

FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

CHP II, L.P.

Year Ended December 31, 2006

With Report of Independent Auditors

CHP II, L.P.

Financial Statements
and Additional Information

December 31, 2006

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Report of Independent Auditors

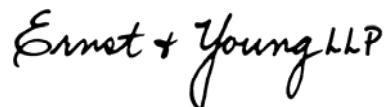
The General Partner and Limited Partners
CHP II, L.P.

We have audited the accompanying statements of assets and liabilities and investments of CHP II, L.P. (the Partnership) as of December 31, 2006, and the related statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the general partner. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Partnership's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CHP II, L.P. at December 31, 2006, and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was performed primarily for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of partners' accounts is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements for the year ended December 31, 2006 and for the previous periods and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



March 2, 2007

CHP II, L.P.

Statement of Assets and Liabilities

December 31, 2006

Assets

Investments, at assigned fair value (cost, \$49,810,784)	\$ 63,212,672
Cash and cash equivalents	1,353,284
Note receivable from General Partner	224,465
Accrued interest receivable	32,613
Prepaid state filing fees	1,500
Total assets	<u>64,824,534</u>

Liabilities

Accrued liabilities and payables	<u>34,000</u>
Total liabilities	<u>34,000</u>
Net assets	<u><u>\$ 64,790,534</u></u>

See accompanying notes.

CHP II, L.P.

Statement of Investments

December 31, 2006

Company	Cost	Assigned Fair Value	Unrealized Appreciation (Depreciation)	Assigned Fair Value As a Percentage of Partners' Capital
Health Care IT				
AthenaHealth, Inc.:				
1,623,377 Series D Convertible Preferred Stock	\$ 5,000,001	\$ 8,181,820	\$ 3,181,819	12.6%
CodeRyte, Inc.:				
326,675 Series B Convertible Preferred Stock	2,780,004	2,780,004	—	
171,456 Series C Convertible Preferred Stock	1,645,978	1,645,978	—	
	4,425,982	4,425,982	—	6.8%
BioPharmaceuticals				
aTyr Pharma, Inc.:				
800,000 Series A Convertible Preferred Stock	600,000	2,000,000	1,400,000	
1,200,000 Series B Convertible Preferred Stock	3,000,000	3,000,000	—	
	3,600,000	5,000,000	1,400,000	7.7%
Rib-X Pharmaceuticals, Inc.:				
1,817,741 Series A Convertible Preferred Stock	1,125,000	1,125,000	—	
4,645,339 Series B Convertible Preferred Stock	2,875,000	2,875,000	—	
4,847,310 Series C Convertible Preferred Stock	3,000,000	3,000,000	—	
	7,000,000	7,000,000	—	10.8%
Sirtis Pharmaceuticals:				
1,600,000 Series A Convertible Preferred Stock	800,000	1,792,000	992,000	
3,750,000 Series A-1 Convertible Preferred Stock	2,250,000	4,200,000	1,950,000	
3,750,000 Series B Convertible Preferred Stock	3,000,000	4,200,000	1,200,000	
1,785,715 Series C Convertible Preferred Stock	2,000,001	2,000,001	—	
	8,050,001	12,192,001	4,142,000	18.8%
Medical Devices				
AxoGen, Inc.:				
7,065,217 Series B Convertible Preferred Stock	3,250,000	3,250,000	—	5.0%
Cardio-Optics, Inc.:				
1,938,310 Series A Convertible Preferred Stock	2,367,630	3,194,335	826,705	
1,153,329 Series B Convertible Preferred Stock	3,801,372	1,900,686	(1,900,686)	
	6,169,002	5,095,021	(1,073,981)	7.9%
Mitral Solutions, Inc.:				
12,037,038 Series B Convertible Preferred Stock	3,250,000	3,250,000	—	5.0%
Replication Medical:				
2,614,516 Series B Convertible Preferred Stock	2,500,000	7,786,290	5,286,290	
299,281 Series C Convertible Preferred Stock	566,759	1,032,519	465,760	
	3,066,759	8,818,809	5,752,050	13.6%

CHP II, L.P.

Statement of Investments (continued)

Company	Cost	Assigned Fair Value	Unrealized Appreciation (Depreciation)	Assigned Fair Value As a Percentage of Partners' Capital
Health Care Services				
Alliance Care Inc. (formerly Mobile Medical Industries, Inc.):				
400,000 Series B Convertible Preferred Stock	\$ 4,000,000	\$ 4,000,000	\$ —	
140,113 Series C Convertible Preferred Stock	1,401,130	1,401,130	—	
42,034 Series C Preferred Warrants	—	—	—	
10% Convertible Subordinated Promissory Note	597,909	597,909	—	
	5,999,039	5,999,039	—	9.3%
	\$ 49,810,784	\$ 63,212,672	\$ 13,401,888	97.5%

See accompanying notes.

CHP II, L.P.

Statement of Operations

Year Ended December 31, 2006

Investment income and expenses:	
Interest and dividend income	\$ 118,217
Expenses:	
Management fee	2,228,045
Professional fees	113,866
Dues and other expenses	54,528
	<u>2,396,439</u>
Net investment loss	(2,278,222)
Realized and unrealized gain on investments:	
Realized gain on investments	31,739,535
Net change in unrealized appreciation on investments	<u>(27,332,350)</u>
Net realized and unrealized gain on investments	<u>4,407,185</u>
Increase in net assets resulting from operations	<u>\$ 2,128,963</u>

See accompanying notes.

CHP II, L.P.

Statement of Changes in Net Assets

Year Ended December 31, 2006

Net investment loss	\$ (2,278,222)
Realized gain on investments	31,739,535
Net change in unrealized appreciation on investments	<u>(27,332,350)</u>
	2,128,963
Partners' capital contributions	16,450,000
Partners' distributions	<u>(43,358,056)</u>
Increase in net assets	(24,779,093)
Net assets:	
Beginning of year	<u>89,569,627</u>
End of year	<u><u>\$64,790,534</u></u>

See accompanying notes.

CHP II, L.P.

Statement of Cash Flows

Year Ended December 31, 2006

Cash flows from operating activities

Increase in net assets resulting from operations	\$ 2,128,963
Adjustments to reconcile increase in net assets from operations to net cash used in operating activities:	
Changes in operating assets and liabilities:	
Purchase of venture capital investments	(15,743,888)
Proceeds from sale of investments	14,106
Receipt of escrow	774,892
Prepaid state filing fees	(150)
Accrued interest receivable	(32,063)
Accrued liabilities	(11,112)
Realized gain on investments	(31,739,535)
Net change in unrealized appreciation on investments	27,332,350
Net cash used in operating activities	(17,276,437)

Cash flows from financing activities

Partners' capital contributions	16,371,864
Collection on note receivable from General Partner	62,403
Net cash provided by financing activities	16,434,267
Net increase in cash and cash equivalents	(842,170)
Cash and cash equivalents, beginning of year	2,195,454
Cash and cash equivalents, end of year	\$ 1,353,284

Supplemental disclosure of non-cash transaction

During the year, the Partnership distributed to its partners 476,836 shares of Momenta Pharmaceuticals with a fair value of \$8,506,754 realizing a gain of \$5,558,250.

During the year, the Partnership distributed to its partners 2,091,870 shares of Alnylan Pharmaceuticals with a fair value of \$34,851,302 resulting in a realized gain of \$25,892,287.

During the year, a capital contribution from the General Partner was made via a full recourse note in the amount of \$78,135.

See accompanying notes.

CHP II, L.P.

Notes to Financial Statements

December 31, 2006

1. Organization

CHP II, L.P. (the Partnership) was formed as a limited partnership pursuant to the laws of the State of Delaware on April 25, 2000. The Partnership consists of one general partner and a number of limited partners, and invests primarily in businesses in the United States with a health care related focus such as: biopharmaceutical products, health care services and information systems, and medical devices.

The General Partner of the Partnership is CHP II Management, L.L.C. The General Partner receives a fee for managing the Partnership (Note 3) and a 20% interest in Partnership profits. Consulting and directors fees earned by the general partner in connection with the Partnership's investments, if any, are offset against the management fee.

The term of the Partnership extends to December 31, 2010, unless terminated at an earlier date as provided for in the Partnership agreement.

2. Summary of Significant Accounting Policies

Investment Valuation

The values assigned to the investments represent fair values as determined by the General Partner of the Partnership based on available information and do not necessarily represent amounts which might ultimately be realized, because such realization depends upon future circumstances. Determination of the value of securities by the General Partner, in accordance with the valuation policy of the Partnership, is based on all relevant factors including type of security, marketability, restrictions on disposition, purchase price, subsequent purchases of the same or similar securities by other investors, pending mergers or acquisitions, and current financial position and operating results. The financial statements include securities valued at \$63,212,672 (97.5% of net assets), whose values have been estimated by the General Partner in the absence of readily ascertainable market values and have been reviewed and approved by the Advisory Committee of the Partnership. Because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

Cash Equivalents

The Partnership considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

CHP II, L.P.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Restrictions

Investments were purchased in private transactions pursuant to an exemption from the registration and prospectus delivery requirements of the Securities Act of 1933 (the Act). As a consequence, these investments may not be sold, transferred or assigned unless there is an effective registration statement under the Act covering the securities or an opinion of counsel stating that the sale, transfer or assignment is exempt from the registration and prospectus delivery requirements of the Act.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Income Taxes

The accompanying financial statements of the Partnership reflect no provision or liability for income taxes because Partnership profits and losses are allocated to the partners and are includable in the income tax returns of the partners.

New Accounting Pronouncements

In September 2006, FASB Issued FASB Statement No. 157, *Fair Value Measurement* (SFAS 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management believes the adoption of SFAS 157 will not have a material impact on the Fund's financial position or results of operations.

CHP II, L.P.

Notes to Financial Statements (continued)

3. Management Fee

The Partnership agreement provides that a fee be paid to CHP Management, Inc. for management and supervisory services provided to the Partnership. The management fee is equal to 2.5% of the Partnership's committed capital from inception through the later of (i) the end of the first quarter after the fourth anniversary of the date of the Partnership agreement or (ii) the date in which a successor fund is formed (the reduction date). Beginning with the first quarter after the reduction date and every year thereafter, for the life of the Partnership, the then applicable management fee shall be reduced by ten percent (10%). In addition, the management fee is subject to certain additional adjustments as defined in the Partnership agreement. The management fee for the year ended December 31, 2006 amounted to \$2,228,045, which is net of directors' fees received of \$31,875.

4. Capital Contributions and Capital Account Allocations

The Partnership has committed capital of \$117,474,747. From April 25, 2000 (inception) through December 31, 2006 cash contributions of \$102,321,338 were received by the Partnership. In accordance with the Partnership agreement, the General Partner may make up to 50% of its capital commitment in the form of full recourse, interest-bearing promissory notes. During the period from April 25, 2000 (inception) through December 31, 2006, the General Partner made contributions totaling \$487,087 in the form of a promissory note with an interest rate of 8% per annum of which \$224,466 remains outstanding.

Pursuant to the terms of the Partnership agreement, net gain is allocated 80% to the capital accounts of the partners as a group (including the general partner's 1% interest) in proportion to their respective capital contributions account and 20% to the capital account of the General Partner. Net loss, to the extent it exceeds net gain, is allocated to the partners' accounts in proportion to their respective capital contributions account. Non-portfolio income is allocated to the partners' accounts in proportion to their respective capital contributions account.

The Partnership had six capital calls during 2006 of which \$16,285,501 was received from the Limited Partners, \$148,767 was received from the General Partner in the form of cash and \$78,135 was received from the General Partner in the form of a promissory note. Principal repayments of the note in the amount of \$62,403 were made during the year.

CHP II, L.P.

Notes to Financial Statements (continued)

5. Realized Loss/Gain on Investments

Alnylam Pharmaceuticals, Inc.

During January and March 2006, CHP II distributed a total of 2,091,870 shares of Alnylam Pharmaceuticals, Inc., valued at the closing price on the respective distributions dates. The shares distributed were acquired by CHP II in a series of private financings from June 2002 through May 2004, and are freely tradable pursuant to Rule 144 of the SEC Act of 1933. The total fair value of the shares distributed amounted to \$34.9 million and CHP II recognized a realized gain of \$25.9 million in 2006.

Momenta Pharmaceuticals, Inc.

In November 2006, CHP II distributed 476,836 shares of Momenta Pharmaceutical, Inc. valued at the closing price on November 21, 2006 of \$17.84 per share. The shares distributed were acquired by CHP II in a series of private financing transactions from April 2002 to May 2003, and are freely tradable pursuant to Rule 144 of the SEC Act of 1933. The total fair value of shares distributed amounted to \$8.5 million and CHP II recognized a realized gain of \$5.6 million in 2006.

Intellicare America, Inc.

In November 2005, Intellicare America, Inc. (Intellicare) was acquired by PolyMedica Corporation (PolyMedica) in a \$20 million cash transaction, with the 10% of the gross proceeds placed on hold in an escrow account for one year. The Escrow Fund secured Intellicare's obligations to indemnify PolyMedica as set forth in their Stock Purchase Agreement. CHP II received a total of \$2,655,344 in cash plus \$774,892 cash held in escrow representing its share of the 10% holdback. Consequently, CHP II recognized the realized gain of \$274,892 in 2006.

CHP II, L.P.

Notes to Financial Statements (continued)

6. Selected Financial Highlights

The following financial highlights are being presented in accordance with the provisions of the AICPA Audit and Accounting Guide for Investment Companies, as amended by AICPA Statement of Position 03-04 for the year ended December 31, 2006:

Internal rate of return, since inception ⁽¹⁾ :	
Beginning of year	14.08%
End of year	12.63%
Ratios to average Limited Partners' capital ⁽²⁾ :	
Net investment loss	<u>(2.90)%</u>
Operating expenses	(3.07)%
Impact of General Partners profit/loss allocation	<u>(.74)%</u>
Total expenses and General Partner profit/loss allocation	<u>(3.81)%</u>
Ratio of capital contributions received to total capital commitments (includes general partner) *	87.2%

* The Partnership was formed on April 25, 2000. As of December 31, 2006, the partners have committed to capital contributions of \$117,474,747.

⁽¹⁾ The internal rate of return since inception of the Limited Partners' interests, net of all fees and General Partner profit allocations, was computed based on the actual dates of capital contributions and distributions, and the ending net assets at the end of the period (residual value) of the Limited Partners' capital as of each measurement date.

⁽²⁾ Net investment income (loss), expenses and General Partner profit allocation ratios are calculated for the Limited Partners taken as a whole.

Additional Information

CHP II, L.P.

Schedule of Partners’ Accounts

	Period from April 25, 2000 (inception to December 31, 2005)							Year Ended December 31, 2006							
	Partners’ Contributions	Non- Portfolio Income	Investment Income (Loss)	Realized Gain (Loss)	Change in Unrealized Appreciation	Partners’ Distributions	Partners’ Accounts	Partners’ Contributions	Non- Portfolio Income	Net Investment Income (Loss)	Realized Gain (Loss)	Change in Unrealized Appreciation	Partners’ Distributions	Partners’ Transfer	Partners’ Accounts
<i>Limited Partners</i>															
The State Teachers Retirement System of Ohio	\$ 21,986,634	\$ 22,978	\$ (3,918,223)	\$ 6,716,963	\$ 8,321,973	\$ (13,036,711)	\$ 20,093,614	\$ 4,200,903	\$ 13,269	\$ (476,053)	\$ 6,484,363	\$ (5,583,978)	\$ (11,072,525)	\$ —	\$ 13,659,593
Nassau Capital Funds, L.P.	7,328,878	7,661	(1,306,075)	2,238,988	2,773,991	(4,345,599)	6,697,844	1,400,302	4,423	(158,685)	2,161,454	(1,861,326)	(3,690,836)	—	4,553,176
The Robert Wood Johnson Foundation	7,328,878	7,661	(1,306,075)	2,238,988	2,773,991	(4,345,599)	6,697,844	1,400,302	4,423	(158,685)	2,161,454	(1,861,326)	(3,690,836)	—	4,553,176
Northwestern University	7,328,878	7,661	(1,306,075)	2,238,988	2,773,991	(4,345,599)	6,697,844	1,400,302	4,423	(158,685)	2,161,454	(1,861,326)	(3,690,836)	—	4,553,176
LACERA	7,328,878	7,661	(1,306,075)	2,238,988	2,773,991	(4,345,599)	6,697,844	1,400,302	4,423	(158,685)	2,161,454	(1,861,326)	(3,690,836)	—	4,553,176
Textron Master Trust	7,328,878	7,661	(1,306,075)	2,238,988	2,773,991	(4,345,599)	—	—	—	—	—	—	—	—	—
AlpInvest US Secondary Investments 2003	—	—	—	—	—	—	3,348,922	700,150	2,211	(79,342)	1,080,727	(930,663)	(1,845,435)	—	2,276,570
Harbour Vest VII Limited	—	—	—	—	—	—	3,348,922	700,150	2,211	(79,342)	1,080,727	(930,663)	(1,845,435)	—	2,276,570
Wachovia Investors, Inc.	5,496,658	5,746	(979,556)	1,679,240	2,080,493	(3,259,191)	5,023,390	1,050,226	3,317	(119,013)	1,621,090	(1,395,995)	(2,768,142)	—	3,414,873
Pension Commissioners of City of L.A.	3,664,439	3,830	(653,039)	1,119,491	1,386,997	(2,172,785)	3,348,933	700,149	2,211	(79,342)	1,080,727	(930,663)	(1,845,435)	—	2,276,580
Princess Private Equity	3,664,439	3,830	(653,039)	1,119,491	1,386,997	(2,172,785)	3,348,933	700,149	2,211	(79,342)	1,080,727	(930,663)	(1,845,435)	—	2,276,580
Hillside Capital Incorporated	2,565,106	2,680	(457,126)	783,645	970,898	(1,520,952)	2,344,251	490,107	1,548	(55,540)	756,509	(651,464)	(1,291,808)	—	1,593,603
Hamilton Lane-Carpenters Fund	2,198,663	2,298	(391,823)	671,696	832,197	(1,303,665)	2,009,366	420,090	1,326	(47,605)	648,436	(558,398)	(1,107,234)	—	1,365,981
UNISYS Master Trust	2,198,663	2,298	(391,823)	671,696	832,197	(1,303,665)	2,009,366	420,090	1,326	(47,605)	648,436	(558,398)	(1,107,234)	—	1,365,981
Venture Investment Associates III, L.P.	1,685,642	1,762	(300,398)	514,967	638,018	(999,469)	1,540,522	322,069	1,017	(36,497)	497,134	(428,105)	(848,896)	—	1,047,244
Fleet Growth Resources (formerly Summit Bancorp)	1,465,775	1,532	(261,214)	447,797	554,798	(869,120)	1,339,568	280,060	885	(31,737)	432,291	(372,265)	(738,151)	—	910,651
S.R. One, Limited	1,465,775	1,532	(261,214)	447,797	554,798	(869,120)	1,339,568	280,060	885	(31,737)	432,291	(372,265)	(738,151)	—	910,651
Pharma BioDevelopment, Inc.	1,465,775	1,532	(261,214)	447,797	554,798	(869,120)	1,339,568	280,060	885	(31,737)	432,291	(372,265)	(738,151)	—	910,651
Private Equity Holdings, Ltd. II	732,888	766	(130,608)	223,899	277,398	(434,546)	669,797	140,030	442	(15,867)	216,145	(186,133)	(369,101)	—	455,313
	85,234,847	89,089	(15,189,652)	26,039,419	32,261,517	(50,539,124)	77,896,096	16,285,501	51,436	(1,845,499)	25,137,710	(21,647,222)	(42,924,477)	—	52,953,545
<i>General Partner</i>															
CHP II Management, L.L.C.	652,223	902	(515,244)	3,364,676	8,472,722	(510,481)	11,464,798	148,767	520	(484,679)	6,601,825	(5,685,128)	(433,579)	—	11,612,524
Cash from payments to promissory notes	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total Partners’ Capital Accounts	85,887,070	89,991	(15,704,896)	29,404,095	40,734,239	(51,049,605)	89,360,894	16,434,268	51,956	(2,330,178)	31,739,535	(27,332,350)	(43,358,056)	—	64,566,069
Note receivable from CHP II Management, L.L.C.	208,733	—	—	—	—	—	208,733	15,732	—	—	—	—	—	—	224,465
Payments to note receivable	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total Partners’ Accounts	\$ 86,095,803	\$ 89,991	\$ (15,704,896)	\$29,404,095	\$ 40,734,239	\$ (51,049,605)	\$ 89,569,627	\$ 16,450,000	\$ 51,956	\$ (2,330,178)	\$ 31,739,535	\$ (27,332,350)	\$ (43,358,056)	\$ —	\$ 64,790,534

CHP II, L.P.

Notes to Schedule of Partners' Accounts

Period from April 25, 2000 (inception) to December 31, 2006

Admission of Limited Partner

In April 2001, Pharma BioDevelopment, Inc. was admitted to the Partnership as a limited partner. In accordance with the terms of the Partnership agreement income and losses were allocated to Pharma BioDevelopment, Inc. retroactive to the beginning of the Partnership (April 25, 2000).

Partnership Allocations

For the purposes of allocating income and losses to the partners, the Net Gain (as defined) has exceeded the Net Loss (as defined) as of December 31, 2006. In accordance with Section 9(b)(i) and 9(b)(ii) of the Partnership agreement, the Net Gain is therefore allocated 80% to all partners in proportion to their respective Contribution Accounts (as defined) and 20% to the General Partner.

Partner Transfer

As a result of the acquisition of Summit Bancorp by Fleet Bank N.A., Summit Bancorp assigned its entire limited partnership interest to Fleet Growth Resources, Inc. effective April 1, 2001.

Effective January 1, 2004, QFinance, Inc., an affiliate of Pharma BioDevelopment, Inc., was admitted as a Substituted Limited Partner for Pharma BioDevelopment, Inc.

Effective December 30, 2005, Textron Master Trust transferred 50% of its interest to HarbourVest VII Venture Ltd. and 50% of its interest to AlpInvest Partners US Secondary Investments 2003 LLP.