

LIPOXEN PLC
INTERIM REPORT
FOR THE SIX MONTHS ENDED
30TH JUNE 2006

CHAIRMAN'S STATEMENT

Dear Shareholder,

I am pleased to report upon the unaudited results for the six months ended 30th June 2006.

Financial Results

The unaudited consolidated financial results, prepared under United Kingdom generally accepted accounting principles, for the 6 months to 30th June 2006 are summarised as follows:

	30th June 2006	30th June 2005
Pre-tax loss (£)	(£1,019,570)	(£14,497)
Shareholders' funds (£)	£11,397,198	£1,500
Net cash (£)	£2,006,815	£1,312
Earnings per share (EPS) (basic – loss in pence per ordinary share)	(1.05p)	(0.44p)
EPS (fully diluted – loss in pence per ordinary share)	(0.97p)	(0.44p)
Net assets per share (basic – pence per ordinary share)	10.94p	0.05p
Net assets per share (fully diluted – pence per ordinary share)	10.06p	0.05p

History and Technology

The present Lipoxen plc group was established in January 2006 following the successful reverse takeover of Lipoxen Technologies Limited, a UK-based biopharmaceutical company, by Greenchip Investments plc. The shares of Lipoxen plc (“the Company”) were admitted to trading on AIM (LSE:LPX) on 16th January 2006 following a Placing of 28 million new ordinary shares at 13.5 pence, raising a net £3.062 million.

The Company's value proposition is based on novel drug and vaccine delivery technologies, which have the potential to greatly improve the performance of high value differentiated biologicals, vaccines and oncology drugs by optimising their performance and extending patent-life. The Company's technologies are as follows:

- PolyXen® protein drug delivery technology links therapeutic proteins or peptides to the naturally occurring polymer polysialic acid (“PSA”) to prolong their stability, biological half-life, solubility and immunologic characteristics while maintaining their biological activity and minimising toxicity. The Company believes PolyXen® offers many advantages over PEGylation, which is currently widely used in the pharmaceutical and biotechnology industries.
- ImuXen® is based on the administration of vaccines via liposomes. Vaccine materials are protected by the liposomal vehicle enhancing their delivery to the immune system. This leads to protective immune responses which are much stronger and more rapid than those observed with vaccine materials delivered by conventional means. Moreover, liposomal formulation is well known to minimize the side effects of vaccination as a result of entrapment and also slow release of the active materials.
- A related liposomal technology is being developed for the formulation of cytotoxic oncology drugs and a number of anti-cancer agents, such as paclitaxel.

Operations

To capture the potential that the Company's technologies offer, a two-pronged strategy is being adopted. The Company is developing its own product portfolio based on its proprietary PolyXen®, ImuXen® and related liposomal technologies. In addition, the Company is working with a range of partners in order to assist them both in developing new products as well as optimising the performance and extending the patent-life of their current drugs.

The Company's current R&D portfolio includes 12 programmes across a range of therapeutics and vaccines, the majority of which are being co-developed with the Serum Institute of India Limited.

In addition, the Company's technologies are being evaluated for the enhanced delivery of new and second-generation biotherapeutics by five of the world's leading biopharmaceutical companies, Baxter, Genentech, Amgen, Genzyme and Teva.

CHAIRMAN'S STATEMENT (continued)**Relationship with Serum Institute of India Limited ("SIIL")**

A strong relationship has been built with SIIL, India's largest biotechnology company and one of the world's largest vaccine companies. To date, this collaboration covers the development of some 10 product candidates, including three protein drugs, four vaccines and three liposomal formulations of oncology drug candidates. SIIL has exclusive rights to these candidates in the developing world and, together with the Company, jointly owns rights to certain candidates in the developed world.

In August 2006, SIIL's commitment to its strategic collaboration with the Company was further enhanced when it subscribed for 10 million new ordinary shares in the Company at 26 pence per share for a total of £2.6 million, thereby increasing its holding to 15.28%. Concomitant with this placing, the Company entered into a warrant agreement with SIIL pursuant to which SIIL is entitled to subscribe for a further 2.7 million ordinary shares in the Company at a price of 35 pence per ordinary share, which would, if fully exercised, increase its holding to approximately 17%.

In August 2006, SIIL and the Company entered into a Development and Manufacturing Agreement under which SIIL has agreed to provide the Company with a unique source of PSA in accordance with Good Manufacturing Practice standards. PSA is a key component of the Company's PolyXen® protein drug delivery technology. This agreement represents a substantial milestone in the Company's development as it will facilitate the Company's ongoing development programmes and provide a continuous supply of PSA to the Company's current and future collaborative partners.

Bio-Entrepreneur of the Year Award

In July 2006, the Company was honoured with a Bio-Entrepreneur of the Year award from UK Trade & Investment in recognition of its development efforts in India with SIIL.

Outlook

The Board is satisfied with the progress made in the period under review and believes that the Company is well positioned to deliver significant progress in the upcoming months. Continuing positive results from pre-clinical trials will enable the Company to initiate clinical trials using our innovative drug and vaccine delivery technologies for a number of candidates currently under development. The continuing commitment of our strategic partner, SIIL, will enhance the development of additional vaccine, biotherapeutic and oncology drugs in order to develop a balanced and sustainable clinical pipeline for the future.

Finally, I wish to thank the Company's management and staff whose efforts continue to sustain the Company's progress towards achieving its short and longer term commercial objectives.

Brian Richards, CBE
Non-Executive Chairman

London: 28th September 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS TO 30TH JUNE 2006Unaudited Interim Results for the six months to 30th June 2006

	<u>Six months to 30/06/06</u> <u>Unaudited</u> £	<u>Six months to 30/06/05</u> <u>Unaudited</u> £	<u>Year to 31/12/05</u> <u>Audited</u> £
	Acquired Operations		
TURNOVER	298,880	-	-
Research and development	546,346	-	-
Administrative expenses	408,063	14,547	114,201
	954,409	14,547	114,201
Non-cash items:			
Equity-settled share options	230,806	-	-
Amortisation of goodwill	164,141	-	-
	394,947	-	-
Total operating expenses	1,349,356	14,547	114,201
OPERATING LOSS	(1,050,476)	(14,547)	(114,201)
Interest receivable	40,274	50	2,258
Interest payable	(9,368)	-	-
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	(1,019,570)	(14,497)	(111,943)
Taxation credit	20,000	-	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	(999,570)	(14,497)	(111,943)
Loss per ordinary share – basic	(1.05)p	(0.44)p	(2.06)p
– fully diluted	(0.97)p	(0.44)p	(2.06)p

The group has no recognised gains or losses other than the results for each period as set out above.

CONSOLIDATED BALANCE SHEET AS AT 30TH JUNE 2006Unaudited Interim Results for the six months to 30th June 2006

	<u>As at</u> <u>30/06/06</u> <u>Unaudited</u> £	<u>As at</u> <u>30/06/05</u> <u>Unaudited</u> £	<u>As at</u> <u>31/12/05</u> <u>Audited</u> £
FIXED ASSETS			
Intangible – Goodwill	6,401,511	-	-
– Development costs	3,032,719	-	-
	<u>9,434,230</u>	<u>-</u>	<u>-</u>
Tangible	115,484	-	-
	<u>9,549,714</u>	<u>-</u>	<u>-</u>
CURRENT ASSETS			
Debtors	186,599	9,686	82,936
Cash at bank and in hand	2,006,815	1,312	142,613
	<u>2,193,414</u>	<u>10,998</u>	<u>225,549</u>
CREDITORS: Amounts falling due within one year	(345,930)	(9,498)	(121,495)
NET CURRENT ASSETS	<u>1,847,484</u>	<u>1,500</u>	<u>104,054</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>11,397,198</u>	<u>1,500</u>	<u>104,054</u>
CAPITAL AND RESERVES			
Called up share capital	2,154,233	1,650,000	1,675,000
Share premium account	18,893,840	7,136,165	7,311,165
Profit and loss account	(9,650,875)	(8,784,665)	(8,882,111)
SHAREHOLDERS' FUNDS	<u>11,397,198</u>	<u>1,500</u>	<u>104,054</u>
Net assets per share – basic	<u>10.94p</u>	<u>0.05p</u>	<u>1.25p</u>
– fully diluted	<u>10.06p</u>	<u>0.05p</u>	<u>1.25p</u>

CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS TO 30TH JUNE 2006Unaudited Interim Results for the six months to 30th June 2006

	<u>Six months to 30/06/06</u> <u>Unaudited</u> £	<u>Six months to 30/06/05</u> <u>Unaudited</u> £	<u>Year to 31/12/05</u> <u>Audited</u> £
Net cash outflow from operating activities	(1,156,578)	(14,541)	(75,448)
Returns on investments and servicing of finance			
Bank interest received	40,274	50	2,258
Bank interest paid	(9,368)	-	-
Net cash inflow from returns on investments and servicing of finance	30,906	50	2,258
Taxation received	47,029	-	-
Capital expenditure			
Purchase of tangible fixed assets	(106,955)	-	-
Net cash outflow from capital expenditure	(106,955)	-	-
Acquisitions and disposals			
Purchase of subsidiary	(45,560)	-	-
Less: cash balance acquired with subsidiary	33,452	-	-
Net cash outflow for acquisitions and disposals	(12,108)	-	-
Net cash flow before financing	(1,197,706)	(14,491)	(73,190)
Financing			
Issue of equity shares	3,061,908	14,872	214,872
Increase in cash in the period	1,864,202	381	141,682

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS TO 30TH JUNE 2006

1. The interim financial statements for the six months ended 30th June 2006 are unaudited and were approved by the directors of the Company on 28th September 2006. The financial information set out above does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The information given as comparative figures for the year ended 31st December 2005 was extracted from the Company's audited statutory accounts for that financial year.

2. ACCOUNTING POLICIES

The principal accounting policies of the Company have remained unchanged from those set out in the Company's 2005 accounts, except that the following additional accounting policies have been adopted following the acquisition of Lipoxen Technologies Limited.

Basis of consolidation

The group financial statements incorporate the financial statements of the parent company and all of its subsidiary undertakings. The results of subsidiary undertakings acquired or disposed of during the year are included in the group financial statements from, or up to, the date of acquisition or disposal.

Turnover

The turnover shown in the profit and loss account represents the value of services provided during the year, exclusive of Value Added Tax. For contracts in progress at the balance sheet date, turnover is recognised based on the degree of completion of the project and the agreed fee for the total project.

Intangible fixed assets

Intangible fixed assets acquired are capitalised at cost. Intangible assets (excluding development costs) created within the business are not capitalised and such expenditure is charged in the profit and loss account in the year in which it is incurred.

Goodwill

Goodwill, being the difference between the consideration and the attributable fair values of the net assets of the undertaking acquired, is amortised over its useful economic life, which is presently estimated to be 20 years. Provision is made for any impairment.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets on a straight line basis over their estimated useful economic lives as follows:

Laboratory equipment	-	4 years
Plant and machinery	-	4 years
Computer equipment	-	4 years

Operating lease agreements

Operating lease rentals are charged in the profit and loss account on a straight line basis over the lease term.

Research and development costs

Research and development costs are written off to the profit and loss account as incurred, except that development expenditure incurred on an individual project is carried forward when its future recoverability can be reasonably regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project.

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS TO 30TH JUNE 2006 (continued)**2. ACCOUNTING POLICIES (continued)****Foreign currencies**

Assets and liabilities in foreign currencies are translated into sterling at the rate ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Pension costs

Company contributions to personal pension schemes are written off to the profit and loss account as incurred.

Share based payments

The Company has adopted FRS 20 'Share based payments' in respect of share options granted to employees and also certain supplier contracts under which services are provided as consideration for the issue of equity instruments.

Share options granted to employees since 7th November 2002 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 option. This has given rise to a charge to profits of £230,806 in the current period but has had no impact on prior periods.

In October 2005, Lipoxen Technologies Limited entered into an agreement with FDS Pharma under which 15,000,000 shares in Lipoxen Technologies Limited were allotted in consideration for the provision by FDS Pharma of manufacturing and clinical development services. The services to be provided by FDS Pharma have now been valued at the fair value of the equity instruments issued of £3,032,719. This amount has been included within intangible fixed assets as development costs. No amortisation has been provided in the period as FDS Pharma have not completed the development of the technology.

3. MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>Six months</u> <u>to 30/06/06</u> <u>Unaudited</u> £	<u>Six months</u> <u>to 30/06/05</u> <u>Unaudited</u> £	<u>Year to</u> <u>31/12/05</u> <u>Audited</u> £
Opening shareholders' funds	104,054	9,938	9,938
Loss for period	(999,570)	(14,497)	(111,943)
Issue of ordinary share capital	12,061,908	14,872	214,872
Decrease in shares to be issued	-	(8,813)	(8,813)
Share based payments	230,806	-	-
	<u>11,397,198</u>	<u>1,500</u>	<u>104,054</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS TO 30TH JUNE 2006 (continued)**4. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES**

	<u>Six months</u> <u>to 30/06/06</u> <u>Unaudited</u> £	<u>Six months</u> <u>to 30/06/05</u> <u>Unaudited</u> £	<u>Year to</u> <u>31/12/05</u> <u>Audited</u> £
Operating loss	(1,050,476)	(14,547)	(114,201)
Amortisation of goodwill	164,141	-	-
Depreciation	16,667	-	-
Equity-settled share options	230,806	-	-
Decrease/(increase) in debtors	113,498	314	(72,936)
(Decrease)/increase in creditors	(631,214)	(308)	111,689
Net cash outflow from operating activities	<u>(1,156,578)</u>	<u>(14,541)</u>	<u>(75,448)</u>

5. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	<u>Six months</u> <u>to 30/06/06</u> <u>Unaudited</u> £	<u>Six months</u> <u>to 30/06/05</u> <u>Unaudited</u> £	<u>Year to</u> <u>31/12/05</u> <u>Audited</u> £
Opening net funds	142,613	931	931
Increase in cash in period	1,864,202	381	141,682
Closing net funds	<u>2,006,815</u>	<u>1,312</u>	<u>142,613</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS TO 30TH JUNE 2006 (continued)**6. ACQUISITION OF SUBSIDIARY**

On 16th January 2006, the Company acquired Lipoxen Technologies Limited for a consideration principally satisfied by the issue of 66,666,665 new ordinary shares of 0.5 pence each to the vendors valued at the placing price of 13.5 pence per share.

Net assets acquired:

	£
Goodwill	6,565,652
Development expenditure	3,032,719
Tangible fixed assets	25,196
Debtors	244,190
Bank and cash	33,452
Creditors	(855,649)
	<u>9,045,560</u>
	=====

Satisfied by:

Equity shares issued	9,000,000
Costs of acquisition	45,560
	<u>9,045,560</u>
	=====

7. EARNINGS PER SHARE

	<u>Six months</u> <u>to 30/06/06</u> <u>Unaudited</u> £	<u>Six months</u> <u>to 30/06/05</u> <u>Unaudited</u> £	<u>Year to</u> <u>31/12/05</u> <u>Audited</u> £
Weighted average number of ordinary shares in issue	<u>95,211,159</u>	<u>3,277,323</u>	<u>5,440,743</u>
Dilutive effect of the weighted average number of share options in the period	<u>7,588,417</u>	<u>-</u>	<u>-</u>
Loss after taxation	<u>(999,570)</u>	<u>(14,497)</u>	<u>(111,943)</u>
Basic loss per share - pence	<u>(1.05)p</u>	<u>(0.44)p</u>	<u>(2.06)p</u>
Fully diluted loss per share - pence	<u>(0.97)p</u>	<u>(0.44)p</u>	<u>(2.06)p</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS TO 30TH JUNE 2006 (continued)**8. NET ASSET VALUE PER SHARE**

The “basic” net asset value per share figures are calculated on the basis of the net assets attributable to equity shareholders divided by the number of ordinary shares in issue at the relevant dates.

The “fully diluted” net assets per share figures are calculated by adjusting the number of ordinary shares on the assumption of the exercise in full of all options and warrant instruments extant as at the relevant dates where the exercise price of any such instrument is less than the “basic” net asset value per share.

9. EVENTS AFTER THE BALANCE SHEET DATE

In August 2006, the Company raised £2,600,000 by placing 10,000,000 new ordinary shares in the Company at a subscription price of 26p per share, and entered into a warrant agreement under which the warrant holder has the right to subscribe for up to 2,700,000 ordinary shares in the Company for a period of two years from 3rd August 2006 at a subscription price of 35 pence per share.

10. Copies of the interim report are available to the public free of charge from the Company at London Bioscience Innovation Centre, 2 Royal College Street, London, NW1 0NH during normal office hours, Saturdays and Sundays excepted, for 14 days from today.