

**LIPOXEN PLC**  
**INTERIM REPORT AND UNAUDITED ACCOUNTS**  
**FOR THE SIX MONTHS ENDED**  
**30TH JUNE 2007**

**Lipoxen PLC**  
**("Lipoxen" or "the Company")**

**Interim Results for the six months ended 30 June 2007**

**Chairman's Statement**

I am pleased once more to have the opportunity of reporting upon the continuing progress of your Company. In particular, I must draw your attention to the consolidated financial statements attached hereto which have been produced under International Financial Reporting Standards ("IFRS"), and, while unaudited, these have been reviewed by our auditors; the consequences of some of the resulting reporting changes for the Company are fully explained later in this statement.

Lipoxen is a biopharmaceutical company specialising in the development of high value differentiated biologicals, vaccines and oncology drugs. The Company's approach is based on its novel drug delivery technologies, which have the potential to greatly improve new and marketed biologicals across a broad spectrum of proteins and peptides, vaccines and oncology drugs by optimising their clinical performance and extending their patent-life. Lipoxen has made significant progress in the period by continuing to deliver on its two-pronged strategy, which leverages its technologies' potential in the short term through market leading collaboration partners, and in the medium term, by establishing a proprietary clinical pipeline.

The Company's technology is comprised of:

**PolyXen®.** This 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 to formulate biologicals in the pharmaceutical and biotechnology industries. These advantages include reduced toxicity, better biologic activity and new patent protected product candidates.

**ImuXen®.** This technology is based on using liposomes to administer vaccines. The vaccine components (antigens and adjuvants) are protected by the liposomal vesicle enhancing their delivery to the immune system. This leads to protective immune responses which are much stronger and more rapid than those observed with vaccines delivered by conventional means. Moreover, liposomal formulations are well known to minimize the side effects of vaccination as a result of the containment and slow release of the active materials.

**VesicAll®.** This is a related liposomal technology, which is being developed for the formulation of cytotoxic oncology drugs, and a number of other anti-cancer agents, such as paclitaxel. VesicAll® is a drug vehicle for solubilisation of hydrophobic drugs designed to avoid the known toxicity of established vehicles such as Cremaphor® which gives rise to anaphylactic reactions.

**Collaborations Progress**

During the period, Lipoxen has focused on delivering the milestones associated with its current, validating collaborations with Baxter International Inc ("Baxter") and Serum Institute of India Limited ("SIIL"), India's largest biotechnology company.

The license agreement with Baxter is focused on developing improved, longer-acting forms of blood-clotting factors such as Factor VIII, and is based on Lipoxen's PolyXen® technology. The activities relating to this collaboration are progressing well and Lipoxen will continue to receive milestone payments as it delivers the developmental and clinical endpoints that form part of this agreement.

Lipoxen's collaboration with SIIL is a strategic partnership that covers the development of drug candidates as well as a manufacturing agreement. Currently there are eight drug candidates under development, which includes biologics, vaccines and oncology candidates. The most advanced candidate is ErepoXen®, an improved, long-acting version of a currently marketed EPO (Erythropoietin) drug for anaemia. Toxicology studies are progressing well and this candidate is due to complete Phase I clinical trials in Canada in early 2008.

As part of its development and manufacturing agreement, SIIL has been investing in the infrastructure necessary to scale up the production of PSA so that it can supply Lipoxen with commercial grade PSA, a key component of its PolyXen® protein drug delivery technology. The PSA will be manufactured in accordance with Good Manufacturing Practice ("GMP") standards and SIIL is on track to deliver this important milestone by the end of the year.

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The establishment of collaborations is seen as a key element of Lipoxen’s short-term growth strategy as it ensures the broader adoption of its drug and vaccine delivery technologies, whilst creating a growing solid revenue base for the Company. In the period under review, Lipoxen has been progressing its business development discussions in order to facilitate the establishment of more collaborations with new pharmaceutical partners and is confident that it will announce several new license agreements within the next 12 months.

### **Drug Pipeline**

The Company’s current R&D portfolio includes 10 pre-clinical programs across a range of therapeutics and vaccines, eight of which are being co-developed with SIII. The lead product candidate, ErepoXen® is designed as a long-acting EPO product used for anaemia, is currently completing toxicology studies and is set to complete Phase I clinical trials in early 2008. A long-acting Interferon-alpha is due to commence preclinical trials during 2008 with commencement of Phase I clinical trials due later next year. Lipoxen and SIII have also been developing a pneumococcal vaccine candidate with optimisation work continuing to progress and a multivalent Hep B-E vaccine. Hep E in isolation has already shown promising toxicology results; however, due to the market size, SIII and Lipoxen have expanded the indications to include Hepatitis B.

Lipoxen’s proprietary pipeline is composed of SuliXen®, a long-acting insulin for Types 1 and 2 diabetes. SuliXen® has now completed toxicology studies. Clinical trial preparations are now in progress and the Company is on target to commence exploratory clinical proof of concept trials early next year.

### **Board Appointments**

Colin Hill, who became a non-executive Director of Lipoxen at the time of the Company’s admission to AIM, was appointed Finance Director in June 2007. Mr Hill has taken on this executive appointment in order to provide the Company with the financial expertise and resource needed to help support Lipoxen’s goal of becoming a leading bio-pharmaceutical company based on its unique delivery technologies.

As noted in the Company’s regulatory announcement made on 11 June 2007, Mr Firdaus Dastoor has been appointed as a non-executive director of the Company. Mr Dastoor is a Group Director of the Poonawalla Group of companies of which SIII is a member.

### **Post Balance Sheet Event**

On 24<sup>th</sup> September 2007 the Company announced that it had entered into an exclusive worldwide development and license agreement with Intervet, a leading animal health company, to develop a long-acting insulin for the veterinary health market.

The signing of this agreement by Intervet triggers an upfront payment to Lipoxen. The agreement also provides for further clinical, regulatory and sales milestone payments to Lipoxen. In addition, Lipoxen will receive royalties on future product sales.

Intervet has signed this agreement in order to access Lipoxen’s unique PolyXen® drug delivery technology. This technology has been developed to improve the pharmacokinetic profile of protein drugs including extending their therapeutic half life, thereby reducing the frequency of administration. PolyXen® is based on linking the therapeutic proteins, or peptides, of interest to the naturally occurring polymer polysialic acid. It improves the stability and the therapeutic half-life of protein drugs and improves their solubility and immunological characteristics, while maintaining biological activity and minimizing toxicity.

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**Interim Results for the six months ended 30 June 2007**

**Outlook**

Lipoxen is continuing to deliver on its two-tiered strategy of proprietary product development and outlicensing. The Company has progressed its two major license agreements with Baxter and SIIL. These deals not only validate the potential of our drug delivery technologies but also contribute to the cash resources that we have to invest in the development of our own product pipeline. Lipoxen has established a platform for sustained future growth, based on its exciting drug and vaccine delivery technologies, and expects its focused business development activities to result in the announcement of several additional license agreements during the course of the next twelve months. The Company also remains focused on building its clinical drug pipeline and is on track to deliver the long-acting EPO candidate through Phase I clinical trials in early 2008.

Once again I and my fellow directors would like to thank all of our loyal and dedicated staff for their efforts over the last six months which have contributed so much to the continuing successful development of the Company’s technologies, and I am looking forward to my next Chairman’s Statement when I am confident that I will be able to report on further successes.

**Sir Brian Richards**  
**Non Executive Chairman**

**London: 28 September 2007**

**Lipoxen PLC**  
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**Interim Results for the six months ended 30 June 2007**

**Financial Review**

Shareholders should note that the financial statements for the period have been prepared under International Financial reporting Standards ("IFRS") rather than, as before, under UK Generally Accepted Accounting Practice ("UK GAAP"). This change to the basis of financial reporting has been adopted as a result of the implementation of the Rules of the AIM Market of the London Stock Exchange ("AIM") which require that all AIM companies make the transition to IFRS for accounting reporting periods ending after 1 January 2007. Accordingly, the financial statements are more detailed than usual and your attention is drawn in particular to:

- (a) Note 6, which provides a reconciliation between the results of prior periods as reported under UK GAAP and now restated under IFRS, and,
- (b) Note 7 which states the Goodwill on Acquisition by Lipoxen Technologies Limited of its now parent company under the reverse acquisition method of accounting set out in IFRS3

While the unaudited consolidated loss for the period end varies relatively little between IFRS and UK GAAP, the net assets position would, at first glance, appear to be dramatically different from that reported under UK GAAP as at 31 December 2006. The reason for this is that, under IFRS, the overreaching concept is the computation of the fair value of actual transactions, which means that, in our case, as the underlying deal was a reverse takeover ("RTO"), the legal subsidiary (namely, Lipoxen Technologies Limited) is deemed to have been the acquiring entity. The effect of restating the figures under this concept is that the goodwill arising on acquisition is much reduced (by around £5.3m) thereby apparently reducing shareholders funds by a similar amount. That said, shareholders can be assured that the real value of your company has not changed in any such material way; the effect of the change of the accounting standards under which the Company is now compelled to report is the driver of the numbers and the biggest change to these is that of goodwill on acquisition, an intangible asset number generated solely as a result of the preparation of consolidated accounts for the Group.

The financial results for the Group in the period under review as reported under IFRS are summarised below:

	<b>6 months to 30 June 2007</b>	<b>6 months to 30 June 2006</b>	<b>Year to 31 December 2006</b>	
	<b>Unaudited (IFRS)</b>		<b>Audited (UK GAAP)</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Turnover	517	299	1,219	1,219
R&D expenditure	(1,096)	(546)	(1,636)	(1,715)
Administrative expenses	(1,010)	(639)	(1,505)	(1,744)
<b>TOTAL OPERATING COSTS</b>	<b>(2,106)</b>	<b>(1,185)</b>	<b>(3,141)</b>	<b>(3,459)</b>
<b>OPERATING LOSS</b>	<b>(1,588)</b>	<b>(886)</b>	<b>(1,922)</b>	<b>(2,240)</b>
Interest receivable	75	40	108	108
Interest payable	-	(9)	(9)	-
Total pre-tax losses for period	(1,513)	(855)	(1,824)	(2,132)
Net cash at period end	3,111	2,007	2,690	2,690
Net asset value at period end	7,791	6,025	7,883	13,160
Basic loss per share (p)	(1.30)	(0.83)	(1.76)	(2.05)
Fully diluted loss per share (p)	(1.30)	(0.83)	(1.76)	(2.05)
Net asset value per share (p) – basic	6.51	5.79	6.83	11.40
Net asset value per share (p) – fully diluted	6.14	5.36	6.40	10.65

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**Interim Results for the six months ended 30 June 2007**

Shareholders should note that the financial statements for the period reflect a significant level of non-cash costs by way of:

Amortisation charges	-	-	-	318
Depreciation of owned assets	122	17	57	57
R&D costs – equity settled	230	-	395	395
Share option expense – equity settled	349	231	507	507
<b>Total principal non-cash items</b>	<b>701</b>	<b>248</b>	<b>959</b>	<b>1,277</b>

Cash settled expenditures are summarised as follows:

Research and development	866	546	1,241	1,320
Other expenses	539	391	941	862
<b>Total expenses – cash settled</b>	<b>1,405</b>	<b>937</b>	<b>2,182</b>	<b>2,182</b>
Total non-cash items	701	248	959	1,277
<b>Total operating expenses</b>	<b>2,106</b>	<b>1,185</b>	<b>3,141</b>	<b>3,459</b>

**% analysis – cash settled expenses**

R&D	61.7	58.3	56.9	60.5
Other	38.3	41.7	43.1	39.5
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

As can be seen from the above analysis, the Group’s investment in an increasing level of R&D expenditure has continued in the period, concomitant with meeting the Board’s obligation of prudent stewardship of the Group’s cash resources.

While the aggregate level of cash-based expenses has risen from a mean of *circa* £182k pcm in calendar 2006 to £234k pcm in the first 6 months of the current financial year, the proportion devoted to R&D has increased in the current period, rising from 56.9% to 61.7% of cash-based expenditures.

**INDEPENDENT REVIEW REPORT TO LIPOXEN PLC**

**Introduction**

We have been instructed by the company to review the financial information for the six months ended 30 June 2007 which comprises the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes. 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.

This report is made solely to the company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

**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 AIM rules of the London Stock Exchange, which require that it must be prepared in a form consistent with that which will be adopted in the next annual accounts, having regard to the accounting standards applicable to such annual accounts.

**Review work performed**

We conducted our review in accordance with 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 accounting policies and presentation have been consistently applied unless otherwise disclosed. 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 performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. 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 2007.

**PKF (UK) LLP**

London, UK

28th September 2007

**LIPOXEN PLC****CONSOLIDATED INCOME STATEMENT**  
**FOR THE SIX MONTHS ENDED 30TH JUNE 2007**

	<u>Six months</u> <u>to 30/06/07</u> <u>Unaudited</u> £	<u>Six months</u> <u>to 30/06/06</u> <u>Unaudited</u> £	<u>Year to</u> <u>31/12/06</u> <u>Unaudited</u> £
<b>Revenue</b>	<b>517,086</b>	<b>298,880</b>	<b>1,218,839</b>
Research and development expenditure	1,095,823	546,346	1,636,675
Administrative expenses	1,009,706	638,869	1,504,696
<b>Total operating expenses</b>	<b>2,105,529</b>	<b>1,185,215</b>	<b>3,141,371</b>
<b>OPERATING LOSS</b>	<b>(1,588,443)</b>	<b>(886,335)</b>	<b>(1,922,532)</b>
Interest receivable	75,219	40,274	108,479
Interest payable	-	(9,368)	(9,719)
<b>LOSS ON ORDINARY ACTIVITIES</b> <b>BEFORE TAXATION</b>	<b>(1,513,224)</b>	<b>(855,429)</b>	<b>(1,823,772)</b>
Taxation	-	20,000	(49,096)
<b>LOSS ON ORDINARY ACTIVITIES</b> <b>AFTER TAXATION</b>	<b>(1,513,224)</b>	<b>(835,429)</b>	<b>(1,872,868)</b>
Loss per ordinary share – basic and fully diluted	(1.30)p	(0.83)p	(1.76)p

**LIPOXEN PLC****CONSOLIDATED BALANCE SHEET AS AT 30TH JUNE 2007**

	<u>As at</u> <u>30/06/07</u> <u>Unaudited</u> £	<u>As at</u> <u>30/06/06</u> <u>Unaudited</u> £	<u>As at</u> <u>31/12/06</u> <u>Unaudited</u> £
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	960,519	115,484	970,665
Goodwill	1,061,476	1,061,476	1,061,476
Other receivables	-	2,385,374	1,370,000
	<u>2,021,995</u>	<u>3,562,334</u>	<u>3,402,141</u>
<b>CURRENT ASSETS</b>			
Trade and other receivables	3,200,571	801,755	2,058,584
Cash and cash equivalents	3,110,503	2,006,815	2,690,222
	6,311,074	2,808,570	4,748,806
<b>CURRENT LIABILITIES</b>			
Trade and other payables	(542,558)	(345,930)	(268,120)
<b>NET CURRENT ASSETS</b>	<u>5,768,516</u>	<u>2,462,640</u>	<u>4,480,686</u>
<b>NET ASSETS</b>	<u>7,790,511</u>	<u>6,024,974</u>	<u>7,882,827</u>
<b>CAPITAL AND RESERVES ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS</b>			
Share capital	2,231,468	2,154,233	2,210,718
Share premium	22,508,165	18,893,840	21,456,915
Reverse acquisition reserve	(8,252,127)	(8,252,127)	(8,252,127)
Retained earnings	(8,696,995)	(6,770,972)	(7,532,679)
<b>TOTAL EQUITY</b>	<u>7,790,511</u>	<u>6,024,974</u>	<u>7,882,827</u>
Net assets per share – basic	<u>6.51p</u>	<u>5.79p</u>	<u>6.83p</u>
– fully diluted	<u>6.14p</u>	<u>5.36p</u>	<u>6.40p</u>

**LIPOXEN PLC****CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE SIX MONTHS TO 30TH JUNE 2007**

	<u>Six months</u> <u>to 30/06/07</u> <u>Unaudited</u> £	<u>Six months</u> <u>to 30/06/06</u> <u>Unaudited</u> £	<u>Year to</u> <u>31/12/06</u> <u>Unaudited</u> £
Cash flows from operating activities	(614,649)	(1,202,138)	(2,310,348)
Interest paid	-	(9,368)	(9,719)
Interest received	75,219	40,274	108,479
Taxation received	-	47,029	47,029
<b>Net cash used in operating activities</b>	<b>(539,430)</b>	<b>(1,124,203)</b>	<b>(2,164,559)</b>
<b>Cash flows from investing activities</b>			
Acquisition of parent company, net of cash acquired	-	142,613	142,613
Purchase of property, plant and equipment	(112,289)	(106,955)	(1,002,752)
<b>Net cash (used in)/from investing activities</b>	<b>(112,289)</b>	<b>35,658</b>	<b>(860,139)</b>
<b>Cash flows from financing activities</b>			
Issue of equity share capital	<b>1,072,000</b>	<b>3,061,908</b>	<b>5,681,468</b>
<b>Net increase in cash and cash equivalents</b>	<b>420,281</b>	<b>1,973,363</b>	<b>2,656,770</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>2,690,222</b>	<b>33,452</b>	<b>33,452</b>
<b>Cash and cash equivalents at end of period</b>	<b>3,110,503</b>	<b>2,006,815</b>	<b>2,690,222</b>

**LIPOXEN PLC****CONSOLIDATED STATEMENT OF CHANGES IN NET EQUITY  
FOR THE SIX MONTHS TO 30TH JUNE 2007**

	Share capital	Share premium	Capital reserve	Reverse acquisition reserve	Retained earnings	Total
	£	£	£	£	£	£
At 1 <sup>st</sup> January 2006	491,432	6,247,402	1,874,704	-	(6,166,349)	2,447,189
Loss for six months ended 30 <sup>th</sup> June 2006	-	-	-	-	(835,429)	(835,429)
Cost of acquisition of parent company	61,183	1,059,317	-	-	-	1,120,500
Reverse acquisition reserve	1,455,718	8,671,113	(1,874,704)	(8,252,127)	-	-
Shares issued for cash	145,900	3,793,399	-	-	-	3,939,299
Share issue expenses	-	(877,391)	-	-	-	(877,391)
Share-based payments	-	-	-	-	230,806	230,806
At 30 <sup>th</sup> June 2006	2,154,233	18,893,840	-	(8,252,127)	(6,770,972)	6,024,974
Loss for six months ended 31 <sup>st</sup> December 2006	-	-	-	-	(1,037,439)	(1,037,439)
Shares issued for cash	56,485	2,553,075	-	-	-	2,609,560
Adjustment to share issue expenses	-	10,000	-	-	-	10,000
Share-based payments	-	-	-	-	275,732	275,732
At 31 <sup>st</sup> December 2006	2,210,718	21,456,915	-	(8,252,127)	(7,532,679)	7,882,827
Loss for six months ended 30 <sup>th</sup> June 2007	-	-	-	-	(1,513,224)	(1,513,224)
Shares issued for cash	20,750	1,051,250	-	-	-	1,072,000
Share-based payments	-	-	-	-	348,908	348,908
At 30 <sup>th</sup> June 2007	2,231,468	22,508,165	-	(8,252,127)	(8,696,995)	7,790,511

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS TO 30TH JUNE 2007**

1. The interim financial statements comprise the unaudited results for the six months to 30<sup>th</sup> June 2007 and 30<sup>th</sup> June 2006, together with the unaudited results for the year ended 31<sup>st</sup> December 2006. Prior to 1<sup>st</sup> January 2007, the Group prepared its audited annual financial statements and unaudited interim results under UK Generally Accepted Accounting Practice (UK GAAP). The audited UK GAAP annual financial statements for 2006, which represent the statutory accounts for that year, and on which the auditors gave an unqualified opinion, have been filed with the Registrar of Companies.

From 1<sup>st</sup> January 2007, the Group is required to prepare its annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and implemented in the UK. As the annual 2007 financial statements will include comparative figures for 2006, the Group's date of transition to IFRS under IFRS 1 "First time adoption of IFRS" is 1<sup>st</sup> January 2006 and the 2006 comparatives have been restated to IFRS. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in Note 6.

The interim financial statements are prepared in a form consistent with that which will be adopted in the next annual accounts having regard to the accounting standards applicable to such accounts.

**2. ACCOUNTING POLICIES**

The principal accounting policies of the Group are set out below.

**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.

On 16<sup>th</sup> January 2006, the Company acquired Lipoxen Technologies Limited ("LTL") for a consideration satisfied by the issue of 66,666,662 shares to the vendors. Under the AIM rules and IFRS this transaction meets the criteria of a Reverse Takeover. The consolidated financial statements have therefore been prepared under the reverse acquisition accounting method set out in IFRS 3 "Business Combinations" with LTL treated as the accounting acquirer of the Company. As a consequence of this, the results for the periods ended 30<sup>th</sup> June 2006 and 31<sup>st</sup> December 2006 comprise the results of LTL from 1<sup>st</sup> January 2006 to the period end plus those of Lipoxen Plc from the date of the reverse acquisition.

Under reverse acquisition accounting, the cost of the business combination is deemed to have been incurred by LTL in the form of equity instruments issued to the owners of Lipoxen Plc. LTL shares were not listed prior to the acquisition and consequently the acquisition price has been based on the entire value of the Lipoxen Plc shares in issue immediately before the reverse acquisition.

The assets and liabilities of LTL are recognized and measured in the consolidated financial statements at their pre-combination carrying amounts. The retained earnings and other equity balances recognized in the consolidated financial statements are those of LTL immediately before the business combination. The amount recognized as issued equity instruments is determined by adding the cost of the business combination to the issued equity of LTL immediately before the business combination.

**Goodwill**

Goodwill arising on consolidation represents the excess of the cost of the reverse acquisition over the net assets of Lipoxen Plc at the date of the business combination. Goodwill is recognized as an asset and is reviewed for impairment at least annually. Any impairment is recognized immediately through the income statement and is not reversed.

## **LIPOXEN PLC**

### **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE SIX MONTHS TO 30TH JUNE 2007 (continued)**

#### **Revenue**

Revenue shown in the income statement represents the value of services provided during the year, exclusive of Value Added Tax. For contracts in progress at the balance sheet date, revenue is recognized 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 income statement in the year in which it is incurred.

#### **Property, plant and equipment**

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
Manufacturing plant	-	5 years

#### **Operating lease agreements**

Operating lease rentals are charged in the income statement on a straight line basis over the lease term.

#### **Research and development costs**

Research and development costs are written off to the income statement 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.

#### **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 income statement as incurred.

#### **Share based payments**

Share options granted to employees are valued at the date of grant using the Black-Scholes option pricing model and are charged to the income statement over the vesting period of the option. A corresponding credit is recognized in the retained earnings reserve.

## LIPOXEN PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS TO 30TH JUNE 2007 (continued)

#### 3. RECONCILIATION OF LOSS BEFORE TAXATION TO CASH OUTFLOWS FROM OPERATING ACTIVITIES

	<u>Six months</u> <u>to 30/06/07</u> <u>Unaudited</u> £	<u>Six months</u> <u>to 30/06/06</u> <u>Unaudited</u> £	<u>Year to</u> <u>31/12/06</u> <u>Unaudited</u> £
Loss before taxation	(1,513,224)	(855,429)	(1,823,772)
Adjustments for:			
Equity-settled share options	348,908	230,806	506,538
Equity-settled research and development	229,514	-	395,112
Depreciation	122,435	16,667	57,283
Investment income	(75,219)	(40,274)	(108,479)
Interest expense	-	9,368	9,719
	<u>(887,586)</u>	<u>(638,862)</u>	<u>(963,599)</u>
(Increase)/decrease in receivables	(1,501)	112,968	(592,695)
Increase/(decrease) in payables	274,438	(676,244)	(754,054)
	<u>(614,649)</u>	<u>(1,202,138)</u>	<u>(2,310,348)</u>
<b>Cash flows from operating activities</b>	<u>(614,649)</u>	<u>(1,202,138)</u>	<u>(2,310,348)</u>

#### 4. EARNINGS PER SHARE

	<u>Six months</u> <u>to 30/06/07</u> <u>Unaudited</u> £	<u>Six months</u> <u>to 30/06/06</u> <u>Unaudited</u> £	<u>Year to</u> <u>31/12/06</u> <u>Unaudited</u> £
Weighted average number of ordinary shares in issue	<u>116,483,112</u>	<u>100,370,643</u>	<u>106,479,398</u>
Loss after taxation	<u>(1,513,224)</u>	<u>(835,429)</u>	<u>(1,872,868)</u>
Basic loss per share - pence	<u>(1.30)p</u>	<u>(0.83)p</u>	<u>(1.76)p</u>

There is no dilutive effect of share options on the basic loss per share.

#### 5. 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.

## LIPOXEN PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS TO 30TH JUNE 2007 (continued)

#### **6. RECONCILIATION OF COMPARATIVE EQUITY AND PROFIT FIGURES UNDER IFRS AND PREVIOUSLY PUBLISHED DATA (UK GAAP)**

As stated in Note 1, these are the Group's first consolidated interim financial statements prepared in accordance with the Group's IFRS accounting policies. The comparative information for the six months to 30<sup>th</sup> June 2006 and for the year ended 31<sup>st</sup> December 2006, previously prepared under UK GAAP, have been restated under IFRS. An explanation of how the transition from previous GAAP to IFRS has affected the Group's financial performance is shown below.

	<u>As at</u> <u>31/12/06</u> £	<u>As at</u> <u>30/06/06</u> £	<u>As at</u> <u>01/01/06</u> £
Equity previously reported under UK GAAP	13,160,229	11,397,198	104,054
Adjustments required to implement the reverse acquisition accounting provisions of IFRS 3:			
Restatement of opening equity balances to be those of LTL rather than Lipoxen Plc			
Equity balances of Lipoxen Plc	(104,054)	(104,054)	(104,054)
Equity balances of LTL	2,447,189	2,447,189	2,447,189
Restatement of cost of acquisition			
Fair value of Lipoxen Plc shares issued on acquisition of LTL	(9,000,000)	(9,000,000)	-
Fair value of LTL shares deemed to be issued to acquire Lipoxen Plc	1,120,500	1,120,500	-
LTL loss for the period prior to the acquisition as recognised in previously reported information	(58,815)	-	-
Other adjustments:			
Reversal of amortisation of goodwill	317,778	164,141	-
<b>Equity as reported under IFRS</b>	<b><u>7,882,827</u></b>	<b><u>6,024,974</u></b>	<b><u>2,447,189</u></b>
	<u>Year ended</u> <u>31/12/06</u> £	<u>Six months</u> <u>To 30/06/06</u> £	
Loss previously reported under UK GAAP	(2,131,831)	(999,570)	
LTL loss for the period prior to the acquisition as recognised in previously reported information	(58,815)	-	
Reversal of amortisation of goodwill	317,778	164,141	
<b>Loss as reported under IFRS</b>	<b><u>(1,872,868)</u></b>	<b><u>(835,429)</u></b>	

## **LIPOXEN PLC**

### **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE SIX MONTHS TO 30TH JUNE 2007 (continued)**

#### **7. ACQUISITION OF PARENT COMPANY**

	£
Fair value of Lipoxen Technologies Limited shares deemed to have been issued on acquisition	1,120,500
Incidental costs of the business combination	45,030
	<hr/>
Net assets of parent company acquired	1,165,530 104,054
	<hr/>
Goodwill acquired	1,061,476 <hr/> <hr/>

8. Copies of the interim report and unaudited accounts will be sent to shareholders shortly and will be available free of charge from the secretary at the Company's registered office at 22 Melton Street, London and 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. The report is also accessible from the Company's website at [www.lipoxen.com](http://www.lipoxen.com)