

LIPOXEN PLC
INTERIM REPORT AND UNAUDITED ACCOUNTS
FOR THE SIX MONTHS ENDED
30th JUNE 2008

CHAIRMAN'S STATEMENT

Dear Shareholder,

I am delighted to be able to update you on Lipoxen's progress this year. The first half of 2008 was a very exciting period for us with the highlight being the generation of our first human clinical data showing that our platform technology has the ability to enhance the dosing and performance of the most commercially successful biotherapeutics on the market today. In addition we have further candidates in the clinic and have strengthened our IP position. Since I last updated you we have continued to drive the business forward and look forward to announcing more positive news soon.

2008 Highlights

- In early 2008 Lipoxen's business took significant steps forward with candidates entering the clinic and the announcement of positive Phase I results with ErepoXen, a long-acting erythropoietin, which demonstrated that the product has the potential to be administered once per month versus 1-3 times per week for marketed EPOs that generate \$9 billion in revenues
- SuliXen, a long-acting insulin, became our second product to enter the clinic and initial results demonstrated that the candidate may be progressing towards a superior formulation, as compared to Lantus (sanofi-aventis), a \$3billion product
- We received a grant from the International Aids Vaccine Initiative (IAVI), the world's leading HIV-AIDS vaccine organization, for the research and development of an HIV-AIDS vaccine. Lipoxen is one of a select few to have received such a grant from IAVI
- We strengthened our IP position with the granting of two key patents in the US relating to our innovative DNA vaccine delivery technology
- The technology transfer with Schering-Plough for access to our unique PolyXen drug delivery technology was completed

Financial Review

The financial results for the Group in the period under review were:

	<u>Six months</u> <u>to 30/06/08</u> <u>Unaudited</u> £'000	<u>Six months</u> <u>to 30/06/07</u> <u>Unaudited</u> £'000	<u>Year to</u> <u>31/12/07</u> <u>Audited</u> £'000
Turnover	416	517	905
Total pre-tax losses for period	1,962	1,513	3,291
Non-cash component of total pre-tax loss	894	701	1,455
Net cash at end of period	1,213	3,111	2,446
Net asset value at the end of the period	4,596	7,791	6,336
	p	p	p
Loss per share – basic and fully diluted	1.51	1.30	2.78
Net asset value per share – basic	3.84	6.51	5.30
Net asset value per share – fully diluted	3.65	6.14	5.01

Non-cash component of total pre-tax losses:

	£'000	£'000	£'000
Depreciation of owned assets	133	122	263
R&D costs – equity settled	697	230	520
Share option expense – equity settled	64	349	672
Total principal non-cash items	<u>894</u>	<u>701</u>	<u>1,455</u>
Research and development - cash settled	1,046	866	1,836
Other expenses – cash settled	489	538	1,058
Total expenses – cash settled	<u>1,535</u>	<u>1,404</u>	<u>2,894</u>
Total non-cash items	<u>894</u>	<u>701</u>	<u>1,455</u>
Total administrative expenses	<u>2,429</u>	<u>2,105</u>	<u>4,349</u>
	%	%	%
Research and development - cash settled	68.1	61.7	63.4
Other expenses – cash settled	31.9	38.3	36.6
Total expenses – cash settled	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

With further progress from our two high value differentiated biologics expected later this year and our portfolio of delivery technologies attracting interest from an ever increasing list of partners, I believe that the coming months should deliver further exciting progress for the Company and we look forward to updating you on our developments.

Brian Richards, CBE

Non-Executive Chairman

London: 30th July 2008

INDEPENDENT REVIEW REPORT TO THE DIRECTORS OF LIPOXEN PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30th June 2008 which comprises the Group income statement, the Group balance sheet, the Group cash flow statement, the Group statement of changes in equity and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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 half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared using accounting policies consistent with those to be applied in the next annual financial statements and in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30th June 2008 is not prepared, in all material respects, in accordance with the AIM Rules of the London Stock Exchange and International Accounting Standard 34 as adopted by the European Union.

INDEPENDENT REVIEW REPORT TO THE DIRECTORS OF LIPOXEN PLC (continued)**Emphasis of Matter – Going Concern**

In giving our review conclusion on the financial information, which is not qualified, we have considered the adequacy of the disclosures in Note 2 “Fundamental accounting concept – going concern”. This notes that in order to maintain the level of scientific effort required to develop the Company’s technologies and to commercialise them to such a degree as will be necessary to become a cash-generative business, the Company will need to access new cash in addition to that available to it at the period end; such new cash will either be generated internally from, as yet, non-contractual feasibility and licensing sources and/or from the raising of new capital. These conditions, along with the other matters explained in Note 2 to the financial information, indicate the existence of a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern.

The financial information does not reflect any adjustments that would be required to be made if they were to be prepared on a basis other than the going concern basis.

PKF (UK) LLP

London, UK

30th July 2008

CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30th JUNE 2008

	<u>Six months</u> <u>to 30/06/08</u> <u>Unaudited</u> £	<u>Six months</u> <u>to 30/06/07</u> <u>Unaudited</u> £	<u>Year to</u> <u>31/12/07</u> <u>Audited</u> £
REVENUE	415,968	517,086	905,273
ADMINISTRATIVE EXPENSES			
Research and development expenditure	1,743,287	1,095,823	2,355,616
Administrative expenses	685,529	1,009,706	1,993,140
Total	<u>2,428,816</u>	<u>2,105,529</u>	<u>4,348,756</u>
OPERATING LOSS	(2,012,848)	(1,588,443)	(3,443,483)
Finance income	51,174	75,219	152,751
Finance costs	-	-	-
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	(1,961,674)	(1,513,224)	(3,290,732)
Income tax credit	157,916	-	-
LOSS FOR THE PERIOD	(1,803,758)	(1,513,224)	(3,290,732)
Loss per share (pence) – basic and fully diluted	<u>(1.51)p</u>	<u>(1.30)p</u>	<u>(2.78)p</u>

CONSOLIDATED BALANCE SHEET AS AT 30th JUNE 2008

	<u>As at</u> <u>30/06/08</u> <u>Unaudited</u> £	<u>As at</u> <u>30/06/07</u> <u>Unaudited</u> £	<u>As at</u> <u>31/12/07</u> <u>Audited</u> £
NON-CURRENT ASSETS			
Property, plant and equipment	769,586	960,519	866,552
Goodwill	1,061,476	1,061,476	1,061,476
Other receivables	-	-	500,000
	<u>1,831,062</u>	<u>2,021,995</u>	<u>2,428,028</u>
CURRENT ASSETS			
Trade and other receivables	1,764,324	3,200,571	1,755,640
Cash and cash equivalents	1,213,476	3,110,503	2,445,936
	<u>2,977,800</u>	<u>6,311,074</u>	<u>4,201,576</u>
CURRENT LIABILITIES			
Trade and other payables	(212,479)	(542,558)	(293,733)
NET CURRENT ASSETS	<u>2,765,321</u>	<u>5,768,516</u>	<u>3,907,843</u>
NET ASSETS	<u>4,596,383</u>	<u>7,790,511</u>	<u>6,335,871</u>
CAPITAL AND RESERVES ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS			
Share capital	2,231,468	2,231,468	2,231,468
Share premium account	22,508,165	22,508,165	22,508,165
Reverse acquisition reserve	(8,252,127)	(8,252,127)	(8,252,127)
Retained earnings	(11,891,123)	(8,696,995)	(10,151,635)
TOTAL EQUITY	<u>4,596,383</u>	<u>7,790,511</u>	<u>6,335,871</u>
Net assets per share - basic	<u>3.84p</u>	<u>6.51p</u>	<u>5.30p</u>
Net assets per share - fully diluted	<u>3.65p</u>	<u>6.14p</u>	<u>5.01p</u>

CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS TO 30th JUNE 2008

	<u>Six months</u> <u>to 30/06/08</u> <u>Unaudited</u> £	<u>Six months</u> <u>to 30/06/07</u> <u>Unaudited</u> £	<u>Year to</u> <u>31/12/07</u> <u>Audited</u> £
Cash outflow from operating activities	(1,405,932)	(614,649)	(1,309,836)
Interest received	51,174	75,219	152,751
Taxation received	157,916	-	-
Net cash outflow from operating activities	(1,196,842)	(539,430)	(1,157,085)
Cash flows from investing activities			
Purchase of property, plant and equipment	(35,618)	(112,289)	(159,201)
Cash flows from financing activities			
Issue of equity share capital	-	1,072,000	1,072,000
Net (decrease)/increase in cash and cash equivalents	(1,232,460)	420,281	(244,286)
Cash and cash equivalents at beginning of period	2,445,936	2,690,222	2,690,222
Cash and cash equivalents at end of period	1,213,476	3,110,503	2,445,936

CONSOLIDATED STATEMENT OF CHANGES IN NET EQUITY
FOR THE SIX MONTHS TO 30th JUNE 2008

	<u>Share capital</u>	<u>Share premium</u>	<u>Reverse acquisition reserve</u>	<u>Retained earnings</u>	<u>Total</u>
	£	£	£	£	£
At 1st January 2007	2,210,718	21,456,915	(8,252,127)	(7,532,679)	7,882,827
Loss for six months ended 30th 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
	<u>2,231,468</u>	<u>22,508,165</u>	<u>(8,252,127)</u>	<u>(8,696,995)</u>	<u>7,790,511</u>
At 30th June 2007	2,231,468	22,508,165	(8,252,127)	(8,696,995)	7,790,511
Loss for six months ended 31st December 2007	-	-	-	(1,777,508)	(1,777,508)
Share-based payments	-	-	-	322,868	322,868
	<u>2,231,468</u>	<u>22,508,165</u>	<u>(8,252,127)</u>	<u>(10,151,635)</u>	<u>6,335,871</u>
At 31st December 2007	2,231,468	22,508,165	(8,252,127)	(10,151,635)	6,335,871
Loss for six months ended 30th June 2008	-	-	-	(1,803,758)	(1,803,758)
Share-based payments	-	-	-	64,270	64,270
	<u>2,231,468</u>	<u>22,508,165</u>	<u>(8,252,127)</u>	<u>(11,891,123)</u>	<u>4,596,383</u>
At 30th June 2008	=====	=====	=====	=====	=====

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS TO 30th JUNE 2008**1. GENERAL**

The interim financial statements for the six months ended 30th June 2008 are unaudited and were approved by the Directors of the Company on 30th July 2008. 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 2007 was extracted from the Company's audited annual financial statements for that financial year. Those financial statements, 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.

The financial information has been prepared in accordance with IAS 34 "Interim Financial Reporting".

The Company's operations are not subject to seasonality or cyclicity.

2. ACCOUNTING POLICIES

The principal accounting policies and methods of computation have remained unchanged from those used in the preparation of the Company's 2007 annual financial statements.

Fundamental accounting concept - going concern

As an early-stage development life sciences business, the Company has incurred operating losses in the period under review, notwithstanding that substantial clinical and technical progress was also made in the continuing successful development of its proprietary technologies; consequently, the Company was a net consumer of cash.

In order to maintain the level of scientific effort required to develop the Company's technologies and to commercialise them to such degree as will be necessary to become a cash-generative business, the Company will need to access new cash in addition to that available to it at the period end; such new cash will either be generated internally from, as yet, non-contractual feasibility and licensing sources and/or from the raising of new capital.

The Directors have prepared a financial forecast for the period through to 31st December 2009. The forecast includes assumptions that the Group will generate cash inflows in this period from:

- (a) the ongoing roll-out and licensing of the Company's technologies with its existing collaborative partners;
- (b) the roll-out and licensing of the Company's technologies with new collaborative partners;
- (c) the contracting of feasibility studies with new partners, based on the successful outcomes of Phase 1 trials in both insulin and EPO; and
- (d) the raising of new capital.

The above are, variously, dependent upon the timelines related to the successful execution of concomitant pre-clinical and clinical trials pivotal to the successful continuing development of the Group's technology platforms and the ability to raise finance is dependent upon market conditions.

While considering that platform technology applications to known and marketed drugs confer lower commercial risks than in new drug development, the Directors recognise that there are uncertainties surrounding these core issues. If the Group was to prove unable to generate these additional cash inflows, the cash balance of circa £1.2 million as at 30th June 2008 would be insufficient to fund the Group's activities at their current level for a period of twelve months from the date of approval of these interim financial statements.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS TO 30th JUNE 2008 (continued)**

2. ACCOUNTING POLICIES (continued)

Fundamental accounting concept - going concern (continued)

However, the Directors have a reasonable expectation that these uncertainties can be managed to successful outcomes, and that, based on such assessment, the Group will have adequate resources to continue in operational existence for the foreseeable future. They have therefore prepared the financial information contained herein on a going concern basis.

The financial information does not reflect any adjustments that would be required to be made if they were to be prepared on a basis other than the going concern basis.

3. SEGMENTAL ANALYSIS

The revenue and loss before tax are attributable to the one principal activity of the group. The net assets of the Group at 30th June 2008, 31st December 2007 and 30th June 2007 are wholly attributable to the principal activity. The Group comprises one primary business segment for reporting purposes. There is no secondary reporting segment.

An analysis of turnover (by location of customer) is given below:

	<u>Six months</u> <u>to 30/06/08</u> <u>Unaudited</u> £	<u>Six months</u> <u>to 30/06/07</u> <u>Unaudited</u> £	<u>Year to</u> <u>31/12/07</u> <u>Audited</u> £
United States	339,790	426,641	745,165
Europe	76,178	90,445	160,108
	<u>415,968</u>	<u>517,086</u>	<u>905,273</u>

**4. RECONCILIATION OF LOSS BEFORE TAXATION TO
CASH OUTFLOWS FROM OPERATING ACTIVITIES**

	<u>Six months</u> <u>to 30/06/08</u> <u>Unaudited</u> £	<u>Six months</u> <u>to 30/06/07</u> <u>Unaudited</u> £	<u>Year to</u> <u>31/12/07</u> <u>Audited</u> £
Loss before taxation	(1,961,674)	(1,513,224)	(3,290,732)
Adjustments for:			
Equity-settled share options	64,270	348,908	671,776
Equity-settled research and development	697,257	229,514	520,037
Depreciation	132,584	122,435	263,314
Investment income	(51,174)	(75,219)	(152,751)
	<u>(1,118,737)</u>	<u>(887,586)</u>	<u>(1,988,356)</u>
(Increase)/decrease in receivables	(205,941)	(1,501)	652,907
(Decrease)/increase in payables	(81,254)	274,438	25,613
	<u>(1,405,932)</u>	<u>(614,649)</u>	<u>(1,309,836)</u>

**NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS TO 30th JUNE 2008 (continued)**

5. INCOME TAX CREDIT

The income tax credit of £157,916 recognised in the six months ended 30th June 2008 represents the amount received in the period following the surrender of certain corporation tax losses arising in prior years. These losses relate to qualifying research and development expenditure, which under current UK legislation may be surrendered in return for a tax rebate.

6. LOSS PER SHARE

	<u>Six months</u> <u>to 30/06/08</u> <u>Unaudited</u> £	<u>Six months</u> <u>to 30/06/07</u> <u>Unaudited</u> £	<u>Year to</u> <u>31/12/07</u> <u>Audited</u> £
Weighted average number of ordinary shares in issue	119,593,552	116,483,112	118,370,247
Loss after taxation	1,803,758	1,513,224	3,290,732
	1.51p	1.30p	2.78p

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

7. OTHER RECEIVABLES

In October 2005, Lipoxen Technologies Limited entered into an agreement with its then major shareholder, FDS Pharma Ass (FDS), under which 15,000,000 ordinary shares were allotted in consideration for the provision by FDS of manufacturing and clinical development services. As per a Novation Agreement between FDS, Lipoxen Technologies Limited and the Company dated 16th January 2006, the agreement provides for the allotment of up to 10,174,340 ordinary shares in Lipoxen Plc upon achievement of certain future milestones to the financial value of US\$2,670,764 as approved by shareholders at the Extraordinary General Meeting of the Company held on 16th January 2006. An amount of £697,257 (6 months to 30/06/07 - £229,514; year to 31/12/07 -£520,037) has been written off to the income statement in the period in respect of services provided by FDS. An amount of £1,387,594 (30/06/07 - £2,375,374; 31/12/07 - £2,084,851) is included in the balance sheet under other receivables in respect of services still to be provided under the agreement, which are expected to be provided within one year from the balance sheet date (31/12/07 - £500,000 in more than one year from the balance sheet date).

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. 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.