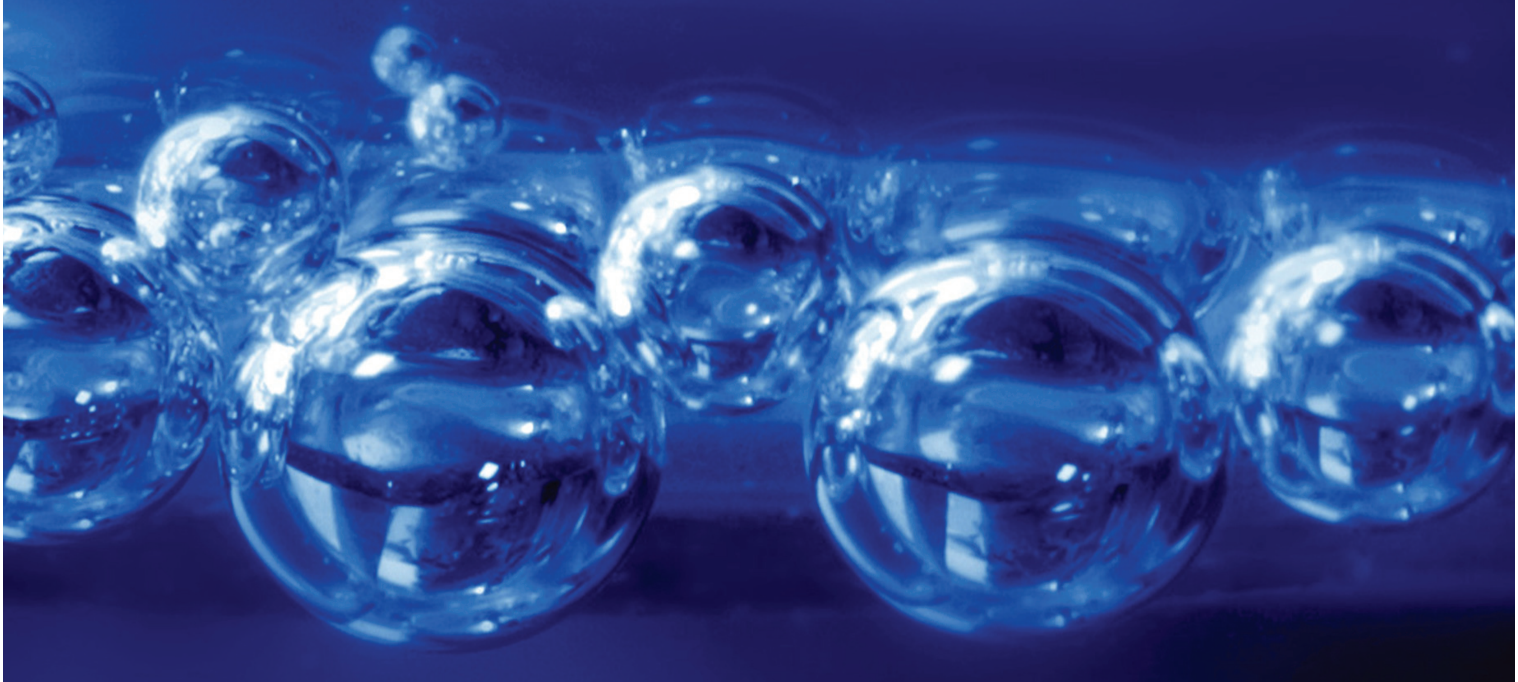
Frontier IP Group plc

Half Yearly Report 2011/12



Specialising in the commercialisation of intellectual property

Neil Crabb, Chairman of Frontier IP Group plc, said:

"I am pleased to report that Frontier IP has continued to make good progress in developing its business.

There were a number of positive developments in our existing portfolio and it is encouraging that several spinouts are already crossing into profitability. We believe that there is a broad range of significant commercial opportunities across our three university partnerships and, in the short to medium term, will be focusing our attention on exploring and developing these.

We are also directly exploring a number of specific opportunities to help our partner universities fully exploit their substantial research and asset bases as there is continuing pressure for universities to bring in additional revenue streams and sources of funding. The Company is currently evaluating financing options in order to fully resource these opportunities as well as providing for the ongoing working capital needs of the business."

KEY POINTS

- Encouraging commercial progress
- Total revenue of £119,000 (2010: 6 months £296,000)
- Loss before tax of £187,000 (2010: 6 months profit of £69,000)
- Loss per share of 2.68p (2010: 6 months earnings per share of 1.39p)
- Net assets per share as at 31 December 2011 of 39p (31 December 2010: 50p)
- Cash balances as at 31 December 2011 of £299,000 (31 December 2010: £84,000)
- Portfolio developing with new equity and potential for licensing income

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CHAIRMAN'S STATEMENT

Introduction

I am pleased to report that Frontier IP has continued to make good progress in developing its business. As we previously highlighted, we received equity in two new spinout companies during the first half of the financial year. Both equity stakes were in spinout companies from the University of Dundee, with whom we have a long term partnership. In addition, there were a number of positive developments in our existing portfolio, which now holds direct stakes in nine companies including these two most recent holdings. We expect to see further growth in our portfolio as well as a first contribution from our share of licensing revenue from our new partnership with Plymouth University in the second half.

Results

Total revenue for the six months ended 31 December 2011 was £119,000 (2010: £296,000), comprising an unrealised gain on the revaluation of investments of £39,000 (2010: unrealised gain £218,000) and revenue from services of £80,000 (2010: £78,000). Loss before tax was £187,000 (2010: profit £69,000), in part due to increased overheads as we expanded team resource. The prior period also benefited from a one-off unrealised investment gain. Loss per share was 2.68p (2010: earnings per share 1.39p).

Cash balances stood at £299,000 as at 31 December 2011 (2010: £84,000). Net assets per share as at 31 December 2011 were 39p (30 June 2011: 41.4p and 31 December 2010: 50p).

Operational Review

Following the signing of our partnership with Plymouth University in May 2011, the Group now has three university partnerships, our two other partnerships being with the University of Dundee and Robert Gordon University, Aberdeen. We believe that there is a broad range of significant commercial opportunities across these three partnerships and, in the short to medium term, will be focusing our attention on exploring and developing these.

There were a number of positive developments in our portfolio and I am pleased to highlight progress at Counterweight Ltd, Nandi Proteins Ltd, Advanced Underwater Survey Ltd and Aridhia Informatics Ltd. Counterweight Ltd, which specialises in clinician-led weight management programmes, completed its first funding round and is now working with a number of commercial partners to extend its markets in the NHS and the private sector.

Nandi Proteins Ltd, (where we had previously written down the value of our equity and also have significant accrued fees fully provided for) whose technology enables reduced use of additives and the lowering of fat content in food, has a number of funded trials being progressed with a view to entering into exclusive licence agreements. Nandi Proteins Ltd is also a partner in a research project part-funded by the Technology Strategy Board (the public body established by the Government to promote business-led innovation) as part of its Nutrition for Life programme. The project, with a total value of over £1m, is led by Premier Foods plc which also involves Heriot Watt University, the University of Edinburgh and other industrial partners in the food industry.

Advanced Underwater Surveys Ltd, which specialises in high resolution multi-beam sonar surveying and visualisation, also made good progress. The company has won a number of customers in the government, salvage and energy sectors, enabling it to invest in its own remote operated vehicle, and is planning for further growth.

Aridhia Informatics Ltd, a health informatics business, announced a partnership to deliver a diabetes programme in Kuwait in September 2011. The company also formed a strategic partnership with Seattle-based Glencoe Software, Inc., which specialises in data management of imaging in life sciences, and this agreement includes an investment by Aridhia to accelerate Glencoe's growth.

As previously reported, we received two new equity stakes in spinout companies from the University of Dundee, Glycobiochem Ltd ("Glycobiochem") and Kinetic Discovery Ltd ("Kinetic").

Glycobiochem markets a software product called PRODRG, which is designed to generate three-dimensional models of chemicals for use in applications such as rational drug design, as well as a range of innovative molecular and chemical tools developed specifically for research into carbohydrate processing enzymes. Glycobiochem is also developing a drug discovery programme, which is currently focused on novel targets implicated in the development of Alzheimer's disease.

The second spinout, Kinetic, is a drug discovery services company which specialises in biosensor based screening. It has a spread of international customers including many of the major pharmaceutical companies, and is already trading profitably. Kinetic is embedded within the University of Dundee, enabling it to continue to benefit from university facilities. This "embedded" approach is one which we are looking to develop further across our partnerships.

We are working on a number of new spinouts and licensing opportunities in conjunction with our university partners and look forward to updating shareholders in due course.

The Board and Management

In December we were pleased to announce the appointment of Andrew Richmond as a Non-Executive Director, replacing Tim Cockroft. Andrew brings highly relevant experience to our business, having significant experience of the healthcare, stockbroking and private equity industries. He is also a Lay Member of the Court of the University of Dundee.

Outlook

We are pleased with the progress being made by several of our existing portfolio companies towards deploying their technologies and believe it is encouraging that the first are already crossing into profitability. Our three university partnerships also give us confidence that we will see a significant expansion of our portfolio, as well as a growing contribution from licensing income, over time.

We are directly exploring a number of specific opportunities to help our partner universities fully exploit their substantial research and asset base as there is continuing pressure for universities to bring in additional revenue streams and sources of funding as well as to demonstrate the impact of their research. The Company is currently evaluating financing options in order to fully resource these opportunities as well as providing for the ongoing working capital needs of the business.

Neil Crabb
Executive Chairman
22 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2011

	Notes	Six months ended31 December 2011 (unaudited)	Six months ended 31 December 2010 (unaudited)	Year ended 30 June 2011 (audited)
		£'000	£'000	£'000
Revenue				
Revenue from services		80	78	158
Other operating income				
Unrealised profit on the revaluation of investments		39	218	149
Total revenue		119	296	307
Administrative expenses (net)		(306)	(227)	(576)
(Loss)/profit from operations		(187)	69	(269)
Finance income		-	-	-
(Loss)/profit before tax		(187)	69	(269)
Taxation	5	-	-	-
(Loss)/profit and total comprehensive (expense)/income for the period		(187)	69	(269)
Earnings /(loss) per share attributable to the equity holders of the Company:				
Basic (loss) / earnings per share	6	(2.68)p	1.39p	(3.86)p
Diluted (loss) / earnings per share	6	(2.68)p	1.39p	(3.86)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 2011

	As at 31 December 2011 (unaudited) £'000	As at 31 December 2010 (unaudited) £'000	As at 30 June 2011 (audited) £'000
ASSETS			
Non-current assets			
Tangible fixed assets	-	-	1
Goodwill	1,966	1,966	1,966
Financial assets at fair value through profit and loss	491	461	400
	2,457	2,427	2,367
Current assets			
Trade receivables	27	9	21
Other current assets	23	45	28
Cash and cash equivalents	299	84	582
	349	138	631
Total assets	2,806	2,565	2,998
LIABILITIES			
Current liabilities			
Trade and other payables	(107)	(101)	(112)
Net assets	2,699	2,464	2,886
EQUITY			
Called up share capital	697	497	697
Share premium account	4,457	3,898	4,457
Reverse acquisition reserve	(1,667)	(1,667)	(1,667)
Share based payment reserve	114	113	114
Retained earnings	(902)	(377)	(715)
Total equity	2,699	2,464	2,886

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six month period ended 31 December 2011

	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 2010	497	3,898	(1,667)	112	(446)	2,394
Profit for the period	-	-	-	-	69	69
Share-based payments	-	-	-	1	-	1
At 31 December 2010	497	3,898	(1,667)	113	(377)	2,464
Issue of shares	200	800	-	-	-	1,000
Costs of issue	-	(241)	-	-	-	(241)
Loss for the period	-	-	-	-	(338)	(338)
Share-based payments	-	-	-	1	-	1
At 30 June 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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2011

	Six months ended 31 December 2011 (unaudited) £'000	Six months ended 31 December 2010 (unaudited) £'000	Year ended 30 June 2011 (audited) £'000
Cash flows from operating activities			
Cash used in operations	(231)	(183)	(434)
Interest paid	-	-	-
Taxation paid	-	-	-
Net cash used in operating activities	(231)	(183)	(434)
Cash flows from investing activities			
Purchase of tangible fixed assets	-	-	(1)
Purchase of financial assets at fair value through profit and loss	(52)	(63)	(72)
Interest received	-	-	-
Net cash used in investing activities	(52)	(63)	(73)
Cash flows from financing activities			
Proceeds from issue of equity shares	-	-	1,000
Costs of share issue	-	-	(241)
Net cash generated from financing activities	-	-	759
Net (decrease)/increase in cash and cash equivalents	(283)	(246)	252
Cash and cash equivalents at beginning of period	582	330	330
Cash and cash equivalents at end of period	299	84	582

Cash used in operations			
(Loss)/profit before tax	(187)	69	(269)
Adjustment for share-based payments	-	1	2
Adjustment for depreciation	1	-	-
Fair value gain on financial assets at fair value through profit or loss	(39)	(218)	(149)
Changes in working capital:			
Trade and other receivables	(1)	(28)	(23)
Trade and other payables	(5)	(7)	5
	(231)	(183)	(434)

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 AIM.

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 22 March 2012.

2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 31 December 2011 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 2011, 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 2011 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 are consistent with those of the annual financial statements for the year ended 30 June 2011 as described in the Group's Annual Report for that year and as available on our website www.frontierip.co.uk.

The current accounting policy of the Group for equity received in companies spun out by the universities where there is no associated funding round is to apply an initial standard valuation amount as a means of estimating fair value. Subsequently the fair value of these investments is established using the International and Private Equity and Venture Capital Valuation Guidelines ("IPEV Guidelines"). The IPEV Guidelines are drawn up on the assumption that the holder of the equity has invested in the company, which is not the case with Frontier. Consequently, the Group has refined this accounting policy and will be applying the revised accounting policy in the second half of the year ended 30 June 2012. The amended accounting policy is:

1. On initial spin out value the company at £50,000.
2. Once the IP is transferred to the company, uplift the valuation by between £50,000 and £300,000 depending on the value attributed to the IP.
3. Consider if the valuation should be increased when the company commences trading and starts to generate revenue.
4. Apply IPEV Guideline if the company receives third party funding.
5. As the company develops, use other valuation methodologies such as turnover multiple, price/earnings ratio, net present value of future cash flows, as appropriate.

The value at which the investments were held at 31 December 2011 would not be materially different if the above accounting policy had been adopted as at that date.

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 2011 (2010: 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) / earnings per share

The calculation of the basic (loss)/earnings per share for the six months ended 31 December 2011 and 31 December 2010 and for the year ended 30 June 2011 is based on the (losses)/profits 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)/profits attributable to shareholders	*Weighted average number of shares*	*Basic (loss)/ earnings per share*
	£'000	*Number*	*Pence*
Six months ended 31 December 2011	(187)	6,972,165	(2.68)
Six months ended 31 December 2010	69	4,972,165	1.39
Year ended 30 June 2011	(269)	6,972,165	(3.86)

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 directors' fees of £25,000 (2010: £25,000), premises costs of £7,000 (2010: nil) and recharged administrative and Frontier employee expenses of £6,000 (2010: £14,000). The fees are for the services of Graham Barnet and Marilyn Cole as Directors of the Company and for administration support.

The Company received £18,500 from Sigma (2010: £16,000) 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 2011, the Company owed Sigma £6,000 (2010: £11,000) and was owed £11,000 (2010: £4,000).

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 30 March 2012.