Frontier IP Group Plc

Half Yearly Report 2012/13

Specialising in the commercialisation of intellectual property

Contents

Andrew Richmond, Non-executive Chairman of Frontier IP, said,

"A key H1 development was our successful fund raising of £563,000 net of costs from new and existing investors and the management team. The placing represents an endorsement of Frontier IP's prospects and supports the ongoing development of the business. From the trading perspective, Frontier IP made encouraging progress in the first six months of the new financial year despite the backdrop of economic uncertainty. We added three spin-out companies to our portfolio and saw a number of developments in our existing portfolio and partnerships. In addition, we continue to progress our medium-term plans to establish sector-specific funds. Looking ahead, we anticipate further progress across our portfolio companies and with our partnerships in the second half and beyond."

Key points

- Encouraging progress made in H1:
  - > three new spin-out companies added to portfolio
  - > first licensing income and first equity stake earned from partnership with Plymouth University
  - > equity placing completed to raise £563,000 (net)
- Revenue from services higher at £99,000 (2011: £80,000)
- Loss before tax reduced to £85,000 (2011: loss of £187,000)
- Loss per share reduced to 1.06p (2011: loss per share of 2.68p)
- Cash balances as at 31 December 2012 of £368,000 (31 December 2011: £299,000)
- Net assets per share as at 31 December 2012 of 23p (31 December 2011: 39p)
- Board reorganised, including new non-executive director appointment
- Further progress with portfolio and partnerships anticipated in H2 and beyond

Chairman's Statement

Introduction

In my first report as Chairman, I am pleased to be reporting that Frontier IP has continued to benefit from a high level of activity within its business operations during the half-year to 31 December 2012, amidst an uncertain economic environment. The Company added three new spin-out companies to its portfolio in the six month period and has seen a number of developments in its existing portfolio and partnerships. In addition, we continue to progress our medium-term plans to establish sector-specific funds. The Company also earned both its first equity stake and share of licensing revenue arising from its partnership with Plymouth University.

Importantly, during the period the Company completed a placing of shares raising £563,000 (net) from new and existing investors, alongside a significant contribution from the management team.

Results

Total revenue for the six months ended 31 December 2012 was £104,000 (2011: £119,000) with revenue from services increasing by 24% to £99,000 (2011: £80,000). Unrealised gains on the revaluation of investments totalled £5,000 (2011: £39,000). The loss before tax more than halved to £85,000 (2011: loss £187,000), with the decrease mainly being due to the release of the bad debt provision against Nandi Proteins Ltd of £119,000. Ongoing overheads, excluding the costs of the Placing, reduced by 14% to £263,000 (2011: 306,000). The loss per share reduced to 1.06p (2011: loss per share 2.68p).

Cash balances stood at £368,000 as at 31 December 2012 (2011: £299,000). Net assets per share as at 31 December 2012 were 23p (30 June 2012: 36p and 31 December 2011: 39p).

Operational Review

In December 2012, Frontier IP raised £563,000 (net) by way of a placing of 6,080,000 ordinary shares at 10 pence per share. The net proceeds are intended to provide working capital to support the ongoing needs of the business including the development of its commercialisation partnerships, complementary advisory roles, capital commitments to existing funds and the establishment of new sector-specific funds.

Frontier IP has three university partnerships, with University of Dundee, Plymouth University and Robert Gordon University, Aberdeen. During the period, the Company received equity stakes from its partnerships in three new spin-out companies: Tissue Repair Technologies Ltd, Ex Scientia Ltd and PoreXpert Ltd bringing the total number of portfolio companies to thirteen.

Tissue Repair Technologies Ltd is a spin-out from University of Dundee. It develops novel wound healing agents based with particular application in patients with impaired healing, such as diabetics. Frontier IP currently holds approximately 5% of the issued share capital of Tissue Repair Technologies.

Ex Scientia Ltd, a spin-out from University of Dundee, has been formed to exploit novel informatics and experimental methods to enable new, more effective ways of conducting drug discovery. Ex Scientia is making good commercial progress and has already won its first two significant contracts. Frontier IP currently holds approximately 5.56% of the issued share capital of Ex Scientia.

PoreXpert Ltd, a new spin-out from Plymouth University, was formed to accelerate the commercialisation activity of the Environmental and Fluid Modelling Group at Plymouth which provides software and consultancy for modelling porous systems. Distribution channels for the software are currently being established, with a first agreement with global scientific supply company Thermo Fisher. Frontier IP currently holds approximately 15% of the issued share capital of PoreXpert.

We are seeing our existing portfolio companies mature with a number having engagement with industrial partners, validating their technology and laying the foundations for exit opportunities for shareholders. In addition, other portfolio companies are generating revenues and moving towards profitability. In particular, we reported in December on Nandi Proteins Ltd which concluded a licence agreement for the use of its innovative protein technology with Tate & Lyle PLC. As we previously reported, the conclusion of this agreement resulted in repayment arrangements to recover the significant ongoing advisory fees owed to the Company and as a result we have released the provision against those fees.

We are also pleased to report on our first licensing contribution earned from our partnership with Plymouth University and we continue to work with Plymouth University to grow this income stream.

As reported previously, in August 2012, we entered into a collaboration agreement with University of Dundee. The agreement provides for Frontier IP and the University of Dundee to work together to define, agree and, as appropriate, establish a vehicle which funds the exploitation of commercial drug development opportunities arising from the Drug Discovery Unit at University of Dundee. We are actively working with University of Dundee on shaping this exciting initiative.

Whilst the current funding environment is challenging, we continue to work with Narec Capital Ltd, a new relationship we announced in June of last year in which it is intended that we be appointed as provider of fund management and administration services, to support the creation a funding vehicle to provide early-stage capital to renewable energy technologies.

The Board and Management

In the second quarter of the financial year, we completed a reorganisation of the Board of Director and appointed a new Non-executive Director, Marcus Yeoman. He succeeds Graham Barnet who stepped down from the Board at the same time. Marcus brings extensive experience as non-executive director of a number of AIM listed companies, as well as being non-executive director of a number of private companies which have engaged him principally to assist them with their growth strategies. His early career started with the formation of three companies in IT infrastructure and distribution, after which he moved into small company broking and corporate work.

During the reorganisation of the Board, I was appointed as Non-executive Chairman, Neil Crabb became Chief Executive Officer and Jackie McKay and David Cairns respectively became Chief Operating Officer and Portfolio Director. These changes became effective on 3 December 2012.

Outlook

We are very encouraged by the Group's continuing progress and the fund raising we completed in December, in which several of the Directors participated, is an endorsement of Frontier IP's prospects.

Notwithstanding the wider economic uncertainties, we anticipate further progress across our portfolio companies and with our partnerships over the second half of the financial year and beyond. In the meantime, we continue to look to further strengthen the business.

Andrew Richmond
Non-executive Chairman

27 March 2013

Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2012

	Notes	Six months ended 31 December 2012 (unaudited) £'000	Six months ended 31 December 2011 (unaudited) £'000	Year ended 30 June 2012 (audited) £'000
Revenue				
Revenue from services		99	80	162
Other operating income				
Unrealised profit on the revaluation of investments		5	39	61
Total revenue		104	119	223
Administrative expenses		(263)	(306)	(603)
Placing costs		(45)	-	-
Write back of bad debt provision		119	-	-
		(189)	(306)	(603)
Loss before tax		(85)	(187)	(380)
Taxation	5	-	-	-
Loss and total comprehensive expense for the period		(85)	(187)	(380)
Loss per share attributable to the equity holders of the Company:				
Basic and diluted loss per share	6	(1.06)p	(2.68)p	(5.45)p

All of the Group's activities are classed as continuing and there were no comprehensive gains or losses in any period other than those included in the statement of comprehensive income.

Consolidated Statement of Financial Position

At 31 December 2012

	As at 31 December 2012 (unaudited) £'000	As at 31 December 2011 (unaudited) £'000	As at 30 June 2012 (audited) £'000
ASSETS			
Non-current assets			
Goodwill	1,966	1,966	1,966
Financial assets at fair value through profit and loss	556	491	532
Trade receivables	128	-	-
	2,650	2,457	2,498
Current assets			
Trade receivables and other current assets	89	50	80
Cash and cash equivalents	368	299	44
	457	349	124
Total assets	3,107	2,806	2,622
LIABILITIES			
Current liabilities			
Trade and other payables	(76)	(107)	(115)
Net assets	3,031	2,699	2,507
EQUITY			
Called up share capital	1,305	697	697
Share premium account	4,457	4,457	4,457
Reverse acquisition reserve	(1,667)	(1,667)	(1,667)
Share based payment reserve	116	114	115
Retained earnings	(1,180)	(902)	(1,095)
Total equity	3,031	2,699	2,507

Consolidated Statement of Changes in Equity

For the six month period ended 31 December 2012

	Share capital £'000	Share premium account £'000	Reverse acquisition reserve £'000	Share-based payment reserve £'000	Profit and loss account £'000	Total £'000
At 1st July 2011	697	4,457	(1,667)	114	(715)	2,886
Loss for the period	-	-	-	-	(187)	(187)
At 31 December 2011	697	4,457	(1,667)	114	(902)	2,699
Loss for the period	-	-	-	-	(193)	(193)
Share-based payments	-	-	-	1	-	1
At 30 June 2012	697	4,457	(1,667)	115	(1,095)	2,507
Issue of shares	608	-	-	-	-	608
Loss for the period	-	-	-	-	(85)	(85)
Share-based payments	-	-	-	1	-	1
At 31 December 2012	1,305	4,457	(1,667)	116	(1,180)	3,031

Consolidated Statement of Cash Flows

For the six months ended 31 December 2012

	Six months ended 31 December 2012 (unaudited) £'000	Six months ended 31 December 2011 (unaudited) £'000	Year ended 30 June 2012 (audited) £'000
Cash flows from operating activities			
Cash used in operations	(220)	(231)	(466)
Taxation paid	-	-	-
Net cash used in operating activities	(220)	(231)	(466)
Cash flows from investing activities			
Purchase of financial assets at fair value through profit and loss	(19)	(52)	(72)
Net cash used in investing activities	(19)	(52)	(72)
Cash flows from financing activities			
Proceeds from issue of equity shares	608	-	-
Costs of share issue	(45)	-	-
Net cash generated from financing activities	563	-	-
Net increase/(decrease) in cash and cash equivalents	324	(283)	(538)
Cash and cash equivalents at beginning of period	44	582	582
Cash and cash equivalents at end of period	368	299	44
Cash used in operations			
Loss before tax	(85)	(187)	(380)
Adjustment for share-based payments	1	-	1
Adjustment for depreciation	-	1	1
Adjustment for costs of share issue	44	-	-
Adjustment for write back of bad debt provision	(119)	-	-
Fair value gain on financial assets at fair value through profit or loss	(5)	(39)	(61)
Changes in working capital:			
Trade and other receivables	(18)	(1)	(30)
Trade and other payables	(39)	(5)	3
	(220)	(231)	(466)

Notes

1., General information

The Company is a limited liability company incorporated in England and with its registered office at NorthWest Wing, Bush House, Aldwych, London WC2B 4EZ. The Company's trading office is situated at 41 Charlotte Square, Edinburgh EH2 4HQ.

The Company is quoted on the AIM market of the London Stock Exchange.

This condensed consolidated interim financial information was approved and authorised for issue by a duly appointed and authorised committee of the Board of Directors on 27 March 2013.

2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 31 December 2012 has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2012, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

This condensed consolidated interim financial information does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The comparatives for the full year ended 30 June 2012 are not the Company's full statutory accounts for that year. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified and did not contain a statement under sections 498(2) or 498(3) of the Companies Act 2006.

3. Accounting policies

The accounting policies applied by the Group in these unaudited half year results are consistent with those applied in the annual financial statements for the year ended 30 June 2012 as described in the Group's Annual Report for that year and as available on our website www.frontierip.co.uk. No new standards that have become effective in the period have had a material effect on the Group's financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

4. Segmental information

The chief operating decision–maker has been identified as the Group board of directors. The board reviews the Group's internal reporting in order to assess performance and allocate resources. Currently the Group has one operating activity, the commercialisation of University IP. All of the Group's activities are carried out in the UK.

5. Taxation

The taxation expense is recognised based on management's best estimate of the weighted average annual tax rate expected for the full financial year. Management expects that there will be no tax charge arising in the year and so there is no charge to taxation for the six months to 31 December 2012 (2011: Nil).

A deferred tax asset has not been recognised in respect of losses in view of the uncertainty as to the level of future taxable profits.

6. Loss per share

The calculation of the basic loss per share for the six months ended 31 December 2012 and 31 December 2011 and for the year ended 30 June 2012 is based on the losses attributable to the shareholders of Frontier IP Group Plc in each period divided by the weighted average number of shares in issue during the period.

	Losses attributable to shareholders £'000	*Weighted average number of shares Number*	*Basic loss per share Pence*
Six months ended 31 December 2012	(85)	7,930,426	(1.06)
Six months ended 31 December 2011	(187)	6,972,165	(2.68)
Year ended 30 June 2012	(380)	6,972,165	(5.45)

No warrant or option is potentially dilutive as the average market price of the ordinary shares during the above periods was less than the exercise price of the warrants and options, hence basic and diluted loss per share are the same.

7. Related party transactions

During the period the Company had transactions with a significant shareholder, Sigma Capital Group plc ("Sigma").

Sigma invoiced fees of £23,000 (2011: £25,000), premises costs of £5,000 (2011: £7,000) and recharged administrative and Frontier employee expenses of £5,000 (2011: £6,000). The fees are for the services of Graham Barnet (resigned 3 December 2012) and Marilyn Cole as Directors of the Company and for administration support. Sigma participated in the placing of Frontier IP's shares and subscribed fees of £25,000 for 250,000 shares of 10p each.

The Company received £19,000 from Sigma (2011: £19,000) in respect of fund management fees for the Dundee Fund and the RGU Fund which are currently managed on the Company's behalf by Sigma's FSA authorised and regulated subsidiary Sigma Technology Management Limited of which Neil Crabb is also an employee.

At 31 December 2012, the Company owed Sigma £5,000 (2011: £6,000) and was owed £11,000 (2011: £11,000).

8. Copies of Half Yearly Report

Copies of the Half Yearly Report will be sent to shareholders and will be available on the Company's website, www.frontierip.co.uk, and on request from the Company's offices at 41 Charlotte Square, Edinburgh EH2 4HQ no later than 29 March 2013.