the academics and the University of Oxford to successfully convert the IP opportunities to spin out companies.

There is no certainty that individual spin out companies will prove to be successful or generate a return on investment for the Group.

The directors have reviewed the carrying value of the equity rights at 31 December 2003. Based on the rate at which spin out companies from the University of Oxford chemistry department have been created to date, 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 department of chemistry, the directors continue to believe that the equity rights will be realised in full.

13. Fixed asset investments continued**Acquisition costs**

The acquisition costs comprise related costs to secure the equity rights and other university partnerships. These costs are amortised over the life of the partnership, or in respect of the University of Oxford partnership, the shorter of the life of the partnership and the period in which the equity rights are realised.

The life of the Partnership with the University of Oxford is 15 years. The lives of the partnerships with the University of Southampton, University of York and King's College London are all 25 years.

Equity investments

Group	University of Oxford spin outs £'000	Amaethon Limited £'000	University of Southampton spin outs £'000	Other university spin outs £'000	Total £'000
Cost					
At 1 January 2003	2,091	–	520	1,775	4,386
Investment in spin out companies	581	1,150	1,282	51	3,064
At 31 December 2003	2,672	1,150	1,802	1,826	7,450
Provision for impairment					
At 1 January 2003	–	–	–	1,537	1,537
Charge for the year	–	–	–	109	109
At 31 December 2003	–	–	–	1,646	1,646
Net book values					
At 31 December 2003	2,672	1,150	1,802	180	5,804
At 31 December 2002	2,091	–	520	238	2,849

University of Oxford spin outs

During the year ended 31 December 2003, there were investments in the University of Oxford spin out companies with a value of £581,000, being an investment in ReOx Limited valued at £556,000 and an investment in VASTox Limited of £25,000.

At the year end the directors have undertaken a review of the carrying values of all these investments and concluded that there is no indication of impairment.

University of Southampton spin outs

Under the terms of the partnership with the University of Southampton the Group owns a 20% interest in the share capital of Southampton Asset Management Limited (the remaining shares in which are owned by the University of Southampton). The purpose of Southampton Asset Management Limited is to hold the University of Southampton's equity interests in spin out companies. The Group's interest in Southampton Asset Management Limited results in the Group receiving a directly owned stake in spin out companies equivalent to 20% of the stake to which Southampton Asset Management Limited is entitled. These equity interests in spin out companies are acquired by the Group at a price per share equal to par value and as such do not represent material amounts in the financial statements. The Group has no participating influence in Southampton Asset Management Limited.

In addition the Group has committed to invest up to £5 million directly in spin out companies from the University of Southampton in return for direct equity interests in these companies. During the year ended 31 December 2003, the Group made investments in HepCgen Limited, Nanotecture Limited, Southampton Polypeptides Limited, Stratophase Limited and SynAIRgen Limited under this agreement with a total value of £1,282,000.

At the year end the directors have undertaken a review of the carrying values of these investments and concluded that there is no indication of impairment.

13. Fixed asset investments continued**Amaethon Limited**

Under the terms of the partnership with the Centre for Novel Agricultural Products ("CNAP"), a specialist division of the University of York, a commercialisation company, Amaethon Limited, has been set up which will hold all the University of York's interest in spin out companies and licenses based on CNAP's intellectual property. The Group has committed to invest £1.15 million in Amaethon Limited over a three year period and in return has received a 33% interest in the equity share capital of this company, with the University owning the remaining shares. At 31 December 2003 the Group has made payments in respect of this investment totalling £383,000, with the balance due in two further equal tranches of £383,000 in 2004 and 2005. £50,000 of each of the remaining tranches is fully committed while the other £333,000 depends upon Amaethon Limited achieving certain milestones. The directors consider that these milestones will be achieved and accordingly have accrued for the total consideration payable.

At the year end the directors have undertaken a review of the carrying value of this investment and concluded that there is no indication of impairment.

Other university spin outs

Other university spin outs relate to those investments not included within the partnerships with the Universities of Oxford, Southampton, York and King's College London. These investments were originally made by Beeson Gregory Technology Investments Limited and subsequently transferred to IP2IPO in July 2001. During the year ended 31 December 2003, there was a further investment of £51,000 in Novarc Limited. At the year end the directors have undertaken a review of the carrying values of these investments and concluded that a further provision of £109,000 is required.

(iii) Significant equity investments

At 31 December 2003 the Group has investments where it holds 20% or more of the issued share capital in the following companies:

Undertaking	Country of incorporation	Type of share held	% of issued share capital held	Net assets £'000	Loss before tax £'000	Date of Financial Statements
Amaethon Limited	UK	Ordinary shares	33.33	–	–	–
Southampton Asset Management Limited	UK	Ordinary Shares	20.00	–	–	–
Capsant Neurotechnologies Limited	UK	Ordinary shares	27.95	351	–	31.12.03
HepCgen Limited	UK	Ordinary shares	23.26	–	–	–
Novarc Limited	UK	Ordinary shares	30.78	754	(962)	31.12.03
Pharminox Limited	UK	Ordinary shares	21.98	564	(226)	31.12.03
Southampton Polypeptides Limited	UK	Ordinary shares	36.29	150	–	31.12.03
Stratophase Limited	UK	Ordinary shares	21.95	6	(2)	30.06.03
SynAIRgen Limited	UK	Ordinary shares	47.43	–	–	–
VASTox Limited	UK	Ordinary shares	20.00	–	–	–

HepCgen Limited, SynAIRgen Limited, and VASTox Limited have not filed annual accounts as at the date of these accounts and accordingly no financial information is presented in respect of these companies.

Southampton Asset Management Limited and Amaethon Limited hold investments in spin out companies from Southampton University and York University's CNAP division respectively. The Group's indirect investments in spin out companies is included within Equity investments as this reflects the structure of the agreements with Southampton University. Accordingly no disclosure is made above of the net assets and profit or loss of these companies and the Group's interest in them is effectively already included within Equity investments.

The effect of the departure from the Companies Act 1985 as described in note 1 to the financial statements, based on those investments where the Group holds 20% or more of the issued share capital, is to increase the loss before taxation by £201,000 (2002: increase the loss before taxation by £1,117,000) and increase net assets by £508,000 (2002: increase net assets by £696,000).

13. Fixed asset investments continued**(iii) Significant equity investments** continued

In addition, at 31 December 2003, the Group has the following investments in spin out companies where it holds less than 20% of the issued share capital:

Undertaking	Country of incorporation	Type of share held	% of issued share capital held
Glycoform Limited	UK	Ordinary shares	16.50
Inhibox Limited	UK	Ordinary shares	13.80
Nanotecture Limited	UK	Ordinary shares	19.53
Offshore Hydrocarbon Mapping plc, formerly ACTIVEem Limited	UK	Ordinary shares	14.90
Powerlase Limited	UK	Ordinary shares	0.80
ReOx Limited	UK	Ordinary shares	12.25
Toumaz Technologies Limited	UK	Ordinary shares	6.22
Zyentia Limited	UK	Ordinary shares	17.78

Investments in subsidiary undertakings

Company	£'000
Cost and net book value	
At 1 January 2003	–
Additions	4,000
At 31 December 2003	4,000

At the year end the Company directly owned 100% of the ordinary share capital of IP2IPO Limited, which in turn holds 100% of the share capital of IP2IPO Management Limited and IP2IPO Management II Limited. These companies are registered in England and Wales and their principal activity is the commercialisation of intellectual property.

The movement in investments in subsidiary undertakings in the year of £4 million relates to the issue of 40,000 new £1 ordinary shares by IP2IPO Limited for cash consideration of £100 per share.

Loans to subsidiary undertakings

	£'000
At 1 January 2003	27,110
Additions	31,926
At 31 December 2003	59,036

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

14. Debtors

Group	2003 £'000	2002 £'000
Trade debtors	72	–
Other debtors	29	35
Other tax recoverable	33	–
Prepayments and accrued income	36	12
	170	47

15. Creditors: amounts falling due within one year

Group	2003 £'000	2002 £'000
Trade creditors	255	–
Amounts due to Evolution Beeson Gregory Limited	4	56
Other tax and social security	36	–
Other creditors (see note 16)	383	–
Accruals and deferred income	96	17
	774	73

16. Creditors: amounts falling after more than one year

	2003 £'000	2002 £'000
Other creditors	383	–

Other creditors relates to the deferred consideration due to Amaethon Limited in respect of the Group's investment in this company. The Group has agreed to invest a total of £1,150,000 in Amaethon Limited over a period of three years in return for a 33% interest in the equity share capital of this company. At 31 December 2003, £383,000 of this investment has been paid to Amaethon Limited, and the balance of £766,000 is due in two equal tranches in 2004 and 2005. These amounts are unsecured and interest free. See note 13 for further details.

17. Financial instruments

In the normal course of business, the Group uses certain financial instruments including cash, equity rights and equity investments but has no borrowings. The Group has no foreign currency assets, liabilities or other financial investments, all balances being in sterling. All short term debtors and creditors have been excluded from all of the following disclosures.

The Group's cash and short term deposits were as follows:

	2003 £'000	2002 £'000
On short term deposit – floating rate	38,222	4,388
On current account	23	–
	38,245	4,388

The interest rate for short term deposits is variable dependent on the rates offered by the Group's bankers. During the year to 31 December 2003, the short term deposit facility returned an average rate after fees of 3.65% (2002: 4.05%).

The Group has detailed policies and strategies in respect of these financial instruments, which seek to minimise the associated risks.

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 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.

Management of Market Risk

The Group is exposed to market risk in respect of its equity rights and equity investments. Note 13 summarises the risks associated with holding these equity rights and equity investments and the movements in the balances during the year. The Group mitigates this risk by having established investment appraisal processes and asset monitoring procedures which are subject to overall review by the Board.

17. Financial instruments continued**Fair Value of Financial Instruments**

Equity investments are stated at historical cost less provision for impairment in value. During the year ended 31 December 2003, there have been no realisations in respect of equity stakes in spin out companies acquired under the Group's arrangements with the University of Oxford, the University of Southampton, King's College London or the University of York.

The directors believe that the fair value of the equity investments are best estimated by their carrying value in the absence of third party evidence to support any upward revaluation. Where second or subsequent rounds of finance are completed prior to the balance sheet date, the corresponding valuation is considered. The directors believe that the fair value of the equity investments was £7,539,000 at 31 December 2003 (2002: £3,775,000).

No fair value of the equity rights has been disclosed as the directors believe it is not practicable to estimate the fair value with sufficient reliability. The directors believe it is not practicable because the asset is unique, the future cash flows are difficult to predict and a reliable valuation is not available. See note 13 for further details of the financial instrument and its carrying value at the year end.

18. Called up share capital

Group and company	2003	2002
	£'000	£'000
Authorised:		
90 million ordinary shares of 10p each (2002: 30 million)	9,000	3,000
Allotted, called up and fully paid:		
40,638,910 ordinary shares of 10p each (2002: 25,282,660)	4,064	2,528

On 27 May 2003, the authorised share capital of the Company was increased by 5,000,000 ordinary shares of 10p each. On 7 October 2003, the authorised share capital of the Company was increased by 55,000,000 ordinary shares of 10p each.

On 27 May 2003 the Company issued 3,906,250 new ordinary shares with a par value of 10p at an issue price of £1.60 for cash. On 15 October 2003 the Company issued 11,450,000 new ordinary shares with a par value of 10p at an issue price of £2.75 for cash.

Share options

Options over ordinary shares of 10p each held by employees and directors of the Group at 31 December 2002 and 31 December 2003 were as follows:

Date of grant	Ordinary shares under option at 31 December 2002	Ordinary shares under option at 31 December 2003	Exercise price (p)	Earliest exercise date	Latest exercise date
1 August 2001	868,905	868,905	141	2.08.02	14.01.12
26 September 2002	31,250	31,250	160	26.09.03	25.09.13
27 July 2003	–	618,750	160	29.07.04	28.07.13
14 September 2003	–	50,000	160	14.09.03	13.09.13
14 September 2003	–	50,000	275	14.09.03	13.09.13
17 September 2003	–	10,000	160	17.09.04	16.09.13
17 September 2003	–	10,000	275	17.09.04	16.09.13
7 October 2003	–	700,000	275	7.10.04	6.10.13

19. Reserves

	Group		Company	
	Share premium account £'000	Profit and loss account (deficit) £'000	Share premium account £'000	Profit and loss account £'000
At 1 January 2003	24,582	(1,796)	24,582	–
Loss for the financial year	–	(583)	–	–
Issue of shares (net of issue costs of £1,812,000)	34,390	–	34,390	–
At 31 December 2003	58,972	(2,379)	58,972	–

20. Reconciliation of movements in Group shareholders' funds

	2003 £'000	2002 £'000
Loss for the financial year	(583)	(1,559)
Net proceeds of shares issued	35,926	2,904
Net increase in shareholders' funds	35,343	1,345
Opening shareholders' funds	25,314	23,969
Equity shareholders' funds at 31 December	60,657	25,314

21. Notes to the cash flow statement**(i) Net cash flow from operating activities**

	2003 £'000	2002 £'000
Operating loss	(1,057)	(1,732)
Depreciation of tangible fixed assets	25	23
Amortisation of acquisition costs	20	18
Increase in debtors	(123)	(30)
Increase in creditors	318	64
Provision against fixed asset investments	109	1,537
Waiver of loan	–	(650)
Net cash outflow from operating activities	(708)	(770)

(ii) Reconciliation of net cash flow to movement in net funds

	2003 £'000	2002 £'000
Movement in cash in the year	33,857	1,789
Changes in net funds resulting from cash flows	33,857	1,789
Other non-cash items		
– Loan waiver (see note 3)	–	650
Movement in net funds in the year	33,857	2,439
Opening net funds	4,388	1,949
Closing net funds	38,245	4,388

The non-cash movement in net funds in the year ended 31 December 2002 related to the waiver of a loan between the Company and Evolution Beeson Gregory Limited.

21. Notes to the cash flow statement continued

(iii) Analysis of net funds

	At 1 January 2003 £'000	Cash flow £'000	At 31 December 2003 £'000
Cash at bank and in hand	4,388	33,857	38,245
Net funds	4,388	33,857	38,245

22. Major non cash transactions

During the year the Group has made investments in a number of university spin out companies under the agreement it has in place with the University of Oxford. Further details of these transactions are given in note 13.

23. Capital commitments

Under the terms of an agreement entered into during the year ended 31 December 2002 between the Group and the University of Southampton and certain of the University of Southampton's subsidiaries, the Group agreed to make £5 million available for the purposes of making investments in University of Southampton spin out companies over a period of four years commencing in April 2002. Of this amount, at 31 December 2003, £1,797,000 has been invested in seven spin out companies from the university: ACTIVEem Limited, Capsant Neurotechnologies Limited, HepCgen Limited, Nanotecture Limited, Southampton PolyPeptides Limited, Stratophase Limited and SynAIRgen Limited. At the year end, the Group had committed to invest a further £162,000 pending the meeting of further investment milestones (£105,000 of which was duly invested in the post balance sheet period).

Under the terms of an agreement entered into during the year between the Group and King's College London ("KCL") and KCL Enterprises Limited, the Group agreed to make £5 million available to KCL for the purposes of making investments in spin out companies over a period of five years commencing in May 2003. At 31 December 2003, all of this amount was still available under the terms of the agreement. In addition, the Group has committed to make a £250,000 contribution to KCL over a five year period. Under the terms of this agreement, KCL can require the Group to make a further £5 million 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 new 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 over three years in spin out companies based on CNAP's intellectual property. This amount may be increased at the Group's option. No investments have been made in spin out companies by the Group at the year end.

24. Financial commitments

At 31 December 2003 the Group had annual commitments under non-cancellable operating leases expiring as follows:

	2003 £'000	2002 £'000
Land and buildings		
Within two to five years	23	23
	23	23

25. Post balance sheet events

Subsequent to 31 December 2003, two spin out companies from King's College London, Phonologica Limited and Proximagen Limited, were established in which the Group invested (or, subject to certain milestones being met, committed to invest) £661,000.

In addition, subsequent to 31 December 2003, the Group made a further investment of £105,000 in Nanotecture Limited on account of it having met certain investment milestones.

The following directors made the following investments subsequent to the year end.

Director	Spin out company	Number of shares	Cost £'000
Andrew Beeson	Capsant Neurotechnologies Limited	496	10
	Phonologica Limited	2,000	10
Roger Brooke	Phonologica Limited	2,000	10
	Proximagen Limited	3,000	15
John Davies	Capsant Neurotechnologies Limited	49	1
	Phonologica Limited	200	1
	Proximagen Limited	200	1
Bruce Smith	Phonologica Limited	2,000	10

On 11 March 2004, Offshore Hydrocarbon Mapping plc, formerly known as ACTIVEem Limited, a spin out company from the University of Southampton which has developed geophysical surveying technology for the offshore oil industry, announced its flotation on the Alternative Investment Market of the London Stock Exchange, raising £10.8 million at a placing price of £1.70 per share. At the placing price, Offshore Hydrocarbon Mapping plc was capitalised at £49.3 million. Commensurate with the floatation, the Group sold 588,235 shares to realise gross proceeds of £1.0 million.

26. Related party transactions

During the year the Group incurred the following charges payable to the following related companies:

Name of related party	Type of transaction	2003 £'000	2002 £'000
Evolution Group Services Limited	Recharge of expenses	112	785
Evolution Group Services Limited	Provision of accounting services	12	60
Evolution Beeson Gregory Limited	Arrangement fee	200	–
Evolution Beeson Gregory Limited	Loan waiver	–	650

The arrangement fee payable to Evolution Beeson Gregory Limited relates to the private placing of shares in IP2IPO Group in May 2003. At 31 December 2003 an amount of £4,000 was due to Evolution Beeson Gregory Limited (2002: £56,000). The Evolution Group plc owns 100% of the issued share capital of Evolution Beeson Gregory Limited, and owns 40.6% of the issued share capital of IP2IPO Group plc at 31 December 2003.

26. Related party transactions continued

The following directors had investments with the following spin out companies as at 31 December 2003:

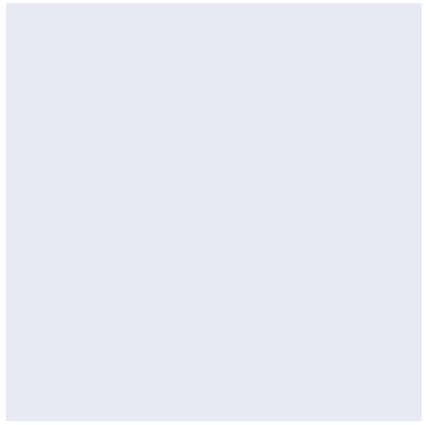
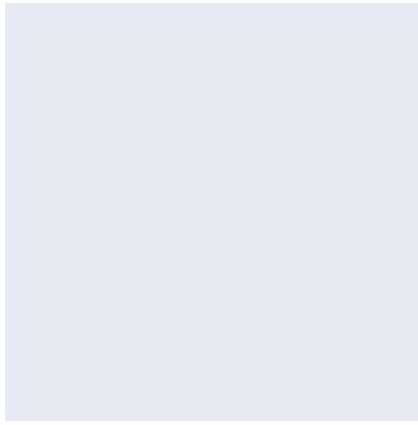
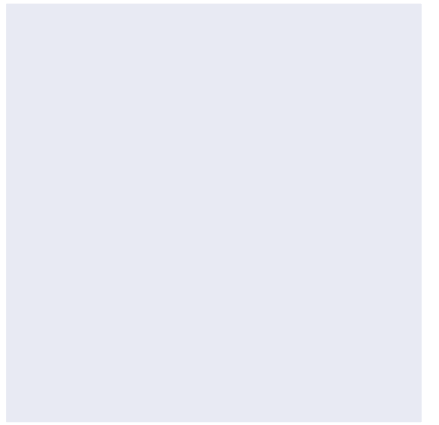
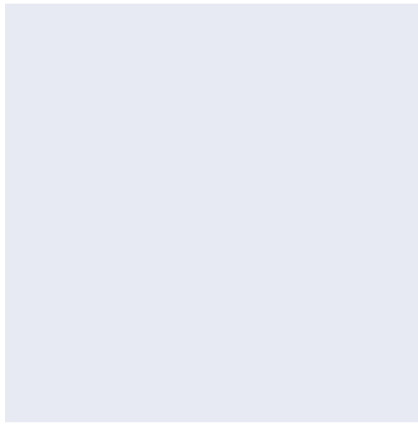
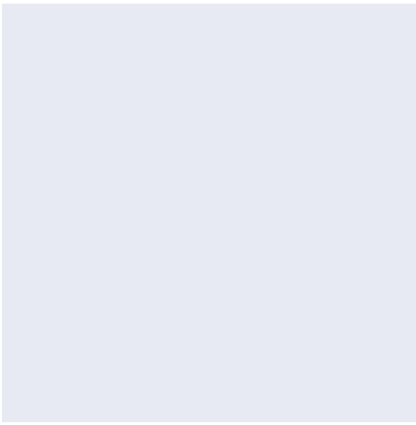
Director	Spin out company	Number of shares held at 1 January 2003	Number of shares acquired during the year	Number of shares held at 31 December 2003	% of issued share capital held at 31 December 2003	Cost of investment at 31 December 2003 £'000
John Davies	SynAIRgen	–	100	100	0.07	1
	Pharminox	53	–	53	0.06	2
	Glycoform	31	–	31	0.03	1
	ACTIVEem	9	–	9	0.01	1
Steven Lee	ReOx	–	200	200	0.02	1
	Zyentia	3	–	3	0.03	1
	Glycoform	31	–	31	0.03	1
	ACTIVEem	9	–	9	0.01	1
David Norwood	Pharminox	265	–	265	0.3	10
Andrew Beeson	SynAIRgen	–	400	400	0.29	4
	Zyentia	8	–	8	0.08	3
	Pharminox	266	–	266	0.3	10
	Inhibox	143	–	143	0.1	2
Bruce Smith	Nanotecture	–	10,000	10,000	1.18	15
	HepCgen	–	2,000	2,000	1.82	20
	SynAIRgen	–	2,000	2,000	1.45	20
	ACTIVEem	279	–	279	0.4	30
	Capsant Neurotechnologies	4,000	–	4,000	2.7	30
Roger Brooke	Nanotecture	–	6,667	6,667	0.78	10
	HepCgen	–	1,000	1,000	0.91	10
	ReOx	–	4,000	4,000	0.40	20
	Stratophase	–	2,134	2,134	0.72	7
	Pharminox	265	–	265	0.3	10
	Zyentia	13	–	13	0.13	5
	Glycoform	312	–	312	0.3	10
	Inhibox	500	–	500	0.6	7
	ACTIVEem	139	–	139	0.2	15
	Capsant Neurotechnologies	2,667	–	2,667	1.8	20
	Southampton Polypeptides	800	–	800	0.9	10

Notes

Notes

Cover photograph by Darren Millington

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