

Partnership, innovation, results.

ANNUAL REPORT & ACCOUNTS 2007

Our Vision

1

To be a leader in the commercialisation of university research through the creation of new businesses that have potential for exceptional growth and address major unmet market need.

2

We seek to provide our companies more than just capital. We offer vision, access to networks, experience, methodology and support.

3

To deliver superior returns to all our stakeholders while building a company which makes a significant contribution to the UK economy.

Our Partners



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Highlights

PORTFOLIO GROWTH	SALE OF EQUITY	NET ASSETS
<p>Portfolio increased in value by 44% to £126 million at 31 December 2007</p>	<p>Cash from sales of equity investments during 2007 increased by 158% to £8 million</p>	<p>Net assets rose by 19% to £213.8 million including £46 million of cash</p>
FUND RAISING CAPABILITY	IP VENTURE FUND	DIVERSIFIED PORTFOLIO
<p>Over £30 million raised by portfolio companies in private financing rounds</p>	<p>Completed second closing at £31 million and eleven investments</p>	<p>Balanced portfolio exposure across 5 main industry sectors</p>
MODERN WATER PLC	PHOTOPHARMICA (HOLDINGS) LTD	OXFORD ADVANCED SURFACES GROUP PLC
<p>Listed on AIM with a market capitalisation of £70 million</p>	<p>Announced positive phase II data and completed £6 million private financing</p>	<p>Joined AIM via a reverse takeover, raised £3 million</p>



"IP Group has maintained its market leadership position in university intellectual property commercialisation in the UK."

Our Approach

IP Group offers investors an opportunity for exposure to major investment trends and the best of UK scientific research.

Successful intellectual property commercialisation requires excellence in four key areas – science, method, people and capital.

We are working in partnership with ten of the UK's leading research universities which gives us access to an unrivalled source of intellectual property and research capability.

Our experience has helped us to develop our proprietary methodology of commercialising IP. While we are always looking at ways of improving our methods, we feel our unique commercialisation process is critical.

Our businesses are differentiated by the calibre of the people involved. Over many years, IP Group has built up an enviable network of contacts and business builders to work with the Group and its portfolio companies.

We also have extensive expertise in financial markets and have built a dedicated in-house capital markets team to further develop our distribution network. Therefore, our portfolio

companies have access to a number of sources of further finance including IP Venture Fund.

IP Group's experienced team has helped create a formidable track record of consistently delivering excellent results for our shareholders and partners.

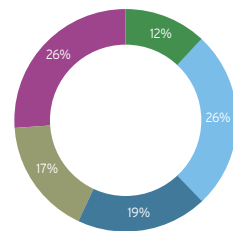
IP Group has helped create 65 new businesses and now has twelve portfolio companies in which it has a holding worth more than £3m.

IP Group offers investors an opportunity to gain exposure to major investment trends emanating from the very best UK university scientific research.

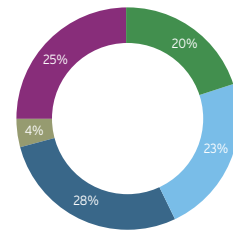
Our portfolio is diversified and maturing with companies in five main sectors:

- Energy & Renewables
- Healthcare & Life Sciences: Non-therapeutics
- Healthcare & Life Sciences: Therapeutics
- IT & Communications
- Chemicals & Materials.

% All portfolio businesses by number



% All portfolio businesses by fair value



- Energy & Renewables
- Healthcare & Life Sciences: Non-therapeutics
- Healthcare & Life Sciences: Therapeutics
- IT & Communications
- Chemicals & Materials



Innovation: Major challenges being addressed by our portfolio companies.

- | | | |
|--|--|---|
| <ul style="list-style-type: none"> • Non-stick chewing gum • Environmentally friendlier chemicals • Materials for fuel cells • Waterless washing of clothes • Specialist coatings | <ul style="list-style-type: none"> • Instant steam • Parkinson's disease • Alzheimer's disease • Wound healing • Acne | <ul style="list-style-type: none"> • \$1000 genome • Dealing with waste • Economic availability of freshwater • Self-powered sensors • Smart scheduling software |
|--|--|---|

Chairman's Statement

"I am pleased to report that there has been good overall progress across the business during 2007, reflected by the strong growth in the portfolio."

This is my first statement as Chairman since IP Group moved to the Official List from AIM and I am pleased to report that there has been good overall progress across the business during 2007, reflected by the strong growth in the portfolio. The Group has performed in line with the Board's expectations, maintaining its market leadership position in university intellectual property commercialisation in the UK.

Through its ten university partners in the UK, the Group has unrivalled access to a strong pipeline of investment opportunities as well as research capability and is uniquely placed at the forefront of commercialising UK innovation. IP Group continues to work with its university partners to source, develop and invest in world-leading technologies and then grow these businesses post-investment through to significant value creation.

During 2007, we focused on integrating our most recent university partnerships, five of which were established during 2006, continuing to develop our longer established partnerships and on rolling out our proprietary commercialisation methodology and best practices across the Group. The Group's portfolio is increasingly diverse with exposure to a

number of key sectors: Energy & Renewables, Healthcare & Life Sciences (Therapeutics and Non-therapeutics), IT & Communications and Chemicals & Materials. These technologies are developed through many years of research at the Group's partner universities.

We also strengthened our fund management operations during the year, completing a second closing of the IP Venture Fund at £31m, which provides an additional potential source of financing for our portfolio companies. The fund has now made a total of 13 investments in IP Group portfolio companies.

The Group also further developed its own internal third-party fund-raising capability during the year, with the establishment of a dedicated capital markets team. As global financial markets have deteriorated, we have already seen the benefits of this strategy. Indeed, it is particularly encouraging to note that the Group's portfolio companies raised over £30m in private financings during the year. This demonstrates not only the strength of the business model but also the Group's resilience in testing times.



DR BRUCE SMITH
CHAIRMAN



MODERNWATER

Modern Water plc was set up by IP Group to build and exploit a portfolio of water technologies to address problems of the economic availability of freshwater and the treatment and disposal of wastewater. In June, the company floated on AIM, raising £30m, valuing the business at £70m. IP Group has a 23.0% stake in the business.



Chairman's Statement

Continued

"The Group remains well placed and your directors are confident of further progress during 2008."

There have been a number of changes to the Board this year. I am delighted to have resumed the role of Non-Executive Chairman. I have been a director of the Group for five years and was Chairman when the Group floated on AIM. David Norwood, the Group's founder and previous Executive Chairman, has moved to the position of Special Projects Director. David remains an executive director and is actively involved with shareholder relations, strategic issues and fund-raising. He also acts as chairman or non-executive director of a number of our portfolio companies. In addition, Mike Townend joined us from Lehman Brothers as Director of Capital Markets.

Outlook

Looking ahead, and against the current backdrop of global economic uncertainty, your directors believe that the Group remains well positioned and are confident of further progress during 2008. IP Group has a strong balance sheet and will continue its policy of prudent cash management while ensuring risk remains diversified within the portfolio.

The portfolio is maturing and the directors expect the Group's portfolio companies to make further significant progress in 2008 with a number preparing product launches or due to reach other critical milestones.

The Group's most recent corporate transactions, which include two substantial private fund-raising, demonstrate the continuing success of our strategy to widen our distribution platform. The Board remains committed to maintaining this balance particularly in the light of the recent illiquidity in global equity markets.

IP Group is well placed in a number of key sectors through its ten exclusive long term relationships with UK universities and its growing and diverse spread of portfolio companies. Although the current volatility in the equity markets is likely to lead to a reduction in financings through the public markets in 2008, the Group will increasingly utilise alternative fund raising options for its portfolio companies. With a strong cash position, a broad portfolio and unrivalled sources of future technology, IP Group is well positioned to create long-term shareholder value.

I would like to thank all of our staff for their hard work and commitment as well as our shareholders, university partners and all of our associates for their ongoing support.

DR BRUCE SMITH
Chairman
26 February 2008



The Group has built a portfolio that is well diversified by sector.



Retroscreen Virology Ltd, a spin-out from Queen Mary, University of London, is Europe's leading contract virology research company. It is dedicated to creating the next generation of antivirals and vaccines in the field of biomedical research. Retroscreen has seen strong growth with revenues increasing to £3.1m in the year to 31 July 2007. IP Group has a 22.9% stake in the business and an option to increase this to 32.3%.



Chief Executive's Statement

The Group has again delivered a strong performance in 2007, substantially increasing the underlying value of the portfolio and increasing net assets to £213.8m during the year (2006: £179.2m). The Group generated a profit before tax of £30.5m, in line with the Board's expectations, and largely driven by gains in the value of the Group's portfolio. It is noteworthy that revenues from services, in the form of fund management and consultancy fees, rose to £2.0m (2006: £1.8m) and cash proceeds generated from the sale of equity investments during the period rose significantly to £8.0m (2006: £3.1m). The Group's cash position remained strong with £46.0m cash at year end (2006: £51.3m) whilst the Group continued to invest in the portfolio and the Modern franchise, and invest in the infrastructure required to support the new partnerships established in 2006 and the growing portfolio.

Companies in the Group's portfolio continue to make good technical and commercial progress, with a number announcing significant developments in the year. During 2007 the Group's portfolio increased in value by 44% to £126.1m from £87.4m. The Group ended the year with 12 portfolio companies in which it has a holding valued at £3m or above, as well as stakes in 53 other businesses, and these are analysed in greater detail in the Portfolio Review below.

"The Group has again delivered a strong performance in 2007, substantially increasing the underlying value of the portfolio and increasing net assets to £213.8m."

Operational Review

University partnership business

During 2007, the Group has been focused on developing the five new relationships with UK universities established in the prior year as well as continuing to develop our longer established partnerships. Our ten university partnerships now represent a significant proportion of the scientific research base in the UK. I am pleased to report that these more recent relationships are already bearing fruit in the form of a total of seven spin out companies formed from the University of Surrey, Queen Mary, University of London, the University of Bath, the University of York and the University of Glasgow.

The breadth of our university partnerships provides us with an excellent pipeline of technology-based development opportunities which remains unmatched by any other intellectual property commercialisation company in the UK. IP Group's success depends on its ability to work with its university partners to identify opportunities from the concepts and ideas generated from this research base and to progress those opportunities through to value creation in various forms. To that end we have continued to successfully develop our investment and business building methodology during the year.

The companies in the Group's portfolio have continued to make significant progress towards their commercial and technological goals during the year. Below, I highlight a few notable examples:

In September 2007, Revolymer Limited, a spin-out from the University of Bristol in the Chemicals & Materials sector that develops new polymers with enhanced physical properties, announced that it had completed development of its new non-stick chewing gum. Revolymer announced that the 'Clean Gum' had both good taste and in field tests could be easily removed from shoes, clothes, pavements and hair.



ALAN AUBREY
CHIEF EXECUTIVE OFFICER

Chief Executive's Statement

Continued

"The companies in the Group's portfolio have continued to make significant progress towards their commercial and technological goals during the year."

Retroscreen Virology Limited in the Healthcare & Life Sciences (Non-therapeutics) sector is one of Europe's leading contract Virology research companies and has grown revenues to £3.1m for the year to 31 July 2007 from just £1.1m in 2005. IP Group has a 22.9% stake in the business.

Green Chemicals plc, which develops speciality chemicals with more benign environmental footprints than existing products, announced in April 2007 that initial results from industrial trials of its Perachem FR flame retardant treatment were progressing ahead of expectations. In December 2007, the Company announced the signing of a letter of intent with Good Hair Days to develop an exclusive range of environmentally friendly hair lightening and colouring products.

In July 2007 Photopharmica (Holdings) Limited ("Photopharmica"), a University of Leeds spin-out company in the Healthcare & Life Sciences (Therapeutics) sector, announced the successful completion of the first ever Phase II placebo-controlled clinical trial using topical photodynamic therapy for the treatment of microbial disease in wounds.

Finally, in November 2007, the Group announced that Tracsis plc ("Tracsis"), an IT & Communications company providing resource optimisation software to major transport companies in the passenger rail and bus industries, had been admitted to the Alternative Investment Market ("AIM") raising £2m by way of the placing. Tracsis was the eleventh Group business

to float on AIM or PLUS markets, and is a good example of the profitable, cash-generative businesses created through the Group's university partnership model, which enabled it to complete an IPO successfully in a difficult market.

Fund management business

The Group's fund management business contributed total income of £1.2m during 2007 (2006: £1.5m).

In August 2007, the Group announced that it had completed a second closing of IP Venture Fund ("the IPVF"), the venture capital fund established in July 2006 in partnership with the European Investment Fund, one of the leading venture capital investors in Europe. The second close was over-subscribed and attracted a further £15.5m with participation by a number of new respected institutional investors taking total commitments to £31m. The IPVF has the ability to invest up to 25% in post seed financings in the Group's portfolio of spin-out companies and during the year invested a total of £6.9m (2006: £0.7m) into eleven (2006: two) IP Group portfolio companies. With the second close now complete, the fund provides an excellent prospective source of follow on funding for present and future spin-outs in the IP Group portfolio.

'Modern' businesses

The Group's strategy of creating businesses to address specific global issues, led by world-class management teams seeking to access and exploit a portfolio of intellectual property based investments within a particular sector, has seen continued success in 2007.



Photopharmica (Holdings) Ltd, a spin-out from the University of Leeds, is developing pharmaceutical products using photodynamic therapy (PDT). In the last twelve months, it announced the successful completion of the first ever Phase II clinical trial using topical PDT for the treatment of microbial disease in wounds as well as a £6m financing round. IP Group has a 49.9% stake in the business.



Chief Executive's Statement

Continued

As previously announced, the Group launched its latest subsidiary in this field, Modern Waste Limited ("Modern Waste") in May 2007. IP Group committed £2m to Modern Waste, which will develop and exploit innovative waste and recycling technologies. Modern Waste is headed by Executive Chairman John Shepherd and in January 2008 Victor Cocker CBE, the founder Chairman of WRAP and former CEO of Severn Trent plc, and Michael Averill, the former CEO of Shanks Group plc joined the board as Non-Executive Directors. Modern Waste has established a strong pipeline of initial opportunities.

The Group's drug development subsidiary, Modern Biosciences plc ("Modern Biosciences"), has also made good progress in the year. In April 2007, Dr Sam Williams became CEO. Sam is an award-winning biotechnology analyst with over ten years' experience in the sector and joined Modern Biosciences from Lehman Brothers. In June 2007, Dr Clive Dix became Chairman. Clive was previously CEO of PowderMed Ltd, overseeing its sale to Pfizer in 2006, and was a Board member of PowderJect Pharmaceuticals plc which was acquired by Chiron for £550m in 2003. He has more than 22 years' experience in the pharmaceutical and biotechnology industries. During the year, Modern Biosciences concluded two development agreements, Rimcazole, a new treatment for cancer from the University of Dundee, and an exclusive worldwide licence with the University of Aberdeen to develop new, oral, disease-modifying molecule treatments for rheumatoid arthritis.

Finally, as announced earlier in the year, Modern Water plc ("Modern Water") became the first of the Group's Modern businesses to be successfully floated on AIM, raising £30m (before expenses) of new capital and valuing the company at approximately £70m on admission. Modern Water was established in 2006 to source, develop and deploy technology-based solutions to meet the growing demand for the economic

availability of fresh water and treatment of waste water.

Financial Review Income statement

As described in more detail in the Portfolio Review below, the portfolio gains are largely attributable to gains on Oxford Advanced Surfaces plc (£11.5m), Modern Water (£10.9m), Green Chemicals plc (£7.1m) and Photopharmica (£6.5m). These gains were offset to some degree by a reduction in the value of our holdings in certain companies in the quoted portfolio, most significantly Avacta Group plc (£4.3m).

The existing quoted portfolio generated net fair value losses of £7.6m during 2007 (2006: £0.9m), which the Board believes is reflective of a general deterioration in market conditions during the year, and the stage of development and lack of news-flow surrounding these companies, rather than a lack of underlying technical or commercial progress. The Board remains confident that the breadth and quality of the quoted portfolio is such that it will generate shareholder returns over the medium term.

The Group generated £2.0m (2006: £1.8m) of other income during 2007 and this consisted primarily of fund management income, as described above, and fees from consultancy services.

As anticipated at the end of 2006, the Group incurred increased administrative expenses for 2007 of £9.2m (2006: £4.2m). The increase was largely a result of two factors. Firstly additional staff costs brought about by the doubling of the number of University partnerships and also the strengthening of the central management team to support this expansion and the growth of the portfolio. Secondly, the consolidation of costs incurred in portfolio companies that, because IP Group's shareholding is more than 50%, are accounted for as subsidiary undertakings. These companies comprised Modern

Summary analysis of the Group's performance for the year

	2007 £'m	2006 £'m
Portfolio gains	35.0	40.2
Other income	2.0	1.8
Administrative expenses - Modern Businesses & Photopharmica	(2.6)	(0.3)
Administrative expenses - All Other Businesses	(6.6)	(3.9)
Finance income	2.7	2.3
Profit for the period	30.5	40.1



Through our 10 university partners, we have unrivalled access to a strong pipeline of investment opportunities as well as research capability.

Chief Executive's Statement

Continued

Biosciences, Modern Water (until its IPO in June 2007), Modern Waste and Photopharmica (until its private placing in December 2007). The net expenses incurred by these businesses that have been consolidated into the income statement of the Group amounted to £2.6m (2006: £0.3m).

Portfolio performance

In 2007, the Group recorded £34.5m of net fair value gains and gains on deemed disposals of subsidiaries (2006: £38.2m). A detailed analysis of these gains and losses is given in the Portfolio Report below.

In 2007, the Group ceased to control Modern Water as a result of its issuing additional share capital during its placing on AIM, and Photopharmica as a result of an additional funding round completed in December. As a result of these transactions, Modern Water and Photopharmica ceased to be subsidiaries and accordingly are no longer consolidated. The Group recognised a gain on disposal of £8.1m (2006: £nil).

Proceeds on disposal of equity investments

Reflecting the increasing maturity of the Group's investment portfolio, the Group generated a significant increase in cash proceeds on the sale of equity investments of £8.0m, compared to the £3.1m during 2006.

Of this, the Group generated £5.4m as the result of sales of 2,671,765 ordinary shares in Offshore Hydrocarbon Mapping plc ("OHM") and a further £2.6m as a result of the sale of 2,136,664 ordinary shares in Oxford Catalysts Group plc ("OCG"). As at 31 December 2007, the Group has realised total cash proceeds of £6.3m from its total investment of £0.2m in OHM and the value of its remaining 0.8% holding in the company is £0.6m. Aggregate cash proceeds of £4.6m have been generated by the Group from its total investment in OCG of £0.4m and its remaining 16.7% holding in the company is worth £9.7m at 31 December 2007.

Cash

At 31 December 2007 the Group had total cash of £46.0m (2006: £51.3m).

The Group invested £6.8m (2006: £8.5m) in the portfolio as well as £0.7m (2006: £0.2m) investment in the IP Venture Fund. As described right, the Group generated cash proceeds of £8.0m (2006: £3.1m) on disposals of equity stakes. However, there was a net cash outflow from investing activities of £2.9m (2006: £6.2m) mainly as a result of the acquisition and subsequent deemed disposal of Photopharmica in the year, as well as the deemed disposal of Modern Water.

During 2007 the Group issued new share capital for cash proceeds of £0.2m (2006: £19.0m) as a result of the exercise of employee unapproved share options.

Analysis of the Group's net fair value gains and gains on deemed disposals of investments

	2007 £'m	2006 £'m
Gains on the revaluation of investments	38.1	47.8
Losses on the revaluation of investments	(11.7)	(9.6)
Net fair value gains	26.4	38.2
Gains on deemed disposal of subsidiaries	8.1	-
Total	34.5	38.2

Summary of the principal constituents of the movement in cash

	2007 £'m	2006 £'m
Net cash used in operating activities	(2.6)	(1.4)
Net cash used in investing activities	(2.9)	(6.2)
Issued share capital	0.2	19.0
Movement during period	(5.3)	11.4



Tracsis plc, a spin-out company from the University of Leeds, provides resource optimisation software to major transport companies in the passenger rail and bus industries. The company, which is profitable, floated on the Alternative Investment Market in November, raising £2m, valuing the business at £7m. IP Group has a 20.9% stake in the business.



Chief Executive's Statement

Continued

At 31 December 2007, the Group had £36.7m ring-fenced for seed round financing of new spin-out companies from its university partners (2006: £40.5m). As a result of the second closing of the IP Venture Fund in August 2007, the Group has £2.2m of undrawn commitments for investments in the fund at 31 December 2007 (2006: £1.2m).

It is the Group's current policy to place any cash surplus to near term working capital requirements on short-term and overnight deposits. The Group has no foreign currency deposits.

Share-based payments

During May 2007, the Group introduced a new Long-term Incentive Plan ("LTIP") in which shares were granted to certain executive directors and key employees which vest after a three year period depending on the achievement of certain key performance measures. The accounting for share allotments to employees of this nature is accounted for under IFRS 2, "Share-based Payments" and accordingly a charge of £0.3m for the period (2006: nil) has been recognised in the income statement.

Taxation

The Group's directors continue to believe that the Group qualifies for the Substantial Shareholdings Exemption ("SSE") on chargeable gains arising on disposal of qualifying holdings. During 2007 the Group obtained a post-transaction clearance from HM Revenue & Customs under Code of Practice 10 (CoP10) that SSE applied to the Group's disposal of shares in OHM. The Group has therefore not recognised any deferred tax provision on net gains arising on its portfolio of equity investments.

"The Group's cash position remained strong with £46.0m cash at year end."

Portfolio Review

During 2007 the Group's portfolio made strong progress on all levels, increasing in value by 44% from £87.4m across 53 companies to £126.1m across 65 companies. Following the admission to AIM of Tracsis in November 2007 and the reversal on to AIM and concurrent placing of Oxford Advanced Surfaces plc ("OAS") during December 2007, twelve of the Group's university spin out companies have been admitted to either AIM or PLUS Markets (2006: eight). Outside of the public markets arena, ten portfolio companies completed successful funding rounds, raising a total of £31.3m.

Portfolio analysis by investment stage

The portfolio businesses in the Group's portfolio are at varying stages of development, which we analyse into three categories: 'Pre-seed & Incubation', 'Portfolio Businesses <£3m' and 'Portfolio Businesses >£3m'. The former category consists of any portfolio companies which have yet to receive seed investment and which are being incubated, while the latter two categories consist of more mature businesses. These are further analysed based on the current value of the Group's holding at a given date. An analysis of the Group's portfolio by investment stage is shown in the tables on the right.

Largest portfolio businesses ('Portfolio businesses >£3m')

It has been a good year for our largest portfolio businesses during 2007, with a number of companies completing successful financing rounds on both public and private markets.

In December, OAS, a spin-out company from the University of Oxford specialising in coatings and materials, reversed into an AIM listed company and completed a placing raising £3m. At 31 December 2007, the Group's 15.7% stake realised a fair value gain of £11.5m on a mark-to-market basis.

Portfolio analysis by subsidiaries stage

AS AT 31 DECEMBER 2007				
Company Stage	Fair Value		Number	
	£m	%		%
Pre-seed & Incubation	0.6	0%	14	22%
Portfolio businesses <£3m	28.6	23%	39	60%
Portfolio businesses >£3m	96.9	77%	12	18%
All portfolio businesses	126.1	100%	65	100%

AS AT 31 DECEMBER 2006				
Company Stage	Fair Value		Number	
	£m	%		%
Pre-seed & Incubation	0.5	1%	10	19%
Portfolio businesses <£3m	26.7	31%	35	66%
Portfolio businesses >£3m	60.2	68%	8	15%
All portfolio businesses	87.4	100%	53	100%

Chief Executive's Statement

Continued


"The Group ended the year with 12 portfolio companies in which it has a holding valued at £3m or more... it has been a good year for our largest portfolio businesses during 2007."

Largest portfolio businesses ('Portfolio businesses >£3m')


Company	Description	Quoted/ unquoted	COMPANY VALUE	GROUP STAKE	FAIR VALUE OF GROUP HOLDING AT:	
			31 December 2007 £m	31 December 2007 %	31 December 2007 £'m	31 December 2006 £'m
Avacta Group plc	Advanced molecular detection and analysis technologies for the biopharmaceutical, homeland security, defence and medical diagnostics industries	Quoted	28.8	23.9%	6.9	10.5
Green Chemicals plc	Environmentally friendly textiles and bleaching chemicals	Quoted	30.7	24.5%	7.5	0.4
Ilika Technologies Limited	Development and application of high throughput, combinatorial R&D techniques for the discovery of new materials	Unquoted	29.5	23.6%	7.0	5.7
iQur Limited	Diagnosis and treatment of liver disorders	Unquoted	23.3	17.7%	4.1	1.2
Modern Water plc	Water technologies to address problems of the availability of freshwater and the treatment and disposal of wastewater	Quoted	53.0	23.0%	12.2	-
Oxford Advanced Surfaces plc	Development & commercialisation of technology which enables the modification of the surface properties of a broad range of materials	Quoted	76.5	15.7%	12.0	0.7
Oxford Catalysts Group plc	Speciality catalysts for the generation of clean fuels, from both conventional fossil fuels and renewable sources such as biomass	Quoted	58.0	16.7%	9.7	12.9
Oxford NanoLabs Limited	Diagnostic company developing highly innovative products for applications in genomics, pharmacogenomics and high throughput drug discovery	Unquoted	27.8	41.6%	11.6	11.6
Photopharmica (Holdings) Limited	Develops novel photosensitisers as products for medical use & has opened up new applications of topical photodynamic therapy	Unquoted	26.0	49.9%	13.0	0.2
Proximagen Neuroscience plc	Developing drugs for the treatment of neurodegenerative diseases	Quoted	23.1	23.5%	5.4	4.2
Summit Corporation plc	Using whole organism phenotypic screens for drug discovery and development	Quoted	49.6	8.1%	4.0	5.4
Synairgen plc	Developing drugs for respiratory diseases with a focus on asthma and chronic obstructive pulmonary disease	Quoted	11.9	29.6%	3.5	5.0
Total:					96.9	

- Energy & Renewables
- Healthcare & Life Sciences: Non-therapeutics
- Healthcare & Life Sciences: Therapeutics
- IT & Communications
- Chemicals & Materials

CASE STUDY : CHEMICALS & MATERIALS



Revolymer Ltd, a spin-out from the University of Bristol, is developing new polymers with enhanced physical properties and has already achieved significant milestones. In 2007, Revolymer not only completed development of its revolutionary new non-stick chewing gum but also completed a £2m financing round. IP Group has an 18.8% stake in the business.



Chief Executive's Statement

Continued

Photopharmica, the University of Leeds spin-out company, which is developing pharmaceutical products using photodynamic therapy (PDT), announced the completion of a £6m private financing round in December. At 31 December 2007, the Group had a 49.9% stake and recognised a fair value gain in the year of £6.5m.

In addition, during the year the Group recognised a fair value gain of £7.1m on its 24.5% holding in Green Chemicals plc, following its reversal on to PLUS Markets in January and recognised fair value gains of £2.4m and £1.2m on iQur Limited and Ilika Technologies Limited respectively, with both companies completing successful private funding rounds in the second half of 2007. Movements in the market prices of quoted companies Summit Corporation plc, Synairgen plc and Avacta Group plc resulted in a reduction in value of £7.1m for the year, partially offset by a £1.2m fair value gain on Proximagen Neuroscience plc.

Other portfolio businesses

Of the 39 portfolio businesses in which the Group has a fair value stake of less than £3m at 31 December 2007, seven were seeded by the Group during the year with a total investment of £2.0m (2006: eleven companies, £3.8m). In addition, seven companies in this category completed successful private follow-on fundings, raising a total of £14.9m.

The admission to AIM in November of Tracsis, as noted above, valued the company at £7.0m. The Group recognised a fair value gain of £0.1m on its 20.9% stake on a mark-to-market basis.

In the Pre-seed & Incubation category, fourteen new businesses were created during 2007 (2006: sixteen).

Portfolio analysis by sector

At 31 December 2007, the Group has built a portfolio that is well diversified by sector. The Group analyses its portfolio businesses by sector based on their principal activity (see below).

ALAN AUBREY
Chief Executive Officer
26 February 2008

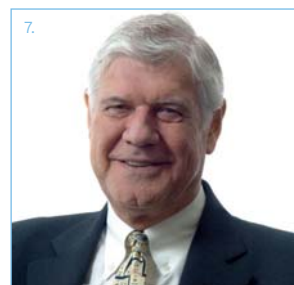
Portfolio analysis by sector

	AS AT 31 DECEMBER 2007				AS AT 31 DECEMBER 2006			
	Fair Value		Number		Fair Value		Number	
Sector	£m	%		%	£m	%		%
All portfolio businesses	126.1	100%	65	100%	87.4	100%	53	100%
Energy & Renewables	25.4	20%	8	12%	22.4	26%	9	17%
Healthcare & Life Sciences: Non-therapeutics	28.5	23%	17	26%	27.8	32%	12	23%
Healthcare & Life Sciences: Therapeutics	35.0	28%	12	19%	21.5	24%	12	23%
IT & Communications	5.2	4%	11	17%	4.5	5%	7	13%
Chemicals & Materials	32.0	25%	17	26%	11.2	13%	13	24%
Total	126.1	100%	65	100%	87.4	100%	53	100%

The Board of Directors

IP GROUP PLC
ANNUAL REPORT & ACCOUNTS
2007

BOARD OF
DIRECTORS



- Audit Committee
- Remuneration Committee
- Nomination Committee

1. DR BRUCE 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. Bruce became a director of IP Group in September 2002.

2. ALAN AUBREY, FCA
CHIEF EXECUTIVE OFFICER

Alan established Techtran Group Limited in 2002 and was its CEO when the business was acquired by IP Group in January 2005. Previously he was a partner in KPMG where he specialised in corporate finance advice to technology-based fast growth businesses and has significant experience at helping them raise money and prepare for sale or

flotation. Alan joined the Board of IP Group in January 2005, becoming Chief Executive on 1 January 2006 and has overall responsibility for the operational management of the Group.

3. DAVID NORWOOD,
SPECIAL PROJECTS DIRECTOR

David founded IndexIT Partnership Limited in July 1999, a technology advisory boutique, which was acquired in March 2000 by Beeson Gregory Group plc for £34 million. David served as a director of Beeson Gregory Group plc and subsequently, Evolution Group plc.

4. DR ALISON FIELDING,
CHIEF TECHNOLOGY OFFICER

Alison co-founded Techtran Group Limited in 2002 and was the Chief Operating Officer when it was acquired by IP Group in January 2005. Previously, she spent five years at McKinsey & Co, where she consulted primarily to the pharmaceutical and health care

sectors. Prior to McKinsey, Alison spent four years as a development chemist for Zeneca, performing technical roles in the specialty chemicals and agrochemicals divisions.

5. MIKE TOWNEND,
DIRECTOR OF CAPITAL MARKETS

Mike was formerly Managing Director within the European Equities business of Lehman Brothers with responsibility for equity sales to hedge funds. Mike has over 17 years of experience in all aspects of equity capital markets. Mike was appointed a director of IP Group in March 2007.

6. MAGNUS GOODLAD,
CHIEF OPERATING OFFICER

Magnus joined Top Technology Ventures Limited, IP Group's Fund Management business, in June 2000 after four and a half years with Slaughter and May practising a wide range of corporate, banking and finance law. Magnus was appointed a director of IP Group in March 2006

7. PROFESSOR GRAHAM RICHARDS, CBE
SENIOR NON-EXECUTIVE DIRECTOR



Graham 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 was Chairman of Chemistry in the University of Oxford until 30 June 2006. Graham became a director of IP Group in December 2001 and Chairman in August 2004. He became Senior Non-Executive Director on 1 January 2006.

8. ROGER 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 he was previously Chairman of the Audit Commission. Roger became a director of IP Group in December 2001.

The principal activities of the Group are the commercialisation of intellectual property generated from its partner universities, principally through the formation of and investment in spin out companies.

The Group seeks to conduct all of its operating and business activities in a socially responsible manner and in all such activities for its directors and employees to maintain integrity and professionalism, to be commercial and fair and to have due regard to the interest of all of its stakeholders including investors, university partners, employees, suppliers and the businesses in which the Group invests.

During the year, the Group employed an average of 44 people (2006: 23). The Group's management and employees are fundamental to its success and as a result we are committed to encouraging the ongoing development of our staff with the aim of maximising the Group's overall performance. Emphasis is placed on staff development through work-based learning, with senior members of staff acting as coach and mentor. All employees who are involved with the regulated business of managing investment transactions receive money laundering training and periodic refreshers.

The Group seeks to operate as a responsible employer and has adopted standards and promotes corporate values designed to help and guide employees in their conduct and business relationships. The Group seeks to comply with the laws, regulations and

rules applicable to its business and to conduct the business in line with applicable established best practice.

The Group considers that it is important to establish and invest in businesses which comply with current environmental, ethical and social legislation, have strategies in place to meet known future legislative and regulatory requirements, and seek to comply with their relevant industry standards and best practice.

As an intellectual property commercialisation business operating from a number of offices in the UK and employing less than 50 people, the direct environmental impact of the Group is relatively low. Major investment themes for the Group include areas which have the potential to bring significant wider social and welfare benefits to the world population. In healthcare, the Group has established companies seeking to develop diagnostics and therapeutics across a wide range of disease areas including cancer, liver diseases, asthma and Alzheimer's disease. In addition, the Group has formed and invested in companies formed to address problems of scarcity of resources critical to human existence including fresh water and hydrocarbons and to increase the efficiency of existing resources, including materials and chemicals, semi-conductors and sensors.

Report of the directors

The directors present their report together with the audited financial statements for IP Group plc (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2007.

Principal activities

The Company acts as a holding company for the Group and is incorporated by shares in England and Wales. The Company's subsidiary undertakings are detailed in note 2 to the Company's financial statements. The business of the Group is i) the commercialisation and exploitation of intellectual property via the formation of long-term partnerships with universities and ii) the management of venture funds focussing on early-stage UK technology companies and (iii) the in-licensing of drugable intellectual property from research intensive institutions.

Results and dividends

During the period the Group made an overall profit after taxation for the year ended 31 December 2007 of £30.5m (2006: £40.1m). The directors do not recommend the payment of a dividend (2006: £Nil).

Directors

The names of Directors who held office during 2007 are as follows:

Executive directors:

David Norwood
 Bruce Campbell (resigned 2 March 2007)
 Alan Aubrey
 Alison Fielding
 Magnus Goodlad
 Mike Townend (appointed 5 March 2007)

Non-executive directors:

Bruce Smith (Chairman)
 Graham Richards
 Roger Brooke

Details of the interests of directors in the share capital of the Company are set out in the Remuneration Report on pages 16 to 19.

Business review

The information that fulfils the requirements of the Business Review, as required by Section 234 ZZB of the Companies Act 1985, and which should be treated as forming part of this report by reference, is included in the following sections of the annual report:

- Chairman's statement on pages 3 and 4; and
- Chief Executive's statement on pages 5 to 11, which together include a review of the Group's external environment, key strategic aims and performance measures
- Corporate Governance on pages 20 to 24 including details of the Company's rules relating to the appointment and replacement of directors
- Details of the principal operating subsidiaries are set out in note 2 to the Company's financial statements

Key performance indicators and a description of principal risks and uncertainties facing the Group are set out below:

	2007	2006
Total equity ("net assets") (£m)	213.8	179.2
Profit attributable to equity holders (£m)	30.5	40.1
Change in fair value of equity investments (£m)	26.4	38.2
Cash and cash equivalents (£m)	46.0	51.3
Proceeds from sale of equity investments (£m)	8.0	3.1
Purchase of equity investments (£m)	6.8	8.5
Number of new spin-out companies (Number)	14	16

Principal risks and uncertainties and financial instruments

The Group through its operations is exposed to a number of risks. The Group's risk management objectives and policies are described in the Corporate Governance report on pages 20 to 24. Further information on the Group's financial risk management objectives and policies, including those in relation to credit risk, liquidity risk and market risk, is provided in Note 2 to the consolidated financial statements, along with further information on the Group's use of financial instruments.

Significant agreements

The Group has entered into various agreements to form partnerships with 10 UK universities granting Group entities rights to purchase or receive shares in new companies founded by academics at these universities. Further, Group entities have entered into agreements to act as general partner and investment manager to three limited partnerships, as detailed in note 1(iii) to the consolidated financial statements. These agreements generally contain change of control provisions which, in the event of a change of ownership of the Group, could result in renegotiation or termination of the agreements.

There are a number of other agreements that may alter or terminate upon a change of control of the Group following a takeover bid, such as commercial contracts. None is considered to be significant in terms of their potential impact on the business of the Group as a whole.

Share capital and related matters

Details of the structure of the Company's share capital and the rights attaching to the Company's shares are set out in note 20 to the consolidated financial statements. There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Company's articles of association (the "Articles") and prevailing legislation.

Continued

At the last general meeting, held on 24 April 2007, authority was given to the directors to allot unissued relevant securities in the Company up to a maximum of an amount equivalent to approximately ten percent of the shares in issue at any time up to the earlier of the conclusion of the next annual general meeting ("AGM") of the company or 24 July 2008. 3,737,410 shares have been issued pursuant to this authority, as described in note 20 to the consolidated financial statements. The directors propose to replace this authority at the Company's next AGM to be held on 29 April 2008 with a similar authority.

A further special resolution passed at that meeting granted authority to the directors to allot equity securities in the Company for cash, without regard to the pre-emption provisions of the Companies Act 1985 up to a maximum of approximately five percent of the shares in issue at any time up to the earlier of the conclusion of the next AGM of the company or 24 July 2008. The directors will seek to renew this authority for a similar period at the next AGM.

Power to purchase the Company's own shares is provided in the Company's Articles subject to statutory provisions. The directors have no existing authority to purchase the Company's own shares.

Articles of association

The Company's Articles may be amended by a special resolution of the shareholders.

Substantial shareholders

As at 19 February 2008 the Company had been advised of the following shareholders with interests of 3% or more in its ordinary share capital. Other than as shown, so far as is known, no other person holds or is beneficially interested in a disclosable interest in the Company.

	%
Lehman Brothers	14.9
BlackRock Merrill Lynch Investment Managers	13.6
Lansdowne Partners	13.2
Artemis Investment Management	9.2
Tudor Investment Corporation	4.5
Legal & General Investment Management	4.3

Payment of trade payables

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 trade payable payment period at 31 December 2007 was 31 days (2006: 33 days). The company had trade payables of £0.2m (2006: £0.1m) at 31 December 2007.

Charitable and political donations

During 2007 the Group donated £20,000 to a charitable trust committed to creating educational opportunities and £1,000 to a charitable trust offering practical solutions to help change young lives (2006: one charitable contribution of £10,000 to a children's hospice). The Group did not make any political donations in either year.

Disclosure of information to auditors

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

Appointment of auditors

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

ON BEHALF OF THE BOARD

ALAN AUBREY
Chief Executive Officer
26 February 2008

The Directors' Remuneration Report has been prepared in accordance with requirements of Schedule 7A of the Companies Act 1985 introduced by the Directors' Remuneration Regulations 2002.

The Company's remuneration policy is the responsibility of the Board of Directors. The Remuneration Committee provides recommendations to the Board of Directors on the Group's remuneration policy. This Remuneration Committee is chaired by Graham Richards and also comprises Bruce Smith and Roger Brooke. Graham Richards and Roger Brooke are considered to be independent directors and the Remuneration Committee is authorised, if it wishes, to seek independent specialist services to provide information and advice on remuneration at the Company's expense.

The Remuneration Committee has specific responsibility for advising the Group's Board on 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 incentivisation schemes. In advising the Group's Board on 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, an equity bonus scheme and a long-term incentive plan. The Board believes that the interests of directors and shareholders are best aligned with a remuneration policy that provides a base salary that is not dependent on performance together with a discretionary bonus arrangement. Further details relating to bonus arrangements, pension contributions and the long-term incentive plan are detailed below:

Bonuses

The Group operates a bonus incentive scheme linked to the equity received as a result of investments made by the Group ('the equity bonus scheme'). The Group accrues for employee bonuses at a cost to the Group of up to 17.5% of the fair value of investments made and equity received by the Group. Cash bonuses are payable on a discretionary basis in recognition of exceptional performance. Bonus awards are based on performance within the Group and/or at the relevant individual portfolio company level.

Pensions

The executive directors are entitled to a contribution of annual salary which is capped at 10% and paid directly into personal money purchase pension plans.

Share options

It is the policy of the Group not to issue new options over ordinary shares in the Company. No new options over shares were issued during the year ended 31 December 2007.

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) Long-term Incentive Plan ("LTIP")

The LTIP and employee share ownership trust ("ESOT") were approved by shareholders at the Annual General Meeting in 2007. All employees, including full-time executive directors, of the Group are eligible to participate in the LTIP at the discretion of the Remuneration Committee. Awards will take the form of provisional awards of ordinary shares of two pence each in the Group. The maximum value of shares (as at the relevant dates of award) over which an individual may receive awards under the LTIP over any three consecutive financial years shall not exceed four times his or her basic annual rate of pay without the approval of the Remuneration Committee.

Awards will generally vest over three years following the date on which they are made, to the extent that performance conditions have been met. The Remuneration Committee will impose objective conditions on the vesting of awards and it is proposed that such conditions will be imposed as reflect the guidelines of institutional investors from time to time. At present, it is intended that the performance conditions for future grants will be based on the Group's total shareholder return ("TSR") performance. The awards granted in 2007 will vest in full after three years in the event of TSR growth of 15% per annum on a cumulative basis being achieved. 50% of an award granted in 2007 will vest in the event of compound annual TSR growth of 10% being achieved with a sliding scale between these points.

Further details relating to LTIP awards to executive directors are detailed below.

d) 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. Alan Aubrey and Alison Fielding have service contracts which commenced on 20 January 2005 and contain a contractual notice period of six months by either party. Magnus Goodlad has a service contract which commenced on 30 June 2004 and contains a contractual notice period of six months by either party. Mike Townend has a service contract which commenced on 5 March 2007 and contains a contractual notice period 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.

Continued

Each of the non-executive directors have service agreements which commenced on 10 August 2004 in the case of Graham Richards, on 3 September 2007 in the case of Bruce Smith and on 29 September 2003 in the case of Roger Brooke. Each appointment is for an initial term of three years, renewable for a further three years. The non-executive service agreements are terminable on three months' notice by either party save in the case of Roger Brooke, whose agreement is terminable on one month's notice by either party.

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 generally retains the related fees. Fees earned for directorships of companies in which the Group does not have a shareholding are normally retained by the director.

Directors' emoluments

The following is part of the directors' remuneration report and is subject to audit.

The aggregate remuneration received by directors who served during the year, including remuneration paid through subsidiaries of the Company, was as follows:

£'000	Base salary	Cash Bonus	Equity Bonus	Fees	Benefits ^(iv)	Total (exc. pension) 2007	Pension 2007	Total (inc. pension) 2007	Total (exc. pension) 2006	Pension 2006	Total (inc. pension) 2006
Executive											
David Norwood	100	-	49	-	1	150	10	160	707	12	719
Alan Aubrey	225	-	130	-	3	358	21	379	640	12	652
Alison Fielding	185	-	120	-	1	306	17	323	470	12	482
Magnus Goodlad	175	-	240	-	1	416	17	433	415	12	427
Mike Townend ⁽ⁱ⁾	165	-	266	-	1	432	17	449	-	-	-
Bruce Campbell ⁽ⁱⁱ⁾	10	-	-	-	1	11	2	13	293	9	302
Non-executive											
Graham Richards	-	-	-	35	-	35	-	35	35	-	35
Roger Brooke	-	-	-	25	-	25	-	25	25	-	25
Bruce Smith	-	-	-	31	-	31	-	31	25	-	25
Total	860	-	805	91	8	1,764	84	1,848	2,610	57	2,667

⁽ⁱ⁾ From 5 March 2007 to 31 December 2007

⁽ⁱⁱ⁾ From 1 January 2007 to 2 March 2007

⁽ⁱⁱⁱ⁾ Mike Townend was the highest paid director during the year ended 31 December 2007 (2006: David Norwood).

^(iv) Benefits represent private medical insurance and life assurance provision

^(v) In addition to the above, during the period Alan Aubrey retained fees totalling £25,000 and David Norwood retained fees totalling £32,500 in respect of non-executive director services provided to companies in which the Group is a shareholder

Continued

Directors' long-term incentives

The following is part of the directors' remuneration report and is subject to audit.

The directors' participations in the Group's Long-term Incentive Plan are as follows:

	No. of shares notionally held at 1 January 2007	Notionally awarded in the year ⁽ⁱ⁾	Potential interest in shares at 31 December 2007	Share price at date of notional award (p)	Amount charged against profit in the year £000s	Earliest vesting date
Executive Directors						
Alan Aubrey	-	671,641	671,641	134.75	76	20.05.10
Alison Fielding	-	597,015	597,015	134.75	67	20.05.10
Magnus Goodlad	-	522,388	522,388	134.75	59	20.05.10
Mike Townend	-	597,015	597,015	134.75	67	20.05.10
Total	-	2,388,059	2,388,059		269	

⁽ⁱ⁾ All notional awards during the year were made on 21 May 2007

⁽ⁱⁱ⁾ No notional shares vested or lapsed during the year

The fair value charge recognised in the income statement in respect of LTIP share awards granted to directors was £268,684.

The performance criteria relating to the Long-term Incentive Plan awards are set out on page 16.

Directors' interests in ordinary shares (unaudited)

The directors, who held office at 31 December 2007, had the following beneficial interests in the ordinary shares of the Company:

	31 December 2007 Number of shares	1 January 2007 ⁽ⁱ⁾ Number of shares
Roger Brooke	263,973	213,973
Alan Aubrey	854,865	754,865
Alison Fielding	394,630	377,630
David Norwood	4,380,172	4,280,172
Graham Richards	9,250	9,250
Bruce Smith	211,875	211,875
Magnus Goodlad	30,000	20,000
Mike Townend	200,000	70,000

⁽ⁱ⁾ Or date of appointment if later

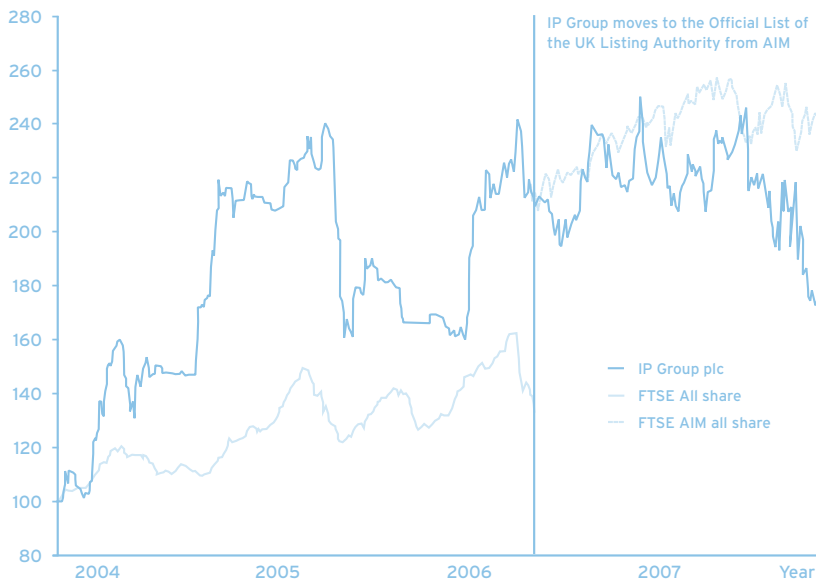
There has been no change in the interests set out above between 31 December 2007 and 26 February 2008.

Apart from the interests disclosed above, none of the directors had any interest at any time during the year ended 31 December 2007 in the share capital of the Company or its subsidiaries. However, certain directors hold interests in the shares of portfolio companies that the Group has an equity interest in. Details of these interests are disclosed in note 26 of the financial statements.

Continued

Performance graph (unaudited)

The chart below shows the shareholder return performance for the period 15 October 2003 when the Group listed on AIM to 31 December 2007 alongside the performance of the FTSE AIM all-share and FTSE all-share indices. For ease of comparison, these figures have been rebased such that the Group's share price is equal to the FTSE AIM all-share at 15 October 2003 and FTSE all-share at 19 June 2006, the date at which the Group joined the Official List of the UK Listing Authority. The directors have selected the FTSE AIM all-share and FTSE all-share indices as, in their opinion, these indices comprise the most relevant equity indices of which the Company is a member against which total shareholder return of IP Group plc should be measured.



ON BEHALF OF THE BOARD

GRAHAM RICHARDS
 Chairman of the Remuneration Committee
 26 February 2008

The Company is committed to high standards of corporate governance. Corporate governance can be defined as the high level system by which an organisation is directed and controlled to enable it to achieve its business objectives in a manner which is responsible and in accordance with highest standards of integrity, transparency and accountability.

This statement, together with the Directors' Remuneration Report (set on pages 16 to 19), describes how the Company has applied the principles of good corporate governance set out in Section 1 of the Combined Code on Corporate Governance published by the Financial Reporting Council in June 2006 (the 'Code'). During the year ended 31 December 2007, the Group has been in compliance with all relevant requirements of the Code, except with respect to the identification of a single member of the audit committee who has recent relevant financial experience, which is referred to below.

The Board

Board composition and responsibilities

The Board is responsible to shareholders for the overall management of the Group providing entrepreneurial leadership within a framework of controls for managing risk; setting the Group's strategy; maintaining the policy and decision-making framework in which this strategy is implemented; ensuring that necessary financial and human resources are in place to meet strategic aims; monitoring performance against key financial and non-financial indicators; overseeing the system of risk management; and setting values and standards in governance matters.

The responsibility of the directors is collective, taking into account their respective roles as executive directors and non-executive directors.

The Board manages these matters at its regular meetings and away days. It receives reports and presentations from each of the executive directors responsible for the Group's operating businesses and key central functions. This ensures that all directors are aware of, and are in a position to monitor effectively, the overall performance of the Group, its development and implementation of strategy and its management of risk.

Board meetings and decisions

The Group's business is managed by the Board of directors. The full Board met a total of ten times during 2007. 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.

Any matter requiring a decision by the Board is supported by a paper analysing the relevant aspects of the proposal - costs, benefits, potential risks and proposed management action.

Directors

The Board is made up of five executive directors (being the Chief Executive, the Chief Technology Officer, the Director of Capital Markets, the Special Projects Director and the Chief Operating Officer), the Chairman and two independent non-executive directors. A list of the individual directors and their biographies is provided on page 12. Collectively, the Board believes it possesses all of the necessary range of qualities, skills and experience to lead the Company effectively.

In accordance with the Code the Company is currently deemed a 'smaller company' since it has been below the FTSE 350 throughout the year immediately prior to the reporting year.

The Company's Articles give the directors power to appoint and replace directors. 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, no more than one third of all the directors must submit themselves for re-election each year.

Chairman and Chief Executive

On 3 September 2007, Dr Bruce Smith, who has been a director of the Company for five years, was appointed non-executive Chairman. At this time, the former executive Chairman, David Norwood, moved to the position of Special Projects Director, remaining an executive director of the Group. The Board considered this appointment at length, assessed a number of external candidates and consulted with major shareholders prior to making the appointment. The Board considered that Dr Bruce Smith should be appointed to the position of Non-Executive Chairman on the basis of his extensive knowledge and experience of the market in which the Company operates.

The division of responsibilities between the Chairman and the Chief Executive Officer, is clearly established, set out in writing and agreed by the Board. The Chairman is responsible for the leadership and conduct of the Board and its conduct of the Group's affairs and strategy, and ensuring effective communication with shareholders. The Chairman facilitates the effective contribution of non-executive directors. The Chief Executive is responsible for the management of the Group's operating businesses and the development of their strategic direction. He is responsible for delivering the operating plans and budgets for the Group's businesses, monitoring business performance and reporting on these to the Board.

Senior Independent Director

Professor Graham Richards is the Senior Independent Director. A key responsibility of his is to be available to shareholders in the event that they may feel it inappropriate to relay views through the Chairman or Chief Executive. In addition the Senior Independent Director takes the lead when the non-executive directors assess the Chairman's performance and when the appointment of a new chairman is considered.

Continued

The Board *continued***Non-Executive Directors**

The non-executive directors provide a wide range of skills and experience to the Group. They bring an independent judgement on issues of strategy, performance, risk and people through their contribution at Board and committee meetings. The Board considers that each non-executive director is independent in character and judgement and that they also meet the independence criteria set out in the Code.

Directors have in the past made *de minimis* investments in spin out companies formed under the university partnerships. Details of these investments are set out in note 26 to the financial statements.

The Board ensures that processes are in place to manage potential conflicts of interest. Where conflicts of interest have arisen such as when a non-executive director is also a director of a spin-out company, a director has a relationship with an academic institution with whom the company has a partnership agreement or there are previous relationships between a director and the company or predecessor companies, the director does not participate in any decisions relating to that relationship. Professor Richards is a Professor of Chemistry at the University of Oxford and a director of Inhibox Limited and Crysalin Limited.

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. Directors have direct access to the impartial advice and services of the Company Secretary. The Company Secretary is responsible for ensuring that Board procedures and applicable rules and regulations are followed.

While the Board retains overall responsibility for the Company, the day to day management of the business is conducted by the executive directors. The Board delegates specific responsibilities to certain committees. Each Committee has its own terms of reference set by the Board. These are available on request from the Company Secretary.

Performance evaluation

The performance of the Chairman and each director and of each committee of the Board 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 performance of non-executive directors and the Chief Executive is reviewed by the Chairman, and the performance of executive directors is reviewed by the Chief Executive in each case on an annual basis. The last such review took place in December 2007. In addition, the performance of executive directors is reviewed by the Board, as deemed necessary, in the absence of the executive director under review.

Attendance

The directors attended each Board meeting held during the year or during their tenure as director, with the following exceptions: Alison Fielding, Magnus Goodlad, Mike Townend,

Roger Brooke, Bruce Smith and Bruce Campbell were each absent from one meeting during the year.

Committees of the Board**Audit Committee**

The Audit Committee, which has written terms of reference, was established in October 2003 and has met twice in 2007. The committee comprises Roger Brooke (Chairman), Bruce Smith and Graham Richards. Both meetings during 2007 were attended by all three members of the committee. The Auditors, Chief Executive and Chief Operating Officer attend the meetings by invitation. The Audit Committee also meets with the Auditors in the absence of executive directors and management. 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. The Audit Committee assesses the likely impact on the auditors' independence and objectivity before awarding them any material contract for additional services. The Board has not identified a member of the committee as having recent and relevant financial experience. However, Roger Brooke is a past Chairman of the Audit Commission and the Board considers that collectively the members have the requisite skills and attributes to enable the committee properly to discharge its responsibilities.

Remuneration Committee

The Remuneration Committee was established in October 2003 and meets as and when required. It comprises Graham Richards (Chairman), Bruce Smith and Roger Brooke. Two meetings were held in 2007 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 directors' 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 16 to 19.

Nomination Committee

The Nomination Committee was established in October 2003 and meets as and when required. There were three meetings in 2007. It considers the appointment of both executive and non-executive directors. It comprises Bruce Smith (Chairman), Graham Richards and Roger Brooke. All members of the Nomination Committee attended the three meetings in 2007, but Bruce Smith absented himself for the consideration of his appointment as Chairman of the Board. The Combined Code stipulates that the Nomination Committee should comprise a majority of independent non-executive directors. For future appointments to the Board, the Nomination Committee will consider candidates at the request of the Board. It also advises the Board on matters generally relating to senior appointments.

Continued

Internal control

The Board fully recognises the importance of the guidance contained in Internal Control: Guidance for directors on the Combined Code ('Turnbull'). The Group's internal controls, which were Group wide, were in place during the whole of 2007 and were reviewed by the Board of Directors and were considered to be effective throughout the year ended 31 December 2007.

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, all of which have been in place during the financial year and up to the date these financial statements were approved, 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 and acquisitions 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. The Board maintains an up to date Register of Risks setting out mitigations in place in each case. The key risks and uncertainties faced by the Group, as well as the relevant mitigations, are set out below.

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

In accordance with the Combined Code, the Audit Committee has reviewed the need to establish an internal audit function, but continues to believe that in a Group of its size, where close control over operations is exercised by the executive directors, the benefits likely to be gained would be outweighed by the costs of establishing such a function.

Detailed written policies and procedures have been established covering key operating and compliance risk areas. These are reviewed and updated at least annually by the Board. The Board considers that the controls have been effective for the year ended 31 December 2007. 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.

Principal risks and uncertainties

The key risks and uncertainties affecting the Group and the steps taken to manage these are as follows:

Financial risks

Through its normal operations, the Group is exposed to a number of financial risks, the most significant of which are liquidity and market risks. Further details of these risks, as well as the Group's objectives, policies and processes for their management, are set out in note 2 to the consolidated financial statements.

Group investments are generally into companies at an early stage of development

Investments made by the Group in spin-out companies are made at an early stage and are subject to risks associated with early stage investments in general, including the ability to secure second round funding, the impact of competing technologies entering the market and the risk that the technology will fail. In some cases the ability to succeed will be dependent upon regulatory approval for certain trials to proceed.

The Group mitigates this risk in a number of ways. Executives and senior management collectively have many years of experience in sourcing, developing and investing in early stage technology companies and then growing these to significant value creation. This is achieved through the Group's investment and business building methodology. The risk is further mitigated through low value initial investments prior to seed funding, which enables identification and removal of potential failures at the earliest possible stage of the investment process.

Failure of companies within the Group's portfolio

The Group has a portfolio of equity interests in portfolio companies and there is a high risk that certain of the Group's current and future investments in portfolio companies may fail, resulting in an impairment of the Group's profitability. In addition, failure of companies within the Group's portfolio may make it more difficult for other spin-out companies within the portfolio to raise additional capital.

The Group mitigates this by investing in a number of portfolio companies across different sectors which reduces the potential impact of the failure of any one individual portfolio company. Further, members of the Group's management team and staff frequently serve in an advisory capacity to the Group's portfolio companies (including secondments and non-executive directorships) enabling identification and remedy of business issues at an early stage.

Loss of key personnel from the Group

The Group's employees are highly qualified and experienced, and the area in which the Group operates is a specialist area. There is a risk that the Group's management and employees will be targeted by competitors or technology companies. The loss of key employees of the Group may also have an adverse effect on the value of the Group.

Continued

Principal risks and uncertainties *continued***Loss of key personnel from the Group** *continued*

The Group mitigates this risk by performing a thorough market comparison of the remuneration of its staff, balancing salary with longer-term incentive plans. All senior executives are shareholders in the business and members of the senior management and executive teams participate in the Group's long-term incentive plan and/or equity bonus scheme, both of which are described more fully on page 16.

Changes in legislation and government policy

There may be unforeseen changes in government policy or legislation (including taxation legislation), or other changes in the terms upon which public monies are made available to universities and research institutions. Such changes could result in universities and research institutions no longer being able, or for it to become commercially unattractive for them, to own, exploit or protect intellectual property. In addition, changes in government policy or legislation (including changes to tax legislation, in particular in relation to the substantial shareholder exemption) or other terms upon which university academics are incentivised could make it commercially unattractive for research academics to participate in the commercialisation of the intellectual property that they create. Changes of this nature could represent a fundamental risk to the Group's business.

The Group's university partners are incentivised to protect their intellectual property for the Group to exploit through the structure of the partnership agreements which share the returns between the universities, the academic founders and the Group. The Group has further mitigated this risk by having partnership directors working locally at its partner universities to assist them with the management of their intellectual property and with the negotiation with research contracts to ensure that their intellectual property is not unduly compromised. The Group's university partners also maintain close links with the government to manage their position with respect to future legislative changes and the Group utilises professional advisors as appropriate to support its monitoring of, and response to, changes in tax or other legislation.

Termination of university partnerships and change of control provisions

The benefits to which the Group is entitled under its university partnerships are dependent on the continuation of those partnerships. In a number of instances (principally relating to a failure on the part of the Group to meet certain contractual obligations), the partnerships can be terminated, which could have an adverse effect on the Group's business. In addition, a number of the partnership agreements contain change of control clauses which may result in their renegotiation or termination.

The Group manages this risk by ensuring that its university partners receive the highest level of service in line with the Group's contractual obligations and continuing to generate significant value for the universities and their academic founders through the success of spin-out companies created.

Recoverability of the University of Oxford Equity Rights asset

The Equity Rights asset on the Group's consolidated balance sheet relates to amounts paid to the University of Oxford to secure 50 per cent of the university's equity in any spin-out company created from the university's chemistry department until November 2015. The accounting treatment of the Equity Rights asset is described further in note 1 on page 32, however the asset is not repayable in cash by the university and its value is therefore affected by a number of factors. In the event of evidence that the future recoverable amount of the Equity Rights asset is less than the balance sheet value, a provision for impairment would be recognised at that time through the income statement.

The key risks that could result in an impairment of the Equity Rights include: the timing and number of successful IP spin-out opportunities arising from the university, the extent to which the Group's holding is diluted through further financing of spin-out companies, and general market conditions which may impact the disposal values or IPO valuations of such companies.

The Group manages these risks by working closely with the university to jointly source and develop intellectual property spin-out companies and then utilising the knowledge and experience of the Group's management team to create value from these companies and generate exit routes.

Relations with shareholders

The Company is committed to having a dialogue with shareholders, based on the mutual understanding of objectives, and it is the responsibility of the Board as a whole to ensure that a satisfactory dialogue does take place. The Board's primary shareholder contact is through the Chairman, Chief Executive and Director of Capital Markets. However the senior independent director and other directors as appropriate, make themselves available for contact with major shareholders in order to understand their issues and concerns. Where appropriate, major institutional shareholders are consulted on significant changes to the structure of the directors' remuneration.

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 on 29 April 2008 at 3pm at IP Group plc, 24 Cornhill, London, EC3V 3ND, is enclosed with this report. In line with the Combined Code the notice of the AGM will be sent to shareholders at least 20 working days before the meeting. Details of the resolutions and explanatory notes thereto are included with the Notice, which will include a resolution to propose appropriate amendments to the Company's articles of association reflecting provisions of the Companies Act 2006 which are now in force. A proxy form for members of the Company unable to attend will accompany the Notice.

The Group's website www.ipgroupplc.com is the primary source of information on the Group. This includes an overview of the activities of the Group, key university partnership agreements and details of all recent Group announcements.

Continued

Statement of directors' responsibilities

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

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and Article 4 of the IAS Regulation. The directors have chosen to prepare financial statements for the company in accordance with UK Generally Accepted Accounting Practice.

Group financial statements

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

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

Parent company financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

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.

ON BEHALF OF THE BOARD

ALAN AUBREY
Chief Executive Officer
26th February 2008

We have audited the group and parent company financial statements (the "financial statements") of IP Group plc for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated and Parent Company balance sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the parent company financial statements and directors' remuneration report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities. Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information given in the directors' report is consistent with the financial statements. In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Chief Executive's Statement, the Corporate Responsibility Report, the Directors' Report, the unaudited part of the Directors' Remuneration Report and the Corporate Governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited 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 and the part of the directors' remuneration report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2007;
- the parent company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

BDO STOY HAYWARD LLP

Chartered Accountants and Registered Auditors
London, 26 February 2008

Consolidated Income Statement

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For the year ended 31 December 2007

	Note	2007 £'m	2006 £'m
Revenue			
Change in fair value of equity investments	16	26.4	38.2
Gains on deemed disposal of subsidiaries	22	8.1	-
Gains on disposal of equity investments		0.5	1.9
Dividends received		-	0.1
Revenue from services	4	2.0	1.8
		37.0	42.0
Administrative expenses			
Employee bonus costs	19	(1.3)	(0.3)
Research and development costs		(0.7)	-
Share-based payment charge	24	(0.3)	-
Other administrative expenses		(6.9)	(3.9)
		(9.2)	(4.2)
Operating profit	7	27.8	37.8
Finance income - interest receivable		2.7	2.3
Profit before taxation		30.5	40.1
Taxation	9	-	-
Profit for the year		30.5	40.1
Profit attributable to:			
Equity holders of the parent		30.5	40.1
Minority interest	27	-	-
		30.5	40.1
Basic earnings per ordinary share (p)	10	12.25	16.84
Diluted earnings per ordinary share (p)	10	12.25	16.81

Consolidated Balance Sheet

As at 31 December 2007

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	Note	2007 £'m	2006 £'m
ASSETS			
Non-current assets			
Intangible assets:			
Goodwill	11	18.7	18.7
Acquired intangible assets	12	0.3	0.5
Property, plant and equipment	13	0.5	0.1
Equity rights and related acquisition costs	15	20.2	20.3
Equity investments	16	126.1	87.4
Financial asset	18	1.1	1.1
Investment in limited partnerships	25	1.0	0.3
Total non-current assets		167.9	128.4
Current assets			
Trade and other receivables	17	2.1	2.2
Cash and cash equivalents		46.0	51.3
Total current assets		48.1	53.5
Total assets		216.0	181.9
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	20	5.0	4.9
Share premium account		96.7	92.0
Merger reserve		12.8	12.8
Retained earnings		99.0	69.2
Total shareholders' equity		213.5	178.9
Minority interest in equity	27	0.3	0.3
Total equity		213.8	179.2
Non-current liabilities			
Provisions		-	0.1
Total equity and non-current liabilities		213.8	179.3
Current liabilities			
Trade and other payables	19	2.2	2.6
Total equity and liabilities		216.0	181.9

IP GROUP PLC
ANNUAL REPORT & ACCOUNTS
2007

CONSOLIDATED
BALANCE SHEET

The financial statements on pages 26 to 60 were approved by the Board of Directors and authorised for issue on 26 February 2008 and were signed on its behalf by:

BRUCE SMITH
Chairman

ALAN AUBREY
Chief Executive

Consolidated Cash Flow Statement

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For the year ended 31 December 2007

	2007 £'m	2006 £'m
Operating activities		
Profit before taxation	30.5	40.1
Adjusted for:		
Finance income - interest receivable	(2.7)	(2.3)
Fair value movements in equity investments	(26.4)	(38.2)
Depreciation of tangible non-current assets	0.1	-
Amortisation of intangible non-current assets	0.2	0.2
Profit on disposal of equity investments	(0.5)	(1.9)
Gains on deemed disposal of subsidiaries	(8.1)	-
Equity allocated to staff	1.3	2.1
Share-based payment charge	0.3	-
Changes in working capital		
Increase in trade and other receivables	(0.3)	(0.7)
Decrease in trade and other payables and provisions	(0.1)	(2.6)
Operating cash flows		
Dividends classified as investing activities cash flows	-	(0.1)
Interest received	3.1	2.0
Net cash outflow from operating activities	(2.6)	(1.4)
Investing activities		
Purchase of property, plant and equipment	(0.1)	-
Purchase of equity investments	(6.8)	(8.5)
Investment in Limited Partnership Funds	(0.7)	(0.2)
Financial asset	-	0.1
Acquisition of subsidiaries net of cash acquired	(1.7)	(0.8)
Proceeds from sale of equity investments	8.0	3.1
Deemed disposal of subsidiaries net of cash disposed	(1.6)	-
Dividend received	-	0.1
Net cash outflow from investing activities	(2.9)	(6.2)
Financing activities		
Proceeds from issue of share capital	0.2	19.0
Net (decrease)/increase in cash and cash equivalents	(5.3)	11.4
Cash and cash equivalents at the beginning of the year	51.3	39.9
Cash and cash equivalents at the end of the year	46.0	51.3

Consolidated Statement of Changes in Equity

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For the year ended 31 December 2007

	Attributable to equity holders of the Company						Minority interest £'m	Total Equity £'m
	Share capital £'m	Share premium (i) £'m	Merger reserve (ii) £'m	Retained earnings (iii) £'m	Other reserve £'m	Total £'m		
At 1 January 2006	4.6	73.3	12.8	29.1	-	119.8	-	119.8
Consolidated profit for the year (iv)	-	-	-	40.1	-	40.1	-	40.1
Issue of share capital in the year	0.3	18.7	-	-	-	19.0	-	19.0
Minority interest acquired with subsidiary	-	-	-	-	-	-	0.3	0.3
At 1 January 2007	4.9	92.0	12.8	69.2	-	178.9	0.3	179.2
Consolidated profit for the year (iv)	-	-	-	30.5	-	30.5	-	30.5
Pre acquisition reserves attributable to the Group	-	-	-	(0.4)	-	(0.4)	-	(0.4)
Liabilities acquired in excess of net interest in subsidiary (v)	-	-	-	-	(2.3)	(2.3)	-	(2.3)
Partial disposal of subsidiary investments to minority interests	-	-	-	(0.6)	-	(0.6)	0.6	-
Disposal of subsidiary undertakings	-	-	-	-	2.3	2.3	(0.9)	1.4
Issue of share capital in the year	0.1	4.7	-	-	-	4.8	-	4.8
Share-based payment charge	-	-	-	0.3	-	0.3	-	0.3
Minority interest acquired with subsidiary	-	-	-	-	-	-	0.3	0.3
At 31 December 2007	5.0	96.7	12.8	99.0	-	213.5	0.3	213.8

(i) Share premium

Amount subscribed for share capital in excess of nominal value, net of directly attributable issue costs

(ii) Merger reserve

Amount subscribed for share capital in excess of nominal value in relation to the qualifying acquisition of subsidiary undertakings

(iii) Retained earnings

Cumulative net gains and losses recognised in the consolidated income statement and income and expenses recognised directly in equity

(iv) Consolidated profit for the year

This represents the total income and expense for the year

(v) Liabilities acquired in excess of net interest in subsidiary

This represents liabilities acquired upon acquisition of a subsidiary undertaking which are in excess of the Group's net interest in those liabilities. As the minority interest associated with this undertaking had no binding obligation to repay their interest in the liability, the amount is allocated to a separate component of equity. See note 21a.

1. ACCOUNTING POLICIES

Basis of preparation

The annual report and accounts of IP Group plc ("the Group") are for the year ended 31 December 2007. The annual report and consolidated accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"), Standing Interpretations Committee ("SIC") interpretations and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that have been endorsed by the European Union for the year ended 31 December 2007. They have also been prepared in accordance with those parts of the Companies Act, 1985 that apply to companies reporting under IFRS.

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

Basis of consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights are considered when assessing whether the Group controls an entity. Subsidiaries are fully consolidated from the date on which control is established by the Group.

The purchase method of accounting is used to account for the acquisition of the Group's subsidiaries. The cost of acquisition is measured at fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the transaction. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Subsidiaries' accounting policies are amended where necessary to ensure consistency with the policies adopted by the Group.

(ii) Associates

Associates are entities over which the Group has significant influence, but does not control, generally accompanied by a shareholding of between 20% to 50% of the voting rights.

Investments in Associates are held at fair value in the balance sheet. This treatment is permitted by IAS 28 'Investment in Associates', which requires investments held by entities which are akin to venture capital organisations, to be excluded from its scope where those investments are designated, upon

initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'. Changes in fair value of associates are recognised in the income statement in the period of the change. The Group has no interests in associates through which it carries on its business.

(iii) Limited partnerships

Group entities act as General Partner to the following limited partnerships:

Name	Interest in limited partnership %
IP Venture Fund	10.0
Top Technology Ventures IV LP	1.0
HATT III LP *	1.0

* HATT III LP was terminated on 31 December 2007.

The IP Venture Fund has a narrow and well-defined scope of operation and, as its limited partners are predominantly parties external to the Group, the Group does not have access to substantially all the risks and rewards arising from its operation. Having due regard for the Group's minor interests in HATT III LP and Top Technology Ventures IV LP, the Group does not have the power to govern the operations of the limited partnerships so as to obtain benefits from their activities. Accordingly, none of the limited partnerships meets the definition of a subsidiary under IAS 27 'Consolidated and separate financial statements'. The Group does have the power to exercise significant influence over the limited partnerships and accordingly the Group's accounting treatment for these interests is consistent with that of associates as described above, i.e. in accordance with IAS 39 'Financial Instruments: recognition and measurement' and designated as at fair value through profit or loss on initial recognition.

(iv) Deemed disposals

Where the Group ceases to control an entity by means other than physical disposal, such as the entity issuing shares to other non-group parties, the entity ceases to be a subsidiary and is no longer consolidated. Any gain or loss arising on the disposal is recognised in the income statement.

(v) Transactions with minority shareholders - 'economic entity approach'

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity.

Continued

1. ACCOUNTING POLICIES *continued***Revenue recognition**

Change in fair value of equity investments represents revaluation gains and losses on the Group's portfolio of equity stakes. Gains on disposal of equity investments represent the surplus over carrying value on the disposal of equity investments. Dividends receivable from equity shares are brought into account on the ex-dividend date or, where no ex-dividend date is quoted, are brought into account when the Group's right to receive payment is established.

Revenue from services: All revenue from services is generated within the United Kingdom and is stated exclusive of value added tax. Revenue from services comprises:

Advisory fees: Fees earned from the provision of business support services are recognised on an accruals basis. Corporate finance advisory fees are generally earned as a fixed percentage of total funds raised and recognised on an accruals basis.

Fund management services: Fiduciary fund management fees are generally earned as a fixed percentage of total funds under management and recognised on an accruals basis.

Property, plant and equipment

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Intangible assets*(i) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets and allocated from the acquisition date to each of the Group's cash generating units ("CGU") that are expected to benefit from the business combination. Goodwill may be allocated to CGUs in both the acquired business and in the existing business. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

(ii) Acquired intangible assets - business combinations

Intangible assets that are acquired as a result of a business combination and that can be separately measured at fair value on a reliable basis, are separately recognised on acquisition at their fair value. Amortisation is charged on a straight-line basis

to the income statement over their expected useful economic lives, and is included within "Other administrative expenses".

Impairment of intangible assets (including goodwill)

Goodwill, and intangible assets that have an indefinite useful life, are not subject to amortisation but are tested for impairment annually and whenever events or circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment when events or a change in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use. For the purposes of assessing impairments, assets are grouped at the lowest levels for which there are identifiable cash flows (i.e. cash generating units).

Financial assets

In respect of regular way purchases or sales, the Group uses trade date accounting to recognise or derecognise financial assets.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or the Group has transferred substantially all risks and rewards of ownership.

The Group classifies its financial assets into one of the categories listed below, depending on the purpose for which the asset was acquired. None of the Group's financial assets are categorised as held to maturity or available for sale.

(i) At fair value through profit or loss

Financial assets at fair value through profit or loss are either financial assets held for trading or financial assets which are designated at fair value through profit or loss on initial recognition.

This category includes equity investments, equity rights and investments in limited partnerships. Investments in associated undertakings which are held by the Group with a view to the ultimate realisation of capital gains are also categorised as at fair value through profit or loss. This measurement basis is consistent with the fact that the Group's performance in respect of investments in equity investments, limited partnerships and associated undertakings is evaluated on a fair value basis in accordance with an established investment strategy.

Financial assets at fair value through profit or loss are initially recognised at fair value and any gains or losses arising from subsequent changes in fair value are presented in the income statement in the period which they arise.

The fair values of quoted investments are based on bid prices in an active market at the balance sheet date.

Continued

1. ACCOUNTING POLICIES *continued*Financial assets *continued**(i) At fair value through profit or loss continued*

The fair value of unlisted securities is established using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and earnings multiples. The valuation methodology used most commonly by the Group is the 'price of recent investment' contained in the "International private equity and venture capital valuation guidelines" (the "IPEVCV Guidelines") endorsed by the British & European Venture Capital Associations. The following considerations are used when calculating the fair value of unlisted securities:

- Where the investment being valued was itself made recently, its cost will generally provide a good indication of fair value;
- Where there has been any recent investment by third parties, the price of that investment will provide a basis of the valuation;
- If there is no readily ascertainable value from following the 'price of recent investment' methodology, the Group considers alternative methodologies in the IPEVCV guidelines, being principally price-earnings multiples. When using the earnings multiple methodology, earnings before interest and tax ("EBIT") are generally used, adjusted to a maintainable level. A suitable earnings multiple is derived from an equivalent business or group of businesses, for which the average price-earnings multiple for the relevant sector index can generally be considered a suitable proxy. This multiple is applied to earnings to derive an Enterprise Value which is then discounted by up to 60% for non-marketability and other risks inherent to businesses in early stages of operation;
- Where a fair value cannot be estimated reliably the investment is reported at the carrying value at the previous reporting date unless there is objective evidence that the investment has since been impaired, such as observable data suggesting a deterioration of the financial position of the underlying business.

(ii) Loans and receivables

These assets are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (trade receivables) and are carried at cost less provision for impairment.

Financial liabilities

Financial liabilities are comprised of trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

Unless otherwise indicated, the carrying amounts of the Group's financial liabilities are a reasonable approximation to their fair value.

Share capital

Financial instruments issued by the Group are treated as equity if the holders have only a residual interest in the Group's assets after deducting all liabilities. The objective of the Group is to manage capital so as to provide shareholders with above average returns through capital growth over the medium to long-term. The Group considers its capital to comprise its share capital, share premium, merger reserve and retained earnings. Top Technology Ventures Limited, a Group subsidiary, is subject to external capital requirements imposed by the Financial Services Authority ("FSA") and as such must ensure that it has sufficient capital to satisfy these requirements. The Group ensures it remains compliant with these requirements as described in the financial statements of Top Technology Ventures Limited.

Equity rights

Equity rights represent consideration paid to the University of Oxford between December 2000 and June 2001.

The payment gives the Group the right to purchase 50% of the University's equity in any spin-out company created from the University's Chemistry Department. The contract expires on 23 November 2015.

The equity rights agreement is considered to be a derivative contract and is classified as a held for trading financial instrument with changes in fair value recognised in the income statement.

The directors have not been able to determine a reliable fair value for this financial instrument at either 1 January 2004 or subsequent reporting dates due to what are considered to be immeasurable variables:

- The timing and number of spin-out companies;
- Dilution rates as a result of financing for spin-out companies in the future;
- IPO valuations; and
- Disposal values and timings.

Until such time as the directors are able to compute a reliable fair value, the equity rights are carried at cost less provision for impairment.

The directors review equity rights for impairment annually and if there is objective evidence of an impairment, such as a continued decline in either the number of new spin-out companies from the University of Oxford Chemistry Department or the valuations achieved at IPO or disposal, then a provision would be charged to the income statement.

Continued

1. ACCOUNTING POLICIES *continued***Cash and cash equivalents**

Cash and cash equivalents include cash in hand and deposits held with banks.

Contract costs

Contract costs comprise related costs to secure the University of Oxford equity rights and other university partnership arrangements. These costs are amortised over the life of the respective partnership.

Segment reporting

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing services within a particular economic environment that is subject to different risks and returns from other segments in other economic environments.

Employee benefits*(i) Pension obligations*

The Group does not operate any pension schemes for employees but makes contributions to employee personal pension schemes on an individual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

(ii) Share-based payments

The fair value of Long-Term Incentive Plan ("LTIP") awards are estimated at the date of award, using a Monte Carlo simulation technique, taking into account the terms and conditions of the award, including market based performance conditions.

No expense is recognised for grants that do not vest and charges previously made are reversed except where vesting is conditional upon a market condition which are treated as vesting irrespective of whether or not the market condition is satisfied, provided all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the Income Statement, with a corresponding entry in equity.

Where the terms for an equity settled award are modified, and the modification increases the total fair value of the share-based payment, or is otherwise beneficial to the employee at the date of modification, the incremental fair value is amortised over the vesting period.

(iii) Bonus plan

The Group operates a bonus incentive scheme linked to the equity received in spin-out companies as a result of investments made by the Group ('the equity bonus scheme'). The Group accrues for employee bonuses at a cost to the Group of up to 17.5% of the fair value of investments made and equity received by the Group. The fair value of spin-out company shares transferred to employees includes shares subscribed at cost and shares received by the Group by virtue of the Group's university partnerships.

Deferred tax

Full provision is made for deferred tax on all temporary differences resulting from the carrying value of an asset or liability and its tax base. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability settled. Deferred tax assets are recognised to the extent that it is probable that the deferred tax asset will be recovered in the future.

Leases

Leases where the lessor retains substantially all of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the term of the lease.

Significant accounting estimates and judgements

Details of the significant accounting estimates and judgements are disclosed in note 3.

Continued

1. ACCOUNTING POLICIES *continued*

New standards and interpretations not applied

The International Accounting Standards Board and the International Financial Reporting Interpretations Committee have issued the following standards and interpretations to be applied to financial statements with periods commencing on or after the following dates:

International Accounting Standards (IAS/IFRS)		Effective Date
IFRS 2*	Share-based payment (Amendment)	01/01/2009
IFRS 8	Operating Segments	01/01/2009
IAS 1*	Presentation of Financial Statements (Amendment)	01/01/2009
IAS 23*	Borrowing costs (Amendment)	01/01/2009
IAS 32*	Financial Instruments: Presentation (Amendment)	01/01/2009
IAS 1*	Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation (Amendment)	01/01/2009
IFRS 3*	Business combinations (Amendment)	01/07/2009
IAS 27*	Consolidated and separate financial statements (Amendment)	01/07/2009

International Financial Reporting Interpretations Committee (IFRIC)		Effective Date
IFRIC 11	IFRS 2 - Group and Treasury Share Transactions	01/03/2007
IFRIC 12*	Service Concession Arrangements	01/01/2008
IFRIC 13*	Customer Loyalty Programmes	01/07/2008
IFRIC 14*	IAS 19 - The Limit on a Defined Benefit Asset Minimum Funding Requirements and their interaction	01/01/2008

* Not endorsed by the EU as at the date of approval of these financial statements.

If the Group had been able to early adopt IAS 27, minority interests in the consolidated balance sheet would have been £1.3m lower and losses attributable to minority interests would have been £1.3m higher. This would have increased total shareholders' equity by £1.3m.

With the exception of IAS 27, the directors do not anticipate the adoption of these standards and interpretations will have a material impact on the financial statements in the period of initial adoption.

2. FINANCIAL RISK MANAGEMENT

Through its normal operations, the Group is exposed to a number of financial risks, the most significant of which are liquidity and market risks.

In general, risk management is carried out throughout the Group under policies approved by the Board of Directors. The following further describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

(a) Market risk**(i) Price risk**

The Group is exposed to equity securities price risk as a result of the equity investments and investments in limited partnerships held by the Group and categorised as at fair value through profit or loss.

The Group mitigates this risk by having established investment appraisal processes and asset monitoring procedures which are subject to overall review by the Board. The Group has also established a capital markets team dedicated to investor relations.

The Group holds investments which are publicly traded on the Alternative Investment Market ("AIM") or PLUS Markets and investments which are not traded on an active market.

The table below summarises the impact of a 1% increase / decrease in the price of both quoted and unquoted investments on the Group's post tax profit for the year and on equity.

Continued

2. FINANCIAL RISK MANAGEMENT *continued*(a) Market risk *continued*(i) Price risk *continued*

	2007			2006		
	Quoted £'m	Unquoted £'m	Total £'m	Quoted £'m	Unquoted £'m	Total £'m
Equity investments and investments in limited partnerships	0.7	0.6	1.3	0.5	0.4	0.9

(ii) Interest rate risk

As the Group has no significant borrowings it has only a limited interest rate risk. The primary impact to the Group is the impact on income and operating cash flow as a result of the interest-bearing cash and cash equivalents held by the Group.

The Group mitigates this risk, in co-ordination with liquidity risk, by managing its proportion of fixed to floating rate financial assets. The table below summarises the interest rate profile of the Group.

	2007				2006			
	Fixed rate £'m	Floating rate £'m	Interest free £'m	Total £'m	Fixed rate £'m	Floating rate £'m	Interest free £'m	Total £'m
Financial assets								
Equity rights	-	-	20.2	20.2	-	-	19.9	19.9
Equity investments	-	-	126.1	126.1	-	-	87.4	87.4
Cash and cash equivalents	24.0	22.0	-	46.0	37.5	13.8	-	51.3
Financial asset	-	-	1.1	1.1	-	-	1.1	1.1
Trade receivables	-	-	0.6	0.6	-	-	0.1	0.1
Related parties	-	-	0.2	0.2	-	-	0.6	0.6
Other receivables	-	-	1.2	1.2	-	-	1.4	1.4
	24.0	22.0	149.4	195.4	37.5	13.8	110.5	161.8
Financial liabilities								
Trade payables	-	-	0.2	0.2	-	-	0.1	0.1
Accrued staff bonus	-	-	0.7	0.7	-	-	1.4	1.4
Other accruals and deferred income	-	-	1.2	1.2	-	-	0.6	0.6
	-	-	2.1	2.1	-	-	2.1	2.1

At 31 December 2007, if interest rates had been 1% higher / lower, post-tax profit for the year, and other components of equity, would have been £0.2m (2006: £0.1m) higher / lower as a result of higher interest received on floating rate cash deposits.

(b) Liquidity risk

The Group seeks to manage liquidity risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Accordingly the Group only invests working capital in short term instruments issued by reputable counterparties. The Group continuously monitors rolling cash flow forecasts to ensure sufficient cash is available for anticipated cash requirements.

As at 31 December 2007 and 31 December 2006, with the exception of equity rights, equity investments, investments in limited partnerships and the University of Leeds zero cost forward contract (see note 18), all financial assets and liabilities mature for payment within one year.

Continued

2. FINANCIAL RISK MANAGEMENT *continued***(c) Credit risk**

The Group's credit risk is primarily attributable to its trade receivables. The credit risk on cash equivalents is limited as the Group only invests in low risk treasury funds with reputable institutions with "AA" credit ratings or in short term instruments issued by rated counterparties with "P1" credit ratings at the time of investment (ratings determined by Standard & Poor's or Moody's). An analysis of the Group's cash and cash equivalents balance analysed by credit rating is shown in the table below. All other financial assets are unrated.

Credit rating	2007 £'m	2006 £'m
P1	24.0	37.5
AA	12.6	7.2
Unrated	9.4	6.6
Total cash and cash equivalents	46.0	51.3

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Group has detailed policies and strategies which seek to minimise these associated risks.

The maximum exposure to credit risk for receivables and other financial assets is represented by their carrying amount.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The directors make judgements and estimates concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, such as expectations of future events, and are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions that have the most significant effects on the carrying amounts of the assets and liabilities in the financial statements are discussed below.

- (i) Impairment of goodwill - The Group is required to test, at least annually, whether goodwill has suffered any impairment. The recoverable amount is determined using value in use calculations. The use of this method requires the estimation of future cash flows and the selection of a suitable discount rate in order to calculate the present value of these cash flows.
- (ii) Equity rights - The equity rights agreement is considered to be a derivative contract and is classified as a held for trading financial instrument with changes in fair value recognised in the income statement. The directors have not been able to determine a reliable fair value for this financial instrument due to what are considered to be immeasurable variables.
- (iii) Valuation of unquoted equity investments - The judgements required in order to determine the appropriate valuation methodology of unquoted equity investments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities. These judgements include making assessments of the future earnings potential of portfolio companies, appropriate earnings multiples to apply, and marketability discounts.

4. REVENUE FROM SERVICES

All revenue is derived from the provision of advisory and venture capital fund management services.

Continued

5. BUSINESS SEGMENTS

For both the year ended 31 December 2007 and the year ended 31 December 2006 the Group's revenue and profit before taxation was derived entirely from its principal activity within the United Kingdom. For management purposes, the Group is currently organised into three operating divisions, (i) the commercialisation of intellectual property via the formation of long-term partnerships with universities, (ii) management of venture funds focussing on early-stage UK technology companies and (iii) the in-licensing of drugable intellectual property from research intensive institutions.

Year ended 31 December 2007	University partnership business £'m	Venture capital fund management £'m	In-licensing activity £'m	Consolidated £'m
INCOME STATEMENT				
Revenue				
Change in fair value of equity investments	26.4	-	-	26.4
Gains on deemed disposal of subsidiaries	8.1	-	-	8.1
Gains on disposal of equity investments	0.5	-	-	0.5
Dividends	-	-	-	-
Revenue from advisory services	0.5	0.3	-	0.8
Revenue from fund management services	-	1.2	-	1.2
Administrative expenses	(5.4)	(1.2)	(2.6)	(9.2)
Operating profit	30.1	0.3	(2.6)	27.8
Finance income - interest receivable	2.4	0.1	0.2	2.7
Profit before taxation	32.5	0.4	(2.4)	30.5
Taxation	-	-	-	-
Profit for the year	32.5	0.4	(2.4)	30.5
BALANCE SHEET				
Assets	210.2	2.3	3.5	216.0
Liabilities	(1.6)	(0.2)	(0.4)	(2.2)
Net assets	208.6	2.1	3.1	213.8
Other segment items				
Capital expenditure	(0.5)	-	-	(0.5)
Depreciation	(0.1)	-	-	(0.1)
Amortisation of intangible assets	-	(0.1)	-	(0.1)

Continued

5. BUSINESS SEGMENTS *continued*

Year ended 31 December 2006	University partnership business £'m	Venture capital fund management £'m	In-licensing activity £'m	Consolidated £'m
INCOME STATEMENT				
Revenue				
Change in fair value of equity investments	38.2	-	-	38.2
Gains on deemed disposal of subsidiaries	-	-	-	-
Gains on disposal of equity investments	1.9	-	-	1.9
Dividends	0.1	-	-	0.1
Revenue from advisory services	0.2	-	-	0.2
Revenue from fund management services	-	1.6	-	1.6
Administrative expenses	(3.2)	(0.7)	(0.3)	(4.2)
Operating profit	37.2	0.9	(0.3)	37.8
Finance income - interest receivable	2.2	0.1	-	2.3
Profit before taxation	39.4	1.0	(0.3)	40.1
Taxation	-	-	-	-
Profit for the year	39.4	1.0	(0.3)	40.1
BALANCE SHEET				
Assets	177.5	1.7	2.7	181.9
Liabilities	(2.6)	(0.1)	-	(2.7)
Net assets	174.9	1.6	2.7	179.2
Other segment items				
Capital expenditure	(0.1)	-	-	(0.1)
Depreciation	-	-	-	-
Amortisation of intangible assets	-	(0.1)	-	(0.1)

Secondary format - geographical segments

The Group operates exclusively in the United Kingdom and consequently no additional disclosures are given.

Continued

6. AUDITOR REMUNERATION

During the year, the Group obtained the following services from the Group's auditor at costs as detailed below:

	At 31 December 2007 £'000	At 31 December 2006 £'000
Audit services		
- Fees payable to company auditor for the audit of parent and consolidated accounts	67	65
Non-audit services		
Fees payable to company auditor for other services:		
- Auditing of accounts of subsidiaries pursuant to legislation	19	13
- Other services supplied under legislation	10	79
- Other taxation services	56	78
- Recruitment and remuneration services	10	-
- All other services	3	4
	165	239

7. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging / (crediting):

	At 31 December 2007 £'m	At 31 December 2006 £'m
Amortisation of intangible assets	0.2	0.1
Depreciation of tangible assets	0.1	-
Employee costs (see Note 8)	5.5	2.3
Operating leases - property	0.6	0.2
Profit on disposal of equity investments	(0.5)	(1.9)
Gain on deemed disposal of subsidiaries	(8.1)	-

Continued

8. EMPLOYEE COSTS

Employee costs (including directors) comprise:

	2007 £'m	2006 £'m
Salaries	3.3	1.5
Defined contribution pension cost	0.2	0.2
Share-based payment charge (see Note 24)	0.3	-
Equity Bonuses Accrued in the year	1.3	1.4
Less reversal of accrual for employee bonuses relating to prior years	-	(1.1)
Social Security	0.4	0.3
	5.5	2.3

The average monthly number of persons (including executive directors) employed by the Group during the year was 44, all of whom were involved in management and administration activities (2006: 23). The Company had no employees in the year ended 31 December 2007 (2006: nil). All Group and Company employee costs were borne by other Group companies with the exception of the share-based payment charge. Details of directors' remuneration and gains on the exercise of share options can be found in the Directors' Remuneration Report on pages 16 to 19.

9. TAXATION

	2007 £'m	2006 £'m
Current tax	-	-
Deferred tax	-	-
	-	-

The charge for the year can be reconciled to the profit per the income statement as follows:

	2007 £'m	2006 £'m
Profit before tax	30.5	40.1
Tax at the UK Corporation tax rate of 30% (2006: 30%)	9.2	12.0
Non-taxable income	(10.5)	(11.5)
Schedule 23 deduction	(0.1)	(1.7)
Tax losses arising not recognised	0.9	0.8
Other adjustments	0.5	0.4
Tax charge	-	-

Continued

9. TAXATION *continued*

At 31 December 2007, deductible temporary differences and unused tax losses for which no deferred tax asset has been recognised totalled £14.1m (2006: £7.7m). An analysis is shown below:

	2007		2006	
	Amount £'m	Deferred tax £'m	Amount £'m	Deferred tax £'m
Share-based payment costs	0.6	0.2	0.5	0.2
Unused tax losses	13.5	3.8	7.2	2.2
	14.1	4.0	7.7	2.4

This asset has not been recognised in the financial statements due to current uncertainties surrounding the reversal of the underlying temporary differences. This deferred tax asset would be recovered if there were future taxable profits from which the reversal of the underlying temporary difference could be deducted.

The directors believe that the Group qualifies for Substantial Shareholder Exemption and therefore no deferred tax is provided for in respect of the net uplift in valuation of the Group's equity investments.

10. EARNINGS PER SHARE

Earnings

	2007 £'m	2006 £'m
Earnings for the purposes of basic and dilutive earnings per share	30.5	40.1

Number of shares

	2007 No. of shares	2006 No. of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	248,952,170	238,155,846
Effect of dilutive potential ordinary shares:		
Share options	-	336,919
Weighted average number of ordinary shares for the purposes of diluted earnings per share	248,952,170	238,492,765

11. GOODWILL

	£'m
At 1 January 2006	18.4
Recognised on acquisition of subsidiary ⁽ⁱ⁾ (Note 21b)	0.3
At 1 January 2007	18.7
Recognised on acquisition of subsidiary ⁽ⁱⁱ⁾ (Note 21a)	3.7
Disposed with subsidiary ^{(i), (ii)} (Note 22)	(3.7)
At 31 December 2007	18.7
At 31 December 2006	18.7

⁽ⁱ⁾ Goodwill arising on the acquisition of Poseidon Water Limited forms part of the university partnership CGU. Poseidon water was subsequently disposed in 2007 as part of the deemed disposal of Modern Water plc (Note 22).

⁽ⁱⁱ⁾ Goodwill arising on the acquisition of Modern Waste Ltd and Photopharmica (Holdings) Ltd which both form part of the in-licensing CGU. Photopharmica (Holdings) Ltd was subsequently disposed by way of a deemed disposal (Note 22).

The recoverable amount of the above goodwill has been determined from value in use calculations on cash flow projections from formally approved budgets covering a three year period in respect of the relevant cash generating unit.

Continued

11. GOODWILL *continued*

The goodwill allocated to each CGU is summarised in the following table:

	2007 £'m	2006 £'m
University partnership CGU	15.5	16.6
Fund management CGU	2.9	2.1
In-licensing CGU	0.3	-
	18.7	18.7

Impairment review of venture capital fund management CGU

The following key assumptions have been used to determine value in use:

	2007	2006
Discount rate	9%	9%
Number of funds under management	2	2
Management fee	2%	2%
Cost inflation	4%	4%

The assumptions above reflect past experience. All reasonably possible changes to key assumptions do not result in the recoverable amount being less than the carrying value of goodwill.

Impairment review of the university partnership CGU

The following key variables would be relevant in determining a value in use of the university partnership CGU:

- The timing and number of spin-out companies;
- Dilution rates as a result of financing for spin-out companies in the future;
- IPO valuations; and
- Disposal values and timings.

The directors consider that for each of these variables there is a wide range of reasonably possible alternative values, which result in a wide range of value in use estimates for the university partnership CGU. None of these estimates of value in use is considered more appropriate or relevant than any other, however none indicate that an impairment of the goodwill allocated to the CGU is required.

12. ACQUIRED INTANGIBLE ASSETS

	£'m
At 1 January 2006	0.6
Amortisation charge during the year ended 31 December 2006	(0.1)
At 1 January 2007	0.5
Amortisation charge during the year ended 31 December 2007	(0.2)
At 31 December 2007	0.3
At 31 December 2006	0.5

On 30 June 2004 the Group acquired the entire issued share capital of Top Technology Ventures Limited. At this time, Top Technology Ventures Limited was party to two contracts to supply fund management services. The directors calculated the fair value of this asset on a discounted cash flow basis, and concluded that the fair value of this asset at 30 June 2004 was £0.8m. The asset is being amortised on a straight-line basis over its useful life which has been determined by reference to the residual life of the two contracts to be five and a half years from the date of acquisition. At 31 December 2007 the asset had a remaining useful life of 2 years (2006: 3 years).

Continued

13. PROPERTY, PLANT AND EQUIPMENT

	Total £'m
Cost	
At 1 January 2007	0.2
Additions	0.5
At 31 December 2007	0.7
Accumulated depreciation	
At 1 January 2007	0.1
Charge for the year	0.1
At 31 December 2007	0.2
Net book value	
At 31 December 2007	0.5
At 31 December 2006	0.1

	Total £'m
Cost	
At 1 January 2006	0.2
Additions	-
At 31 December 2006	0.2
Accumulated depreciation	
At 1 January 2006	0.1
Charge for the year	-
At 31 December 2006	0.1
Net book value	
At 31 December 2006	0.1
At 31 December 2005	0.1

Depreciation on property, plant and equipment was £88,033 (2006: £23,447).

Continued

14. CATEGORISATION OF FINANCIAL INSTRUMENTS

Financial assets	At fair value through profit or loss		Loans and receivables £'m	Total £'m
	Held for trading £'m	Designated upon initial recognition £'m		
At 31 December 2007				
Equity rights	19.9	-	-	19.9
Equity investments	-	126.1	-	126.1
Financial asset	1.1	-	-	1.1
Investment in limited partnerships	-	1.0	-	1.0
Trade and other receivables	-	-	2.1	2.1
Cash and cash equivalents	-	-	46.0	46.0
Total	21.0	127.1	48.1	196.2
At 31 December 2006				
Equity rights	19.9	-	-	19.9
Equity investments	-	87.4	-	87.4
Financial asset	1.1	-	-	1.1
Investment in limited partnerships	-	0.3	-	0.3
Trade and other receivables	-	-	2.2	2.2
Cash and cash equivalents	-	-	51.3	51.3
Total	21.0	87.7	53.5	162.2

All financial liabilities are categorised as other financial liabilities and recognised at amortised cost.

The Group does not consider that any change in fair value of financial assets in the year is attributable to credit risk (2006: nil).

All net fair value gains in the year are attributable to financial assets designated at fair value through profit or loss on initial recognition (2006: All net fair value gains attributable to financial assets designated at fair value through profit or loss on initial recognition).

Continued

15. EQUITY RIGHTS AND RELATED CONTRACT COSTS

	Equity Rights £'m	Contract costs £'m	Total £'m
Cost			
At 1 January 2007	19.9	0.5	20.4
Additions	-	-	-
At 31 December 2007	19.9	0.5	20.4
Aggregate amortisation of contract costs			
At 1 January 2007	-	(0.1)	(0.1)
Charge for the year	-	(0.1)	(0.1)
At 31 December 2007	-	(0.2)	(0.2)
Net book value			
At 31 December 2007	19.9	0.3	20.2
At 31 December 2006	19.9	0.4	20.3

	Equity Rights £'m	Contract costs £'m	Total £'m
Cost			
At 1 January 2006	19.9	0.4	20.3
Additions	-	0.1	0.1
At 31 December 2006	19.9	0.5	20.4
Aggregate amortisation of contract costs			
At 1 January 2006	-	(0.1)	(0.1)
Charge for the year	-	-	-
At 31 December 2006	-	(0.1)	(0.1)
Net book value			
At 31 December 2006	19.9	0.4	20.3
At 31 December 2005	19.9	0.3	20.2

Carrying amount of equity rights

The following key variables would be relevant in determining a fair value for this financial instrument:

- The timing and number of spin-out companies from the University of Oxford chemistry department;
- Dilution rates as a result of financing for such spin-out companies in the future;
- IPO valuations; and
- Disposal values and timings.

The directors consider that for each of these variables there is a wide range of reasonably possible alternative values, which result in a wide range of fair value estimates for the equity rights agreement. None of these estimates of fair value is considered more appropriate or relevant than any other and accordingly the directors have not been able to determine a reliable fair value for this financial instrument at either 1 January 2004 or any subsequent reporting date.

Until such time as the directors are able to compute a reliable fair value, the equity rights are carried at cost less provision for impairment. None of the above reasonably possible estimates of fair value indicate that an impairment of carrying value of the equity rights agreement is required.

Continued

16. EQUITY INVESTMENTS

Group	Quoted spin out companies £'m	Unquoted spin out companies £'m	Other investments £'m	Total £'m
At 1 January 2006	24.6	18.3	1.4	44.3
Investments during the year	0.7	7.8	-	8.5
Reclassifications during the year	1.5	(1.5)	-	-
Disposal during the year	(0.6)	(0.5)	-	(1.1)
Change in fair value in the year	22.5	15.4	0.3	38.2
Equity allocated to staff	-	(2.1)	-	(2.1)
Adjustment arising on consolidation of Poseidon Water Ltd	-	(0.4)	-	(0.4)
At 1 January 2007	48.7	37.0	1.7	87.4
Investments during the year	0.5	6.3	-	6.8
Reclassifications during the year	2.3	(2.3)	-	-
Reclassification of subsidiaries and debt to equity conversions during the year	9.2	5.4	-	14.6
Change in fair value in the year	13.8	12.5	0.1	26.4
Equity allocated to staff	-	(1.4)	(0.2)	(1.6)
Disposal during the year	(7.5)	-	-	(7.5)
At 31 December 2007	67.0	57.5	1.6	126.1

Certain fair values of unquoted spin-out companies have been determined in part or in full by valuation techniques that are not supported by observable market prices or rates. However if the assumptions used in the valuation techniques are varied by using a range of possible alternatives, there is no material difference to the carrying value of the respective spin-out company.

The net change in fair value for the year of £26.4m (2006: £38.2m) includes £12.5m (2006: £15.4m) that has been estimated using a valuation technique. Further details are contained within the accounting policy for equity investments.

Change in fair value in the year

	2007 £'m	2006 £'m
Fair value gains	38.1	47.8
Fair value losses	(11.7)	(9.6)
	26.4	38.2

Continued

16. EQUITY INVESTMENTS *continued*

Significant equity investments

At 31 December 2007 the Group has investments where it holds 20% or more of the issued ordinary share capital of the following companies:

Undertaking	% of issued share capital held	Net assets (liabilities) £'000	Profit (Loss) before tax £'000	Date of financial statements
Photopharmica (Holdings) Limited	49.9	4,052	-	31/07/2006
Icona Solutions Limited	49.9	(109)	(263)	31/12/2006
Leeds Reproductive Biosciences Limited	46.6	(7)	-	31/07/2006
Chamelic Limited	46.4	(14)	-	31/07/2006
Overlay Media Limited	43.2	-	-	-
Wireless Biodevices Limited	42.6	350	-	31/07/2007
Oxford Nanolabs Limited	41.6	7,755	(560)	30/06/2006
Dispersia Limited	41.0	(2)	-	31/07/2006
ReactivLab Limited	40.3	-	-	-
Capsant Neurotechnologies Limited	40.2	1,316	(523)	31/12/2006
Surrey Nano Systems Limited	40.0	(229)	(141)	30/06/2006
Simulstrat Limited	39.8	-	-	-
Activotec SPP Limited	35.3	(2)	-	31/12/2006
Cerogenix Limited	37.7	157	-	31/05/2007
OxTox Limited	37.6	-	-	-
Phonologica Limited	36.7	67	-	28/02/2006
Leeds Lithium Power Limited	33.3	(30)	-	31/07/2006
Amaethon Limited	33.0	459	(148)	31/07/2006
Structure Vision Limited	32.7	(74)	-	31/07/2006
Bioniqs Limited	30.1	413	-	31/07/2006
DyeCat Limited	30.0	(13)	-	31/07/2006
Synairgen plc	29.6	10	-	30/06/2007
Acsian Limited	29.3	273	-	31/12/2006
Tissue Regenix Limited	28.9	-	-	-
Karus Therapeutics Limited	28.4	254	(280)	30/06/2006
Rock Deformation Research Limited ⁽¹⁾	27.5	531	53	31/07/2007
Xeros Limited	26.2	-	-	-
COE Group plc	25.9	744	(566)	30/06/2007
Crysalin Limited	25.4	-	-	-
Theragenetics Limited	25.0	-	-	-
Green Chemicals plc	24.5	3,405	(207)	31/03/2007
Avacta Group plc	23.9	14	(107)	30/04/2006
Ilika Technologies Limited	23.6	830	(1,111)	30/04/2007
Proximagen Neuroscience plc	23.5	11,572	(1,604)	30/11/2006
Modern Water plc	23.0	-	-	-
Oxford RF Sensors Limited	22.9	1,528	(542)	31/12/2006
Retroscreen Virology Limited	22.9	1,532	(259)	31/07/2007
Luto Research Limited	21.5	186	-	31/07/2006
Tracsis plc	20.9	292	-	31/07/2006

⁽¹⁾ Shares held by University of Leeds as nominee for IP Group plc

Continued

16. EQUITY INVESTMENTS *continued*Significant equity investments *continued*

All companies are incorporated in England and Wales. All companies are held indirectly with the exception of Photopharmica (Holdings) Limited and Modern Water plc.

No financial information is presented in respect of companies that have not filed accounts at Companies House. No profit / (loss) information is presented in respect of companies that have filed abbreviated accounts.

In addition, at 31 December 2007, the Group has the following investments in spin-out companies where it holds less than 20% of the issued share capital:

Undertaking	% of issued share capital held
Revolmer Limited	18.8
Xanic Limited	18.0
iQur Limited	17.7
Oxford Catalysts Group plc	16.7
Syntopix Group plc	16.1
Oxford Advanced Surfaces plc	15.7
Pharminox Limited	14.0
Vision Semantics Limited	13.3
ReOx Limited	12.3
GETECH plc	11.7
Nanotecture Limited	10.2
Glycoform Limited	9.7
Perpetuum Limited	8.2
Summit Corporation plc	8.1
Sigma Technology Group plc	4.0
Inhibox Limited	3.9
Stratophase Limited	2.3
Powerlase Limited	1.4
EMDOT Limited	1.1
Offshore Hydrocarbon Mapping plc	0.8

All companies are incorporated in England and Wales

The Company's interests in subsidiary undertakings are listed in note 2 of the Company's financial statements on page 63.

17. TRADE AND OTHER RECEIVABLES

	2007 £'m	2006 £'m
Trade debtors	0.6	0.1
Prepayments	0.1	0.1
Amounts due from related parties	0.2	0.6
Other receivables	1.2	1.4
	2.1	2.2

The directors consider the carrying amount of trade and other receivables to approximate their fair value. All receivables are interest free, repayable on demand and unsecured.

Continued

18. OTHER FINANCIAL ASSETS

Financial asset comprises of a zero cost forward contract giving the Group the right to receive sale proceeds when the University of Leeds sells down its stake in specified spin-out companies subject to a maximum receivable of £1.2m (2006: £1.3m). The asset has no set date of repayment or other rights of recourse. This asset is classified as a financial asset held for trading initially measured at fair value with subsequent changes recognised in the income statement. Fair value is determined by discounting expected cash flows at prevailing market rates of interest.

Cash and cash equivalents comprises cash held by the Group. The carrying amount of these assets approximates their fair value.

19. TRADE AND OTHER PAYABLES

Group	At 31 December 2007 £'m	At 31 December 2006 £'m
Trade payables	0.2	0.1
Social security expenses	0.1	0.1
Accrued staff bonuses	0.7	1.4
Other accruals and deferred income	1.2	1.0
	2.2	2.6

Accrued staff bonuses

During the year ended 31 December 2007, bonus entitlements were settled mainly by the allocation of equity from investments made by the Group.

The timing of the actual allocations of equity to employees is subject to a number of factors, including the performance of the business as a whole.

Group	Current bonus accrual £'m
At 1 January 2007	1.4
Charged in the income statement in the year to 31 December 2007	1.3
Settled during the year to 31 December 2007	(2.0)
At 31 December 2007	0.7

Group	Non-current bonus accrual £'m	Current bonus accrual £'m
At 1 January 2006	3.6	1.0
Charged in the income statement in the year to 31 December 2006	-	1.4
Written back during the year	(1.1)	-
Settled during the year to 31 December 2006	(2.5)	(1.0)
At 31 December 2006	-	1.4

Continued

20. SHARE CAPITAL

Group and Company	2007 £'m	2006 £'m
Authorised:		
450 million ordinary shares of 2 pence each (2006: 450 million ordinary shares of 2 pence each)	9.0	9.0
Issued and fully paid:		
250,291,965 ordinary shares of 2 pence each (2006: 246,554,555 ordinary shares of 2 pence each)	5.0	4.9

On 30 April 2007 the Company issued 500,000 new ordinary shares with a par value of 2p with respect to the exercise of share options with an exercise price of 43.5p. On 17 May 2007, the Company issued 409,353 new ordinary shares with a par value of 2p at an issue price of 139 pence as consideration for the acquisition of Photopharmica (Holdings) Limited (see note 21a) and a further 2,828,057 at an issue price of 139 pence as consideration for the acquisition of various debt instruments in Photopharmica (Holdings) Limited.

In January 2006, the Company issued 63,394 new ordinary shares with a par value of 10p with respect to the exercise of share options with an exercise price of 200 pence. In April 2006 there was a 5:1 split of the Company's share capital resulting in an extra 183,243,124 shares being issued, with the a new par value of 2p. In May 2006 the Company issued 11,452,650 shares with a par value of 2p with regard to a placing of shares realising net proceeds of £16.3m. In June 2006, the Company issued 798,000 new ordinary shares with a par value of 2p with respect to the exercise of share options with an exercise price of 28 pence. In September 2006, the Company issued 500,000 new ordinary shares with a par value of 2p with respect to the exercise of share options with an exercise price of 32 pence. In October 2006, the Company issued 4,750,000 new ordinary shares with a par value of 2p with respect to the exercise of share options with an exercise price of 49 pence.

The Company has one class of ordinary shares which carry equal voting rights, equal rights to income and distributions of assets on liquidation or otherwise, and no right to fixed income.

21a. ACQUISITIONS OF SUBSIDIARY UNDERTAKING DURING 2007**Acquisition of Photopharmica (Holdings) Limited ('Photopharmica')**

In 2005, the Group acquired a 5.2% stake in Photopharmica, by virtue of its agreement with the University of Leeds, and the fair value of consideration paid was £nil. The book and fair value of net liabilities acquired at this stage was £1.6m giving rise to goodwill of £0.1m.

On 17 May 2007, the Group acquired a further 51.4% equity stake in Photopharmica, taking the Group's total stake to 56.6%. At that date, the Group also acquired £3.5m of debt instruments and 100% of the issued redeemable preference share capital of Photopharmica.

Continued

21a. ACQUISITIONS OF SUBSIDIARY UNDERTAKING DURING 2007 *continued*Acquisition of Photopharmica (Holdings) Limited ('Photopharmica') *continued*

	Fair value and book value of net assets/ (liabilities) £'000
Net liabilities acquired:	
Property, plant and equipment	43
Cash and cash equivalents	241
Trade and other receivables	45
Trade and other payables	(732)
Redeemable preference shares	(1,449)
Debt instruments acquired	(3,482)
Net liabilities	(5,334)
Less: fair value of 5.2% interest previously held	280
Share of net liabilities acquired	(5,054)
Liabilities acquired in excess of net interest in subsidiary	2,313
Goodwill (note 11)	3,310
Total consideration	569
Consideration satisfied by:	
Issue of share capital (409,353 shares at 139 pence ⁽ⁱ⁾)	569
	569

⁽ⁱ⁾ being the average closing price of the shares over the 5 day period prior to 17 May 2007

As the 43.4% of minorities associated with this undertaking had no binding obligation to repay their interest of Photopharmica's net liabilities, the excess of liabilities acquired over the Group's net interest in those liabilities was allocated to a separate component of equity attributable to equity shareholders.

From the date of acquisition to the subsequent date of deemed disposal (Note 22), the acquisition contributed £39k to turnover and £659k loss for the year. If the acquisition had occurred on 1 January 2007, the acquisition would have contributed £57k to turnover and £1,388k loss for the year.

The outflow of cash and cash equivalents on the acquisition, including those cash flows in relation to the acquisition of the debt instruments, redeemable preference share capital and additional draw-downs on those instruments, can be calculated as follows:

	£'m
Cash consideration	2,000
Cash acquired	(241)
	1,759

Continued

21a. ACQUISITIONS OF SUBSIDIARY UNDERTAKING DURING 2007 *continued*

Acquisition of Modern Waste Limited ('Modern Waste')

On 3 May 2007, the Group acquired an 84% equity stake in Modern Waste for cash consideration of £2m.

	Fair value and book value of net assets £'000
Net assets acquired:	
Cash and cash equivalents	2,000
Minority interest	2,000
Goodwill (note 11)	(312)
Total consideration	312
Consideration satisfied by:	2,000
Cash	2,000

From the date of acquisition, which was the date trading commenced, Modern Waste contributed £nil to turnover and £184k loss for the year.

The outflow of cash and cash equivalents on the acquisition can be calculated as follows:

	£'m
Cash consideration	2,000
Cash acquired	(2,000)
	-

21b. ACQUISITIONS OF SUBSIDIARY UNDERTAKING DURING 2006

Acquisition of Poseidon Water Limited ('Poseidon')

The Group subscribed for 143,004 ordinary shares in Poseidon for a cash consideration of £0.4m on 14 December 2006, which represented 51% of the enlarged issued share capital of Poseidon at that date. The Group's interest in the book and fair value of the net assets acquired at that date was £0.2m giving rise to goodwill of £0.3m.

	Fair value and book value £'000
Net assets acquired:	
Property, plant and equipment	3
Cash and cash equivalents	210
Trade and other payables	(42)
Goodwill	254
Total consideration	425

The consideration of £425,000 was satisfied by way of cash.

Total losses attributable to Poseidon in the period from 1 December 2006 to 31 December 2006 were £0.1m (2005: £0.1m). Total losses and revenue attributable to Poseidon in the year ended 31 December 2006 were £0.2m and £0.1m respectively. If the acquisition had occurred on 1 January 2006, the Group's revenue from services would have been higher by £0.1m and profits lower by £0.2m.

Continued

22. DISPOSALS OF SUBSIDIARY UNDERTAKINGS DURING 2007**Deemed disposal of Modern Water plc ("Modern Water")**

On 12 June 2007 the Group announced that Modern Water had raised additional finance from non-group parties and was admitted to the Alternative Investment Market ("AIM"). As a result of this, the Group's equity stake was diluted and Modern Water ceased to be considered a subsidiary.

The following table summarises the assets disposed:

	£'000
Net assets attributable to the Group pre-disposal:	
Goodwill	277
Investments in associated undertakings	578
Property, plant and equipment	14
Trade and other receivables	21
Cash and cash equivalents	1,356
Trade and other payables	(133)
	2,113
Minority interests	(861)
Net assets disposed of	1,252

Immediately following the transaction, the Group's interest in Modern Water was 23%. At that time, Modern Water had net assets of £40.7m, giving rise to a gain on deemed disposal amounting to £8.1m. This associated undertaking was then designated as at fair value through profit or loss in accordance with the Group's accounting policies. No proceeds were received and the cash out flow on disposal was £1.4m.

Deemed disposal of Photopharmica (Holdings) Limited ("Photopharmica")

On 21 December 2007 the Group announced that Photopharmica had raised additional finance from non-group parties as part of a financing round. As a result of this, the Group's equity stake was diluted and Photopharmica ceased to be considered a subsidiary.

The following table summarises the net assets disposed:

	£'000
Net assets attributable to the Group pre-disposal:	
Property, plant and equipment	37
Trade and other receivables	71
Cash and cash equivalents	324
Trade and other payables	(461)
Preference share capital	(1,457)
	(1,486)
Goodwill	3,393
Liabilities acquired in excess of net interest in subsidiary	2,313
Net assets disposed of	4,220

Immediately following the transaction, the Group's interest in Photopharmica was 46.9%. At that time, Photopharmica had net assets of £4.5m plus attributable goodwill of £2.8m, giving rise to a loss on the deemed disposal of £40k, after deducting £0.7m of additional investment by the Group as part of the financing round. This associated undertaking was then designated as at fair value through profit or loss in accordance with the Group's accounting policies. No proceeds were received and the cash outflow on disposal was £0.3m.

Continued

23. OPERATING LEASE ARRANGEMENTS

	2007 £'m	2006 £'m
Minimum lease payments under operating leases recognised in income for the year	0.6	0.2

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2007 £'m	2006 £'m
Within one year	0.5	-
In the second and fifth years inclusive	0.9	-
	1.4	-

Operating lease payments represent rentals payable by the group for certain of its office properties. Leases are negotiated for an average term of five years and rentals are fixed for an average of one year.

24. SHARE-BASED PAYMENTS**Long-term incentive plan ("LTIP") awards**

Awards under the LTIP will take the form of provisional awards of ordinary shares of two pence each in the Group. Awards will generally vest over three years following the date on which they are made, to the extent that performance conditions have been met. The Remuneration Committee will impose objective conditions on the vesting of awards, and it is proposed that such conditions will be imposed as reflect the guidelines of institutional investors from time to time. At present, it is intended that the performance conditions for future grants will be based on the Group's total shareholder return ("TSR") performance. The awards granted in 2007 will vest in full after three years in the event of TSR growth of 15% per annum on a cumulative basis being achieved. 50% of an award granted in 2007 will vest in the event of compound annual TSR growth of 10% being achieved with a sliding scale between these points.

The movement in the number of shares notionally awarded under the LTIP is set out below:

	2007	2006
At 1 January	-	-
Notionally awarded during the year	2,656,716	-
At 31 December	2,656,716	-

The fair value of awards has been calculated using a Monte-Carlo pricing model with the following key assumptions:

	2007
Share price at date of award	135p
Exercise price	£nil
Expected volatility (median of historical 50 day moving average)	23%
Expected life (years)	3
Expected dividend yield	0%
Risk-free interest rate	5.6%

Continued

24. SHARE-BASED PAYMENTS *continued*

Share options

The Group previously granted options over the ordinary shares of the Company at not less than the market value of the Group's ordinary shares on the date of grant. The vesting period was generally 3 to 4 years. If the options remained unexercised after a period of 10 years from the date of grant, the options expire. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The movement in the number of share options is set out below:

	2007	2006
Outstanding at 1 January	500,000	6,864,835
Exercised during the year	500,000	6,364,835
Number of outstanding share options at 31 December	-	500,000

As at 31 December 2007, there were no share options outstanding. As at 31 December 2006, 500,000 share options were capable of being exercised. The weighted average share price at the date of exercise for share options exercised during the year was £1.41 (2006: £1.34). The weighted average exercise price of options exercised in the year was 43.5p (2006: 45p).

National Insurance is payable on gains and losses made by employees on exercise of share options granted to them. The Group has entered into a reciprocal arrangement with employees such that employees will reimburse the Group for any National Insurance liability. These are included in trade and other receivables and amount to £nil (2006: £0.1m). The movement in provisions is set out below:

	National insurance on options £'m
At 1 January 2006	0.5
Utilised in the year	(0.4)
At 1 January 2007	0.1
Utilised in the year	(0.1)
At 31 December 2007	-

25. INVESTMENTS IN LIMITED PARTNERSHIPS

	£'m
At 1 January 2006	0.1
Additions during the year	0.2
At 1 January 2007	0.3
Additions during the year	0.7
At 31 December 2007	1.0

Continued

26. RELATED PARTY TRANSACTIONS

a) Limited partnerships

The Group manages a number of investment funds structured as limited partnerships. Group entities act as the general partners of these limited partnerships and have the power to exert significant influence over them. The following amounts have been included in respect of these limited partnerships:

Income statement	2007 £'m	2006 £'m
Revenue from services	1.2	1.6

Balance sheet	2007 £'m	2006 £'m
Investment in limited partnerships	1.0	0.3
Amounts due from related parties	0.2	0.6

b) Key management transactions

The key management had investments with the following spin-out companies as at 31 December 2007:

Director	Spin out company	Number of shares held at 1 January 2007	Number of shares acquired (disposed) during the year	Number of shares held at 31 December 2007	% of issued share capital held at 31 December 2007
Alan Aubrey	Acsian Limited	1,732	-	1,732	0.8%
	Activotec SPP Limited	1,500	-	1,500	0.9%
	Amaethon Limited	-	21	21	0.3%
	Amaethon Limited - A Ordinary shares	-	104	104	3.1%
	Amaethon Limited - B Ordinary shares	-	11,966	11,966	1.0%
	Avacta Group plc ⁽³⁾	12,173,419	788,438	12,961,857	1.6%
	Bioniqs Limited	1,063	-	1,063	1.0%
	Capsant Neurotechnologies Limited	162	9,796	9,958	1.3%
	Cerogenix Limited	3,143	-	3,143	1.7%
	Chamelic Limited	-	26	26	1.6%
	COE Group plc	246,094	-	246,094	1.1%
	GETECH plc	15,000	-	15,000	0.1%
	Green Chemicals plc ⁽¹⁾	108,350	-	108,350	1.4%
	Icona Solutions Limited	-	1,674	1,674	2.0%
	Ilika Technologies Limited	1,175	-	1,175	1.0%
	Karus Therapeutics Limited	-	223	223	1.0%
	Leeds Lithium Power Limited	-	178	178	1.3%
	Leeds Reproductive Biosciences Limited	-	18	18	1.1%
	Luto Research Limited	132	-	132	1.1%
	Modern Biosciences plc	-	39,505	39,505	2.3%
	Modern Water plc	-	575,000	575,000	1.0%
	Oxford Advanced Surfaces plc ⁽²⁾	1,425,000	932,994	2,357,994	1.3%
	Oxford Catalysts Group plc	435,580	(180,831)	254,749	0.6%
	Oxford Medical Diagnostics Limited ⁽³⁾	3,250	(3,250)	-	0.0%
	Oxford Nanolabs Limited	11,442	-	11,442	1.4%
	Oxford RF Sensors Limited	53,639	-	53,639	0.8%
	Oxtox Limited	-	25,363	25,363	1.4%
	Pharminox Limited	685	-	685	0.5%
	Photopharmica (Holdings) Limited	-	37,020	37,020	1.0%
	Retroscreen Virology Limited	-	1,858	1,858	1.0%
	Revolymex Limited	2,963	-	2,963	0.7%
Simulstrat Limited	-	2,255	2,255	1.3%	
Simulstrat Limited A Preference Shares	-	24,063	24,063	2.8%	
Structure Vision Limited	-	212	212	1.5%	
Syntopix Group plc	27,290	36,436	63,726	1.1%	
Theragenetics Limited	3,150	-	3,150	0.7%	
Tissue Regenix Limited	-	89	89	0.8%	
Tracsis plc ⁽⁴⁾	146,900	56,500	203,400	1.2%	
Xeros Limited	-	86	86	0.8%	
Alison Fielding	Acsian Limited	480	-	480	0.2%
	Activotec SPP Limited	300	-	300	0.2%
	Amaethon Limited	-	21	21	0.3%
	Amaethon Limited - A Ordinary shares	-	105	105	3.2%
	Amaethon Limited - B Ordinary shares	-	12,049	12,049	1.0%

Continued

26. RELATED PARTY TRANSACTIONS *continued*b) Key management transactions *continued*

Director	Spin out company	Number of shares held at 1 January 2007	Number of shares acquired (disposed) during the year	Number of shares held at 31 December 2007	% of issued share capital held at 31 December 2007
Alison Fielding <i>continued</i>	Avacta Group plc	7,522,403	-	7,522,403	0.9%
	Bioniqs Limited	1,063	-	1,063	1.0%
	Capsant Neurotechnologies Limited	60	6,412	6,472	0.8%
	Cerogenix Limited	874	-	874	0.5%
	Chamelic Limited	-	21	21	1.3%
	COE Group plc	246,094	-	246,094	1.1%
	Green Chemicals plc ⁽¹⁾	126,181	-	126,181	1.6%
	Icona Solutions Limited	-	1,419	1,419	1.7%
	Ilika Technologies Limited	328	-	328	0.3%
	Karus Therapeutics Limited	43	-	43	0.2%
	Leeds Lithium Power Limited	-	172	172	1.2%
	Leeds Reproductive Biosciences Limited	-	17	17	1.0%
	Luto Research Limited	132	-	132	1.1%
	Modern Biosciences plc	-	25,782	25,782	1.5%
	Modern Water plc	-	276,000	276,000	0.5%
	Oxford Advanced Surfaces plc ⁽²⁾	-	611,042	611,042	0.3%
	Oxford Catalysts Group plc	120,911	(36,715)	84,196	0.2%
	Oxford Nanolabs Limited	5,721	-	5,721	0.7%
	Oxford RF Sensors Limited	15,085	-	15,085	0.2%
	Oxtox Limited	-	16,601	16,601	0.9%
	Pharminox Limited	274	-	274	0.2%
	Photopharmica (Holdings) Limited	-	27,350	27,350	0.7%
	Retroscreen Virology Limited	-	1,216	1,216	0.7%
	Revolymmer Limited	434	-	434	0.1%
	Simulstrat Limited	-	1,476	1,476	0.9%
	Simulstrat Limited - A Preference Shares	-	15,750	15,750	1.8%
	Structure Vision Limited	-	195	195	1.4%
	Syntopix Group plc	27,290	220	27,510	0.5%
	Theragenetics Limited	1,260	-	1,260	0.3%
	Tissue Regenix Limited	-	85	85	0.8%
Tracsis plc ⁽⁴⁾	141,250	56,500	197,750	1.1%	
Xeros Limited	-	70	70	0.7%	
David Norwood	Acasian Limited	1,732	-	1,732	0.8%
	Activotec SPP Limited	1,500	-	1,500	0.9%
	Amaethon Limited	-	15	15	0.2%
	Amaethon Limited - A Ordinary shares	-	76	76	2.3%
	Amaethon Limited - B Ordinary shares	-	8,703	8,703	0.8%
	Avacta Group plc ⁽³⁾	4,522,403	788,438	5,310,841	0.6%
	Bioniqs Limited	1,063	-	1,063	1.0%
	Capsant Neurotechnologies Limited	162	7,125	7,287	0.9%
	Cerogenix Limited	3,143	-	3,143	1.7%
	Chamelic Limited	-	13	13	0.8%
	COE Group plc	246,094	-	246,094	1.1%
	Green Chemicals plc ⁽¹⁾	113,222	-	113,222	1.4%
	Icona Solutions Limited	-	718	718	0.9%
	Ilika Technologies Limited	1,175	-	1,175	1.0%
	Karus Therapeutics Limited	223	-	223	1.0%
	Leeds Lithium Power Limited	-	129	129	0.9%
	Leeds Reproductive Biosciences Limited	-	13	13	0.8%
	Luto Research Limited	119	-	119	1.0%
	Modern Biosciences plc	-	28,693	28,693	1.7%
	Modern Water plc	-	418,200	418,200	0.7%
	Oxford Advanced Surfaces plc ⁽²⁾	9,075,003	678,671	9,753,674	5.5%
	Oxford Catalysts Group plc	285,580	(68,788)	216,792	0.5%
	Oxford Medical Diagnostics Limited ⁽³⁾	3,250	(3,250)	-	0.0%
	Oxford Nanolabs Limited	17,442	-	17,442	2.2%
	Oxford RF Sensors Limited	53,639	-	53,639	0.8%
	Oxtox Limited	-	18,446	18,446	1.0%
	Pharminox Limited	950	-	950	0.7%
	Photopharmica (Holdings) Limited	-	20,370	20,370	0.5%
	Retroscreen Virology Limited	-	1,352	1,352	0.7%
	Revolymmer Limited	2,963	-	2,963	0.7%
Simulstrat Limited	-	1,640	1,640	1.0%	
Simulstrat Limited - A Preference Shares	-	17,500	17,500	2.0%	
Structure Vision Limited	-	154	154	1.1%	
Syntopix Group plc	27,290	56,497	83,787	1.5%	

Continued

26. RELATED PARTY TRANSACTIONS *continued*b) Key management transactions *continued*

Director	Spin out company	Number of shares held at 1 January 2007	Number of shares acquired (disposed) during the year	Number of shares held at 31 December 2007	% of issued share capital held at 31 December 2007
David Norwood <i>continued</i>	Theragenetics Limited	3,150	-	3,150	0.7%
	Tissue Regenix Limited	-	65	65	0.6%
	Tracsis plc ⁽⁴⁾	129,950	-	129,950	0.7%
	Xeros Limited	-	43	43	0.4%
Magnus Goodlad	Acsian Limited	444	-	444	0.2%
	Activotec SPP Limited	627	-	627	0.4%
	Amaethon Limited	-	6	6	0.1%
	Amaethon Limited - A Ordinary shares	-	31	31	0.9%
	Amaethon Limited - B Ordinary shares	-	3,616	3,616	0.3%
	Avacta Group plc ⁽³⁾	1,691,279	606,491	2,297,770	0.3%
	Bioniqs Limited	533	-	533	0.5%
	Capsant Neurotechnologies Limited	60	6,412	6,472	0.8%
	Cerogenix Limited	651	-	651	0.3%
	Chamelic Limited	-	20	20	1.3%
	COE Group plc	246,094	-	246,094	1.1%
	Green Chemicals plc ⁽¹⁾	43,067	-	43,067	0.5%
	Icona Solutions Limited	-	1,355	1,355	1.6%
	Ilika Technologies Limited	260	-	260	0.2%
	Karus Therapeutics Limited	105	-	105	0.5%
	Leeds Lithium Power Limited	-	61	61	0.4%
	Leeds Reproductive Biosciences Limited	-	6	6	0.4%
	Luto Research Limited	30	-	30	0.3%
	Modern Biosciences plc	-	25,782	25,782	1.5%
	Modern Water plc	-	476,200	476,200	0.8%
	Oxford Advanced Surfaces plc ⁽²⁾	-	611,042	611,042	0.3%
	Oxford Catalysts Group plc	98,381	(23,697)	74,684	0.2%
	Oxford Medical Diagnostics Limited ⁽³⁾	2,500	(2,500)	-	0.0%
	Oxford Nanolabs Limited	2,231	-	2,231	0.3%
	Oxford RF Sensors Limited	29,735	-	29,735	0.4%
	Oxtox Limited	-	16,601	16,601	0.9%
	Pharminox Limited	274	-	274	0.2%
	Photopharmica (Holdings) Limited	-	21,340	21,340	0.6%
	Retroscreen Virology Limited	-	1,216	1,216	0.7%
	Revolmer Limited	666	-	666	0.2%
	Simulstrat Limited	-	1,476	1,476	0.9%
	Simulstrat Limited - A Preference Shares	-	15,750	15,750	1.8%
	Structure Vision Limited	-	83	83	0.6%
	Syntopix Group plc	13,312	-	13,312	0.2%
Theragenetics Limited	1,260	-	1,260	0.3%	
Tissue Regenix Limited	-	31	31	0.3%	
Tracsis plc ⁽⁴⁾	33,900	79,100	113,000	0.6%	
Xeros Limited	-	67	67	0.6%	
Mike Townend	Amaethon Limited	-	21	21	0.3%
	Amaethon Limited - A Ordinary shares	-	104	104	3.1%
	Amaethon Limited - B Ordinary shares	-	11,966	11,966	1.0%
	Capsant Neurotechnologies Limited	-	9,796	9,796	1.2%
	Chamelic Limited	-	23	23	1.4%
	Icona Solutions Limited	-	1,515	1,515	1.8%
	Leeds Lithium Power Limited	-	178	178	1.3%
	Leeds Reproductive Biosciences Limited	-	18	18	1.1%
	Modern Biosciences plc	-	39,505	39,505	2.3%
	Modern Water plc	-	575,000	575,000	1.0%
	Oxford Advanced Surfaces plc ⁽²⁾	-	932,994	932,994	0.5%
	Oxtox Limited	-	25,363	25,363	1.4%
	Photopharmica (Holdings) Limited	-	37,020	37,020	1.0%
	Retroscreen Virology Limited	-	1,858	1,858	1.0%
	Simulstrat Limited	-	2,255	2,255	1.3%
	Simulstrat Limited - A Preference Shares	-	24,063	24,063	2.8%
	Structure Vision Limited	-	212	212	1.5%
Tissue Regenix Limited	-	89	89	0.8%	
Tracsis plc ⁽⁴⁾	-	84,750	84,750	0.5%	
Xeros Limited	-	76	76	0.7%	
Graham Richards	GETECH plc	30,000	-	30,000	0.1%
	Summit Corporation plc (previously VASTox plc)	1,010,100	-	1,010,100	2.0%
Bruce Smith	Nanotecture Limited	50,000	-	50,000	1.1%
	iQur Limited	2,000	-	2,000	0.1%
	Synairgen plc	200,000	-	200,000	0.8%

Continued

26. RELATED PARTY TRANSACTIONS *continued*b) Key management transactions *continued*

Director	Spin out company	Number of shares held at 1 January 2007	Number of shares acquired (disposed) during the year	Number of shares held at 31 December 2007	% of issued share capital held at 31 December 2007
Bruce Smith <i>continued</i>	Offshore Hydrocarbon Mapping plc	79,519	(79,519)	-	-
	Capsant Neurotechnologies Limited	8,724	-	8,724	0.0%
	Phonologica Limited	2,000	-	2,000	0.0%
	GETECH plc	15,000	-	15,000	1.0%
	Oxford Catalysts Group plc	10,000	-	10,000	0.9%
	Syntopix Group plc	11,299	-	11,299	0.2%
Roger Brooke	Nanotecture Limited	33,335	-	33,335	0.8%
	iQur Limited	1,400	-	1,400	0.9%
	ReOx Limited	4,000	(1,283)	2,717	0.3%
	Stratophase Limited	4,549	-	4,549	0.1%
	Pharminox Limited	786	-	786	0.6%
	Glycoform Limited	937	-	937	0.6%
	Inhibox Limited	500	-	500	0.3%
	Capsant Neurotechnologies Limited	2,667	-	2,667	0.4%
	ActivotecSPP Limited	1,459	-	1,459	0.5%
	Phonologica Limited	2,000	-	2,000	1.0%
	GETECH Group plc	30,000	-	30,000	0.9%
	Summit Corporation plc (previously VASTox plc)	11,400	-	11,400	0.4%
	Proximagen Neuroscience plc	180,000	(20,000)	160,000	0.9%
	Bioniqs Limited	1,000	-	1,000	0.0%
	Oxford Nanolabs Limited	2,857	-	2,857	0.2%

- ⁽¹⁾ In January 2007 Perachem Limited joined PLUS markets via a reverse acquisition of Primavera plc and subsequently changed name to Green Chemicals plc during 2007. Perachem Limited shareholders received 48.7 Primavera plc shares as consideration for each Perachem Limited share.
- ⁽²⁾ In December 2007, Oxford Advanced Surfaces Limited joined AIM via a reverse acquisition of Kanyon plc (subsequently renamed Oxford Advanced Surfaces plc). Oxford Advance Surfaces Limited shareholders received 476 Kanyon plc shares as consideration for each Oxford Advanced Surfaces Limited share. In addition, Alan Aubrey and David Norwood were directors of Kanyon plc and owned 1,425,000 and 9,075,003 Kanyon plc shares as at 1 January 2007.
- ⁽³⁾ In December 2007, Avacta Group plc acquired the entire issued share capital of Oxford Medical Diagnostics Limited. Oxford Medical Diagnostic Limited shareholders received 250 Avacta Group plc shares as consideration for each Oxford Medical Diagnostics Limited share.
- ⁽⁴⁾ In November 2007, Tracsis plc (previously Tracsis Limited) joined AIM and subdivided its share capital by 5,650 : 1.

All figures refer to ordinary shares unless indicated otherwise.

Compensation to key management comprises solely that paid to executive directors of the Group. Full details of directors' compensation is disclosed in the Directors' Remuneration Report on pages 16 to 19.

27. MINORITY INTEREST

	2007 £'m	2006 £'m
At 1 January	0.3	-
On acquisition of subsidiary undertaking	0.3	0.3
Partial disposal of subsidiary undertaking to minority interests	0.6	-
Disposed with subsidiary undertaking	(0.9)	-
Share of loss for the year	-	-
At 31 December	0.3	0.3

Continued

28. CAPITAL COMMITMENTS

Partnership	Year of commencement of partnership	Original commitment (£'m)	Invested to date (£'m)	Remaining commitment (£'m)
University of Southampton ⁽ⁱ⁾	2002	5.0	3.0	2.0
King's College London ⁽ⁱⁱ⁾	2003	5.0	1.8	3.2
University of York - CNAP ⁽ⁱⁱⁱ⁾	2003	0.8	0.2	0.6
University of Leeds ^(iv)	2005	5.0	4.0	1.0
University of Bristol ^(v)	2005	5.0	0.6	4.4
University of Surrey ^(vi)	2006	5.0	0.5	4.5
University of York ⁽ⁱⁱⁱ⁾	2006	5.0	-	5.0
Queen Mary, University of London ^(vii)	2006	5.0	-	5.0
University of Bath ^(viii)	2006	5.0	-	5.0
University of Glasgow ^(ix)	2006	5.0	1.0	4.0
		45.8	11.1	34.7

- ⁽ⁱ⁾ Under the terms of an agreement entered into in 2002 between the Group, the University of Southampton and certain of the University of Southampton's subsidiaries, IP2IPO Limited agreed to make £5.0m available for the purposes of making investments in University of Southampton spin-out companies. Of this amount, at 31 December 2007, £3.0m had been invested in eleven spin-out companies from the university.
- ⁽ⁱⁱ⁾ Under the terms of an agreement entered into during 2003 between the Group and King's College London ("KCL") and KCL Enterprises Limited, the Group agreed to make £5.0m available for the purposes of making investments in spin out companies. At 31 December 2007, £1.8 has been invested in five spin-out companies from KCL. Under the terms of this agreement, KCL can require the Company to make a further £5.0m available for investments in spin out companies on the tenth anniversary of the partnership.
- ⁽ⁱⁱⁱ⁾ In 2003 the Group entered into an agreement with the University of York. The agreement relates to a 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 £0.8m in spin-out companies based on CNAP's intellectual property. At 31 December 2007, £0.2m has been invested in one spin-out company. In 2006 The Group extended its partnership with the University of York to cover the entire university. The Group has committed to invest £5.0m in University of York spin-outs over and beyond the £0.8m commitment as part of the Group's agreement with CNAP.
- ^(iv) The Group extended its partnership with the University of Leeds in July 2005 by securing the right and obligation to invest up to a further £5.0m in University of Leeds spin-out companies. So far £4.0m of this £5.0m has been invested in ten spin-out companies.
- ^(v) In December 2006, the Group entered into an agreement with the University of Bristol. The Group has committed to invest up to a total of £5.0m in University of Bristol spin-out companies. At 31 December 2007, £0.6m has been invested in two University of Bristol spin-out companies.
- ^(vi) Under the terms of an agreement entered into in 2006 between the Group and the University of Surrey ('Surrey'), the Group has committed to invest up to a total of £5.0m in spin-out companies based on Surrey's intellectual property. At 31 December 2007, £0.5m has been invested in one University of Surrey spin-out company.
- ^(vii) In July 2006, the Group entered into an agreement with Queen Mary, University of London ('QM') to invest in QM spin-out companies. The Group has committed to invest up to a total of £5.0m in QM spin-out companies.
- ^(viii) In September 2006, the Group entered into an agreement with the University of Bath ('Bath') to invest in Bath spin-out companies. The Group has committed to invest up to a total of £5.0m in Bath spin-out companies.
- ^(ix) In October 2006, the Group entered into an agreement with the University of Glasgow ('Glasgow') to invest in Glasgow spin-out companies. The Group has committed to invest up to a total of £5.0m in Glasgow spin-out companies. As at 31 December 2007, £1.0m has been invested in three spin-out companies.

Company Balance Sheet

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As at 31 December 2007

	Note	2007 £'m	2006 £'m
ASSETS			
Fixed assets			
Investment in subsidiary undertakings	2	27.3	27.3
Investment in associated undertakings	3	9.8	-
Loans to subsidiary undertakings	4	77.9	82.4
Total assets		115.0	109.7
EQUITY AND LIABILITIES			
Capital and reserves			
Called up share capital	5	5.0	4.9
Share premium account	5	96.7	92.0
Profit and loss reserve	5	0.5	-
Merger reserve	5	12.8	12.8
Total equity shareholders' funds and liabilities		115.0	109.7

The financial statements on pages 61 to 64 were approved by the Board of Directors and authorised for issue on 26 February 2008 and were signed on its behalf by:

BRUCE SMITH
Chairman

ALAN AUBREY
Chief Executive

1. ACCOUNTING POLICIES

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

Investments in subsidiary and associated undertakings

Investments in subsidiary and associated undertakings are stated at historic cost less any 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.

Intercompany loans

All intercompany loans are initially recognised at fair value. As all intercompany loans are repayable on demand, their carrying value approximates to their fair value.

Financial instruments

Currently the Company 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 Company.

Share-based payments

The fair value of Long-Term Incentive Plan ("LTIP") awards are estimated at the date of award, using a Monte Carlo simulation technique, taking into account the terms and conditions of the award, including market based performance conditions.

No expense is recognised for grants that do not vest and charges previously made are reversed except where vesting is conditional upon a market condition which are treated as vesting irrespective of whether or not the market condition is satisfied, provided all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the Income Statement, with a corresponding entry in equity.

Where the terms for an equity settled award are modified, and the modification increases the total fair value of the share-based payment, or is otherwise beneficial to the award recipient at the date of modification, the incremental fair value is amortised over the vesting period.

2. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	£'m
At 1 January 2007	27.3
Additions	8.5
Reclassified as associated undertakings	(8.5)
At 31 December 2007	27.3

In May 2007 the Company invested £2.0m in Modern Waste Ltd and invested £6.5m in Photopharmica (Holdings) Ltd.

In June 2007, Modern Water plc joined the Alternative Investment Market and the Company's stake was diluted to below 50%. Accordingly Modern Water has been reclassified as an associated undertaking. In December 2007, Photopharmica (Holdings) Ltd raised equity finance from non-group parties and the Company's stake was diluted to below 50%. Accordingly, Photopharmica (Holdings) Ltd has been reclassified as an associated undertaking.

Continued

2. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS *continued*

Details of the company's subsidiary undertakings at 31 December 2007 are as follows:

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Method used to account for investment
IP2IPO Limited	England and Wales	100.0	100.0	Acquisition
IP2IPO Management Limited ¹	England and Wales	100.0	100.0	Acquisition
IP2IPO Management II Limited ¹	England and Wales	100.0	100.0	Acquisition
IP2IPO Management III Limited ¹	England and Wales	100.0	100.0	Acquisition
IP2IPO Management IV Limited ¹	England and Wales	100.0	100.0	Acquisition
Top Technology Ventures Limited ³	England and Wales	100.0	100.0	Acquisition
HATT III GP Limited ^{1,3}	England and Wales	100.0	100.0	Acquisition
Top Technology Ventures IV GP Ltd ^{1,3}	England and Wales	100.0	100.0	Acquisition
IP Venture Fund GP Limited ^{1,3}	England and Wales	100.0	100.0	Acquisition
IP Ventures (Scotland) Limited ^{1,3}	Scotland	100.0	100.0	Acquisition
Techtran Group Limited	England and Wales	100.0	100.0	Acquisition
Techtran Investments Limited ^{1,2}	England and Wales	100.0	100.0	Acquisition
Techtran Services Limited ^{1,2}	England and Wales	100.0	100.0	Acquisition
Techtran Corporate Finance Limited ^{1,2}	England and Wales	100.0	100.0	Acquisition
Techtran Limited ^{1,2}	England and Wales	100.0	100.0	Acquisition
Modern Biosciences plc ⁴	England and Wales	56.3	71.8	Acquisition
PIMCO 2501 Limited ^{1,4}	England and Wales	56.3	71.8	Acquisition
PIMCO 2664 Limited ^{1,4}	England and Wales	56.3	71.8	Acquisition
Rimcazole Limited ^{1,4}	England and Wales	56.3	71.8	Acquisition
Modern Biosciences Nominees Limited ^{1,2}	England and Wales	56.3	71.8	Acquisition
MBS Secretarial Limited ^{1,2}	England and Wales	56.3	71.8	Acquisition
MBS Director Limited ^{1,2}	England and Wales	56.3	71.8	Acquisition
Modern Waste Limited	England and Wales	84.4	84.4	Acquisition
Modern Waste Nominees Limited ^{1,2}	England and Wales	84.4	84.4	Acquisition
IP2IPO Nominees Limited ²	England and Wales	100.0	100.0	Acquisition
IP2IPO Services Limited ²	England and Wales	100.0	100.0	Acquisition
IP2IPO (LifeUK) Limited ²	England and Wales	100.0	100.0	Acquisition
IP Industry Partners Limited ²	England and Wales	100.0	100.0	Acquisition
Encos Limited ¹	England and Wales	100.0	100.0	Acquisition
Escubed Limited ¹	England and Wales	100.0	100.0	Acquisition
Imagel Limited ¹	England and Wales	100.0	100.0	Acquisition
Ovatus Limited ¹	England and Wales	100.0	100.0	Acquisition
Pregnapause Limited ¹	England and Wales	100.0	100.0	Acquisition
Rheokinisis Limited ¹	England and Wales	100.0	100.0	Acquisition
vVax Limited ¹	England and Wales	100.0	100.0	Acquisition

¹ Company held indirectly² Dormant company³ Company engaged in fund management activity⁴ Company engaged in in-licensing of drugable intellectual property activity

All companies above are incorporated in England with the exception of IP Ventures (Scotland) Limited which is incorporated in Scotland. All companies above undertake the activity of commercialising intellectual property unless stated otherwise.

Continued

2. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS *continued*

Details of other significant interests are disclosed in note 16 to the Group consolidated financial statements, which are all held indirectly with the exception of Modern Water plc and Photopharmica (Holdings) Limited.

3. INVESTMENT IN ASSOCIATED UNDERTAKINGS

	£'m
At 1 January 2007	-
Reclassified from subsidiary undertakings	8.5
Disposals	(0.1)
Additions	1.4
At 31 December 2007	9.8

4. LOANS TO SUBSIDIARY UNDERTAKINGS

	£'m
At 1 January 2007	82.4
Movements during the year	(4.5)
At 31 December 2007	77.9

The amounts due from subsidiary undertakings are interest free, repayable on demand and unsecured.

5. SHARE CAPITAL AND RESERVES

	Share capital £'m	Merger reserve £'m	Share premium £'m	Profit and loss reserve £'m
At 1 January 2007	4.9	12.8	92.0	-
Issue of share capital during the year	0.1	-	4.7	-
Profit for the year	-	-	-	0.2
Share-based payment charge	-	-	-	0.3
At 31 December 2007	5.0	12.8	96.7	0.5

Details of the Company's authorised share capital and changes in its issued share capital can be found in note 20 to the consolidated financial statements on page 50. Details of the movement in the share premium account can be found in the Consolidated Statement of Changes in Equity on page 29.

6. PROFIT AND LOSS ACCOUNT

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 profit for the year was £0.2m (2006: £Nil)

Details of auditor's remuneration are disclosed in note 6 to the consolidated financial statements.

7. DIRECTORS' EMOLUMENTS AND EMPLOYEE INFORMATION

The remuneration of the directors is borne by Group subsidiary undertakings with the exception of the share-based payment charge. Full details of their remuneration can be found in the directors' remuneration report on pages 16 to 19. Full details of the share-based payments charge can be found in note 24 to the consolidated financial statements.

The Company had no employees during 2006 or 2007.

Company registration number	4204490	
Registered office	24 Cornhill London EC3V 3ND	
Directors	<p>Dr Bruce Gordon Smith, CBE (Non-Executive Chairman)</p> <p>Alan John Aubrey (Chief Executive Officer)</p> <p>David Robert Norwood (Special Projects Director)</p> <p>Dr Alison Margaret Fielding (Chief Technology Officer)</p> <p>Magnus James Goodlad (Chief Operating Officer)</p> <p>Michael Charles Nettleton Townend (Director of Capital Markets)</p> <p>Professor William Graham Richards, CBE (Senior Non-Executive Director)</p> <p>Christopher Roger Etrick Brooke (Non-Executive Director)</p>	
Company secretary	Angela Leach	
Brokers	KBC Peel Hunt Ltd 111 Old Broad Street London EC2N 1PH	Lehman Brothers 25 Bank Street London E14 5LE
Registrars	Capita IRG plc The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	
Bankers	Royal Bank of Scotland PO Box 333 Silbury House 300 Silbury Boulevard Milton Keynes MK9 2ZF	
Solicitors	Pinsent Masons CityPoint One Ropemaker Street London EC2Y 9AH	
Public relations	Financial Dynamics Holborn Gate 26 Southampton Buildings London WC2A 1PB	
Independent auditors	BDO Stoy Hayward LLP 55 Baker Street London W1U 7EU	



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