2006

IP Group plc

Interim Report and Accounts

For the six months to
30 June 2006

ipgroup plc

IP Group has had a very successful six month period, generating record first half profits and seeing significant progress throughout the Group's portfolio. I believe that the breadth and quality of our spin-out portfolio is very high and whilst, given the nature of our business, it will always be difficult to predict the timing of gains from the portfolio, I remain confident that our growing number of spin-outs will generate significant returns for our shareholders.

The second half of the year has started well with two new 25 year university partnerships, the launch of a new fund and the flotation, through a reverse takeover, of a spin-out from the University of Leeds.

David Norwood, Executive Chairman

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Highlights

Financial highlights

- **Profit after taxation: £30.3 million** (H1 2005: £3.6 million, FY 2005: £5.6 million)
- **Fair value of equity investments: £72.7 million** (H1 2005: £39.9 million, FY 2005: £44.3 million)
- **Cash proceeds from sales of equity investments: £3.0 million** (H1 2005: nil, FY 2005: £0.8 million)
- **Investment in spin-out companies: £1.9 million** (H1 2005: £1.7 million, FY 2005: £4.2 million)
- **Cash balance: £57.0 million** (H1 2005: £42.3 million, FY 2005: £39.9 million)
- **Tight cost control – operating expenses: £2.3 million** (H1 2005: £2.4 million, FY 2005: £4.6 million)

Operational highlights

- **IP Group admitted to the Official List of the UK Listing Authority on 19 June 2006**
- **Number of spin-out companies increases to 44** (H1 2005: 33, FY 2005: 37)
- **Oxford Catalysts Group plc and Syntopix Group plc float successfully on AIM**
- **New 25-year partnership with the University of Surrey**
- **Extension of partnership with the University of York to cover the entire university**
- **Six successful follow-on funding rounds for spin-out companies**
- **Modern Biosciences plc signs a Memorandum of Understanding with the University of Manchester for the development of drugable intellectual property**

Post 30 June 2006 highlights

- **Launch of IP Venture Fund, in partnership with the European Investment Fund, to invest in IP Group spin-out companies**
- **Avacta Group plc admitted to AIM through a reverse takeover**
- **Modern Biosciences plc signs an agreement to develop a new class of cancer drug licensed from the University of Manchester**
- **New 25-year partnerships with Queen Mary (University of London), and the University of Bath bringing total number of partners to nine**
- **Investment of £1 million in Retroscreen Virology Ltd, a leading anti-viral contract research organisation and an existing spin-out from Queen Mary (University of London)**

Overview

The period ended 30 June 2006 has been one of the most productive in the Group's history. The Group's portfolio of equity investments has delivered net fair value gains of £28.9 million for the period and a profit before taxation of £30.3 million.

University partnerships
The Group has continued to forge collaborations with research intensive institutions.

The Group now has partnerships with nine universities. In February the Group entered into a 25-year collaboration with the University of Surrey, in March the Group extended its partnership with the University of York to cover the entire university, and, subsequent to the period end, the Group entered into 25-year partnerships with Queen Mary (University of London) and the University of Bath.

Portfolio
During the six month period ended 30 June 2006 the Group increased the number of spin-outs in its portfolio to 44. Two companies from the portfolio, Oxford Catalysts Group plc and Syntopix Group plc listed on AIM during the period. Subsequent to the period end, Avacta Group plc, a spin-out from the University of Leeds, listed on AIM. Six companies in the portfolio achieved successful follow-on funding rounds during the period.

Modern Biosciences plc ('Modern Biosciences')
Modern Biosciences was established by the Group to address the problem of poor product pipeline within big pharmaceutical companies. Modern Biosciences will in-license intellectual property from universities, commission proof of concept development work and ultimately out-license that intellectual property to pharmaceutical and biotech companies. Modern Biosciences is a good example of IP Group being able to leverage its access to leading scientific research to address a clear market need through an innovative business model. The Group anticipates that certain other emerging market problems can be addressed in this way.

In March, Modern Biosciences signed a Memorandum of Understanding with the University of Manchester relating to the commercialisation of drug related intellectual property. In July, Modern Biosciences signed an exclusive license and research agreement with both the University of Manchester and the University of Salford for the development of a new class of cancer drug targeting platinum resistant tumours. Modern Biosciences has also appointed Professor Barry Furr, OBE, as Chief Scientific Adviser (oncology). Professor Furr was formerly Chief Scientist and Head of Project Evaluation at AstraZeneca Pharmaceuticals where he was responsible for the discovery and development of the anti-cancer drugs Zoladex and Casodex, used for the treatment of breast and prostate cancer respectively.

Corporate developments

In April, IP Group's share capital was divided by way of a 5-for-1 share split and to reflect more accurately the direction and activities of the Group, the Group's name was changed to IP Group plc from IP2IPO Group plc. In May, the Company raised £16.3 million by way of a share placing with institutional investors. In June, trading in the Group's shares on the Official List of the UK Listing Authority commenced. The Board is confident that this move will raise the profile of IP Group both domestically and internationally.

Since the period end, the Company launched the IP Venture Fund, a new venture capital fund in partnership with the European Investment Fund ('EIF') with a first closing of £15.5 million. The EIF is one of the leading investors in venture capital funds in Europe. The fund will invest in portfolio company follow-on financing rounds.

Personnel changes

On 1 January 2006, Dave Norwood became Executive Chairman of the Group and Alan Aubrey became Chief Executive Officer. On 31 March 2006, Magnus Goodlad joined the IP Group Board. On 11 September 2006 Stuart Thompson was appointed Head of Executive Search and Talent Management. Stuart was previously Head of the Healthcare and Life Sciences Practice at Whitehead Mann and his appointment reflects the importance the Group attaches to the selection and retention of the top executives in the UK for early stage technology businesses.

On 12 September 2006, Stephen Brooke, Director of Business Development, resigned from the Board. The Board wish to thank Stephen for his contribution to the Group to date, and wish him well for the future.

Operational Review

Portfolio performance

The Group recorded net fair value gains of £28.9 million (30 June 2005: £4.3 million). An analysis of net fair value gains is given below:

	Unaudited six months to 30 June 2006 £'m	Unaudited six months to 30 June 2005 £'m	Audited 12 months to 31 December 2005 £'m
Gains on the revaluation of investments	**33.1**	6.6	14.1
Losses on the revaluation of investments	**(4.2)**	(2.3)	(8.4)
Net fair value gains	**28.9**	4.3	5.7

Gains on the revaluation of investments were in part attributable to the admission to AIM of Oxford Catalysts Group plc and Syntopix Group plc, collectively generating gains of £14.5 million. Following six successful follow-on private funding rounds, raising a total of £12.3 million, the Group recorded gains within the private portfolio of £18.6 million of which Oxford Nanolabs Limited and Ilika Technologies Limited generated gains of £10.3 million and £5.5 million respectively.

Losses on the revaluation of investments of £4.2 million (H1 2005: £2.3 million, FY 2005: £8.4 million) were attributable in part to mark to market losses on the Group's portfolio of AIM-listed investments of £1.2 million. Provisions against investments in the private portfolio amounted to £3.0 million.

The Group realised gains on the disposal of investments of £2.0 million following the successful sale at IPO of 1,149,425 ordinary shares in Oxford Catalysts Group plc.

Since the period end, Avacta Group plc, a spin-out company from the University of Leeds, has joined AIM through a reverse takeover. At the date of admission to AIM this transaction generated an additional revaluation gain of £3.5 million for the Group.

Equity stakes
At 30 June 2006 the Group had equity stakes in 44 companies (30 June 2005: 33). A movement in the number of spin-out companies is given below:

	Unquoted spin-outs (number)	Quoted spin-outs (number)
At 1 January 2006	32	5
New spin-out businesses	7	-
Companies floated during the year	(2)	2
At 30 June 2006	**37**	**7**

During the period the Group invested £0.9 million in seven new spin-outs and invested £1.0 million in follow-on funding. Since 30 June 2006, the Group has also invested £2.8 million in five companies.

Cash
At 30 June 2006 the Group had cash of £57.0 million (30 June 2005: £42.3 million). The Group covered its operating costs with receipts from fund management income, consultancy income and interest. The Group's strategy continues to be to monitor costs carefully and to cover operating expenses with fund management income, consultancy income and interest receipts.

The Group invested £1.9 million in new spin-outs and follow-on funding during the period and received proceeds on the sale of equity stakes of £3.0 million. The Group settled £0.7 million of deferred consideration as a consequence of the acquisition of Techtran Group Limited. The Group therefore generated net cash on its portfolio of £0.5 million (30 June 2005: Outflow £3.5 million). The Group issued new share capital for cash proceeds of £16.6 million.

At 30 June 2006 the Group had £28.8 million ring-fenced for investment in spin-out companies from university partners. Subsequent to 30 June 2006, this has increased to £38.8 million following the successful completion of two further university partnerships each with a cash commitment of £5.0 million. Modern Biosciences has committed up to £1.4 million as a result of its research agreement with the Universities of Manchester and Salford for the development of a new class of cancer drug. Subsequent to 30 June 2006 the Group has committed £1.4 million for investment in the IP Venture Fund.

Consolidated Interim Income Statement

For the six months to 30 June 2006

	Notes	**Unaudited six months to 30 June 2006 £'m**	Unaudited six months to 30 June 2005 £'m	Audited 12 months to 31 December 2005 £'m
Revenue				
Gains on the revaluation of investments		**33.1**	6.7	14.1
Losses on the revaluation of investments		**(4.2)**	(2.3)	(8.4)
Gains on disposal of equity investments		**2.0**	-	0.8
Dividends		**-**	-	0.2
Revenue from services		**0.8**	0.8	1.7
		31.7	5.2	8.4
Administrative expenses				
Employee bonus costs		**(0.4)**	-	(1.2)
Official list costs		**(0.3)**	-	-
Other administrative expenses		**(1.6)**	(2.4)	(3.4)
		(2.3)	(2.4)	(4.6)
Operating profit		**29.4**	2.8	3.8
Finance income - interest receivable		**0.9**	0.8	1.8
Profit before taxation		**30.3**	3.6	5.6
Taxation	4	**-**	-	-
Profit attributable to equity holders		**30.3**	3.6	5.6
Basic earnings per ordinary share (p)	2	**13.06**	1.64	2.52
Diluted earnings per ordinary share (p)	2	**12.83**	1.59	2.45

Consolidated Interim Balance Sheet

As at 30 June 2006

	Unaudited at 30 June 2006 £'m	Unaudited at 30 June 2005 £'m	Audited at December 2005 £'m
ASSETS			
Non-current assets			
Property, plant and equipment	**0.1**	0.1	0.1
Intangible assets:			
Goodwill	**18.4**	18.4	18.4
Acquired intangible assets	**0.5**	0.7	0.6
Equity rights and related acquisition costs	**20.2**	20.2	20.2
Equity investments	**72.7**	39.9	44.3
Financial asset	**1.2**	-	1.3
Investment in limited partnerships	**0.1**	0.1	0.1
Total non-current assets	**113.2**	79.4	85.0
Current assets			
Trade and other receivables	**1.7**	1.0	2.0
Cash and cash equivalents	**57.0**	42.3	39.9
Total current assets	**58.7**	43.3	41.4
Total assets	**171.9**	122.7	126.9
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Called up share capital	**4.8**	4.5	4.6
Share premium account	**89.7**	84.7	73.3
Merger reserve	**12.8**	0.8	12.8
Retained earnings	**59.4**	26.9	29.1
Total equity	**166.7**	116.9	119.8
Non-current liabilities			
Trade and other payables	**2.9**	4.3	3.6
Provisions	**0.3**	0.1	0.6
Total equity and non-current liabilities	**169.9**	121.3	124.0
Current liabilities			
Trade and other payables	**2.0**	1.4	2.9
Total equity and liabilities	**171.9**	122.7	126.9

Consolidated Interim Cash Flow Statement

For the six months to 30 June 2006

	Unaudited six months to 30 June 2006 £'m	Unaudited six months to 30 June 2005 £'m	Audited 12 months to 31 December 2005 £'m
Operating activities			
Operating profit	**29.4**	2.8	3.8
Fair value movements in equity investments	**(28.9)**	(4.3)	(5.7)
Amortisation of intangible non-current assets	**0.1**	0.1	0.2
Decrease/(increase) in trade and other receivables	**0.3**	0.2	0.3
(Decrease)/increase in trade and other payables and provisions	**(0.3)**	(2.0)	(1.7)
Profit on disposal of equity investments	**(2.0)**	-	(0.8)
Dividends	**-**	-	(0.2)
Equity allocated to staff	**0.4**	-	-
Share-based payment charge	**-**	0.1	0.3
Interest received	**1.0**	0.8	1.3
Net cash from operating activities	**-**	(2.3)	(2.5)
Investing activities			
Purchase of equity investments	**(1.9)**	(1.8)	(4.2)
Financial asset	**0.1**	-	(1.4)
Purchase of subsidiary undertaking	**(0.7)**	(3.5)	(3.5)
Net cash acquired with subsidiary	**-**	1.8	1.8
Proceeds from sale of equity investments	**3.0**	-	0.8
Dividend received	**-**	-	0.2
Net cash generated/(used) in investing activities	**0.5**	(3.5)	(6.3)
Financing activities			
Proceeds from issue of share capital	**16.6**	13.3	13.9
Net increase in cash and cash equivalents	**17.1**	7.5	5.1
Cash and cash equivalents at the beginning of the period	**39.9**	34.8	34.8
Cash and cash equivalents at the end of the period	**57.0**	42.3	39.9

Consolidated Unaudited Interim Statement of Changes in Shareholders' Equity

For the six months to 30 June 2006

Attributable to equity holders of the Group

	Total equity £'m	Share capital £'m	Retained earnings £'m	Merger reserve £'m	Share premium £'m
At 1 January 2005	87.8	4.1	23.3	0.8	59.6
Consolidated profit for the period to 30 June 2005	3.6	–	3.6	–	–
Employee share option charge in period to 30 June 2005	0.1	–	0.1	–	–
Pre-acquisition reserves attributable to the Group	(0.1)	–	(0.1)	–	–
Issue of share capital in the period to 30 June 2005	25.5	0.4	–	12.0	13.1
At 30 June 2005	116.9	4.5	26.9	12.8	72.7
Consolidated profit for the period to 31 December 2005	2.0	–	2.0	–	–
Employee share option charge in period to 31 December 2005	0.2	–	0.2	–	–
Issue of share capital in the period to 31 December 2005	0.7	0.1	–	–	0.6
At 31 December 2005	119.8	4.6	29.1	12.8	73.3
Consolidated profit for the period to 30 June 2006	30.3	–	30.3	–	–
Employee share option charge in period to 30 June 2006	–	–	–	–	–
Issue of share capital in period to 30 June 2006	16.6	0.2	–	–	16.4
At 30 June 2006	**166.7**	**4.8**	**59.4**	**12.8**	**89.7**

Notes to the Interim Results

1. Basis of preparation

The interim consolidated financial statements of IP Group plc are as at and for the six months ended 30 June 2006 and comprise the results, assets and liabilities of the Company and its subsidiaries ('the Group').

These interim financial statements have been prepared in accordance with the Listing Rules of the Financial Services Authority. They have not been prepared in accordance with IAS34 – 'Interim Financial Reporting'. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited financial statements of the Group as at and for the year ended 31 December 2005. These interim financial statements were approved by the Board and authorised for issue on 12 September 2006.

The accounting policies applied by the Group in these interim consolidated financial statements are the same as those applied by the Group in its audited consolidated financial statements as at and for the year ended 31 December 2005. The basis of consolidation is set out in the Group's accounting policies in those financial statements. The directors have changed the format of the income statement previously reported to show more clearly the analysis of revenues that are generated from the Group's principal activities. There have been no changes to previously reported balances or results and it is the directors' intention to use this format for future financial reports.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. In preparing these interim consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited consolidated financial statements as at and for the year ended 31 December 2005.

The comparative figures for the year ended 31 December 2005 do not constitute statutory financial statements for the purpose of s240 of the Companies Act 1985. A copy of the Group's statutory financial statements for that year has been delivered to the Registrar of Companies and contained an unqualified auditor's report in accordance with s235 of the Companies Act 1985 and did not contain statements made under either s237(2) or s272(3) of the Companies Act 1985.

2. Earnings per share

The basic earnings per share has been calculated by dividing the profit for the period of £30.3 million (for the period ended 30 June 2005: profit £3.6 million; for the year ended 31 December 2005: profit £5.6 million) by the weighted average number of shares of 231,957,355 in issue during the six month period to 30 June 2006 (for the six month period ended 30 June 2005: 203,194,550*; for the year ended 31 December 2005: 222,813,505*).

The diluted earnings per share has been calculated by dividing the profit for the period of £30.3 million (for the period ended 30 June 2005: profit £3.6 million; for the year ended 31 December 2005: profit £5.6 million) by 236,157,460 shares (for the six month period ended 30 June 2005: 209,067,425*; for the year ended 31 December 2005: 228,381,635*), being the sum of the weighted average number of shares in issue adjusted for the conversion of the dilutive potential shares, weighted for the period they were outstanding.

*Comparative figures restated following 5:1 share split in April 2006.

3. Equity investments – designated as 'at fair value through profit or loss'

	Quoted spin-out companies £'m	Unquoted spin-out companies £'m	Other investments £'m	Total £'m
At 1 January 2005	24.0	8.3	3.2	35.5
Investments during the period to 30 June 2005	-	1.7	0.4	2.1
Reclassifications during the period to 30 June 2005	0.3	(0.3)	-	-
Change in fair value in period to 30 June 2005	4.0	0.3	-	4.3
Adjustment arising on consolidation of Techtran Group Limited	-	-	(2.0)	(2.0)
At 30 June 2005	28.3	10.0	1.6	39.9
Investments during the period to 31 December 2005	-	3.0	-	3.0
Reclassifications during the period to 31 December 2005	0.5	(0.5)	-	-
Change in fair value in period to 31 December 2005	(4.2)	5.9	(0.2)	1.5
Disposals during the period to 31 December 2005	-	(0.1)	-	(0.1)
At 31 December 2005	24.6	18.3	1.4	44.3
Investments during the period to 30 June 2006	-	1.9	-	1.9
Reclassifications during the period to 30 June 2006	1.1	(1.1)	-	-
Change in fair value in period to 30 June 2006	14.5	14.2	0.2	28.9
Shares transferred to staff in period to 30 June 2006	-	(1.4)	-	(1.4)
Disposals during the period to 30 June 2006	(0.5)	(0.5)	-	(1.0)
At 30 June 2006	**39.7**	**31.4**	**1.6**	**72.7**

4. Taxation

The directors believe that the Group is a trading group as defined in para. 21 Sch. 7AC TCGA 1992 and therefore qualifies for the Substantial Shareholdings Exemption ('SSE') on chargeable gains arising on the disposal of qualifying holdings. The Group has previously obtained post-transaction clearance from H M Revenue & Customs under Code of Practice 10 (CoP10) that SSE applied to previous disposals in 2004. During the period under review the Group has applied for clearance under CoP10 in respect of a disposal of shares that took place earlier this year. This process is ongoing.

The directors have also sought the views of leading Tax Counsel and other professional advisers on this matter. Should the Group not qualify for SSE as a trading group then a deferred tax liability of £2.5 million will be required to be recognised in accordance with International Accounting Standard 12 – Income Taxes.

5. Post balance sheet events

Avacta Group plc, a spin-out from the University of Leeds in which IP Group holds an equity stake of 26%, announces it has joined AIM through a reverse takeover.

Modern Biosciences plc signs an intellectual property in-licensing agreement with the University of Manchester to develop a cancer drug.

Queen Mary (University of London) and the University of Bath signed 25-year commercialisation contracts with IP Group.

IP Group announced it had invested £1 million in Retroscreen Virology Limited, the first investment as part of the Company's collaboration with Queen Mary (University of London).

Independent Review Report to IP Group plc

Introduction
We have been instructed by the Company to review the financial information for the six months ended 30 June 2006 on pages 6 to 11. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Listing Rules of the Financial Services Authority and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Directors' responsibilities
The Interim Report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed
We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion
On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

BDO Stoy Hayward LLP
Chartered Accountants
Southampton

12 September 2006

Notes:

a) The maintenance and integrity of IP Group plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Interim Report since it was initially presented on the website.

b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

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