

IP2IPO Group plc Interim Report and Accounts

For the six months to 30 June 2005



Chairman's Statement

Graham Richards

The six months to 30 June 2005 were an exciting time for the development of IP2IPO. During the period we acquired another university partner, increased our number of spin-out companies and saw considerable value creation throughout the portfolio.

Adoption of International Financial Reporting/Accounting Standards ('IFRS')

The Group has matured significantly. The Board continues to believe that your Company is the market leader within the intellectual property commercialisation sector and as a result, the Board has concluded that it is appropriate for the Company to adopt International Financial Reporting Standards. By doing so, the Board believes that the Company is best preparing itself for the next phase of its development.

The most significant change involved in the adoption of IFRS is that the Group will report increases and decreases in the value of its portfolio of equity stakes in spin-out companies and will recognise these movements in the income statement (even though these movements do not represent gains or losses arising on disposal which will be reported separately). Hence movements in the price of our listed holdings could have a considerable impact on our reported profit or loss.

The Board believes that this provides shareholders with improved visibility and the best possible way of measuring the Group's success at creating value from nascent

intellectual property based opportunities. As the number of spin-outs increases and our portfolio matures, the volatility caused by individual share price movements will decrease.

The Group reported turnover for the period of £765,000 (UK GAAP 2004: £379,000; IFRS 2004: £379,000). Gains on the revaluation of equity investments amounted to £4,307,000 (UK GAAP 2004: nil; IFRS 2004: £7,718,000) and the Group's profit for the six months ended 30 June 2005 amounted to £3,572,000 (UK GAAP 2004: £1,202,000; IFRS 2004 £7,540,000).

Acquisition of Techtran

Your Company began 2005 with the acquisition of Techtran Group Limited ('Techtran'), a company which in 2002 entered into a long term IP commercialisation partnership with the University of Leeds. I am delighted to report that the integration of Techtran is going extremely well. The existing portfolio of Techtran companies is making very good progress and since 30 June 2005, GETECH Group plc, a company formed within the University of Leeds, has announced its intention to float on AIM.

The University of Leeds is proving to be a very fertile ground for the exploitation of world class science and the Techtran team are adept at harvesting this potential. This gives me confidence that the acquisition will deliver significant long term value to the Group.

Chairman's Statement

continued

Portfolio of spin-out companies

At the beginning of the period the Group had a portfolio of equity stakes in 20 companies. As at 30 June 2005, the Group's portfolio had increased to 33.

In March 2005, Proximagen Neuroscience plc ('Proximagen') floated on AIM. Proximagen is the fourth company from the IP2IPO portfolio to float and the first exit from IP2IPO's partnership with King's College London. IP2IPO invested £332,000 in Proximagen in March 2004 and at 30 June 2005 IP2IPO held a 23.5% stake worth £6,550,000, a twenty-fold increase in value.

Understandably, the market has visibility only of our listed equity stakes; and our quoted companies are just a small proportion of our overall portfolio. What has been particularly encouraging is the progress of certain companies within the private portfolio. Several of the spin-outs are trading profitably while continuing to invest in research and development. As an example of the value of university intellectual property we announced in April 2005 that ReOx Limited had concluded a multi-million pound license deal with a major bio-pharmaceutical company.

The success of several of the early spin-outs tends to encourage other scientists within our university partners to come forward with their ideas. This means that our pipeline of new spin-out opportunities looks more exciting than ever before. The challenge for the Group is to continue to exploit this momentum while ensuring that the quality of the pipelines remains high.

Additional placing and launch of Modern Biosciences (previously known as LifeUK)

In May 2005, the Company raised approximately £13,700,000 (before expenses) in order to finance the launch of a new business – Modern Biosciences. Modern Biosciences will in-license life science intellectual property created by medical researchers at universities with which IP2IPO already has partnerships, other universities in the UK and similar academic and charitable research institutions. Its objective is to develop further this in-licensed intellectual property as a precursor to licensing these development programmes to the pharmaceutical industry. Modern Biosciences has made good progress since May and is in early stage discussions with a number of universities in respect of in-licensing promising intellectual property.

The Group's objective is that Modern Biosciences will be run as a stand-alone business. Accordingly, Modern Biosciences has commenced the process of recruiting the senior management team that will be responsible for driving the business forward. We expect to update the market further on the progress of Modern Biosciences in the near future.

Board changes

In January 2005, Alan Aubrey FCA and Dr Alison Fielding joined the Board of IP2IPO from Techtran. Much of the success of the acquisition of Techtran is due to the efforts of Alan Aubrey and Alison Fielding who have made an immense contribution to the Group. We announce today that Alan has been

Chairman's Statement

continued

appointed Managing Director of the Group and Alison has become Director of Technology Transfer.

John Davies today steps down from the Board having served as Chief Financial Officer since 2001. John leaves to join Inhibox Limited (the first spin-out company formed under IP2IPO's partnership with the University of Oxford) and does so with the Board's thanks for the contribution he has made to the Group. John will continue to be available to the Group on a part-time basis. William Turner continues in his role as Group Financial Controller, under Alan Aubrey, who assumes overall responsibility for the finance and operations of the Group.

Outlook

As Head of Oxford Chemistry I was a protagonist in IP2IPO's first partnership with the University of Oxford in December 2000. Both sides knew that this was something of an experiment and the results have exceeded all our expectations. Even in my own department I am astounded by the commercial progress that many of our leading scientists are making in partnership with IP2IPO. This benefits the department, the University, the scientists themselves and, of course, the IP2IPO Group.

Five years on and the Group is now working with five major universities and has an interest in the output of over 9,000 scientists. The UK has always been a world leader in scientific innovation but has often floundered in the exploitation of those ideas. IP2IPO wants to help bridge that gap by being the channel through which science can get to market.

Although there will be many challenges ahead I am confident that we have developed a successful model for the commercialisation of science in the UK. This confidence is shared by my fellow directors. During the period our Chief Executive, David Norwood, purchased a further 42,500 shares bringing his total investment into the Group to £2m. Roger Brooke also increased his holding by 8,740 and Bruce Smith purchased 7,750 shares. I would like to conclude by thanking our shareholders, our staff and all our university partners.

Graham Richards

Chairman

13 September 2005

Consolidated Interim Income Statement

For the six months to 30 June 2005

	Note	Unaudited six months to 30 June 2005 £'000	Unaudited six months to 30 June 2004 (restated) £'000	Unaudited 12 months 31 December 2004 (restated) £'000
Turnover		765	379	1,183
Equity investments				
Change in fair value of equity investments	5	4,307	7,718	24,014
Surplus on disposal of equity investments		-	790	790
Administrative expenses				
Accrual for employee bonuses	6	(754)	(1,351)	(4,202)
Other administrative expenses		(1,570)	(758)	(2,392)
Operating profit		2,748	6,778	19,393
Finance income – interest receivable		824	762	1,616
Profit before taxation		3,572	7,540	21,009
Taxation		-	-	37
Profit for the period		3,572	7,540	21,046
Basic earnings per ordinary share		8.20	18.55	51.61
Diluted earnings per ordinary share		7.97	18.03	50.24

Consolidated Interim Balance Sheet

As at 30 June 2005

	Unaudited six months to 30 June 2005	Unaudited six months to 30 June 2004 (restated)	Unaudited 12 months 31 December 2004 (restated)
Note	£'000	£'000	£'000
Assets			
Non-current assets			
Property, plant and equipment	68	59	55
Intangible assets:			
Goodwill	2 18,423	2,086	2,091
Acquired intangible assets	3 681	833	757
Investment in patents	15	14	15
Equity rights and related acquisition costs	4 20,159	20,180	20,170
Equity investments	5 39,909	16,953	35,536
Investment in limited partnerships	83	–	87
Total non-current assets	79,338	40,125	58,711
Current assets			
Trade and other receivables	1,033	501	1,238
Cash and cash equivalents	42,343	37,344	34,801
Total current assets	43,376	37,845	36,039
Total assets	122,714	77,970	94,750
Equity and liabilities			
Equity attributable to equity holders			
Called up share capital	4,531	4,081	4,129
Share premium account	84,688	58,972	59,605
Merger reserve	783	783	783
Retained earnings	26,905	9,608	23,264
Total equity	116,907	73,444	87,781
Non-current liabilities			
Trade and other payables	6 4,288	2,236	3,534
Provisions	90	128	90
Total equity and non-current liabilities	121,285	75,808	91,405
Current liabilities			
Trade and other payables	6 1,429	2,162	3,345
Total equity and liabilities	122,714	77,970	94,750

Consolidated Interim Cash Flow Statement

For the six months to 30 June 2005

	Unaudited six months to 30 June 2005 £'000	Unaudited six months to 30 June 2004 (restated) £'000	Unaudited 12 months 31 December 2004 (restated) £'000
Operating activities			
Operating profit	2,748	6,778	19,393
Depreciation of property, plant and equipment	30	10	35
Fair value movements in equity investments	(4,307)	(7,718)	(24,014)
Amortisation and impairment of intangible non-current assets	92	10	96
Decrease/(increase) in trade and other receivables	225	(240)	(736)
(Decrease)/increase in trade and other payables and provisions	(2,002)	1,180	3,689
Profit on disposal of equity investments	-	(790)	(790)
Profit on disposal of property, plant and equipment	-	-	6
Share-based payment charge	112	150	300
Net cash from operating activities	(3,102)	(620)	(2,021)
Investing activities			
Purchase of property, plant and equipment	(35)	(5)	(34)
Purchase of equity investments	(1,747)	(1,353)	(3,728)
Purchase of subsidiary undertaking	(3,545)	(880)	(911)
Net cash acquired with subsidiary	1,838	230	230
Proceeds from sale of equity investments	-	965	965
Interest received	848	762	1,374
Net cash used in investing activities	(2,641)	(281)	(2,104)
Financing activities			
Proceeds from issue of share capital	13,285	-	681
Net increase/(decrease) in cash and cash equivalents	7,542	(901)	(3,444)
Cash and cash equivalents at the beginning of the period	34,801	38,245	38,245
Cash and cash equivalents at the end of the period	42,343	37,344	34,801

Consolidated Unaudited Interim Statement of Changes in Shareholders' Equity

For the six months to 30 June 2005

Attributable to equity holders of the Group

	Total equity £'000	Share capital £'000	Retained earnings £'000	Merger reserve £'000	Share premium £'000
At 1 January 2004 (restated)	64,954	4,064	1,918	–	58,972
Consolidated profit for the period to 30 June 2004	7,540	–	7,540	–	–
Employee share option charge in period to 30 June 2004	150	–	150	–	–
Issue of share capital in period to 30 June 2004	800	17	–	783	–
At 30 June 2004 (restated)	73,444	4,081	9,608	783	58,972
Consolidated profit for the period to 31 December 2004	13,506	–	13,506	–	–
Employee share option charge in period to 31 December 2004	150	–	150	–	–
Issue of share capital in the period to 31 December 2004	681	48	–	–	633
At 31 December 2004 (restated)	87,781	4,129	23,264	783	59,605
Consolidated profit for the period to 30 June 2005	3,572	–	3,572	–	–
Employee share option charge in period to 30 June 2005	112	–	112	–	–
Pre-acquisition reserves attributable to the Group	(43)	–	(43)	–	–
Issue of share capital in period to 30 June 2005	25,485	402	–	–	25,083
At 30 June 2005	116,907	4,531	26,905	783	84,688

Notes to the Interim Results

1. Accounting policies

Basis of preparation

The interim financial statements of IP2IPO Group plc ('the Group') are for the six months to 30 June 2005. The European Union (EU) regulation [1606/2002] requires European Companies with securities traded on an EU regulated market to prepare their consolidated financial statements in accordance with EU endorsed international financial reporting standards for accounting periods beginning on or after 1 January 2005. On 7 October 2004, the Alternative Investment Market ('AIM') announced that companies listed on the exchange will not have to prepare their financial statements for financial years beginning on or after 1 January 2005 in accordance with IFRS as AIM is no longer an EU regulated market.

The directors consider the Group to be the market leader in the intellectual property commercialisation sector. Consistent with the Group's strategy, and permitted by The Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations that became law on 11 November 2004, the directors have decided to adopt IFRS for the year ending 31 December 2005.

The interim results have been prepared in accordance with the International Accounting Standards and International Financial Reporting Standards (together 'IFRS'), Standing Interpretations Committee ('SIC') interpretations and International Financial Interpretations Committee ('IFRIC') interpretations that have been endorsed, or are expected to be endorsed, by the European Union for the year ending 31 December 2005. The respective standards and interpretations that will be applicable for the year ending 31 December 2005, including those that will be available on an optional basis, are not known with certainty at the time of preparing these interim results. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements for the year ending 31 December 2005 are prepared.

The Group's interim results were prepared in accordance with United Kingdom Generally Accepted Accounting Principles ('UK GAAP') until the year ended 31 December 2004. UK GAAP differs in a number of areas from IFRS. In preparing the Group's interim results for the period to 30 June 2005, the directors have amended certain accounting, valuation and consolidation methods applied in the UK GAAP financial statements. The comparative figures in respect of 2004 were restated to reflect these adjustments. These figures have been reviewed but not audited by the Group's independent auditors.

The effect of the transition from UK GAAP to IFRS on the Group's profit, net assets and cash flows are provided in the numerical reconciliation and narrative statements in note 10 to the interim results.

Notes to the Interim Results

continued

1. Accounting policies continued

Basis of preparation continued

These interim results have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets at fair value. The basis of consolidation is set out below. The comparative figures for the year ended 31 December 2004 do not constitute statutory financial statements for the purposes of s240 of the Companies Act 1985. A copy of the statutory financial statements prepared under UK GAAP has been delivered to the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain statements under sections 237 (2) or (3) of the Companies Act 1985.

Basis of consolidation

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.

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.

The Group's principal activity is akin to that of a venture capital organisation, and as such investments in associates are accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and upon initial recognition are designated as *at fair value through profit or loss*.

Revenue recognition

Turnover, comprising fees for advisory work and fund management services, is recognised in the income statement when the related services are performed. All turnover is generated within the United Kingdom and is stated exclusive of value added tax.

Notes to the Interim Results

continued

1. Accounting policies continued

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
Motor vehicles	Over 1 to 5 years

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

Intangible assets

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. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

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.

Patents

Patents are measured at cost. They have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patents over their estimated useful economic lives.

Impairment of intangible assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment 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 cashflows (cash generating units).

Notes to the Interim Results

continued

1. Accounting policies continued

Equity rights

Equity rights represents 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 then a provision would be charged to the income statement.

Acquisition costs

Acquisition 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.

Equity investments

The Group classifies all its equity investments as *financial assets at fair value through profit or loss*. Investments in associated undertakings that are held by the Group with a view to the ultimate realisation of capital gains are designated as *financial assets at fair value through profit or loss* in recognition of the Group's principal trading activity being that of a venture capital organisation. Investments in undertakings that do not meet the definition of an associate undertaking are also designated as *financial assets at fair value through profit or loss* on initial recognition.

Notes to the Interim Results

continued

1. Accounting policies continued

Treatment of gains and losses arising on fair value

Realised and unrealised gains on *financial assets at fair value through profit or loss* are included in the income statement in the period they arise.

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

The fair value of unlisted securities is established using British Venture Capital Association ('BVCA') guidelines. The valuation methodology used most commonly by the Group is the 'price of recent investment' contained in the BVCA valuation guidelines. The following considerations are used when calculating the fair value using the 'price of recent investment' guidelines:

- Where the investment being valued was itself made recently, its cost will generally provide a good indication of fair value; and
- Where there has been any recent investment by third parties, the price of that investment will provide a basis of the valuation.

Where a fair value cannot be estimated reliably the investment is reported at the carrying value at the previous reporting date unless there is evidence that the investment has since been impaired.

Employee benefits

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.

Share based payments

Share based incentive arrangements are provided to management and certain employees. Share options granted after 7 November 2002 which had not vested by 1 January 2005 are valued at the date of grant using an appropriate option pricing model and are charged to operating profit over the vesting period of the award. The annual charge is modified to take account of options granted to employees who leave the Group during the performance or vesting period and forfeit their rights to the share options and in the case of non-market related performance conditions, where it becomes unlikely they will vest.

Bonus plan

The group recognises a liability and an expense for bonuses, linked to the performance of the Group as a whole and to the creation of value in the Group's portfolio of equity investments.

Notes to the Interim Results

continued

1. Accounting policies continued

Deferred tax

Full provision is made for deferred tax on all temporary timing 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.

2. Goodwill

	£'000
At 1 January 2005	2,091
Additions (Note 7)	16,332
At 30 June 2005	18,423

3. Acquired intangible assets

	£'000
At 1 January 2005	757
Amortisation	(76)
At 30 June 2005	681

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 have fair valued this asset on a discounted cash flow basis, and concluded that the fair value of this asset at 30 June 2004 was £833,000, which is being amortised on a straight-line basis over its useful life.

Notes to the Interim Results

continued

4. Equity rights and related acquisition costs

	Equity rights £'000	Acquisition costs £'000	Total £'000
Cost			
At 1 January 2005	19,890	354	20,244
At 30 June 2005	19,890	354	20,244
Aggregate amortisation of acquisition costs			
At 1 January 2005	–	(74)	(74)
Charge for the period	–	(11)	(11)
At 30 June 2005	–	(85)	(85)
Net book value			
At 30 June 2005	19,890	269	20,159
At 31 December 2004	19,890	280	20,170

Carrying amount of equity rights

Based on the rate at which spin-out companies from the University of Oxford chemistry department have been created to date, their progress towards sale or flotation, the remaining life of the partnership, the rate at which spin-out companies from the University of Oxford chemistry department are anticipated to be created in the future, the size of IP2IPO Limited's stake in such companies and the continued prestige of the chemistry department, the directors continue to believe that the equity rights will be realised in full.

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

	Quoted spin-out companies £'000	Unquoted spin-out companies £'000	Other investments £'000	Total £'000
At 1 January 2005	24,044	8,322	3,170	35,536
Investments during the period	–	1,720	365	2,085
Reclassifications during the period	332	(332)	–	–
Change in fair value in period	3,996	311	–	4,307
Adjustment arising on consolidation of Techtran Group Ltd	–	–	(2,019)	(2,019)
At 30 June 2005	28,372	10,021	1,516	39,909

Notes to the Interim Results

continued

5. Equity investments – designated as *at fair value through profit or loss* continued

Movement in fair value of equity investments

Mark to market gains and losses of quoted equity investments during the period amounted to £3,996,000, of which £6,218,000 was accounted for as a result of the successful flotation of Proximagen Neuroscience plc on the Alternative Investment Market in March 2005.

The movement in the fair value of the Group's holding of unquoted equity investments in the period amounted to £311,000 based on the application of BVCA guidelines.

Other investments

In March 2005, the Group purchased 5% of the issued share capital of Sigma Technologies plc for £365,000.

6. Trade and other payables

Non-current liabilities

	At 30 June 2005 £'000	At 30 June 2004 £'000	At 31 December 2004 £'000
Accrued staff bonuses	4,288	1,853	3,534
Other accruals	–	383	–
	4,288	2,236	3,534

Current liabilities

	At 30 June 2005 £'000	At 30 June 2004 £'000	At 31 December 2004 £'000
Trade payables	142	37	71
Social security expenses	42	52	112
Accrued staff bonuses	–	–	1,170
Other accruals and deferred consideration	1,245	2,073	1,992
	1,429	2,162	3,345

Notes to the Interim Results

continued

6. Trade and other payables continued

Accrued staff bonuses

The Group operates a discretionary staff bonus scheme for its employees. Based on the rules of the scheme, the maximum annual bonus (including social security costs) is 17.5% of the growth in the fair value of the Group's portfolio of equity investments subject to an overriding condition that the payment of the bonus cannot change a profit before tax into a loss before tax.

The timing of the actual cash payment to employees is subject to a number of factors, including the performance of the business as a whole and making cash realisations from equity investments.

The directors are of the opinion that the bonus accruals that have been recognised at the respective reporting dates are consequential of the change from UK GAAP.

At 30 June 2005, the directors consider that there is no current intention to settle any accrued bonus within the next 12 months and therefore the accrual has been classified as a non-current bonus accrual.

	Non-current bonus accrual £'000	Current bonus accrual £'000
At 1 January 2004	502	50
Charged in the income statement in the period to 30 June 2004	1,351	–
Paid during the period to 30 June 2004	–	(50)
At 30 June 2004	1,853	–
Charged in the income statement in the period to 31 December 2004	1,681	1,170
At 31 December 2004	3,534	1,170
Charged in the income statement in the period to 30 June 2005	754	–
Paid during the period to 30 June 2005	–	(1,170)
At 30 June 2005	4,288	–

Notes to the Interim Results

continued

7. Acquisitions

Acquisition of Techtran Group Limited ('Techtran')

The Group subscribed for 33,994 shares in Techtran for £2,000,000 on 16 July 2004, which represented 19.9% of the enlarged issued share capital of Techtran at that date. During the period ended 30 June 2005, the Group acquired the remaining share capital of Techtran for a consideration of £16,200,000.

The directors have considered the requirements of IFRS 3 *Business Combinations* to consolidate the fair value of intangible assets at the date of acquisition where intangible assets can be clearly identified and the fair value measured reliably. In 2002, Techtran entered into a contractual relationship with the University of Leeds for the provision of technology transfer services. The directors consider that the fair value of the Leeds partnership cannot be estimated reliably as a result of uncertainty surrounding:

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

The Group's detailed acquisition investigation has not yet been completed and consequently the reported goodwill balance is provisional and will be finalised in the annual financial statements for the year ending 31 December 2005.

8. Capital commitments

Under the terms of an agreement entered into during the year ended 31 December 2002 between the Group, the University of Southampton and certain of the University of Southampton's subsidiaries, IP2IPO Limited agreed to make £5,000,000 available for the purposes of making investments in University of Southampton spin-out companies. Of this amount, at 30 June 2005, £2,494,000 had been invested in nine spin-out companies from the university.

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 £5,000,000 available for the purposes of making investments in spin-out companies. At 30 June 2005, £661,000 has been invested in two spin-out companies from KCL. Under the terms of this agreement, KCL can require the Company to make a further £5,000,000 available for investments in spin-out companies on the tenth anniversary of the partnership.

In October 2003, the Group entered into an agreement with the University of York. The agreement relates to a specialist research centre within the University of York: the Centre for Novel Agricultural Products ('CNAP'). The Group has committed to invest up to a total of £750,000 in spin-out companies based on CNAP's intellectual property. At 30 June 2005, £210,000 has been invested in one spin-out company.

Notes to the Interim Results

continued

9. Post balance sheet events

Following the acquisition of Techtran in January 2005, the Group extended its partnership with the University of Leeds in July 2005 by securing the right and obligation to invest up to £5,000,000 in University of Leeds spin-out companies. Subsequent to the period end, the Group has invested or has committed to invest £250,000 in Perachem Limited, £300,000 in Avacta Limited and £330,000 in GETECH Group plc.

In addition, following the period end the Group has invested or committed to invest £875,000 in two further spin-out companies from the University of Southampton.

On 12 September 2005 GETECH Group plc announced its intention to float on AIM. The Group is interested in 21% of the share capital of GETECH Group plc.

10. Impact of the first time adoption of IFRS/IAS

Application of IFRS 1

The Group's financial statements for the year ended 31 December 2005 will be the first annual financial statements that comply with IFRS. These interim financial statements have been prepared on the basis set out in note 1.

The Group's transition date is 1 January 2004. The Group prepared its opening balance sheet date at that date. The reporting date of these interim consolidated financial statements is 30 June 2005.

In preparing the consolidated financial statements the Group has applied the mandatory exceptions, as applicable, and the following exemption:

- The Group has elected to apply the share-based payment exemption. The Group has not applied IFRS 2 to those options granted before 7 November 2002 and which had vested by 1 January 2005.

The reconciliations on pages 16 to 20 provide an explanation of the effect of the transition to IFRS.

Notes to the Interim Results

continued

10. Impact of the first time adoption of IFRS/IAS continued

Balance sheet reconciliation at 1 January 2004

	Note	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Assets				
Non-current assets				
Property, plant and equipment		27	–	27
Intangible assets:				
Goodwill		–	–	–
Investment in patents		12	–	12
Equity rights and related acquisition costs	A	17,556	2,634	20,190
Equity investments	B	5,804	2,165	7,969
Total non-current assets		23,399	4,799	28,198
Current assets				
Trade and other receivables		170	–	170
Cash and cash equivalents		38,245	–	38,245
Total current assets		38,415	–	38,415
Total assets		61,814	4,799	66,613
Equity and liabilities				
Equity attributable to equity holders				
Called up share capital		4,064	–	4,064
Share premium account		58,972	–	58,972
Retained earnings	C	(2,379)	4,297	1,918
Total equity		60,657	4,297	64,954
Non-current liabilities				
Trade and other payables	D	383	502	885
Total equity and non-current liabilities		61,040	4,799	65,839
Current liabilities				
Trade and other payables		774	–	774
Total equity and liabilities		61,814	4,799	66,613

Notes to the Interim Results

continued

10. Impact of the first time adoption of IFRS/IAS continued

Reconciliation of income statement six months to 30 June 2004

	Note	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Turnover		379	–	379
Equity investments				
Change in fair value of equity investments	E	–	7,718	7,718
Surplus on disposal of equity investments	F	924	(134)	790
Administrative expenses				
Accrual for employee bonuses	G	–	(1,351)	(1,351)
Other administrative expenses	H	(863)	105	(758)
Operating profit		440	6,338	6,778
Finance income – interest receivable		762	–	762
Profit before taxation		1,202	6,338	7,540
Taxation		–	–	–
Profit for the period		1,202	6,338	7,540

Notes to the Interim Results

continued

10. Impact of the first time adoption of IFRS/IAS continued

Balance sheet reconciliation at 30 June 2004

	Note	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Assets				
Non-current assets				
Property, plant and equipment		59	–	59
Intangible assets:				
Goodwill	I	2,919	(833)	2,086
Acquired intangible assets	I	–	833	833
Investment in patents		14	–	14
Equity rights and related acquisition costs	J	17,371	2,809	20,180
Equity investments	K	7,379	9,574	16,953
Total non-current assets		27,742	12,383	40,125
Current assets				
Trade and other receivables		501	–	501
Cash and cash equivalents		37,344	–	37,344
Total current assets		37,845	–	37,845
Total assets		65,587	12,383	77,970
Equity and liabilities				
Equity attributable to equity holders				
Called up share capital		4,081	–	4,081
Share premium account		59,755	–	59,755
Retained earnings	L	(1,177)	10,785	9,608
Total equity		62,659	10,785	73,444
Non-current liabilities				
Trade and other payables	M	383	1,853	2,236
Provisions		128	–	128
Total equity and non-current liabilities		63,170	12,638	75,808
Current liabilities				
Trade and other payables	N	2,417	(255)	2,162
Total equity and liabilities		65,587	12,383	77,970

Notes to the Interim Results

continued

10. Impact of the first time adoption of IFRS/IAS continued

Reconciliation of income statement year ended 31 December 2004

	Note	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Turnover		1,183	–	1,183
Equity investments				
Provision against equity investments	O	(178)	178	–
Change in fair value of equity investments	P	–	24,014	24,014
Surplus on disposal of equity investments	Q	924	(134)	790
Administrative expenses				
Accrual for employee bonuses	R	–	(4,202)	(4,202)
Other administrative expenses	S	(3,260)	868	(2,392)
Operating profit/(loss)		(1,331)	20,724	19,393
Finance income – interest receivable		1,616	20,724	1,616
Profit before taxation		285	20,724	21,009
Taxation		37	–	37
Profit for the period		322	20,724	21,046

Notes to the Interim Results

continued

10. Impact of the first time adoption of IFRS/IAS continued

Balance sheet reconciliation at 31 December 2004

	Note	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Assets				
Non-current assets				
Property, plant and equipment		55	–	55
Intangible assets:				
Goodwill	T	2,850	(759)	2,091
Acquired intangible assets	U	–	757	757
Investment in patents		15	–	15
Equity rights and related acquisition costs	V	16,861	3,309	20,170
Equity investments	W	9,988	25,548	35,536
Investments in limited partnerships		87	–	87
Total non-current assets		29,856	28,855	58,711
Current assets				
Trade and other receivables		1,238	–	1,238
Cash and cash equivalents		34,801	–	34,801
Total current assets		36,039	–	36,039
Total assets		65,895	28,855	94,750
Equity and liabilities				
Equity attributable to equity holders				
Called up share capital		4,129	–	4,129
Share premium account		59,605	–	59,605
Merger reserve		783	–	783
Retained earnings	X	(2,057)	25,321	23,264
Total equity		62,460	25,321	87,781
Non-current liabilities				
Trade and other payables	Y	–	3,534	3,534
Provisions		90	–	90
Total equity and non-current liabilities		62,550	28,855	91,405
Current liabilities				
Trade and other payables		3,345	–	3,345
Total equity and liabilities		65,895	28,855	94,750

Notes to the Interim Results

continued

10. Impact of the first time adoption of IFRS/IAS continued

Description of adjustments

Transitional adjustments at 1 January 2004

- A The University of Oxford equity rights is a derivative financial instrument classified as a held for trading financial asset at fair value. No reliable fair value can be established and consequently the asset is carried at cost, subject to impairment. An amount has been debited against equity rights recognising the reversal of prior GAAP accounting practice (£2,634,000);
- B Equity investments have been stated at fair value (£2,165,000);
- C Retained earnings have been adjusted for fair value gains (£2,165,000), an additional employee bonus accrual charge (£502,000) and a gain as a result of acquiring shares through equity rights for nil consideration (£2,634,000); and
- D In addition to a £50,000 bonus accrual that existed at transition date within current trade payables under UK GAAP, an additional bonus accrual charge has been recognised in non-current trade payables (£502,000).

Income statement for the six months to 30 June 2004

- E Gains on equity investments were recorded in the period (£7,718,000) comprising fair value gains (£7,543,000) and the impact of receipt of shares through equity rights for nil consideration, the impact of which was taken to equity rights under UK GAAP (£175,000);
- F The surplus on disposal of shares in Oxford Hydrocarbon Mapping Plc has been adjusted (£134,000) to reflect a revised base cost at date of disposal;
- G An additional amount has been accrued for employee bonuses (£1,096,000); there has also been a reclassification of current period bonus accrual from administrative expenses to 'accrual for employee bonuses' on the face of the income statement (£255,000); and
- H Administrative expenses have been adjusted for a share option charge (£150,000) and a reclassification of bonuses previously accrued under UK GAAP to 'accrual for employee bonuses' on the face of the income statement (£255,000).

Notes to the Interim Results

continued

10. Impact of the first time adoption of IFRS/IAS continued

Balance sheet at 30 June 2004

- I An acquired intangible asset has been recognised on acquisition of Top Technology Ventures Limited (£833,000);
- J The University of Oxford equity rights is a derivative financial instrument classified as a held for trading financial asset at fair value. No reliable fair value can be established and consequently the asset is carried at cost, subject to impairment. An amount has been debited against equity rights recognising the reversal of prior GAAP accounting practice at transition date (£2,634,000) and the current period (£175,000);
- K In addition to brought forward fair value gains (£2,165,000), current period fair value gains have been recognised (£7,543,000), and the cost of disposed Oxford Hydrocarbon Mapping Plc shares has been adjusted to reflect the revised base cost of the shares disposed (£134,000);
- L Retained earnings have been adjusted for brought forward employee bonuses (£502,000), brought forward and current period fair value gains (£9,708,000), an additional accrual for employee bonuses (£1,096,000), the impact of shares received through equity rights for nil consideration (£2,809,000) and a reduction in the surplus on disposal of shares in Oxford Hydrocarbon Mapping Plc (£134,000);
- M Non-current trade and other payables have been adjusted for a brought forward employee bonus accrual (£502,000), a bonus accrual previously recognised under UK GAAP (£255,000) and additional employee bonuses (£1,096,000); and
- N Current trade and other payables have been adjusted for a bonus accrual previously recognised under UK GAAP (£255,000), which has been reclassified to non-current liabilities.

Income statement for the year ended 31 December 2004

- O An impairment charge recognised under UK GAAP has been reclassified to 'changes in fair value of equity investments' (£178,000);
- P Current period gains comprise gains as a result of fair valuing the portfolio of equity investments (£23,517,000), the impact of receipt of shares through equity rights for nil consideration (£675,000) and a reclassification of a provision for impairment recognised under UK GAAP (£178,000);
- Q In the year to 31 December 2004 the surplus on disposal of shares in Oxford Hydrocarbon Mapping Plc has been reduced to reflect the revised base cost of the disposed shares (£134,000);
- R 'Accrual for employee bonuses' includes a reclassification from administrative expenses of previously recognised employee bonuses under UK GAAP (£1,170,000) and an additional current period employee bonus charge (£3,032,000); and
- S Adjustments to administrative expenses include a share option charge (£300,000), a write back of previously amortised goodwill (£74,000), amortisation of an intangible asset acquired as part of the acquisition of Top Technology (£76,000), and a reclassification of bonus costs to 'accrual for employee bonuses' on the face of the income statement (£1,170,000).

Notes to the Interim Results

continued

10. Impact of the first time adoption of IFRS/IAS continued

Balance sheet at 31 December 2004

- T Goodwill has been reduced by the cost of an intangible asset acquired as part of the acquisition of Top Technology Ventures Limited (£833,000), previously amortised goodwill has been added back (£74,000);
- U An acquired intangible asset less amortisation to date has been recognised (£757,000);
- V The University of Oxford equity rights is a derivative financial instrument classified as a held for trading financial asset at fair value. No reliable fair value can be established and consequently the asset is carried at cost, subject to impairment. An amount has been debited against equity rights recognising the reversal of prior GAAP accounting practice in prior periods (£2,634,000) and the current period (£675,000);
- W Total fair value gains include current period gains (£23,517,000), brought forward gains (£2,165,000) and a reduction in the surplus on disposal of shares in Oxford Hydrocarbon Mapping Plc (£134,000);
- X Retained earnings have been adjusted for a brought forward employee bonus accrual charge (£502,000), fair value gains (£25,682,000), an additional employee bonus accrual charge (£3,032,000), an add back of previously amortised goodwill (£74,000), a reduction in the surplus on disposal of shares in Oxford Hydrocarbon Mapping Plc (£134,000), the impact of shares received through equity rights for nil consideration (£3,309,000) and a charge for the amortisation of acquired intangible assets (£76,000); and
- Y Non-current trade and other payables have been adjusted for a brought forward bonus accrual charge (£502,000) and an additional employee bonus charge (£3,032,000).

Consolidated interim cash flow statement

The adoption of IFRS does not impact the amount of cash previously disclosed under UK GAAP in any of the periods of account in the interim results.

Independent Review Report to IP2IPO Group plc

Introduction

We have been instructed by the Company to review the financial information for the six months to 30 June 2005 on pages 3 to 22. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

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

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the company's annual financial statements having regard to the accounting standards applicable to such annual financial statements.

As disclosed in note 1, the next annual financial statements of the Group will be prepared in accordance with those International Financial Reporting Standards adopted for use by the European Union.

The accounting policies used are consistent with those the directors intend to use in the next annual financial statements.

Review work performed

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

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

BDO Stoy Hayward LLP

Chartered Accountants

Southampton

13 September 2005

Directors, Secretary and Advisors to the Group

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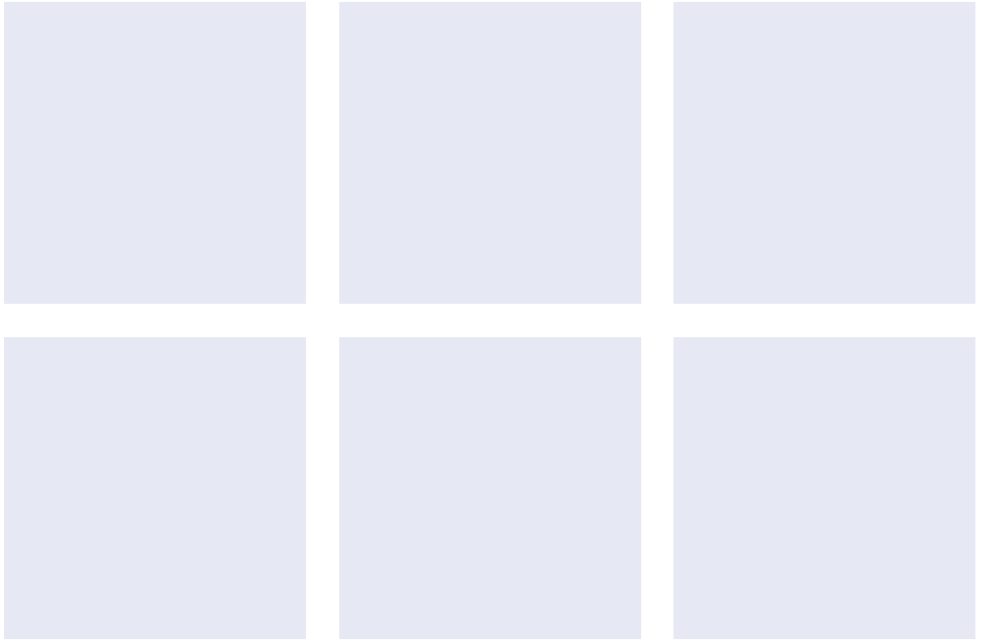
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