BRAVEHEART
INVESTMENT GROUP

Interim Report and Accounts 2008

Growth
Support
Service
Partnership

BRAVEHEART INVESTMENT GROUP PLC

Directors	Garry Watson OBE CA, *Chairman* Geoffrey Thomson, *Chief Executive Officer* Carolyn Smith ACIS, *Chief Investment Officer* Colin Grant BCom CA, *Chief Financial Officer (appointed 15 October 2008)* Edward Cunningham CBE, *Senior Non-executive Director* Kenneth Brown BA CA, *Non-executive Director* Jeremy Delmar-Morgan MA MSI, *Non-executive Director*
Secretary	Colin Grant BCom CA
Company Registration Number	SC247376
Registered Office	The Cherrybank Centre Cherrybank Gardens Perth PH2 0PF United Kingdom Telephone +44 (0)1738 587555
Website	www.braveheart-ventures.co.uk

Advisers

Registrar Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA	**Auditors** Ernst & Young LLP Ten George Street Edinburgh EH2 2DZ	**Principal Bankers** Bank of Scotland 110 St Vincent Street Glasgow G2 5ER
Solicitors Maclay Murray & Spens LLP 15 Lauriston Place Edinburgh EH3 9EP	**Solicitors** Semple Fraser LLP 80 George Street Edinburgh EH2 3BU	**Financial PR** Tavistock Communications Ltd 131 Finsbury Pavement London EC2A 1NT
Nominated Adviser and Broker Seymour Pierce Ltd 20 Old Bailey London EC4M 7EN		

Contents

BRAVEHEART HIGHLIGHTS

33%
EXIT IRR OF CLIENT PORTFOLIO

£4.1m
CASH BALANCES

- Client exit portfolio at 30 September 2008 showing an internal rate of return (IRR) of 33%, with the overall client portfolio (being both realised and unrealised investments) showing an IRR of 26%
- Cash balances at period end of £4.1m (2007: £5.9m)
- First close of Strathclyde Innovation Fund
- Commercialisation partnership with the University of Aberdeen
- Further funding in the form of equity or convertible loans provided to eight existing portfolio companies
- Investment into one new portfolio company Im-Sense Ltd (a spin-out from the University of East Anglia)
- Jeremy Delmar-Morgan appointed Non-executive Director

Post Period End

- Further funding in the form of equity or convertible loans provided to seven portfolio companies
- Colin Grant appointed Chief Financial Officer
- Opened London office
- Richard Nunneley appointed Director of Marketing

1	**Garry Watson**	Chairman
2	**Geoffrey Thomson**	Chief Executive Officer
3	**Kenneth Brown**	Non-executive Director

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

Overview

We are pleased to report to shareholders on the six months ending 30 September 2008.

The period under review has been a difficult time for those in the financial services industry. We have witnessed widespread disruption in the capital markets and consequent retrenchment and caution on the part of investors. In common with its peer group, Braveheart has not escaped this buffeting.

The main focus of the Group has been on supporting the existing portfolio, with £1.6m having been made available by the Group and its clients to eight existing and one new portfolio company. In the current market conditions the Group is reducing its risk profile by providing a higher proportion of fixed income instruments with associated equity rights (as opposed to straight equity) than has hitherto been the case.

The Group's financial results as outlined in this report reflect the state of the markets. There has been a reduction in fee income as a result of both reduced demand from investment clients and the use of lower fee-generating fixed income instruments as described above. The unlisted portfolio has shown a small unrealised loss on revaluation. The listed portfolio has experienced a significant loss in value, primarily due to a substantial loss in one investment.

During the period, a first closing of the Strathclyde Innovation Fund (SIF) was achieved, with initial commitments totalling £4.5m from investors comprising Braveheart, the University of Strathclyde (the University) and Strathclyde alumni. This also includes Scottish Enterprise's Scottish Co-investment Fund, which has agreed to co-invest alongside SIF. The commitments made at the first close are over a five-year period and provision has been made for additional closings to bring in other potential partners over the next two years. The SIF will have the exclusive right of first refusal to fund all commercial investment opportunities that arise in respect of intellectual property emanating from the University.

It was noted in the Group's trading update of 1 October 2008 that Braveheart was not proceeding with its fund for the University of Edinburgh. Market conditions are such that it would have been impossible to successfully market such a fund at this time. This fund may be revisited in the future but in the meantime Braveheart will continue to fund selected spin-outs from the University of Edinburgh by way of its Alpha EIS Fund.

The Group ended the period with a strong balance sheet with some £4.1m in cash.

Board and Personnel

During the period Jeremy Delmar-Morgan was appointed to the Board. Jeremy has a background in financial services and the investment markets and has spent much of his career at Teather & Greenwood where he was CEO and latterly chairman. At the AGM Shonaig Macpherson and Donald Turner retired from the Board. We would like to thank them both for their valuable contributions during their terms in office.

Since the end of the period under review Colin Grant has been appointed to the Board as Chief Financial Officer; he joins from Digital Bridges Ltd and, prior to that, Vision Group plc. Further Group appointments are those of Richard Nunneley as Director of Marketing and

Stephen Hart as Legal Counsel. Richard has enjoyed a successful City career and Stephen has been working with Braveheart on secondment over the past six months.

Financial Review

Total income in the six months ending 30 September 2008 was £252,000, a decrease of 60% (2007: £636,000). Revenue from investment management operations, including bank and loan interest, was £358,000, a decrease of 21% (2007: £451,000). The unrealised loss on the revaluation of investments was £170,000, as compared to an unrealised profit of £185,000 in 2007. This was offset by a gain of £64,000 (2007: nil) arising from a reduction in deferred consideration due on future exit values of certain portfolio companies.

Total costs were £643,000, an increase of 30% (2007: £493,000), primarily due to an increase in employee benefits expense (including share-based payments) and initial expenses incurred in the establishment of the London office. The loss before taxation was £391,000, as compared to a profit before taxation of £143,000 in 2007. There was no taxation charge in either the current or prior year period, resulting in a loss per share of 2.91 pence as compared to earnings per share of 1.25 pence in 2007.

The cash balance at 30 September 2008 was £4.1m, a decrease in the six months from 31 March 2008 of £718,000, principally due to investments made by the Group in its portfolio companies.

Strategy

While the Board is conscious of the importance of using cash resources wisely in current market conditions, it believes that shareholder value can best be achieved by scaling up the Group's business. It is against that background that the Board has made three senior management appointments and established a modest office in London. The prime function of this office will be to market the Group's activities to a wider audience with the initial focus being on promoting Braveheart's bespoke EIS portfolio service to high net worth clients.

The Group continues to look for M&A opportunities where Braveheart's expertise can be utilised and where good value is to be had.

Outlook

It remains unclear as to when the market will recover and the appetite for early stage technology investment will strengthen. Small entrepreneurial companies, such as those in the Braveheart portfolio, are the lifeblood of the economy. The Government is looking at means by which these companies can be supported through the recession and Braveheart has been involved in the debate to frame these measures. The Group will continue to provide its portfolio companies with strong financial and management support.

It is inevitable that there will be a time lag between investing in the Group's expansion and seeing the financial benefits of that investment. While it is difficult to be specific, the Directors anticipate that the benefits of the expansion plans will start to show through in the next fiscal year.

Garry S Watson
Chairman

Geoffrey C B Thomson
Chief Executive Officer

GROUP INTERIM INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

	Notes	Six months ended 30 Sep 2008 (unaudited) £'000	Six months ended 30 Sep 2007 (unaudited) £'000	Year ended 31 Mar 2008 (audited) £'000
Revenue		219	281	660
Unrealised (loss)/profit on the revaluation of investments		(170)	185	458
Deferred consideration		64	–	(310)
Finance revenue		139	170	331
Total income		**252**	**636**	**1,139**
Employee benefits expense		(429)	(318)	(559)
Other operating costs		(214)	(175)	(474)
Total costs		**(643)**	**(493)**	**(1,033)**
(Loss)/profit before taxation		(391)	143	106
Tax charge		–	–	(7)
(Loss)/profit for the period		**(391)**	**143**	**99**

(Loss)/earnings per share		Pence	Pence	Pence
– Basic and diluted	2	(2.91)	1.25	0.74

All revenues and (losses)/profits arise from continuing operations.

GROUP INTERIM BALANCE SHEET
AS AT 30 SEPTEMBER 2008

	As at 30 Sep 2008 (unaudited) £'000	As at 30 Sep 2007 (unaudited) £'000	As at 31 Mar 2008 (audited) £'000
ASSETS			
Non-current assets			
Property, plant and equipment	50	25	26
Investments at fair value through profit or loss	3,035	1,441	2,575
Deferred tax asset	–	6	–
	3,085	**1,472**	**2,601**
Current assets			
Trade and other receivables	285	116	443
Current tax asset	–	–	25
Cash and cash equivalents	4,091	5,906	4,809
	4,376	**6,022**	**5,277**
Total assets	**7,461**	**7,494**	**7,878**
LIABILITIES			
Current liabilities			
Trade and other payables	(193)	(76)	(199)
Deferred consideration	(246)	–	(310)
Deferred income	(22)	(29)	(22)
	(461)	**(105)**	**(531)**
Non-current liabilities			
Deferred tax liability	(2)	–	(2)
Total liabilities	**(463)**	**(105)**	**(533)**
Net assets	**6,998**	**7,389**	**7,345**
EQUITY			
Called up share capital	268	268	268
Share premium account	7,009	7,009	7,009
Retained earnings	(279)	112	68
Total equity	**6,998**	**7,389**	**7,345**

GROUP INTERIM CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

	Six months ended 30 Sep 2008 (unaudited) £'000	Six months ended 30 Sep 2007 (unaudited) £'000	Year ended 31 Mar 2008 (audited) £'000
Operating activities			
(Loss)/profit before tax	(391)	143	106
Adjustments to reconcile profit before tax to net cash flows from operating activities			
Depreciation of property, plant and equipment	4	4	8
Share-based payments expense	44	24	24
Decrease/(increase) on the revaluation of investments	170	(185)	(456)
Interest income	(139)	(170)	(331)
Increase in investments	(630)	(360)	(1,172)
Decrease/(increase) in trade and other receivables	158	(30)	(381)
(Decrease)/increase in trade and other payables	(70)	(176)	179
Tax received	25	–	–
Net cash flows from operating activities	**(829)**	**(750)**	**(2,023)**
Investing activities			
Acquisition of subsidiaries (net of cash acquired)	–	–	21
Purchase cost of property, plant and equipment	(28)	(3)	(9)
Interest received	139	170	331
Net cash flows from investing activities	**111**	**167**	**343**
Financing activities			
Transaction recoveries from issue of shares	–	7	7
Net cash flows from financing activities	**–**	**7**	**7**
Net decrease in cash and cash equivalents	(718)	(576)	(1,673)
Cash and cash equivalents at the start of the period	4,809	6,482	6,482
Cash and cash equivalents at the end of the period	**4,091**	**5,906**	**4,809**

GROUP INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 April 2007	**268**	**7,002**	**(55)**	**7,215**
Exercise of options	–	7	–	7
Profit for the period	–	–	143	143
Share-based payments	–	–	24	24
At 30 September 2007 (unaudited)	**268**	**7,009**	**112**	**7,389**
Loss for the period	–	–	(44)	(44)
At 31 March 2008 (audited)	**268**	**7,009**	**68**	**7,345**
Loss for the period	–	–	(391)	(391)
Share-based payments	–	–	44	44
At 30 September 2008 (unaudited)	**268**	**7,009**	**(279)**	**6,998**

NOTES
TO THE INTERIM FINANCIAL STATEMENTS

1 Basis of preparation

The interim financial information in this document is the unaudited consolidated financial statements (the "interim financial statements") of Braveheart Investment Group plc, a company incorporated in the United Kingdom and registered in Scotland, (the "Company") and its subsidiaries (together the "Group"), for the six-month period ended 30 September 2008.

The interim financial statements do not constitute statutory accounts for the purpose of section 240 of the Companies Act 1985. The comparative figures for the full year ended 31 March 2008 have been extracted from the statutory accounts for that year, a copy of which has been delivered to the Registrar of Companies.

The statutory accounts for the year ended 31 March 2008, which were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, included an independent auditor's report, which was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

The interim financial statements have been prepared using accounting policies consistent with those used in preparation of the statutory accounts for the year ended 31 March 2008 and which will form the basis of the statutory accounts for the year ended 31 March 2009.

The interim financial statements were approved by the Board of Directors on 5 December 2008.

2 (Loss)/earnings per share

Basic (loss)/earnings per share have been calculated by dividing the (loss)/profit for the period by the weighted average number of ordinary shares in issue during the period. There were no potentially dilutive share options over ordinary shares in the Group outstanding at the period end and therefore the dilutive earnings per share is equal to the basic earnings per share.

The calculations of (loss)/earnings per share are based on the following (loss)/profit and numbers of shares in issue:

	Six months ended 30 Sep 2008 (unaudited) £'000	Six months ended 30 Sep 2007 (unaudited) £'000	Year ended 31 Mar 2008 (audited) £'000
(Loss)/profit for the period	(391)	143	99
Weighted average number of ordinary shares in issue:			
– for basic earnings per ordinary share	13,403,895	11,408,385	13,403,895
– for diluted earnings per ordinary share	13,403,895	11,408,385	13,403,895

3 Subsequent events

The petition filed by the Company under sections 135 to 138 of the Companies Act 1985 seeking confirmation of the reduction of £7,008,838 of its share premium account was approved by the Court of Session on 6 November 2008.

Accordingly the Company will convert £7,008,838 from its share premium account to retained earnings.

SHAREHOLDER COMMUNICATIONS

A copy of this report will be sent to shareholders and is available on request from the Company's registered office at The Cherrybank Centre, Cherrybank Gardens, Perth PH2 0PF.
A copy has also been posted on the Company's website.

Designed and produced by **Emperor Design Consultants Ltd**
Tel **+44 (0)131 220 7990 www.emperordesign.co.uk**

BRAVEHEART
INVESTMENT GROUP

The Cherrybank Centre
Cherrybank Gardens
Perth
PH2 0PF
United Kingdom

mail@braveheart-ventures.co.uk
T: +44 (0)1738 587555
F: +44 (0)1738 587666

www.braveheart-ventures.co.uk