Interim Report 2014

Oxford Pharmascience Group plc

Oxford pharmascience

DIRECTORS, OFFICERS AND ADVISERS

DIRECTORS

David Norwood	*Non-Executive Chairman*
Marcelo Bravo	*Chief Executive Officer*
Chris Hill	*Chief Financial Officer*
James White	*Non-Executive Director*
John Goddard	*Non-Executive Director*
Karl Van Horn	*Non-Executive Director (appointed 16 July 2014)*

COMPANY SECRETARY
Christopher Hill

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Chairman's and Chief Executive Officer's Joint Review

HIGHLIGHTS

- Positive results of pilot clinical study to determine the extent of upper gastrointestinal irritation of the Company's OXP001 400mg ibuprofen tablet compared with standard ibuprofen by endoscopic evaluation, with optimisation work required to achieve bioequivalence.
- As well as ibuprofen, we now expect the platform will deliver across the vast non-steroidal anti-inflammatory drugs (NSAIDs) category gastric safer naproxen, diclofenac and potentially aspirin.
- Refocusing of activities to fine tune the release properties of the NSAID technology and validate its application across the four most commonly used NSAIDs.
- Recent work on NSAIDs has created further opportunities to strengthen the Company's intellectual property across the NSAIDs platform.
- Cash and cash equivalents at 30 June 2014 of £8.2m (2013: £6.6m, 31 December 2013: £9.9m.).
- Loss before tax for the period of £1.7m (2013 loss before tax: £0.6m), reflecting scale-up of the NSAIDs programme.

OVERVIEW

We are pleased with the positive developments made during the first half of 2014 and subsequently, have seen the Company progress significantly with its gastric safe NSAIDs programme. The highlight of the period was the positive outcome of our first in-human pilot study with "gastric safe" taste masked ibuprofen and subsequent refocusing of activities to capitalise on the significant opportunities presented by this technology. Optimisation work required to achieve bioequivalence compared to reference is near completion.

In June this year, the Company announced the positive results of its pilot clinical study of reduced gastric irritation ibuprofen. Specifically, the Company's ibuprofen tablet exhibited a dramatic and statistically significant reduction in gastrointestinal irritation ("GI") compared to standard ibuprofen tablets, as measured by: (1) the overall Lanza score in the stomach and duodenum (a standard measurement scale for gastrointestinal erosions); and (2) significantly fewer erosions observed separately in the stomach and duodenum.

Following these encouraging results and significant interest from industry, the Company prioritised its activities to improve the drug release profile of the technology and to accelerate the application of the technology across the four most commonly used NSAIDs, namely ibuprofen, naproxen, diclofenac and aspirin.

The Company has recently announced that it has successfully synthesized gastric safe taste masked naproxen at lab scale and is progressing to manufacturing scale-up and readiness for clinical proof of concept trial. Naproxen, alongside ibuprofen and diclofenac (for which the Company also has a gastric safe taste masked drug in advanced development) are the three most commonly used NSAIDs worldwide for the treatment of pain and inflammation. Importantly, the company has also made huge strides in developing "gastric safe" aspirin which opens a further separate significant opportunity for the Company. Aspirin is widely used as an antiplatelet agent in cardiovascular disease prevention and its use is limited by these gastric risks. The Company's reformulated aspirin directly addresses this problem and has the potential to disrupt the market.

The Company has also made significant progress in optimizing the release profile of the technology and expects to announce in Q4 2014 the timing of a return to the clinic to provide further proof of the gastric safe benefits of the Company's version of ibuprofen. Alongside this, development work has been ongoing to prepare other NSAIDs for clinical trials. Noteworthy, the work of the past few months has created further opportunities to strengthen intellectual property across its NSAIDs platform.

As a result of these recent developments, the Company's strategy has naturally evolved, seeking the fastest route to significant value creation. The evolved strategy increases the potential licensing scope and value of applying our technology across multiple products in both the anti-inflammatory pain relief and cardiovascular disease prevention categories. The Board now believes that a range of clinical stage commercial assets in the NSAIDs space both for the OTC and prescription markets offers the best opportunity over the development and licensing of single products.

FINANCIAL RESULTS

Our revenue for the six months to 30 June 2014 was £336k (2013: £501k), the majority derived from our partnership with Ache Laboratorios ("Ache") in Brazil. The lower revenue in the first half compared to 2013 was due to logistical delays experienced by our partner in Brazil. Furthermore the launch of a new line extension by Ache has now been postponed to 2015. While the run-rate for the Ache business continues to show positive momentum, the combined effect of the above two factors means that the Company now expects revenue for the full year to be slightly down on last year.

Our loss before tax was £1.7m (2013: loss of £0.6m), this increase is a result of the scale up of our Safer NSAIDs development programme and primarily reflects expenditure for the clinical proof of concept trial conducted in the period. Cash and cash equivalents at the half year-end totalled £8.2m (2013: £6.6m). Cash management and tight cost control continue to be a priority for the business.

R&D costs are running lower than originally anticipated due to the timing of our development work on both NSAIDs and statins. The Company's Safestat (statins) programme remains a compelling opportunity but the near-term focus of the Company's resources is currently on NSAIDs.

OUTLOOK

We are excited by the new phase we are entering as the Company gets closer to initiating commercialisation of its lead NSAID assets. We are now prioritising our work to demonstrate that reduced gastric irritation is a class effect for NSAIDS formulated using our technology and also to establish comparable absorption vs. the standard (generic) reference. In the next six months the Company is initiating work to establish the value and scope of these assets while in parallel progressing development activities with focus on the NSAIDs programme. We continue to benefit from a strong pipeline of platform technologies backed up with strong IP protection.

Our immediate priority is to run further proof of concept trials with ibuprofen and to get other NSAIDs ready for the clinic. Our medium-term aim is to initiate commercialisation of these assets upon the completion of various clinical and non-clinical milestones.

David Norwood
Chairman

Marcelo Bravo
Chief Executive Officer

29 September 2014

Condensed Consolidated Statement of Comprehensive Income

For the six months to 30 June 2014

	Notes	Six months to 30 June 2014 (Unaudited) £'000	Six months to 30 June 2013 (Unaudited) £'000	Year to 31 December 2013 (Audited) £'000
Revenues	3	336	501	1,029
Cost of sales		(219)	(321)	(693)
Gross Profit		117	180	336
Research and development expenses		(1,106)	(274)	(691)
Administrative expenses		(740)	(491)	(1,203)
Total administrative expenses		(1,846)	(765)	(1,894)
Operating loss		(1,729)	(585)	(1,558)
Finance income		–	–	22
Loss before tax		(1,729)	(585)	(1,536)
Taxation	4	–	–	49
Loss after tax attributable to equity holders of the parent		(1,729)	(585)	(1,487)
Loss per share				
Basic on loss for the period (pence)	5	(0.17)	(0.07)	(0.17)
Diluted on loss for the period (pence)	5	(0.17)	(0.07)	(0.17)

The loss for the year arises from the Group's continuing operations.

Condensed Consolidated Statement of Changes in Equity

For the six months to 30 June 2014

	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Share Based Payments Reserve £'000	Revenue Reserve £'000	Total Equity £'000
At 31 December 2012	731	3,758	714	40	(2,857)	2,386
Loss for the period	–	–	–	–	(585)	(585)
Issue of shares	167	4,833	–	–	–	5,000
Expenses of share issue	–	(30)	–	–	–	(30)
Share based payment	–	–	–	29	–	29
At 30 June 2013	898	8,561	714	69	(3,442)	6,800
Loss for the period	–	–	–	–	(902)	(902)
Issue of shares	100	3,900	–	–	–	4,000
Expenses of share issue	–	(40)	–	–	–	(40)
Share based payment	–	–	–	42	–	42
At 31 December 2013	998	12,421	714	111	(4,344)	9,900
Loss for the period	–	–	–	–	(1,729)	(1,729)
Exercise of share options	8	149	–	–	–	157
Share based payment	–	–	–	50	–	50
At 30 June 2014	1,006	12,570	714	161	(6,073)	8,378

Condensed Consolidated Statement of Financial Position

As at 30 June 2014

	Notes	30 June 2014 (Unaudited) £'000	30 June 2013 (Unaudited) £'000	31 December 2013 (Audited) £'000
Assets				
Non-current assets				
Intangible assets		47	55	51
Property, plant and equipment		6	5	5
		53	60	56
Current assets				
Inventories		37	35	21
Trade and other receivables		384	278	252
Cash and cash equivalents		8,215	6,647	9,941
		8,636	6,960	10,214
Total Assets		8,689	7,020	10,270
Liabilities				
Current liabilities				
Trade and other payables		(311)	(220)	(370)
Net Assets		8,378	6,800	9,900
Equity				
Share capital	6	1,006	898	998
Share premium	6	12,570	8,561	12,421
Merger reserve	6	714	714	714
Share based payment reserve		161	69	111
Revenue reserve		(6,073)	(3,442)	(4,344)
Total Equity		8,378	6,800	9,900

Approved by the Board and authorised for issue on 29 September 2014.

Marcelo Bravo
Chief Executive Officer

Chris Hill
Chief Financial Officer

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

	Six months to 30 June 2014 (Unaudited) £'000	Six months to 30 June 2013 (Unaudited) £'000	Year to 31 December 2013 (Audited) £'000
Operating Activities			
Loss before tax	(1,729)	(585)	(1,536)
Adjustment for non-cash items:			
Amortisation of intangible assets	3	4	8
Depreciation of property, plant and equipment	–	–	2
Finance income	–	–	(22)
Share based payment	50	29	71
(Increase)/decrease in inventories	(16)	7	21
Increase in trade and other receivables	(132)	(78)	(38)
(Decrease)/increase in trade and other payables	(59)	82	232
Taxes received	–	–	35
Operating cash outflow	(1,883)	(541)	(1,227)
Net cash outflow from operations	(1,883)	(541)	(1,227)
Investing Activities			
Finance income	–	–	22
Purchases of property, plant and equipment	–	–	(2)
Net cash (outflow)/inflow from investing activities	–	–	20
Financing Activities			
Proceeds from share option exercise	157	–	–
Proceeds from issue of share capital	–	5,000	9,000
Expense of issue of share capital	–	(30)	(70)
Net cash inflow from financing activities	157	4,970	8,930
Decrease in cash and cash equivalents	(1,726)	4,429	7,723
Cash and cash equivalents at start of period	9,941	2,218	2,218
Cash and cash equivalents at end of period	8,215	6,647	9,941

Notes to the Condensed Financial Statements

1. BASIS OF PREPARATION

The interim financial statements of Oxford Pharmascience Group Plc are unaudited condensed consolidated financial statements for the six months to 30 June 2014. These include unaudited comparatives for the six months to 30 June 2013 together with audited comparatives for the year to 31 December 2013.

The Company was incorporated on 7 October 2009 as Oxford Nutrascience Group Plc and changed its name to Oxford Pharmascience Group Plc on 19 May 2011. The Company was specifically created to implement a re-organisation in relation to Oxford Pharmascience Limited (formerly Oxford Nutrascience Limited) which would permit admission of the Group to the AIM market. Under the re-organisation, Oxford Pharmascience Limited became a wholly owned subsidiary of Oxford Pharmascience Group Plc on 27 January 2010.

Shareholders in the company at the time of the re-organisation received shares in Oxford Pharmascience Group Plc in the same proportionate interest as they had in Oxford Pharmascience Limited. The business, operations, assets and liabilities of the Oxford Pharmascience Group under the new holding company immediately after the re-organisation were no different from those immediately before the re-organisation and the Directors have therefore treated this combination as a simple re-organisation using the pooling of interests method of accounting.

The condensed consolidated financial statements do not constitute statutory accounts. The statutory accounts for the year to 31 December 2013 have been reported on by the auditors to Oxford Pharmascience Group Plc and have been filed with the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention in accordance with International Financial Reporting Standards as adopted by the European Union.

The accounting policies adopted are consistent with those followed in the preparation of the annual financial statements of Oxford Pharmascience Group Plc for the year ended 31 December 2013.

3. SEGMENTAL REPORTING

Primary reporting format – business segments

At 30 June 2014, the Group operated in one business segment, that of the development and commercialisation of medicines via reformulation using advanced pharmaceutic technologies to add value to generic and soon to be generic drugs. All revenues have been generated from continuing operations and are from external customers.

Secondary reporting format – geographical segments

The Group operates in four main geographic areas, although all are managed in the UK. The Group's revenue per geographical segment is as follows:

	Six months to 30 June 2014 (Unaudited) £'000	Six months to 30 June 2013 (Unaudited) £'000	Year to 31 December 2013 (Audited) £'000
Revenues			
Product sales			
UK	9	29	17
Middle East	–	–	95
Brazil	302	369	881
Far East	25	95	8
Other	–	–	1
Total product sales	336	493	1,002
Development income	–	–	20
Grant income	–	8	7
Total	336	501	1,029
Segment operating loss	(1,729)	(585)	(1,558)
Segment net assets	8,378	6,800	9,900

All the Group's assets are held in the UK and all of its capital expenditure arises in the UK.

4. TAXATION

The Group has accumulated losses available to carry forward against future trading profits. No deferred tax asset has been recognised in respect of tax losses since it is uncertain at the balance sheet date as to whether future profits will be available against which the unused tax losses can be utilised.

Notes to the Condensed Financial Statements

5. LOSS PER SHARE (BASIC AND DILUTED)

Basic loss per share is calculated by dividing the loss attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the period. Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares in issue during the period to assume conversion of all dilutive potential ordinary shares.

	Six months to 30 June 2014 (Unaudited) £'000	Six months to 30 June 2013 (Unaudited) £'000	Year to 31 December 2013 (Audited) £'000
Loss attributable to the equity holders of the parent	(1,729)	(585)	(1,487)
	No.	**No.**	**No.**
Weighted average number of ordinary shares in issue during the period	999,183,879	777,445,295	877,206,949
Loss per share			
Basic on loss for the period	(0.17)p	(0.07)p	(0.17)p
Diluted on loss for the period	(0.17)p	(0.07)p	(0.17)p

The Company has issued employee options over 7,000,000 ordinary shares which are potentially dilutive. There is however, no dilutive effect of these issued options as there is a loss for each of the periods concerned.

6. SHARE CAPITAL

	Number	Share capital £'000	Share premium £'000	Merger reserve £'000	Total £'000
Oxford Pharmascience Group Plc					
Total Ordinary shares of 0.1 p each as at 31 December 2012	730,869,952	731	3,758	714	5,203
Issued for cash 20 March 2013	166,666,667	167	4,833	–	5,000
Expense of issue	–	–	(30)	–	(30)
Total Ordinary shares of 0.1 p each as at 30 June 2013	897,536,619	898	8,561	714	10,173
Issued for cash 5 November 2013	100,000,000	100	3,900	–	4,000
Expense of issue	–	–	(40)	–	(40)
Total Ordinary shares of 0.1 p each as at 31 December 2013	997,536,619	998	12,421	714	14,133
Exercise of share options 17 April 2014	8,125,000	8	149	–	157
Total Ordinary shares of 0.1 p each as at 31 December 2013	1,005,661,619	1,006	12,570	714	14,290

As permitted by the provisions of the Companies Act 2006, the Company does not have an upper limit to its authorised share capital.

The acquisition of Oxford Pharmascience Limited in 2010 has been accounted for as a re-organisation using the pooling of interests method of accounting as set out in note 1 to these financial statements and under which the shares issued by the Company are recorded at nominal value together with an amount established as Merger reserve in order to replicate the total issued capital of Oxford Pharmascience Limited as at the acquisition date.

Notes to the Condensed Financial Statements

7. RELATED PARTY TRANSACTIONS

There are no sales to related parties. Purchases from related parties are made at normal market prices. Outstanding balances at the period end are unsecured, interest free and settlement occurs in cash.

During the six month period to 30 June 2014 consultancy fees of £nil (six months to 30 June 2013: £2k, year ended 31 December 2013: £3k) have been charged in respect of ORA Capital Partners Limited which used to be a substantial shareholder in Oxford Pharmascience Group Plc.

During the six month period to 30 June 2014 consultancy fees of £nil (six months to 30 June 2013: £nil, year ended 31 December 2013: £10k) have been charged in respect of Quoram Plc, a company of which Christopher Hill is also a director.

During the six month period ended 30 June 2014, the Company entered into numerous transactions with its subsidiary company which net off on consolidation – these have not been shown.

In addition, during the period the Company paid remuneration to the Directors' in accordance with their service contracts and letters of appointment.

8. INTERIM FINANCIAL REPORT

A copy of this interim report will be available on the Company's website at www.oxfordpharmascience.com.

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