

IPSO Ventures plc

Interim Report 2009

Creating commercial value from technology

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 research ideas found in universities and other research establishments, not only in the UK but worldwide. Working with 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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Interim management report

Key points:

→ Value added to the investment portfolio

- Created the UK's first commercial photovoltaic testing business, our first investment in the renewables sector, and generated immediate customer revenue
- First license revenues for Axilica with the prospect of non-dilutive funding from a major European project initiative in Q1 2010
- Medermica's novel pH sensor device developed on plan and now ready for licensing
- Polyfect's technology has attracted the interest of international manufacturers with the imminent prospect of a product commercialisation relationship

Despite the economic climate all our investments are progressing well.

→ Financing

- Business costs structure successfully adjusted by management team
- First batch of investments approaching cash generative exits
- Seeking further equity funding to provide additional working capital as well as to make further investments prior to securing the first exit

→ Value added to the business model

- Industrial partner relationships developed and strengthened to promote our market pull investment strategy, as opposed to the more usual technology push, approach
- Discussions with major corporates for new partnerships to exploit their ideas and technology
- Establishment of new complementary revenue sources in human capital and university advisory work. These revenue sources have begun generating cash and reducing overheads

Portfolio by sector

Sector	As at 31 October 2009				As at 30 April 2009			
	Fair value		Number		Fair value		Number	
	£	%	No.	%	£	%	No.	%
Energy & environmental	42,368	2	1	14	—	—	—	—
Healthcare	1,337,962	62	3	44	1,202,962	61	3	50
New materials	254,190	12	1	14	254,190	13	1	17
Process & software	531,309	24	2	28	506,309	26	2	33
	2,165,829	100	7	100	1,963,461	100	6	100

Interim management report continued

Overview

Over the last six months we have added more value to our portfolio both by creating another new entity and by developing the existing businesses further towards exit. Our accounting policies on valuation do not give us scope to adequately reflect this growth in the statement of financial position at the moment, but we hope it will do in the near future.

We now have a well developed commercialisation process and, as previously indicated, are currently seeking equity funding for the Company to provide additional working capital and investment funds.

The Company is generating revenue from a number of sources, which are complementary to our core activities and helps us defray our overhead cost. We expect these revenues to increase over the remainder of the financial year and, in time, to represent a steady and meaningful contribution to the business.

Whilst we did not generate capital through an exit during 2009 due to it taking longer than expected to bring the relevant portfolio business to maturity, the directors believe that an exit will be achieved during 2010.

Financial review

Overview

Net loss for the six months was £575,000 after interest on bank deposits of £8,000. The net loss included £68,000 of costs relating to research undertaken by our subsidiary, Medermica Limited.

Revenue

Revenue was increased significantly during the period through complementary revenue generating initiatives, involving university development programmes, headhunting and corporate finance activities. We expect revenue to continue growing throughout the remainder of this financial year.

Investment activities

The Company made further investments totalling £202,000 in the period. These were spread across our core sectors of activity – Energy & Environmental, Healthcare and Process & Software. Of this, £177,000 was invested in two companies which are shown as subsidiaries on consolidation and, therefore, are excluded from the investments total shown in the condensed consolidated statement of financial position.

Financing

As indicated in the Company's Annual Report 2009, our intention has been to seek additional funding for the business which will allow us to create a financially self-sustaining entity over the medium term.

Our first batch of investments is now approaching exits which will generate cash for IPSO. We are currently seeking equity funding to provide further working capital as well as to make further investments prior to securing the first exit. We have also taken action to reduce the overhead costs so as to give us a realistic time period to achieve that exit.

Cash and short term investments at 29 January 2010 totalled £277,000. The directors believe that, based upon the current cash burn rate and in the absence of a successful exit, this will provide sufficient working capital for the Group's requirements for approximately six months of operation.

Operating costs

Operating costs during the period were broadly maintained at £550,000 (2008: £500,000). The recent cost reductions will reduce the operating costs in the second half of this financial year. The Group continues to control its costs, reducing them where possible.

Cash

At 31 October 2009, cash and short term investments totalled £555,000.

Portfolio analysis by sector

Our portfolio companies are making pleasing progress. We have provided a variety of support for all the businesses including financial administration, business development advice, recruiting management and staff, hands on management support and funding. Each business is already creating products.

Energy & environmental

IPSol Energy Limited, our latest investment, was created to provide business and technical solutions to the solar photovoltaic ("PV") market with an initial focus on testing services. It is the UK's first commercial PV module testing business and provides manufacturers and installers of solar PV modules with third party validation of their products. We have recruited an experienced CEO and the first customer has already tested products through the company. First revenue was achieved within a month of the business being established.

Healthcare

Cambridge Meditech Limited has had discussions with a US based supplier of wound and skin care products, which could lead to a commercial licence in due course.

Medermica Limited received a final investment of £135,000 bringing our total investment in Medermica to £811,000. An agreement was signed in October 2009 to develop the pH measurement technology that had been patented in May 2009 by Medermica. This is expected to lead to licence discussions with commercial partners for the technology in the next 12 months.

Therakind Limited, our paediatric healthcare business, reported that its first product had secured regulatory approval for its paediatric investigational plan and commenced clinical trials, which will lead to marketing approval in due course. The first product is currently available to UK clinicians. A second product is progressing and additional products have been identified for future work.

New materials

Polyfect Solutions Limited is engaged in discussions with international manufacturers who are potential customers for its technology. We expect the first relationship with regard to one particular application will be formalised through an agreement in the near future.

Process & software

Axilica Limited has continued further refinement of its behavioural synthesis tool software and secured its first licence agreement with a significant defence business in September 2009. The East Midlands Early Growth Fund and IPSO have each invested £25,000 during the period. The business now has the prospect of securing non-dilutive funding through participation in a European funded software project.

WildKnowledge (the trading name for WildKey Limited) is making steady progress towards profitability and has developed its platform further.

Demand relationships

We made considerable effort to strengthen and develop further our relationships with major industrial and commercial companies at senior levels. These interactions allow IPSO to identify demand for new products and solutions and to build businesses developing technologies which meet that demand. Our objective is to develop those entities to a stage where the technologies are proven and can be sold, licensed or otherwise exited to release value for shareholders. For our industrial and commercial collaborators, we provide a mechanism to identify and develop technologies which could have a significant value to both parties.

Outlook and risks

The principal risk faced by IPSO relates to our ability to sell the businesses we have created. For that reason, we take the greatest care to identify demand for our products and have a structured development plan before any entity is established. However, any delays in exits will reduce the cash available for working capital and investment.

The Company now has a well developed commercialisation process to allow IPSO to become a self-sustaining business. Following our assessment of the timing of a business exit in 2010 we have taken action to reduce our overhead costs to give us a realistic time to achieve that exit.

Our demand relationships are generating a strong pipeline of opportunities for potential new businesses and analysis of the performance of each of our investments indicates that, despite the economic climate, all are performing well.

Related party transaction

On 19 October 2009, IPSO announced that its subsidiary company, Medermica, had signed an agreement to develop its pH measuring device technology with Dr Peter Knox, a non-executive director of IPSO, and DSPI Limited, a company controlled by Dr Knox (together "the Developers"). Under the agreement, the Developers will provide to Medermica, at their own cost and risk, the expertise, equipment and materials to develop the consumable and electronic components of the pH measuring device and to create a number of robust prototype devices which are capable of being demonstrated to potential licensing partners.

The Developers will, as compensation, receive a royalty based upon a percentage of the revenue Medermica receives from the pH measuring device during the first ten years following successful commercialisation. The royalty will be 30% of the first £1 million of revenue; 7.5% of all revenues between £1 million and £5 million; and 2.5% of all revenues over £5 million until expiry of the royalty term.

Post balance sheet events

On 6 November 2009, IPSO announced the granting of options over 970,590 shares in IPSO in recognition of Simon Haworth becoming a full-time employee of IPSO and his commitment to establishing a head hunting and human capital revenue stream within the Company.

Long term strategy

The Board's long term strategy is to create a self-sustaining business, with the capacity to pay dividends and create capital growth for shareholders.

Simon Hunt
Executive Chairman
29 January 2010

Nick Rodgers
Chief Executive
29 January 2010

Condensed consolidated statement of comprehensive income

for the six months ended 31 October 2009

	Note	Unaudited six months ended 31 October 2009 £	Unaudited six months ended 31 October 2008 £	Audited year ended 30 April 2009 £
Revenue		35,168	3,486	27,374
Change in fair value of investments		—	—	262,663
Administrative expenses		(550,129)	(501,149)	(942,149)
Research and development expenses		(67,500)	(139,000)	(206,500)
Operating loss		(582,461)	(636,663)	(858,612)
Finance income – interest receivable		7,606	60,080	85,516
Loss before tax		(574,855)	(576,583)	(773,096)
Tax		246	536	5,405
Loss and total comprehensive income for the period attributable to equity holders of the parent		(574,609)	(576,047)	(767,691)
Loss per share				
Basic and diluted	4	(4.5)p	(4.6)p	(6.1)p

All results derive from continuing operations.

Condensed consolidated statement of changes in equity

for the six months ended 31 October 2009

Attributable to equity holders of the Group

	Share capital £	Own shares £	Share premium £	Share option reserve £	Other reserve £	Retained losses £	Total £	Minority Interest £	Total Equity £
At 1 May 2008 (audited)	627,882	(40,000)	4,979,046	47,886	(175,292)	(2,104,674)	3,334,848	—	3,334,848
Consolidated loss for the period	—	—	—	—	—	(576,047)	(576,047)	—	(576,047)
Employee share option charge	—	—	—	7,370	—	—	7,370	—	7,370
At 31 October 2008 (unaudited)	627,882	(40,000)	4,979,046	55,256	(175,292)	(2,680,721)	2,766,171	—	2,766,171
Issue of share capital	8,461	—	101,539	—	—	—	110,000	—	110,000
Own shares held by Employee Benefit Trust	—	(60,000)	—	—	—	—	(60,000)	—	(60,000)
Consolidated loss for the period	—	—	—	—	—	(191,644)	(191,644)	—	(191,644)
Dilution of investment in subsidiary	—	—	—	—	—	—	—	332	332
Employee share option charge	—	—	—	17,689	—	—	17,689	—	17,689
At 30 April 2009 (audited)	636,343	(100,000)	5,080,585	72,945	(175,292)	(2,872,365)	2,642,216	332	2,642,548
Consolidated loss for the period	—	—	—	—	—	(574,609)	(574,609)	—	(574,609)
Employee share option charge	—	—	—	17,082	—	—	17,082	—	17,082
At 31 October 2009 (unaudited)	636,343	(100,000)	5,080,585	90,027	(175,292)	(3,446,974)	2,084,689	332	2,085,021

Condensed consolidated statement of financial position

31 October 2009

	Note	Unaudited 31 October 2009 £	Unaudited 31 October 2008 £	Audited 30 April 2009 £
ASSETS				
Non-current assets				
Intangible assets		105,374	—	88,481
Property, plant and equipment	5	7,825	6,103	9,410
Investments	6	1,478,124	1,215,514	1,453,124
Deferred tax assets		—	452	—
Total non-current assets		1,591,323	1,222,069	1,551,015
Current assets				
Other receivables	7	111,848	97,555	78,567
Cash and cash equivalents	8	554,903	1,512,769	1,172,530
Total current assets		666,751	1,610,324	1,251,097
Total assets		2,258,074	2,832,393	2,802,112
EQUITY AND LIABILITIES				
Share capital		636,343	627,882	636,343
Share premium		5,080,585	4,979,046	5,080,585
Own shares		(100,000)	(40,000)	(100,000)
Share option reserves		90,027	55,256	72,945
Other reserve		(175,292)	(175,292)	(175,292)
Retained losses		(3,446,974)	(2,680,721)	(2,872,365)
Equity attributable to equity holders of the parent		2,084,689	2,766,171	2,642,216
Minority interest		332	—	332
Total equity		2,085,021	2,766,171	2,642,548
Current liabilities				
Trade and other payables	9	172,648	66,222	158,913
Non-current liabilities				
Deferred tax liabilities		405	—	651
Total liabilities		173,053	66,222	159,564
Total equity and liabilities		2,258,074	2,832,393	2,802,112

The financial statements were approved by the Board of Directors and authorised for issue on 29 January 2010. They were signed on its behalf by:

Simon Hunt

Director

29 January 2010

Condensed consolidated statement of cash flows

for the six months ended 31 October 2009

	Unaudited six months ended 31 October 2009 £	Unaudited six months ended 31 October 2008 £	Audited year ended 30 April 2009 £
Operating activities			
Loss for the period	(574,609)	(576,047)	(767,691)
Adjusted for:			
Fair value movements in investments	—	—	(262,663)
Depreciation of property, plant and equipment	2,715	3,018	6,575
Amortisation of intangible assets	4,107	—	—
Income tax credit	(246)	(536)	—
Share-based payment expense	17,082	7,370	25,059
Operating cash flows before movements in working capital	(550,951)	(566,195)	(998,720)
(Increase)/decrease in receivables	(33,281)	40,430	59,417
Increase/(decrease) in payables	13,735	(104,118)	(10,860)
Net cash used in operating activities	(570,497)	(629,883)	(950,163)
Investing activities			
Purchases of intangible assets	(21,000)	—	—
Purchases of property, plant and equipment	(1,130)	—	(6,864)
Acquisition of subsidiary net of cash acquired	—	—	(38,481)
Payments to acquire investments	(25,000)	(534,488)	(509,434)
Net cash used in investing activities	(47,130)	(534,488)	(554,779)
Financing activities			
Proceeds on issue of shares	—	—	332
Cost of share issue	—	—	—
Net cash from financing activities	—	—	332
Net decrease in cash and cash equivalents	(617,627)	(1,164,371)	(1,504,610)
Cash and cash equivalents at beginning of period	1,172,530	2,677,140	2,677,140
Cash and cash equivalents at end of period	554,903	1,512,769	1,172,530

Notes to the condensed set of financial statements

for the six months ended 31 October 2009

1. General information

The financial information for the six months ended 31 October 2009 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 2009. The financial information for the six months ended 31 October 2008 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 2009 has been extracted from the full report for that year. The report of the auditors on the 2009 accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s498(2) or (3) Companies Act 2006. The statutory accounts for the year ended 30 April 2009 were approved at the Group's Annual General Meeting on 10 September 2009 and have been delivered to the Registrar of Companies.

2. Accounting policies

The annual financial statements of the Group are prepared in accordance with IFRS as adopted by the EU. The condensed set of financial statements included in this Interim Report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the EU.

Basis of preparation

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual financial statements.

IFRS 8 – Operating Segments

The Group's reportable segments as reported under IAS 14 have remained unchanged following the adoption of this standard. There has been no effect on the reported results or previous financial position of the Group.

IAS 1 (revised 2007) – Presentation of Financial Statements

The revised standard has introduced a number of terminology changes (including revised titles for the condensed financial statements) and has resulted in a number of changes in presentation and disclosure. There has been no effect on the reported results or previous financial position of the Group.

3. Operating segments

The Group is currently divided in two segments, (i) the creation of demand-driven commercial value from intellectual property and (ii) the activities of investee companies controlled by the Group and accounted for as subsidiary companies. The results of these segments, all operations of which are based in the UK, were as follows:

Six months to 31 October 2009 (unaudited)	Business creation and investment activities £	Consolidated portfolio companies £	Consolidated £
Income statement			
Other operating revenue	35,168	—	35,168
Change in fair value of investments	—	—	—
Administrative expenses	(478,675)	(71,454)	(550,129)
Research and development expenses	—	(67,500)	(67,500)
Operating loss	(443,507)	(138,954)	(582,461)
Finance income – interest receivable	7,606	—	7,606
Loss before tax	(435,901)	(138,954)	(574,855)
Tax	246	—	246
Loss for the period and total comprehensive income for the period	(435,655)	(138,954)	(574,609)

3. Operating segments continued

Six months to 31 October 2008 (unaudited)	Business creation and investment activities £	Consolidated portfolio companies £	Consolidated £
Income statement			
Other operating revenue	3,486	—	3,486
Administrative expenses	(472,121)	(29,028)	(501,149)
Research and development expenses	—	(139,000)	(139,000)
Operating loss	(468,635)	(168,028)	(636,663)
Finance income – interest receivable	60,010	70	60,080
Loss before taxation	(408,625)	(167,958)	(576,583)
Tax	536	—	536
Loss for the period and total comprehensive income for the period	(408,089)	(167,958)	(576,047)

Year to 30 April 2009 (audited)	Business creation and investment activities £	Consolidated portfolio companies £	Consolidated £
Income statement			
Other operating revenue	27,374	—	27,374
Change in fair value of investments	262,663	—	262,663
Administrative expenses	(879,769)	(62,380)	(942,149)
Research and development expenses	—	(206,500)	(206,500)
Operating loss	(589,732)	(268,880)	(858,612)
Finance income – interest receivable	85,409	107	85,516
Loss before taxation	(504,323)	(268,773)	(773,096)
Tax	(567)	5,972	5,405
Loss for the year and total comprehensive income for the year	(504,890)	(262,801)	(767,691)

4. 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 12,726,855 outstanding during the six months ended 31 October 2009 [31 October 2008: 12,557,624].

There were no dividends for the six months ended 31 October 2009 or the six months 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.

Notes to the condensed set of financial statements continued

for the six months ended 31 October 2009

5. Property, plant and equipment

	Fixtures and fittings £	Computer equipment £	Total £
Cost			
At 1 May 2009	4,855	20,695	25,550
Additions	—	1,130	1,130
At 31 October 2009	4,855	21,825	26,680
Accumulated depreciation and impairment			
At 1 May 2009	(753)	(15,387)	(16,140)
Charge for the period	(485)	(2,230)	(2,715)
At 31 October 2009	(1,238)	(17,617)	(18,855)
Net book value			
At 31 October 2009	3,617	4,208	7,825
At 31 October 2008	992	5,111	6,103
At 30 April 2009	4,102	5,308	9,410

6. Investments

The Group held the following investments in unquoted companies:

	Unaudited six months ended 31 October 2009 £	Unaudited six months ended 31 October 2008 £	Audited year ended 30 April 2009 £
Available-for-sale investments (fair value)			
At the beginning of the period	1,453,124	681,027	681,027
Investments during the period	25,000	534,487	534,258
Change in fair value in the period	—	—	262,663
Reclassifications in the period	—	—	(24,824)
At the end of the period	1,478,124	1,215,514	1,453,124

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

7. Other receivables

	Unaudited six months ended 31 October 2009 £	Unaudited six months ended 31 October 2008 £	Audited year ended 30 April 2009 £
Amounts due from investee companies	5,000	3,908	13,186
Corporation tax receivable	12,324	8,400	12,324
Other receivables	65,969	69,667	27,206
Prepayments and accrued income	28,555	15,580	25,851
	111,848	97,555	78,567

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

8. Cash and cash equivalents

	Unaudited six months ended 31 October 2009 £	Unaudited six months ended 31 October 2008 £	Audited year ended 30 April 2009 £
Cash and cash equivalents	47,081	312,769	270,243
Short-term deposits	507,822	1,200,000	902,287
	554,903	1,512,769	1,172,530

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.

9. Trade and other payables

	Unaudited six months ended 31 October 2009 £	Unaudited six months ended 31 October 2008 £	Audited year ended 30 April 2009 £
Trade creditors	112,626	10,213	105,327
Other creditors	295	3,476	200
Accruals and deferred income	59,727	52,533	53,386
	172,648	66,222	158,913

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.

Responsibility statement

The Directors confirm to the best of their knowledge that:

- a) the financial information in the condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the EU; and
- b) the interim management report includes a fair review of the information required by the FSA's Disclosure and Transparency Rules (4.2.7 R and 4.2.8 R).

By order of the Board

Simon Hunt

Executive Chairman
29 January 2010

Nick Rodgers

Chief Executive
29 January 2010

Directors and advisers

Company registration number

5859612

Registered office

Elizabeth House
39 York Road
London SE1 7NQ

Directors

Simon Hunt (Executive Chairman)
Nick Rodgers (Chief Executive)
Simon Haworth (Director)
Michael Baines (Non executive Director)
Dr Peter Knox (Non executive Director)

Company secretary

Cargil Management Services Limited
27/28 Eastcastle Street
London W1W 8DH

Nominated adviser and joint broker

Ambrian Partners Limited
Old Change House
128 Queen Victoria Street
London EC4V 4BJ

Joint broker

Old Park Lane Capital plc
55 Park Lane
London W1K 1NA

Registrars

Share Registrars Limited
Suite E, First Floor
9 Lion & Lamb Yard
Farnham Surrey GU9 7LL

Bankers

HSBC Bank plc
16 King Street
London WC2E 8JF

Solicitors

Memery Crystal
44 Southampton Buildings
London WC2A 1AP

Public relations

Rawlings Financial PR Limited
2 Howsham
York YO60 7PH

Independent auditors

Deloitte LLP
City House
126-130 Hills Road
Cambridge CB2 1RY



IPSO Ventures

IPSO Ventures plc

Elizabeth House

39 York Road

London SE1 7NQ

Tel: 020 7921 2990

www.ipsoventures.com

