

# IPSO Ventures plc

Interim Report 2008

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Creating commercial  
value from technology



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# Corporate statement

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IPSO Ventures creates commercial value from intellectual property and technology generated by universities and other research institutions. Working with industrial partners we act as a bridge between them and the amazing research ideas found in universities and other research establishments, not only in the UK but worldwide. Working with our research partners we help them identify potential commercial opportunities and add value to them so they can be used by industrial partners.

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# Highlights

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- second Loughborough company created  
– Polyfect Solutions
- first customer acceptance and phase II  
funding of Axilica
- new customers and revenues at Therakind
- a further prototype device for Medermica
- IPSO commercialisation model re-engineered

# Chairman and Chief Executive's review

In the six months since we last reported to shareholders, we created a second company at Loughborough University, Polyfect Solutions Limited, which has developed a new patented process for producing lower cost functional polymers.

Axilica, our first Loughborough investment, successfully beta tested its software with a major defence electronics contractor and we invested a further £250,000 in the business.

Therakind and Medermica also made measurable progress, winning customers and building a prototype respectively.

We strategically re-engineered IPSO's commercialisation model during the period to allow us to remain effective and successful in the current economic climate and beyond. We believe that the development of commercially relevant technology potentially has even more value in an environment where costs need to be cut and efficiencies implemented.

## Financial review

### Overview

As anticipated, in this investment phase of the business, the net loss for the six months was £576,000 after bank deposit interest of £60,000. The net loss included £139,000 of costs relating to research undertaken by our wholly owned subsidiary, Medermica.

### Investment activities

During the period, the Group made investments of £669,000, comprising available for sale investments of £534,000 principally in Axilica and Polyfect and £135,000 invested in the Group's subsidiary company, Medermica.

### Operating costs

Operating costs were carefully managed during the period at £501,000; a marginal increase on the first half of last year. The Group continues to maintain close control of its costs and reduce them where possible.

### Cash

At 31 October 2008, cash and short-term investments totalled £1,513,000. All of this is held by what are believed to be reliable banks.

## Investment update

We are pleased with the progress that our portfolio companies are making. The IPSO management team is providing a variety of support for each of the businesses including financial administration, business development advice, recruiting management and staff, hands on management support and funding.

**Axilica Limited** has developed an electronic design automation ("EDA") software programme called FalconML which simplifies and speeds up the process of designing semiconductor chips. FalconML was successfully beta tested with a major defence electronics contractor in October and that triggered a further tranche of investment of £250,000 bringing our total cost of investment in Axilica to £414,000. Lachesis has also invested a further £107,000 in the company alongside IPSO. The FalconML product was formally released on 22 December 2008. In June 2008 we appointed Suresh Radia as a non executive director. Suresh has over 30 years experience in the EDA market and was previously Vice President, Technical Field Operations at Cadence Design Systems.

**Polyfect Solutions Limited** was established in September 2008. Polyfect has developed technology for the low cost, homogeneous dispersal of virtually any functional filler into any thermoplastic polymer without the use of chemical compatibilisers. Functional fillers are the materials which are used to change the properties of a plastic. Polyfect's patented technology allows significantly less filler to be used, resulting in both cost savings and quality improvements as well as having a positive environmental benefit. We have invested £250,000 and Lachesis, the University Challenge Fund associated with Loughborough, also invested £107,000.

**Medermica Limited** is developing wound management and diagnostic technologies. It has successfully developed a further prototype device which is in the process of being patented. Once the device is patented and fully tested Medermica will seek a partner to take the device to market with a view to early revenues. We invested a further £135,000 during the period. Following the period end IPSO acquired Cambridge Meditech Limited which has some additional wound management technology and it is intended that this will be transferred to Medermica once development funding has been secured.

**Therakind Limited**, our paediatric healthcare business, has continued to expand its customer base and generate revenues. This is in addition to working with a partner towards securing European approval for its first paediatric drug. Additional working capital is currently being sought to enable it to exploit Therakind's paediatric opportunity further and allow it to develop more products.

**WildKnowledge** provides a software platform for a suite of applications which enable users of handheld devices to receive or create information whilst mobile. The markets for these tools are principally in education and leisure. Over the period WildKnowledge successfully re-engineered its products to enable them to be used on Smartphone devices and be delivered over the internet. We invested a further £30,000 during the period.

#### **Operational review**

We undertook a comprehensive review to reassess our approach to the business of commercialising technology and intellectual property. Based on this review we have re-engineered our model to focus much more clearly on the demand for new technologies from industry.

We work closely with our industrial collaborators to identify demand for new, innovative technologies and then, through our strong relationships with universities and other research institutions, source technologies which could meet those needs. Much of this technology requires considerable further work by us before it can be sold to industry as a developed product. To allow us to work on these technologies we create corporate entities or in-house projects and provide expertise, strategic direction, human and seed capital, as well as corporate finance advice. The objective is then to sell, licence or merge those assets to release value for shareholders.

For industrial collaborators we provide a mechanism to identify and develop technologies which could be of significant value to their businesses and we remove the risk to them of acquiring raw, unproven and undeveloped technology.

For research institutions we provide greater certainty that their technology will find commercial success.

Our focus is on four key areas where we consider there are the greatest opportunities:

- energy and environmental;
- healthcare;
- new materials; and
- process and software.

#### **Outlook**

Whilst the economic outlook is difficult we are confident that the next year will be one of considerable progress for IPSO. We expect to make our first realisation which will prove that our model works and we will add to our network of partners and collaborators both in industry and research.

Finally, we would like to thank all our colleagues at IPSO, in the portfolio companies and at Loughborough for their efforts during the period.

**Simon Hunt**  
Executive Chairman

**Nick Rodgers**  
Chief Executive

# Consolidated interim income statement

For the six months ended 31 October 2008

	Unaudited Six months ended 31 October 2008 £	Unaudited Six months ended 31 October 2007 £	Audited Year ended 30 April 2008 £	
Note				
Revenue	—	—	—	
Cost of sales	—	—	—	
<b>Gross profit</b>	<b>—</b>	<b>—</b>	<b>—</b>	
Other operating income	3,486	—	3,225	
Administrative expenses	(501,149)	(466,350)	(1,112,128)	
– exceptional aborted acquisition costs	—	—	(109,408)	
– other administrative expenses	(501,149)	(466,350)	(1,002,720)	
Research and development expenses	(139,000)	(135,000)	(274,000)	
<b>Operating loss</b>	<b>(636,663)</b>	<b>(601,350)</b>	<b>(1,382,903)</b>	
Finance income – interest receivable	60,080	107,180	200,358	
<b>Loss before tax</b>	<b>(576,583)</b>	<b>(494,170)</b>	<b>(1,182,545)</b>	
Tax	536	231	8,806	
<b>Loss for the period attributable to equity holders of the parent</b>	<b>(576,047)</b>	<b>(493,939)</b>	<b>(1,173,739)</b>	
<b>Loss per share</b>				
Basic and diluted	2	(5)p	(4)p	(9)p

All results derive from continuing operations.

# Consolidated interim statement of changes in equity

For the six months ended 31 October 2008

## Attributable to equity holders of the Group

	Share capital £	Own shares £	Share premium £	Share option reserve £	Other reserve £	Retained earnings £	Total £
At 1 May 2007	625,647	—	4,941,281	13,676	(175,292)	(930,935)	4,474,377
Consolidated loss for the period	—	—	—	—	—	(493,939)	(493,939)
Employee share option charge	—	—	—	6,128	—	—	6,128
At 31 October 2007 (unaudited)	625,647	—	4,941,281	19,804	(175,292)	(1,424,874)	3,986,566
Issue of share capital	2,235	—	37,765	—	—	—	40,000
Own shares held by Employee Benefit Trust	—	(40,000)	—	—	—	—	(40,000)
Consolidated loss for the period	—	—	—	—	—	(679,800)	(679,800)
Employee share option charge	—	—	—	28,082	—	—	28,082
At 30 April 2008 (audited)	627,882	(40,000)	4,979,046	47,886	(175,292)	(2,104,674)	3,334,848
Consolidated loss for the period	—	—	—	—	—	(576,047)	(576,047)
Employee share option charge	—	—	—	7,370	—	—	7,370
<b>At 31 October 2008 (unaudited)</b>	<b>627,882</b>	<b>(40,000)</b>	<b>4,979,046</b>	<b>55,256</b>	<b>(175,292)</b>	<b>(2,680,721)</b>	<b>2,766,171</b>

# Consolidated interim balance sheet

31 October 2008

	Note	Unaudited 31 October 2008 £	Unaudited 31 October 2007 £	Audited 30 April 2008 £
<b>Non current assets</b>				
Property, plant and equipment	3	6,103	11,159	9,121
Investments	4	1,215,514	662,391	681,027
Deferred tax assets		452	—	—
		<b>1,222,069</b>	673,550	690,148
<b>Current assets</b>				
Other receivables	5	97,555	249,545	137,984
Cash and cash equivalents	6	1,512,769	3,145,121	2,677,140
		<b>1,610,324</b>	3,394,666	2,815,124
<b>Total assets</b>		<b>2,832,393</b>	4,068,216	3,505,272
<b>Current liabilities</b>				
Trade and other payables	7	(66,222)	(81,391)	(170,340)
<b>Net current assets</b>		<b>1,548,302</b>	3,313,275	2,644,784
<b>Non current liabilities</b>				
Deferred tax liabilities		—	(259)	(84)
<b>Total liabilities</b>		<b>(66,222)</b>	(81,650)	(170,424)
<b>Net assets</b>		<b>2,766,171</b>	3,986,566	3,334,848
<b>Equity</b>				
Share capital		627,882	625,647	627,882
Share premium		4,979,046	4,941,281	4,979,046
Own shares		(40,000)	—	(40,000)
Share option reserves		55,256	19,804	47,886
Other reserve		(175,292)	(175,292)	(175,292)
Retained losses		(2,680,721)	(1,424,874)	(2,104,674)
<b>Equity attributable to equity holders of the parent</b>		<b>2,766,171</b>	3,986,566	3,334,848

The financial statements were approved by the Board of Directors and authorised for issue on 19 January 2009.  
They were signed on its behalf by:

**Simon Hunt**  
Director  
19 January 2009

# Consolidated interim cash flow statement

For the six months ended 31 October 2008

	Note	Unaudited Six months ended 31 October 2008 £	Unaudited Six months ended 31 October 2007 £	Audited Year ended 30 April 2008 £
<b>Net cash from operating activities</b>	8	<b>(689,963)</b>	(721,113)	(1,262,670)
<b>Investing activities</b>				
Interest received		60,080	107,180	200,358
Purchases of property, plant and equipment		—	(1,778)	(2,744)
Payments to acquire investments		<b>(534,488)</b>	(486,809)	(505,445)
<b>Net cash used in investing activities</b>		<b>(474,408)</b>	(381,407)	(307,831)
<b>Financing activities</b>				
Proceeds on issue of shares		—	—	—
Cost of share issue		—	—	—
<b>Net cash from financing activities</b>		<b>—</b>	—	—
<b>Net decrease in cash and cash equivalents</b>		<b>(1,164,371)</b>	(1,102,520)	(1,570,501)
<b>Cash and cash equivalents at beginning of period</b>		<b>2,677,140</b>	4,247,641	4,247,641
<b>Cash and cash equivalents at end of period</b>		<b>1,512,769</b>	3,145,121	2,677,140

# Notes to the interim results

For the six months ended 31 October 2008

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## 1. Accounting policies

### Basis of preparation

The financial information for the six months ended 31 October 2008 is unaudited and has been prepared in accordance with the accounting policies set out in the Group's Annual Report for the year ended 30 April 2008. The financial information for the six months ended 31 October 2007 is also unaudited and the results have not been reviewed by the Group's auditors. The financial information relating to the year ended 30 April 2008 has been extracted from the full report for that year. The report of the auditors on the 2008 accounts was unqualified. The statutory accounts for the year ended 30 April 2008 were approved at the Group's Annual General Meeting on 10 September 2008 and have been delivered to the Registrar of Companies.

### Basis of consolidation

The Group's consolidated interim financial statements consist of IPSO Ventures plc (the Company) and entities controlled solely by the Company (its subsidiaries), excluding any intra group transactions. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

### Associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

A jointly controlled entity is one over which the Group, together with one or more unrelated entities, is in a position to control the financial and operating policies of the entity.

The Group's equity investments are held with a view to realisation of capital gains and for this reason the Directors have designated such investments in associates and jointly controlled entities to be measured at fair value through profit or loss in accordance with IAS 39 'Financial Investments: Recognition and Measurement'.

### Other investments

Investments over which the Group does not exercise control or significant influence are recognised at fair value.

### Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

## 1. Accounting policies continued

### Deferred tax continued

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### Share-based payments

The Group has applied the requirements of IFRS 2 'Share-based Payments'.

The Group issues equity settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market based vesting conditions.

Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

## 2. Loss per share

The basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares of 12,557,624 outstanding during the period ended 31 October 2008 (31 October 2007: 12,538,819).

There were no dividends for the period ended 31 October 2008.

There were no potentially dilutive share options over ordinary shares in the Group outstanding at the period end and therefore the dilutive earnings per share are equal to the basic earnings per share.

## 3. Property, plant and equipment

	Fixtures and fittings £	Computer equipment £	Total £
<b>Cost</b>			
At 1 May 2008	1,445	17,241	18,686
Additions	—	—	—
<b>At 31 October 2008</b>	<b>1,445</b>	<b>17,241</b>	<b>18,686</b>
<b>Accumulated depreciation and impairment</b>			
At 1 May 2008	(308)	(9,257)	(9,565)
Charge for the period	(145)	(2,873)	(3,018)
<b>At 31 October 2008</b>	<b>(453)</b>	<b>(12,130)</b>	<b>(12,583)</b>
<b>Net book value</b>			
<b>At 31 October 2008</b>	<b>992</b>	<b>5,111</b>	<b>6,103</b>
At 31 October 2007	489	10,670	11,159
At 30 April 2008	1,137	7,984	9,121

# Notes to the interim results continued

For the six months ended 31 October 2008

## 4. Investments

The Group held the following investments in unquoted companies:

	<b>Unaudited Six months ended 31 October 2008 £</b>	Unaudited Six months ended 31 October 2007 £	Audited Year ended 30 April 2008 £
<b>Available for sale investments (fair value)</b>			
Axilica Limited	414,843	154,090	164,835
Polyfect Solutions Limited	254,190	—	—
Therakind Limited	429,962	429,962	429,962
WildKnowledge	91,467	61,407	61,407
Other investments	25,052	16,932	24,823
	<b>1,215,514</b>	<b>662,391</b>	<b>681,027</b>

All of the available-for-sale investments, held at fair value through profit and loss, were designated as such upon initial recognition.

## 5. Other receivables

	<b>Unaudited Six months ended 31 October 2008 £</b>	Unaudited Six months ended 31 October 2007 £	Audited Year ended 30 April 2008 £
Amounts due from investee companies	3,908	—	2,966
Corporation tax receivable	8,400	—	8,400
Other receivables	69,667	11,756	105,025
Prepayments and accrued income	15,580	237,789	21,593
	<b>97,555</b>	<b>249,545</b>	<b>137,984</b>

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

## 6. Cash and cash equivalents

	<b>Unaudited Six months ended 31 October 2008 £</b>	Unaudited Six months ended 31 October 2007 £	Audited Year ended 30 April 2008 £
Cash and cash equivalents	312,769	67,121	177,140
Short-term deposits	1,200,000	3,078,000	2,500,000
	<b>1,512,769</b>	<b>3,145,121</b>	<b>2,677,140</b>

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

**7. Trade and other payables**

	<b>Unaudited Six months ended 31 October 2008 £</b>	Unaudited Six months ended 31 October 2007 £	Audited Year ended 30 April 2008 £
Trade creditors	10,213	21,653	110,484
Other creditors	3,476	—	1,733
Accruals	52,533	59,738	58,123
	<b>66,222</b>	81,391	170,340

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The Directors consider that the carrying amount of trade payables approximates to their fair value.

**8. Notes to the cash flow statement**

	<b>Unaudited Six months ended 31 October 2008 £</b>	Unaudited Six months ended 31 October 2007 £	Audited Year ended 30 April 2008 £
Operating loss	<b>(636,663)</b>	(601,350)	(1,382,903)
Adjustments for:			
Depreciation of property, plant and equipment	3,018	2,765	5,769
Share-based payment expense	7,370	6,128	34,210
Operating cash flows before movements in working capital	<b>(622,075)</b>	(592,457)	(1,342,924)
(Increase)/decrease in receivables	40,430	(91,289)	28,672
(Decrease)/increase in payables	<b>(104,118)</b>	(37,367)	51,582
Net cash from operating activities	<b>(689,963)</b>	(721,113)	(1,262,670)

# Directors and advisers

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<b>Company registration number</b>	5859612
<b>Registered office</b>	Elizabeth House 39 York Road London SE1 7NQ
<b>Directors</b>	Simon Hunt (Executive Chairman) Nick Rodgers (Chief Executive) Dr Simon Haworth (Director) Michael Baines (Non executive Director) Dr Peter Knox (Non executive Director)
<b>Company secretary</b>	Cargil Management Services Limited 27/28 Eastcastle Street London W1W 8DH
<b>Nominated adviser and broker</b>	Ambrian Partners Limited Old Change House 128 Queen Victoria Street London EC4V 4BJ
<b>Registrars</b>	Share Registrars Limited Suite E, First Floor 9 Lion & Lamb Yard Farnham Surrey GU9 7LL
<b>Bankers</b>	HSBC Bank plc 16 King Street London WC2E 8JF
<b>Solicitors</b>	Memery Crystal 44 Southampton Buildings London WC2A 1AP
<b>Public relations</b>	Rawlings Financial PR Limited 2 Howsham York YO6O 7PH
<b>Independent auditors</b>	Deloitte LLP City House 126-130 Hills Road Cambridge CB2 1RY