

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt about the contents of this document, you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

A copy of this document, which comprises an admission document relating to the Company, prepared in compliance with the AIM Rules and constituting a prospectus for the purposes of the POS Regulations, has been delivered for registration to the Registrar of Companies in accordance with regulation 4(2) of those regulations.

Application has been made for the whole of the ordinary share capital of the Company, issued and to be issued pursuant to the Placing, to be admitted to trading on AIM. AIM securities are not admitted to the Official List. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The AIM Rules are less demanding than those of the Official List. It is emphasised that no application is being made for admission of these securities to the Official List. Further, neither the London Stock Exchange nor the UK Listing Authority has itself examined or approved the contents of this document. It is expected that Admission will become effective and that dealings in the Ordinary Shares will commence on AIM on 2 February 2005.

The directors of the Company, whose names appear on page 6 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for complying with the AIM Rules. To the best of the knowledge and belief of the Directors, the information contained in this document is in accordance with the facts and makes no omission likely to affect the import of such information.

The whole of this document should be read. Prospective investors should, in particular, carefully consider the section entitled "Risk factors" in Part II of this document. This document does not constitute an offer for, or the solicitation of any offer to subscribe for any of the Ordinary Shares to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation in such jurisdiction. All statements regarding Biofusion's business, financial position and prospects should be viewed in the light of the risk factors set out in Part II of this document.

## Biofusion plc

(incorporated and registered in England and Wales under number 5275732)

### Admission to trading on AIM

**Placing of 5,486,664 ordinary shares of 1p each at 150p per share**

by

**CODE SECURITIES LIMITED**

**Nominated adviser and broker**



#### SHARE CAPITAL IMMEDIATELY FOLLOWING THE PLACING

Authorised		Issued and fully paid	
Number	Amount	Number	Amount
30,000,000	£300,000	18,819,984	£188,200
		ordinary shares of 1p each	

The Ordinary Shares now being placed will, on Admission, rank *pari passu* in all respects with the Existing Ordinary Shares and will rank in full for all dividends and distributions declared, paid or made on the Ordinary Shares after the date of this document.

The Placing is only being made in the United Kingdom. No Ordinary Shares have been marketed to, nor are any available for purchase in whole or in part by, the public in the United Kingdom or elsewhere in connection with the Placing. This document does not constitute an offer or invitation to any such person to subscribe for or purchase any securities in the Company.

The Ordinary Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended, or under the securities legislation of any state of the United States. The relevant clearances have not been, and will not be, obtained from the Securities Commission of any province or territory of Canada, no document in relation to the Placing has been, or will be, lodged with, or registered by, the Australian Securities and Investments Commission and no registration statement has been, or will be, filed with the Japanese Ministry of Finance in relation to the Placing or the Ordinary Shares, and no registration statement has been, or will be, filed with the Irish Stock Exchange in relation to the Placing. Accordingly, subject to certain exceptions, the Ordinary Shares may not, directly or indirectly, be offered or sold within the United States, Canada, Australia, the Republic of Ireland or Japan or offered or sold to a person within the United States or a resident of Canada, Australia, the Republic of Ireland or Japan.

Code Securities and Bridgewell, each of which is regulated in the United Kingdom by the Financial Services Authority, are acting exclusively for the Company in relation to the Placing and the Admission and will not be responsible to any person other than the Company for providing the protections afforded to their customers or for advising any other person on the contents of this document or any transaction or arrangement referred to herein. Bridgewell has been appointed solely as underwriter in connection with the Placing and is not acting for the Company in any other capacity and accordingly accepts no responsibility for the contents of this document.

Code Securities has been appointed as nominated adviser and broker to the Company. Under the AIM Rules, the nominated adviser has certain responsibilities to the London Stock Exchange which are less onerous than the responsibilities of a sponsor of a company applying for its securities to be admitted to the Official List. In accordance with the AIM Rules, Code Securities has confirmed to the London Stock Exchange that it has satisfied itself that the directors of the Company have received independent advice and guidance as to the nature of their responsibilities and obligations under the AIM Rules and that, to the best of its information and belief, all relevant requirements of the AIM Rules (save for compliance with the general duty of disclosure contained in regulation 9 of the POS Regulations, in respect of which the nominated adviser is not required to satisfy itself) have been complied with. In giving its confirmation to the London Stock Exchange, Code Securities has not made its own enquiries except as to matters which have come to its attention on which it considers it necessary to satisfy itself. Code Securities and Bridgewell have not authorised the contents of, or any part of, this document and no liability whatsoever is accepted by Code Securities or Bridgewell for the accuracy of any information or opinions contained in this document or for the omission of any material information, for which the Company and the directors of the Company are solely responsible.

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## DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

"Act"	Companies Act 1985, as amended
"Admission"	admission of the Ordinary Shares, issued and to be issued pursuant to the Placing, to AIM becoming effective in accordance with Rule 6 of the AIM Rules
"AIM"	a market operated by the London Stock Exchange
"AIM Rules"	rules for AIM companies and their nominated advisers issued by the London Stock Exchange from time to time in relation to AIM traded securities
"Biofusion" or "Company"	Biofusion plc
"Biofusion Group" or "Group"	Biofusion and its subsidiary, Biofusion Trading
"Biofusion Trading"	Biofusion Trading Limited
"Bridgewell"	Bridgewell Limited
"Code Securities"	Code Securities Limited
"Combined Code"	revised Combined Code on the principles of good governance and code of best practice published in July 2003 as appended to, but not forming part of, the Listing Rules of the UK Listing Authority
"CREST"	relevant system for the paperless settlement of trades and the holding of <i>uncertificated securities operated by CRESTCo in accordance with the Regulations</i>
"CRESTCo"	CRESTCo Limited
"Directors" or "Board"	board of directors of Biofusion whose names are set out on page 6 and Stuart Gall (who will join the board of directors of the Company on the expiry of his notice period with his current employer)
"Enlarged Issued Share Capital"	Ordinary Shares in issue immediately following Admission
"Existing Ordinary Shares"	Ordinary Shares in issue at the date of this document
"Intellectual Property" or "IP"	intellectual property including, without limitation, patents, trade marks, trade names, service marks, domain names, design rights, copyright and know-how
"London Stock Exchange"	London Stock Exchange plc
"Medical Life Sciences"	the application of knowledge about chemistry, living organisms and their components or molecules or techniques that affect their behaviour
"New Ordinary Shares"	5,486,664 new Ordinary Shares being issued by the Company pursuant to the Placing
"Official List"	Official List of the UK Listing Authority

"Ordinary Shares"	ordinary shares of 1p each in the capital of Biofusion
"Placing"	placing of the New Ordinary Shares at the Placing Price as described in this document
"Placing Agreement"	the conditional agreement dated 28 January 2005 between Biofusion, the Directors, the University, SUEL, Bridgewell and Code Securities, details of which are set out in paragraph 7 of Part V of this document
"Placing Price"	150p per New Ordinary Share
"Portfolio Company"	a company in which, from Admission, the Company will have an equity investment pursuant to the Sheffield Agreement or otherwise
"POS Regulations"	the Public Offers of Securities Regulations 1995 (SI 1995/1537), as amended
"Shareholders"	holders of Ordinary Shares
"Share Option Agreements"	the option agreements made between the Company and each of Edwin Moses, Anthony Atkinson and David Catton on 27 January 2005, the principal terms of which are set out in paragraph 4 of Part V of this document
"Sheffield Agreement"	the conditional agreement dated 26 January 2005 between Biofusion Trading, Biofusion, SUEL, the Management and the University, details of which are set out in Part I and paragraph 8(c) of Part V of this document
"SUEL"	Sheffield University Enterprises Limited
"UK"	United Kingdom
"UK Listing Authority"	the United Kingdom Listing Authority, being the Financial Services Authority in its capacity as competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
"University"	University of Sheffield
"USO"	university spin-out company
"UTTC"	university technology transfer centre

## DIRECTORS, COMPANY SECRETARY AND ADVISERS

<b>Directors:</b>	Mr. Douglas Brian Liversidge CBE ( <i>Non-executive Chairman</i> ) Mr. David Graham Baynes ( <i>Chief Executive Officer</i> ) Dr. Peter Leonard Grant ( <i>Operations Director</i> ) Dr. Edwin Moses ( <i>Non-executive Director</i> ) Professor Anthony Atkinson ( <i>Non-executive Director</i> ) Mr. David John Catton ( <i>Non-executive Director</i> )
<b>Proposed Director:</b>	Mr. Stuart Arthur Gall ( <i>Commercial Director</i> )
<b>Company secretary:</b>	Mr. Richard Birtles
<b>Registered office and Directors' address:</b>	The Innovation Centre 217 Portobello Sheffield S1 4DP
<b>Nominated adviser and broker:</b>	Code Securities Limited 30 St James's Square London SW1Y 4AL
<b>Underwriter:</b>	Bridgewell Limited 21 New Street Bishopsgate London EC2M 4HR
<b>Solicitors to the Company:</b>	Ashurst Broadwalk House 5 Appold Street London EC2A 2HA
<b>Solicitors to the Placing:</b>	Travers Smith 10 Snow Hill London EC1A 2AL
<b>Principal banker:</b>	Barclays Bank plc PO Box 105 Cambridge CB2 3UE
<b>Reporting accountants:</b>	Deloitte & Touche LLP Leda House Station Road Cambridge CB1 2RN
<b>Registrars:</b>	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

## **PLACING STATISTICS**

Placing Price	150p
Number of New Ordinary Shares being placed	5,486,664
Number of Ordinary Shares in issue following the Placing	18,819,984
Percentage of Enlarged Issued Share Capital subject to the Placing	29.15 <i>per cent</i>
Market capitalisation of the Company at the Placing Price	£28.2 million
Gross proceeds of the Placing to be received by the Company	£8.2 million
Estimated net proceeds of the Placing to be received by the Company	£7.3 million
AIM symbol	"BFN"

## **EXPECTED TIMETABLE**

Admission effective and dealings in the Ordinary Shares to commence on AIM	2 February 2005
CREST accounts credited by	2 February 2005
Despatch of definitive share certificates by	9 February 2005

## KEY INFORMATION

*The following information is not intended to be exhaustive and is solely derived from, and should be read in conjunction with, the full text of this document.*

### SUMMARY

Biofusion Trading was established in 2002 to commercialise university-generated Intellectual Property. Biofusion Trading has been involved with the University of Sheffield for the past three years and has recently entered into the Sheffield Agreement, a long-term exclusive agreement with the University, for the commercialisation of its Medical Life Sciences IP. The University is one of the UK's leading Medical Life Sciences research universities, with over 750 scientists and an annual life sciences research income of approximately £30 million.

The Directors believe that Biofusion, with its combination of:

- 10 years' exclusive rights to exploit, for medical uses, the University's IP derived from Medical Life Sciences;
- shareholdings in a portfolio of selected University spin-out companies;
- a commercially-focused management team experienced in successfully taking technology-related companies from start-up through initial funding to public listing; and
- the net proceeds from the Placing,

will provide an opportunity to create a robust and sustainable business.

### SUMMARY TRADING RECORD

A summary of the trading record of the Group's trading company, Biofusion Trading, for the period ended 31 July 2004, which has been extracted from the accountants' report set out in Part IV of this document, is set out below:

	<i>Period from incorporation to 31 July 2002</i>	<i>Year ended 31 July 2003</i>	<i>Year ended 31 July 2004</i>
	£	£	£
<b>Turnover</b>	—	—	—
<b>Operating loss</b>	(20,552)	(167,874)	(177,136)
<b>Loss after taxation</b>	(20,552)	(167,874)	(177,136)

### DIVIDENDS

Biofusion has not declared or paid any dividends. The Directors' current intention is to retain the Company's earnings in the foreseeable future to finance its growth and expansion. It is, however, the Directors' intention to pay dividends when, in the view of the Directors, the Company has sufficient cash for this purpose. Upon an exit event of a Portfolio Company and the distribution of proceeds to Biofusion, the Directors anticipate payment of dividends from time to time to Shareholders, subject to Biofusion's working capital requirements.

### CURRENT TRADING AND PROSPECTS FOR THE GROUP

The Directors believe that since 31 July 2004, in respect of which financial statements included in Part IV of this document have been prepared, trading continues to meet the Directors' expectations, with Plasso Technology Limited, a Portfolio Company, having recently raised funds and at least one other Portfolio Company expected to raise funds in the first half of 2005.

In addition, the Directors continue to work with the University to identify new IP with potential for commercialisation and incorporation into Portfolio Companies.

## **REASONS FOR AND DETAILS OF THE PLACING**

The net proceeds of the Placing will be used:

- (i) to assist in the purchase from the University of IP derived from Medical Life Sciences;
- (ii) to contribute to the financing of Portfolio Companies; and
- (iii) for general working capital purposes for Biofusion.

Additionally, the Directors believe that becoming AIM-quoted will raise the profile of Biofusion, allowing it the potential for additional growth by attracting and further developing relationships with other key university-based research centres, if the Directors consider it appropriate.

On 28 January 2005, Code Securities, Bridgewell, the Directors, SUEL, the University and the Company entered into the Placing Agreement, pursuant to which Code Securities agreed to place the New Ordinary Shares at the Placing Price on behalf of the Company with institutional investors. The issue of the New Ordinary Shares pursuant to the Placing will raise £8.2 million (before expenses). The Placing has been fully underwritten by Bridgewell. Details of the Placing Agreement are set out in paragraph 7 of Part V of this document.

The New Ordinary Shares which are the subject of the Placing represent approximately 29.15 *per cent* of the Enlarged Issued Share Capital. Upon Admission, the Directors will hold approximately 21.25 *per cent* of the Enlarged Issued Share Capital. The New Ordinary Shares are identical in all respects to the Existing Ordinary Shares.



## **PART I**

### **Information on the Group**

#### **INTRODUCTION**

Biofusion Trading was established in 2002 to commercialise university-generated Intellectual Property. Biofusion Trading has been involved with the University of Sheffield for the past three years and has recently entered into the Sheffield Agreement, a long-term exclusive agreement with the University, for the commercialisation of its Medical Life Sciences IP. The University is one of the UK's leading Medical Life Sciences research universities, with over 750 scientists and an annual life sciences research income of approximately £30 million.

The Directors believe that Biofusion, with its combination of:

- 10 years' exclusive rights to exploit, for medical uses, the University's IP derived from Medical Life Sciences;
- shareholdings in a portfolio of selected University spin-out companies;
- a commercially-focused management team experienced in successfully taking technology-related companies from start-up through initial funding to public listing; and
- the net proceeds from the Placing,

will provide an opportunity to create a robust and sustainable business.

#### **BACKGROUND**

The UK Government spends approximately £1.3 billion *per annum* on research at UK universities enabling the universities' academic staff to create new and potentially valuable IP. Historically, this IP has often not been commercially exploited as many universities have not had the required resources.

Recognising this, many UK universities have established UTTCs to try to generate value from this underdeveloped IP. Since 1997, these UTTCs have established over 550 USOs, of which at least 139 have received initial venture capital funding. However, whilst the venture capital community is involved with early-stage financing of USOs, funding has generally been difficult to obtain.

The UK Government has also recognised the value of university-generated IP and the difficulties that early-stage companies have in attracting investment capital. In an attempt to bridge this divide, the UK Government set up the University Challenge Fund Scheme ("UCFS") in March 1998, to give UK universities the opportunity to access investment capital. The University, along with Leeds University and York University as the White Rose Consortium, received the joint highest UCFS funding.

Recently, there have been some high profile university funding arrangements designed to provide investment capital for USOs, the most notable being IP2IPO Group plc ("IP2IPO"), which floated on AIM in October 2003 at a value of £112 million and had a market capitalisation of approximately £280 million at the close of business on 26 January 2005 (being the latest practicable date prior to the publication of this document).

#### **THE AGREEMENT WITH THE UNIVERSITY OF SHEFFIELD**

The University of Sheffield is one of the UK's leading Medical Life Sciences research universities. Certain of the Directors have had a close working relationship with the University since 2002 and have been actively involved in a number of its existing spin-outs since then. On 26 January 2005 the Company entered into the Sheffield Agreement with the University for the commercialisation of its Medical Life Sciences IP.

#### **University of Sheffield**

Formed in 1897, the University gained its Royal Charter in 1905 and has developed into one of the leading universities in the UK. It can count five Nobel laureates among its alumni and researchers and has a long

tradition of scientific excellence that has attracted an increasing number of students and researchers to the University.

Medical Life Sciences research is a principal focus for the University and an area in which it can demonstrate an admirable record, with three Nobel prize winners for Medicine/Physiology (Lord Florey in 1945, Sir Hans Krebs in 1953 and Richard Roberts in 1993) and two Nobel prize winners for Chemistry (Lord Porter in 1967 and Sir Harry Kroto in 1996). In addition, the University's medical research has excellent links to the Sheffield Teaching Hospitals NHS Trust, the fourth largest NHS Trust in the country.

In the academic year 2002/3, the University received £63 million to spend on research, of which approximately half was in the area of Medical Life Sciences.

The quality of university research in the UK undergoes a periodic evaluation administered by the Higher Education Funding Council of England. The latest assessment took place in 2001, the Research Assessment Exercise 2001 ("RAE 2001"), during which 173 institutions put forward over 2,500 submissions for evaluation, representing the work of almost 50,000 researchers in the UK. Areas of research were rated on a 1 to 5\* scale, with 5\* being the highest attainable rating.

Data resulting from the RAE 2001 shows that the University was rated fifth in the UK for the quality of its Medical Life Sciences research.

Ranking	Institution	Number of research areas receiving rating of: 5+5*	Number of research areas receiving rating of: 5*
1 =	University College London	10	5
1 =	University of Cambridge	10	5
3	University of Oxford	9	4
4	University of Bristol	6	4
<b>5</b>	<b>University of Sheffield</b>	<b>6</b>	<b>3</b>
6 =	King's College London	6	2
6 =	University of Birmingham	6	2
8	Imperial College of Science, Technology and Medicine	5	4
9	University of Manchester	5	3
10	University of Newcastle	5	2

Note: Scores for this table are taken from the following research areas in the RAE 2001: clinical laboratory science; hospital-based clinical subjects; clinical dentistry; pre-clinical studies; anatomy; physiology; pharmacology; pharmacy; biological sciences; and chemistry.

### ***Sheffield University Enterprises Limited (SUEL)***

SUEL is the University's wholly-owned technology transfer company. Through established procedures, developed over several years, SUEL is able to monitor the development of University-generated IP and identify the IP with the most commercial potential. SUEL has built vital relationships with the University's scientists, academics and clinical investigators and it plays an important role in mining for new, innovative and commercially viable opportunities. Over the last five years, SUEL has established 11 spin-out companies based on IP derived from Medical Life Sciences.

### **The Sheffield Agreement**

The Sheffield Agreement comprises two core elements:

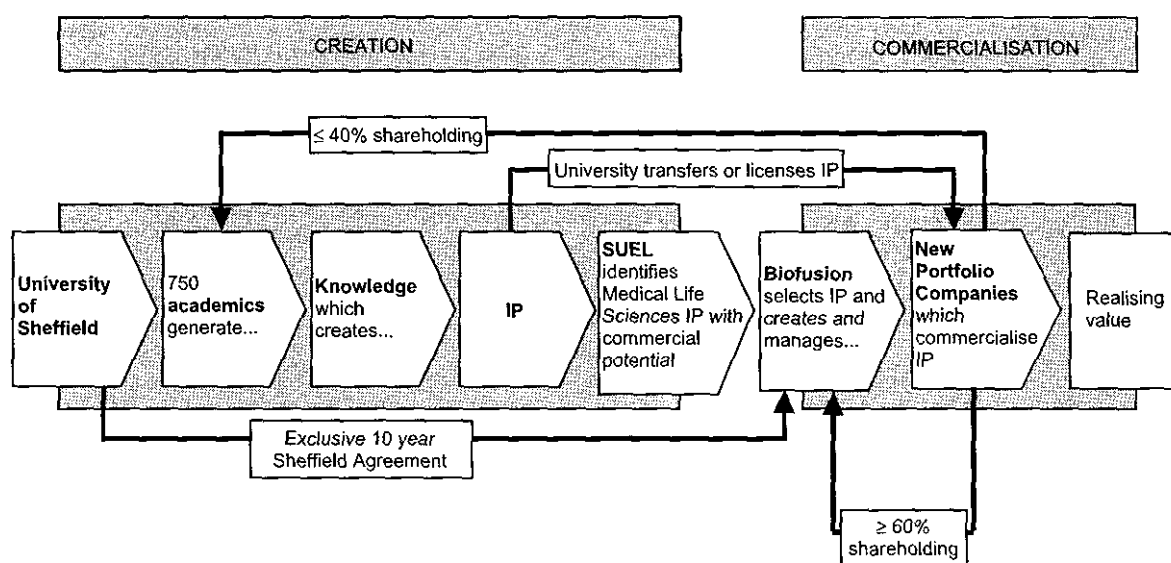
- (i) 10 years' exclusive rights to exploit, for medical uses, the University's IP derived from Medical Life Sciences (the "Pipeline"); and

- (ii) the University's shareholding in an existing portfolio of eight Medical Life Sciences related companies (the "Current Portfolio Companies").

### **The Pipeline**

The Pipeline gives Biofusion exclusive rights over 10 years to review and purchase or license all of the University's rights to IP derived from Medical Life Sciences which has a medical application, and to commercialise this IP through the formation of spin-out companies in which Biofusion will have a majority equity participation (the "New Portfolio Companies").

The key relationships among the parties to the Sheffield Agreement are represented below:



Biofusion will manage the lifecycle of Portfolio Companies emerging from the University, through its existing relationship with SUEL. Biofusion and SUEL will continue to meet regularly to review new opportunities identified by SUEL as having commercial potential, and the Directors will then either:

- decide that the IP concerned is sufficiently developed and promising that it justifies the creation of a New Portfolio Company through which to exploit the IP either by:
  - (i) further developing the IP in-house or in conjunction with a co-development partner; or
  - (ii) out-licensing the IP to a third party; or
- determine that additional research is required and that the opportunity be reviewed at a later date; or
- reject the opportunity on the basis that it is unlikely ever to have a major commercial application.

Over the past year, 19 new projects were originated in the area of Medical Life Sciences at the University. Additionally, 30 projects were carried over from 2003. Of these projects: two were licensed to third parties for commercial development; one resulted in a new Portfolio Company; nine were discontinued; and 37 projects are currently being actively developed, of which two projects are being considered as potential Portfolio Companies and eight projects are in the process of being licensed.

### **The initial funding of New Portfolio Companies**

In the event that Biofusion elects to set up a New Portfolio Company, the University will transfer or license the relevant IP to the New Portfolio Company in consideration for either:

- (i) payment from the IP prepayment account

Biofusion will pay 2.5 per cent of the gross proceeds of the Placing and £10,000 per calendar month during the 10 year term of the Sheffield Agreement into a University prepayment account against which future IP transfers or licences will be credited. When IP is transferred or licensed, its value will be subtracted from the IP prepayment account. In turn, the relevant New Portfolio Company will issue a loan note to the Group, on terms to be agreed on each occasion; or

- (ii) the issue of a loan note by the relevant New Portfolio Company to the University

In the event that IP is valued in excess of £50,000, Biofusion has the option, rather than to subtract that value from the IP prepayment account, to require the relevant New Portfolio Company to issue a loan note to the University (the "NPC Loan Note") in consideration for the transfer or licence. Interest at 1.5 per cent above LIBOR will be payable on the NPC Loan Note only on repayment of the capital, that is, after 10 years or in the event that the New Portfolio Company is floated or sold. However, if the valuation of the IP is in excess of the balance in the IP prepayment account, Biofusion will be obliged to require that the New Portfolio Company issues an NPC Loan Note.

IP will be valued by independent valuers as set out in the Sheffield Agreement.

The Directors propose that, in addition to the funding of the transfer and licensing of IP as set out above, each New Portfolio Company will be funded by way of a convertible loan note on incorporation (the "Start-Up Loan Note"). The values of the Start-Up Loan Notes will vary by Portfolio Company although each is unlikely to exceed £125,000.

The Start-Up Loan Notes will be convertible into shares in the Portfolio Company at the option of the Directors, enabling it to minimise excessive dilution of the Group's shareholding at the early, low valuation funding rounds.

#### ***Future funding and growth***

The Directors realise the importance of managing the lifecycle of Portfolio Companies. This includes the creation and management of New Portfolio Companies and management of the exit process of established Portfolio Companies.

The Directors do not intend to provide either long-term management or funding for any of the Portfolio Companies as this would restrict Biofusion's ability to grow. Biofusion will instead ensure that the dedicated management team of each Portfolio Company takes on the responsibility of its running and funding as soon as practicable.

The Directors do not intend Biofusion to participate in all future funding rounds of each Portfolio Company. Investment will occur in the early start-up rounds, when valuations should be relatively low, to ensure that Biofusion's initial majority shareholding is not over diluted. Biofusion will seek to opt out of funding in later rounds once the amounts invested and valuations increase and the Portfolio Companies are run on a sound commercial basis.

The Directors believe that this approach should enable Biofusion to maximise the returns achieved on its investments in Portfolio Companies.

The Directors will help each of the Portfolio Companies with these subsequent funding rounds by:

- providing the expertise, experience and contacts of the Board;
- introducing the Portfolio Companies to external investors; and
- participating in the funding rounds, where the Directors consider it appropriate.

The Directors believe that one of the most important components in developing Portfolio Companies will be the recruitment of experienced management. The Directors believe the recruitment of suitably qualified management teams will be facilitated by the initial seed funding that Biofusion will be able to provide.

In addition, Portfolio Companies will benefit from Biofusion's established network of contacts and by the involvement of Biofusion in the recruitment process. The responsibility of running and funding each Portfolio Company will be handed on as and when the respective management teams are in place.

The Directors believe that the structure of the Sheffield Agreement might be attractive to other universities. Similar collaborations with other universities may provide opportunities for additional growth in the business. The Directors will assess any such opportunity on its merits as it arises.

### **Current Portfolio Companies**

The Sheffield Agreement also identifies eight existing Medical Life Sciences-related companies which have been spun-out by SUEL and in a number of which certain Directors have been actively involved. These Current Portfolio Companies are those in which there is a University shareholding which will be transferred to Biofusion on Admission and which the Directors believe have strong commercial potential, namely:

<b>Company name</b>	<b>undiluted University shareholding to be transferred to Biofusion on Admission (%)</b>	<b>potential fully diluted Biofusion shareholding (%)</b>
Adjuvantix Limited	34.0	29.7
Asterion Limited	39.0	32.3
Axordia Limited	33.9	33.2
BioActa Limited	52.4	52.4
CellTran Limited	25.0	25.0
Diurnal Limited	100.0	100.0
Plasso Technology Limited	9.4	9.3
SimCyp Limited	25.0	25.0

Biofusion has agreed to acquire the University's shareholding in the Current Portfolio Companies, with effect from Admission, for an aggregate consideration of approximately £2.37 million to be satisfied by the issue of loan notes by Biofusion to the University (the "Deferred Loan Notes"). The Deferred Loan Notes are repayable after 10 years or, if earlier, on the sale or flotation of the Current Portfolio Company to which they relate. The Deferred Loan Notes are secured on the shares of the relevant Current Portfolio Company, do not cross-collateralise and can be repaid by the return of shares in the relevant Current Portfolio Company, or part thereof, at Biofusion's discretion.

#### **Adjuvantix**

Adjuvantix Limited ("Adjuvantix") intends to use proprietary adjuvants to co-develop a range of improved prophylactic and therapeutic vaccines. Adjuvantix has been funded by White Rose Technology Limited, The Biotechnology and Biological Sciences Research Council and the Wellcome Trust.

Adjuvantix has filed four families of patent applications claiming adjuvant technology and aims to exploit this technology to develop adjuvant systems suited to a wide range of vaccine antigens, including proteins, peptides, polysaccharides and organic molecules, which are designed to provide the desired antibody or cell-mediated immune response for any given clinical application.

#### **Asterion**

Asterion Limited ("Asterion") intends to produce novel proteins with the potential to treat a range of cytokine disorders, utilising structural and cellular molecular biology.

Founded in 2001, Asterion has developed its technology base using growth hormone as a model system, but it has applicability to many other cytokines. Asterion has licensed its technology with respect to growth hormone agonists and antagonists to a multi-national pharmaceutical company which has established a research programme with Asterion to develop these targets.

Asterion owns four families of patent applications and aims to exploit its generic platform technology to produce products that exhibit delayed clearance, do not significantly alter ligand-receptor affinity and have a reduced likelihood of unknown side effects and unwanted immune responses.

### *Axordia*

Axordia Limited ("Axordia") was founded in 2001 by Professors Peter Andrews and Harry Moore of the University to exploit embryonic stem ("ES") cell biology. Peter Andrews' research laid the groundwork for Axordia's derivation and study of human ES cells, and Harry Moore has obtained a Human Fertilization and Embryo Authority ("HFEA") licence for the derivation of human ES cells.

Axordia filed patent applications focusing upon technology to maintain and manipulate human ES cells, and the use of Ribonucleic acid interference techniques to switch ES cells to differentiate to specialised cell types. Axordia's strategy is to develop ES cell technology for the pharmaceutical and biotechnology industries while also pursuing longer-term goals in regenerative medicine.

### *BioActa*

BioActa Limited ("BioActa") has discovered novel inhibitors of angiogenesis (the growth of new blood vessels), a process important in diseases like cancer, rheumatoid arthritis and diabetic retinopathy.

BioActa's product, Alphastatin<sup>TM</sup>, was designed using BioActa's understanding of the proteins involved in regulating angiogenesis. BioActa intends to apply this understanding to the study of peptides derived from other naturally occurring proteins in order to identify molecules with novel angiogenic (both pro- and anti-angiogenic) activities. BioActa has a licence and research collaboration deal with Novartis AG relating to fibrinogen-E and Alphastatin<sup>TM</sup>, derived from the blood protein, fibrinogen further to which certain patents are jointly owned by BioActa and Novartis. Both these molecules are effective angiogenesis inhibitors, *in vitro* and *in vivo*.

### *CellTran*

CellTran Limited ("CellTran") has technology, some of which is jointly owned by the University, enabling it to grow cells on novel surfaces and to transfer them to patients for the treatment of chronic wounds and burns.

CellTran's technology is proprietary, scaleable and transferable. Two key components underpin this technology:

- advanced materials fabrication – the fabrication of novel transfer surfaces on which specific cell types may be cultured; and
- therapeutic use of cells – the culture of a patient's own cells for treatment of their wounds.

A regulatory strategy is in place designed to ensure compliance with the Medicines and Healthcare Products Regulatory Agency's Code of Practice for the Production of Human-derived Therapeutic Products, and CellTran is now marketing its product, Myskin<sup>TM</sup>, in the UK. Myskin<sup>TM</sup> was launched into the UK burns market in April 2004 by CellTran's UK distribution partner, Vernon Carus. Patients with severe burns have already been treated.

Proof of concept patient trials in non-healing wounds have been completed for Myskin<sup>TM</sup>, with results which CellTran considers to be very promising. CellTran intends that its upcoming trials will include a randomised, controlled, multi-centre trial in diabetic foot ulcers, and a market positioning trial, for Myskin<sup>TM</sup>.

### *Diurnal*

Founded in 2004, Diurnal Limited ("Diurnal") seeks to develop means for the controlled and sustained release of steroids. Diurnal intends its first product to be based on the delivery of hydrocortisone, in a manner which mimics the circadian rhythm.

The initial target patient group suffer from congenital adrenal hyperplasia, which is a defect in the production of cortisol from the adrenal gland, where the adrenal gland produces too much male hormone. Subsequent complications include adrenal and testicular tumours, virilisation, and adult infertility. Current steroid therapy for this condition does not mimic the natural circadian rhythm of the target steroid. Diurnal believes that it is, therefore, appropriate that a circadian rhythm of hydrocortisone through a delayed and sustained-release hydrocortisone tablet would be a more effective, and much needed, treatment.

Diurnal also intends to explore additional opportunities for new indications in areas in which cortisol levels may be implicated in other diseases (such as inflammatory conditions).

### *Plasso Technology*

Plasso Technology ("Plasso") is a surface engineering company, which seeks to use its core technology to provide tailored coatings to satisfy demand for advanced surfaces in diagnostics and life sciences research. Plasso's management team benefits from the experience of Professor Robert Short, a founder, who has over 15 years' research experience in the field of materials science.

The surface of solid phase support materials (e.g. glass slide, microtitre plate and beads) is widely used in many areas of Medical Life Sciences. Higher throughput is driving these technologies towards miniaturisation where the surface becomes the most crucial element. Plasso's patented technology describes the generation of novel surface coatings which can be used to optimise biomolecule-surface interactions.

Plasso operates a business model that integrates its coatings into consumables (e.g. microarrays, lab-on-a-chip, microtitre plates) used in Medical Life Sciences and diagnostics, and Plasso aims to access a market that it believes is worth US\$1.2 billion.

Plasso has two routes to achieve this integration: first, by forging long-term commercial partnerships that allow access to established routes to market (Plasso has initiated development programmes with strategically important suppliers in bioinstrumentation, biosensors and diagnostics); and secondly, the development and introduction of the company's own product ranges (e.g. sugar chip and novel substrates for mass spectrometry).

### *SimCyp*

Founded in 2001, SimCyp Limited ("SimCyp") provides consultancy and software to predict drug clearance and drug interactions in humans. It informs the process of drug development by simulating virtual patient populations, thereby helping to identify the characteristics of individuals at extreme risk.

SimCyp can help to maximise benefit from *in vitro* data by integrating it with demographic, genetic and physiological variables, to simulate and predict pharmacokinetic outcome not just in the average individual but in relevant patient populations. In turn, knowledge of pharmacokinetic behaviour in a population can be linked to variability in pharmacodynamic process and to therapeutic response through clinical trials simulation. Thus, SimCyp aims to make a rapid and seamless link between late pre-clinical and early clinical studies. SimCyp's clients include major pharmaceutical and biotech companies.

The contribution that the Chairman and the Director of Scientific Development of SimCyp have made to predicting population variability in whole body pharmacokinetics and drug-drug interactions was recognised recently by the European Federation of Pharmaceutical Sciences "New Safe Medicines Faster" award. This is a special award for outstanding contributions to advancing new methods and new technology that significantly shortens the drug development process.

### *Molecular SkinCare*

In addition to the Current Portfolio Companies detailed above, the Company has been granted an option in the Sheffield Agreement to acquire the University's economic interests in Molecular Skincare Limited ("MSL") for a consideration of £35,000 (and an exercise price of a further £50,000). The interest in MSL held by the University is currently approximately 22 per cent of MSL's issued share capital but this will be diluted to approximately 7 per cent on conversion of convertible loans in MSL. The option can be exercised by Biofusion at any time on giving not less than 14 days' written notice and can be exercised at any time up to and including 31 December 2005. The Board understands that MSL is currently negotiating a potential transaction which may or may not happen and depending upon whether or not that transaction occurs and at what value, the Company may or may not exercise its option in the future.

MSL is focused on the discovery and development of new topical treatments for skin diseases such as eczema, psoriasis, and contact irritant dermatitis. MSL, founded in 2001, has developed four programmes, which it believes provide out-licensing opportunities. MSL expects two of its products to be marketed by 2006 and 2007 respectively.

MSL has entered into a licence agreement involving one of its products with Ferndale Laboratories Inc., a US dermatology pharmaceutical company.

## DIRECTORS AND COMPANY SECRETARY

The Directors are:

Douglas Liversidge  
(Chairman)

Mr. Liversidge, aged 68, was appointed to the Board on 1 December 2004, having been a director of Biofusion Trading since 28 November 2003. He was employed for 21 years at British Steel, before moving to G W Thornton Limited as Managing Director and subsequently Chief Executive. He guided the company through its flotation on the full list of the London Stock Exchange in March 1987. During that period, G W Thornton won two Queen's Award to Industry for Export Achievement and the Cutlers Acclaim Award for Corporate Growth. In 1991 Mr. Liversidge was awarded South Yorkshire Businessman of the Year.

Mr. Liversidge acts as a Senior Industrial Adviser to the University of Sheffield. He has played a pivotal role in establishing the Regional Innovation Strategy for Yorkshire and Humberside through his work with Government Office in Leeds.

He was appointed Chairman of the South Yorkshire Learning & Skills Council by Government Office, Leeds in July 2000 and was awarded the CBE in the 2000 New Year's Honours List for services to industry.

David Baynes  
(Chief Executive Officer)

Mr. Baynes, aged 41, was appointed to the Board on 2 November 2004, having been a director of Biofusion Trading since 2 January 2003. David worked at Celsis International plc ("Celsis") from its incorporation to its flotation on the full list of the London Stock Exchange in July 1993, and was responsible for all elements of the company's finances during that period.

In August 1993, David co-founded Toad plc (now Toad Group plc) and was then responsible for taking the company from start-up to 4.2 (now Ofex), then AIM and ultimately the full list of the London Stock Exchange. During this time, David led four Class 1 transactions, two Class 2 transactions and a reverse takeover. In the year David left the company, it employed 278 staff, had a turnover of approximately £34 million and pre-tax profits in excess of £3 million per year.

Mr. Baynes left Toad plc to join Whereonearth Limited, where he obtained extensive exposure to the venture capital market and was responsible for all aspects of the company's venture capital funding. Following this, David joined Codemasters Limited as Chief Financial Officer. David was responsible for all aspects of the company's finances and corporate finance activity until leaving in September 2004 to focus on Biofusion.

Peter Grant  
(Operations Director)

Dr. Grant, aged 45, was appointed to the Board on 1 December 2004, having been a director of Biofusion Trading since 2 January 2003. Having obtained an honours degree in Biochemistry, Peter completed his PhD before joining Genzyme UK Limited ("Genzyme") as a Senior Research Scientist working within the clinical diagnostics division.

Following a move to Celltech from Genzyme, Peter was part of the start-up team at Enzymatix Limited ("Enzymatix"). During the next five years Enzymatix grew five independent research areas with Peter as the Head of Research and Development. Two of these areas were later spun-out to form Chiros Limited (later Chiroscience, now merged with Celltech plc) and Celsis, with Peter as a co-founder and Research and Development Director. Following venture capital funding rounds, Peter was an integral part of the team that successfully floated Celsis on the full list of the London Stock Exchange in July 1993. Peter gained significant experience in acquisitions, divestments and licensing through his role as Director of Business Development and Technology at Celsis. He is a non-executive director of Adjuvantix Limited, Asterion Limited, Diurnal Limited, CellTran Limited and



part-time CEO of Asterion Limited, all of which are spin-outs from the University.

Edwin Moses  
(Non-executive Director)

Dr. Moses, aged 50, was appointed to the Board on 1 December 2004. Dr. Moses has extensive experience as a non-executive director for companies including Evotec OAI AG, BiImage A/S, Inpharmatica Ltd, Ionix Limited, Amedis Limited, Avantium Technologies BV, Paradigm Therapeutics and Clinphone Limited.

Since taking up a full-time role as a non-executive director or chairman of a number of international life sciences companies in 2001, Dr. Moses has been extensively involved in raising tens of millions of pounds from venture capital companies as well as leading corporate development activities.

While chief executive officer and subsequently executive chairman of Oxford Asymmetry International plc, Dr. Moses raised several rounds of venture capital financing and annual turnover increased from approximately £100,000 to £20 million. He led the company's flotation on the full list of the London Stock Exchange in 1998 at a valuation of £120 million and subsequently achieved the sale of the company to Evotec Biosystems AG in 2000 for £316 million. During his time at Oxford Asymmetry, Dr. Moses was instrumental in key multi-million pound deal negotiations with companies such as Pfizer, Bayer, Vertex Pharmaceutical and Monsanto.

Anthony Atkinson  
(Non-executive Director)

Professor Atkinson, aged 59, was appointed to the Board on 1 December 2004. As a founding director of Generic Biologicals Limited and Kymed GB Limited ("Kymed"), Professor Atkinson was responsible for the merger of these two biopharmaceutical companies in 1998. He subsequently led Kymed's reverse takeover of the Ofex-listed oncology company, Enzacta plc, to form Enact Pharma plc ("Enact") in April 2000 and was appointed a director and chief scientific officer at the time of merger. Professor Atkinson became chief executive officer of Enact in February 2001 and led the restructuring of the company and the board through a series of refinancing events, most recently including Enact's acquisition by Protherics plc ("Protherics"), a biopharmaceutical company listed on the full list of the London Stock Exchange in June 2003, and in July 2003 was appointed chief scientific officer of Protherics, where he is now a non-executive director. Professor Atkinson was previously a director of the Division of Biotechnology and Deputy Director, PHLS Centre for Applied Microbiology and Research, Porton Down.

Professor Atkinson is also a director of, *inter alia*: Third Millennium Intek Limited, a technology transfer company involved in the financing of start-up and early stage companies; Thermophilic Micro Organisms Limited; New Sarum Enterprises Limited (through Third Millennium Intek Limited), a partner in the incubator developing the Porton Down Science Park (Tetricus Limited); and chairman of Chimaeron Limited, an incubator and mentoring business.

David Catton  
(Non-executive Director)

Mr. Catton, aged 60, was appointed to the Board on 1 December 2004, having been a director of Biofusion Trading since 14 August 2003. On 1 May 1998, David was appointed Managing Director of Unisheff Ventures Limited – since renamed Sheffield University Enterprises Limited. Prior to this, he worked for Ford Motor Company, British Leyland (now Rover), Rank Xerox Limited and Cambridge Consultants Limited. Mr. Catton has co-founded and invested in three start-up companies: Artificial Intelligence Limited, Strand Software Technologies Limited and The Customer Engagement Company.

Richard Birtles  
(Company Secretary)

Mr. Birtles, aged 51, has been a University employee for 20 years. Currently he is a director of six spin-out companies and is company secretary to a further seven.

Prior to joining SUEL in 2001, Richard was Head of Special Projects at the University and a member of the successful City of Sheffield Team which secured the HQ of the United Kingdom Sports Institute for Sheffield, in particular being responsible for developing the corporate structure and financial planning for the Institute involving a joint venture arrangement between private funders and the National Lottery with a capital budget in excess of £100 million.

### **Proposed Director**

Stuart Gall  
(Commercial Director)

Mr. Gall, aged 42, has experience in both small company start-ups and public companies and specialises in marketing, communications and new business development. After starting work at British Airways plc, he was a founder member of The Promotions Partnership Limited, a marketing consultancy, which was sold to Omnicom Inc in 1993 and renamed Anvil Limited. In 1994, Stuart joined Toad plc (now Toad Group plc) as Head of Marketing and was involved in its 4.2 (now Ofex), AIM and full listing on the London Stock Exchange. During this time he was involved in a number of Class 1 and Class 2 transactions and assumed responsibility for a number of senior positions within the company, including running the group's retail operations, technical training and new business development. Stuart joined the board of Toad Group plc in 1998 as Group Marketing Director and resigned from his post on 14 January 2005. He will join the board of Biofusion as Commercial Director at the end of his notice period.

### **COMPETITION**

#### **Angle plc**

Angle plc ("Angle") focuses on the exploitation of IP as part of spin-outs and start-up companies.

Angle was established in April 1994 by former executives from KPMG's High Technology Consulting Group. Angle's objective is to build value for shareholders by combining its revenue-earning consulting and management businesses with capital growth from equity stakes in a portfolio of technology companies, primarily in the biotechnology, electronics and IT sectors, with a view to realising value in the medium to long term.

Through its consulting and management businesses, Angle is engaged on a fee-for-service basis by clients developing proprietary technology, including companies, public sector research establishments and universities.

Angle's process for building technology-based businesses generally involves establishment and management of the new technology company (including the acquisition of new IP in consideration for the issue of shares in the new company), securing external investment and providing ongoing management and support.

#### **IP2IPO**

In October 2003, IP2IPO was admitted to AIM. IP2IPO's business is similar to Biofusion's in that it seeks to create value for its shareholders through the commercialisation of university IP. IP2IPO has entered into long-term arrangements in relation to university-generated IP with several universities.

IP2IPO was floated on AIM in October 2003, raising £30 million with a post-money valuation of £112 million. On 26 January 2005, IP2IPO had a market capitalisation of approximately £280 million.

#### **MMI Group**

MMI Group ("MMI") is a technology management business. Based in Cambridge and founded in 1988, MMI is listed on AIM and has developed technology consulting, development, incubation and investment programmes for industry, universities, research hospitals, investment community, start-ups, medical

charities, and government agencies. MMI states that its primary expertise is in the biomedical and biotechnology sectors.

### **Nikko Principal Investments Limited**

In March 2002, Nikko Principal Investments Limited ("NPIL") set up a new investment company, NPI Ventures Limited, which has entered into an investment agreement with Imperial College of Science, Technology and Medicine ("Imperial College") and Imperial College Innovations Limited, a wholly-owned technology transfer company of Imperial College, assisting in the technology spin-out process and administering a £4 million scheme for Imperial College.

Under the investment agreement, NPIL will invest £20 million of capital with an initial tranche of £10 million. NPI Ventures works with Imperial College Innovations to build up a portfolio of investments in early stage research and technology-derived spin-out companies. NPI Ventures will invest alongside the Imperial College University Challenge Seed Fund and will also invest in external funding rounds of Imperial College-generated companies.

### **Techtran Limited**

In December 2002, Leeds University began outsourcing its UTTC to Techtran Limited ("Techtran") to identify, develop and support Leeds University's USOs. Equity participation in these USOs will be shared between Techtran, the inventors of the technology and Leeds University. This is not an exclusive arrangement, as Leeds University's academics are free to seek funding from any source. On 20 January 2005, IP2IPO announced the acquisition of the entire issued share capital of Techtran.

### **TAXATION – SUBSTANTIAL SHAREHOLDING EXEMPTION**

The Group may be able to claim exemption from corporation tax on chargeable gains arising from sales of shares in trading subsidiaries if certain conditions are met. Further details of this exemption are contained in paragraph 6.5 of Part V of this document.

### **TRADING RECORD**

A summary of the trading record of the Group's trading company, Biofusion Trading, for the period ended 31 July 2004, which has been extracted from the accountants' report set out in Part IV of this document, is set out below:

	<i>Period from incorporation to 31 July 2002 £</i>	<i>Year ended 31 July 2003 £</i>	<i>Year ended 31 July 2004 £</i>
<b>Turnover</b>	–	–	–
<b>Operating loss</b>	(20,552)	(167,874)	(177,136)
<b>Loss after taxation</b>	(20,552)	(167,874)	(177,136)

### **DIVIDENDS**

Biofusion has not declared or paid any dividends. The Directors' current intention is to retain the Company's earnings in the foreseeable future to finance its growth and expansion. It is, however, the Directors' intention to pay dividends when, in the view of the Directors, the Company has sufficient cash for this purpose. Upon an exit event of a Portfolio Company and the distribution of proceeds to Biofusion, the Directors anticipate payment of dividends from time to time to Biofusion's shareholders, subject to Biofusion's working capital requirements.

## **CURRENT TRADING AND PROSPECTS FOR THE GROUP**

The Directors believe that since 31 July 2004, in respect of which financial statements included in Part IV of this document have been prepared, trading continues to meet the Directors' expectations, with Plasso Technology, a Portfolio Company, having recently raised funds and at least one other Portfolio Company expected to raise funds in the first half of 2005.

In addition, the Directors continue to work with the University to identify new IP with potential for commercialisation and incorporation into Portfolio Companies.

## **REASONS FOR AND DETAILS OF THE PLACING**

The net proceeds of the Placing will be used:

- (i) to assist in the purchase from the University of IP derived from Medical Life Sciences;
- (ii) to contribute to the financing of Portfolio Companies; and
- (iii) for general working capital purposes for Biofusion.

Additionally, the Directors believe that becoming AIM-quoted will raise the profile of Biofusion, allowing Biofusion the potential for additional growth by attracting and further developing relationships with other university-based research centres, if the Directors consider it appropriate.

On 28 January 2005, Code Securities, Bridgewell, the Directors, the University, SUEL, and the Company entered into the Placing Agreement, pursuant to which Code Securities agreed to place the New Ordinary Shares at the Placing Price on behalf of the Company with institutional investors. The issue of the New Ordinary Shares pursuant to the Placing will raise £8.2 million (before expenses). The Placing is fully underwritten by Bridgewell. Details of the Placing Agreement are set out in paragraph 7 of Part V of this document.

The New Ordinary Shares which are the subject of the Placing represent approximately 29.15 *per cent* of the Enlarged Issued Share Capital. Upon Admission the Directors will hold approximately 21.25 *per cent* of the Enlarged Issued Share Capital. The New Ordinary Shares are identical in all respect to the Existing Ordinary Shares.

## **LOCK-IN ARRANGEMENTS**

The Directors (who will together represent 21.25 *per cent* of the Enlarged Issued Share Capital) the University and its nominee, SUEL (which will own 49.59 *per cent* of the Enlarged Issued Share Capital and will therefore be a substantial shareholder for the purposes of the AIM Rules) have undertaken in the Placing Agreement, subject to certain limited exceptions, not to dispose of any of their interests in Ordinary Shares from the date of Admission until the first anniversary thereof (the "Restricted Period").

Furthermore, the Directors, SUEL and the University have undertaken, subject to certain limited exceptions, to retain at least 50 *per cent* of their respective shareholdings (approximately 35.42 *per cent* of the Enlarged Issued Share Capital) during the 12-month period commencing at the end of the Restricted Period. Any permitted sales in this period are to be conducted through Code Securities.

## **SHARE OPTION AGREEMENTS**

The Company has entered into individual option agreements with Edwin Moses, Anthony Atkinson and David Catton who are all non-executive Directors of the Company. Share options granted to these individuals under their respective Share Option Agreements will form part of their fees for acting as non-executive Directors of the Company.

Details of the Share Option Agreements are set out in paragraph 4 of Part V of this document.

## **CORPORATE GOVERNANCE**

The Directors intend, where practicable, to comply with the main provisions of the Combined Code. However, given the size of the Board and the Group, the Directors consider that two independent non-executive Directors, namely Edwin Moses and Anthony Atkinson, are, at present, sufficient and appropriate.

**Nomination Committee**

The Nomination Committee has responsibility for considering the size, structure and composition of the Board, retirements and appointments of additional and replacement directors, and making appropriate recommendations to the Board. The Nomination Committee consists of Edwin Moses, Anthony Atkinson and Douglas Liversidge.

**Audit Committee**

The Audit Committee has a primary responsibility for monitoring the quality of internal control and ensuring that the financial performance of the Group is properly measured and reported on, and for reviewing reports from the Group's auditors relating to the Group's accounting and internal controls. The Audit Committee consists of Edwin Moses, Anthony Atkinson and Douglas Liversidge.

**Remuneration Committee**

The Remuneration Committee consists of Edwin Moses, Anthony Atkinson and Douglas Liversidge. The Remuneration Committee determines the terms and conditions of service of directors, including the remuneration and grant of options to directors. Edwin Moses and Anthony Atkinson abstained from determining or making any decisions as to the terms of their respective Share Option Agreements and neither of them will be involved in the actual grant of their options.

**ADMISSION, SETTLEMENT AND DEALINGS**

Application has been made for the whole of the ordinary share capital of the Company, issued and to be issued pursuant to the Placing, to be admitted to trading on AIM. It is expected that Admission will take place and dealings in the Existing Ordinary Shares and the New Ordinary Shares will commence on 2 February 2005.

**CREST**

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. The Directors have applied for the Ordinary Shares in issue following Admission to be admitted to CREST with effect from Admission and CREST has agreed to such admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system, if the individual shareholders so wish. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

## **PART II**

### **Risk factors**

Prospective investors should be aware that an investment in the Company involves a higher than normal degree of risk. In addition to the other information contained in this document, the following risk factors should be considered carefully in evaluating whether to make an investment in the Company and, in particular, should be read in conjunction with the full text of this document.

#### **Business model is unproven**

The Group's business model is that of creating valuable exits from spin-out companies owning or licensing IP developed by the University. This business model is in its infancy and despite instances of the successful creation of value from exits from spin-out companies by some of the Group's competitors, there is no guarantee that it will ultimately prove successful.

#### **Early stage of development and limited operating history**

*The Group is at an early stage of development and has not generated any revenues to date. The commencement of the Group's material revenues is difficult to predict and there is no guarantee that the Group will generate any material revenues in the future.*

The Group has a limited operating history upon which its performance and prospects can be evaluated and faces the risks frequently encountered by developing businesses. These risks include the potential inability to retain key personnel, as well as uncertainty as to which areas to target for growth and expansion. In addition, there can be no assurance that the Group's proposed operations will be profitable or produce a reasonable return, if any, on investment.

#### **Research funding**

If the University or any other university with which the Group enters into an agreement experiences a reduction in its funding in the areas of research relevant to the Group, it is reasonable to expect that this would have an adverse effect on both the quantity and quality of its relevant research output, which would diminish the value of the Group's agreement with it.

#### **Changes in legislation and policy**

There may be unforeseen changes in government policy or legislation, or other changes in the terms upon which public monies are made available to universities and research institutions. Such changes could result in universities and research institutions no longer being able, or for it to become commercially unattractive for them, to generate, own or exploit IP. This would represent a fundamental risk to the viability of the Group's business.

Changes in government policy or legislation or other terms upon which academics are incentivised could make it commercially unattractive for research academics to carry out their research within the United Kingdom, and potentially make other countries more attractive. This represents a fundamental risk to the viability of the Group's business.

Changes under the Finance Act 2003 mean that the Inland Revenue could seek to treat the value of the shares received by the academics in spin-out companies as being subject to income tax, and potentially also national insurance contributions for employee and employer, on the grounds that the shares are received by the academics at an under-value "by reason of their employment". While this is not directly a risk for the Group, it could deter academics from subscribing for shares in spin-out companies in the future, which could slow the rate of establishment of spin-out companies or reduce the involvement of academics in them and hence their success. This in turn could have an adverse affect on the Group's business.

## **Taxation – Substantial Shareholding Exemption**

The net value realised by the Group on any exit effected by way of a sale of shares in a Portfolio Company will be materially affected by the Group's ability to qualify for a Substantial Shareholding Exemption on such exit, details of which are set out in paragraph 6.5 of Part V of this document.

## **Minority interests**

The size of the Group's shareholding in Portfolio Companies will vary between Portfolio Companies. The Group will not be able to exercise control over the affairs of Portfolio Companies in which it has only a minority interest. The Group might find this lack of control either prevents it from exiting from its investment in a Portfolio Company at a time and/or price the Group would otherwise choose to, or from procuring that further funds are raised for a Portfolio Company in circumstances where the Group would consider such further funding desirable. Further, in raising funds for a Portfolio Company by way of an issue of shares in that company, the Group might be required to become subject to provisions which could force the Group to exit from that Portfolio Company at a time and/or price determined by another investor.

## **Appetite for investment in spin-out companies from the Group's portfolio and ability to realise equity shareholdings**

It is anticipated that the Portfolio Companies in which the Group has an interest will have, in common with many other early stage technology transfer companies, substantial funding requirements. As such, the success of spin-out companies is subject to wider market conditions. It may be the case that investors' appetite to invest in such Portfolio Companies is insufficient to meet the funding requirements of the Portfolio Companies concerned. This could have a material adverse effect on the value and financial position of such Portfolio Companies and consequently on the value of the assets and the business of the Group. It may also prove difficult, or take a considerable amount of time, for the Group to be able to realise its equity shareholdings in such Portfolio Companies, which would make it difficult for the Group to generate material revenues.

## **Investments made by the Group will be early stage**

Investments made by the Group will be investments in early stage spin-out companies based on early stage technologies.

The investments will be subject to risks associated with early stage investments in general, including the *ability to secure second round funding to support ongoing research and development activities, the impact of competing technologies entering the market with more resources and the risk that the research and development will fail*. In some cases, the ability to succeed will be dependent upon regulatory approval for *certain trials to proceed*.

There is no certainty that such individual Portfolio Companies will prove to be successful or generate a return on investment for the Group.

## **Personnel of the Group**

*Attracting and retaining key personnel may be difficult in the marketplace in which the Group operates. The Group has key personnel who have valuable experience and contacts in their respective fields. The Group might not be able to attract the new recruits that it may need in the future to grow and it might lose existing key personnel on whom it relies.*

## **Personnel of the Portfolio Companies**

The success of the the Portfolio Companies is dependent upon retaining key academic individuals and the ability to attract and retain senior management of sufficient calibre. There is a risk that the creators of IP, often the relevant Portfolio Company's founders, could leave these companies if, for example, they leave the University or fail to be incentivised by the relevant Portfolio Company.

## **Influence of the principal shareholder**

Immediately after Admission, SUEL, as nominee for the University, will hold 49.59 *per cent* of the Enlarged Issued Share Capital. In addition, the Directors, immediately after Admission, will own 21.25 *per cent* of the Enlarged Issued Share Capital.

As a consequence of these shareholdings, the University will be able to exercise a significant amount of influence over the Group. For example, where the consent of 50 *per cent* or more of the shareholders of the Company is required in general meeting, it may be practically impossible to obtain that majority unless the University is in favour. In addition, it would not be possible to pass a shareholders' resolution where a majority of 75 per cent or more of the shareholders voting in favour is required, unless the University and the Directors were in favour of that resolution.

### **Inherent risks in the healthcare sector**

The businesses of many or all of the Portfolio Companies, will involve the sale of products for use in human healthcare, including pharmaceuticals and medical devices. The manufacture, marketing and sale of such healthcare products is subject to rigorous regulation by regulatory and governmental authorities throughout the world.

Obtaining regulatory approvals to manufacture, market and sell healthcare products is often extremely expensive and generally takes many years, and the failure to obtain, or maintain, such approvals can restrict or prevent those products from being sold or marketed. There can be no guarantee that such approvals will be granted for any of the product candidates with which any of the Portfolio Companies are concerned.

Approvals for the marketing and sale of such products are generally only available following the evaluation of data relating to the quality, safety, efficacy and performance of the relevant product candidate for its proposed use. The requirements for, and time and expenditure needed to obtain, such approvals varies *between products and between the territories in which it is proposed that such products will be marketed or sold*. There can be no guarantee that data can be generated for any product relevant to any of the Group's Portfolio Companies which will support the grant of any such approval, whether for any or all of the indications for which it is intended, in any or all of the desired territories or at all. Additionally, there can be no guarantee that regulatory or other approvals of the trials required to generate any of those data will be obtained, or that those trials will otherwise be conducted or satisfactorily completed, whether at all or within an acceptable timescale, including because the relevant product candidate proves to be unsafe or ineffective. The grant of such an approval in any territory is no guarantee that an equivalent, or any, approval will be granted elsewhere. Approvals for manufacturing and products are generally only available if the relevant manufacturer, its plant, facilities and processes satisfy applicable regulatory requirements, including with respect to the standard of their procedures and cleanliness.

Even if the relevant approvals are granted, the products concerned will continue to be subject to strict regulation and there can be no guarantee that any of the product candidates with which Portfolio Companies are concerned will be maintained, even if granted. Changes in applicable legislation and/or regulatory policies or the discovery of adverse effects of, or other problems with, a product or its manufacture may result in granted approvals being withdrawn, such that the manufacturing, marketing and sale of those products will have to cease or, if it has not yet commenced, abandoned or postponed. In these circumstances, it may not be possible to acquire replacement, or other, authorisations, whether at all or within an acceptable timescale. Likewise, the manufacture, marketing or sale of the products may be restricted by applicable regulators or governmental authorities.

Any failure to obtain or maintain such an approval could adversely affect the value of the relevant Portfolio Company to the Group and the revenue the Group can realise by disposing of its holding in it. Any adverse effects of, or other problems with, any marketed product may also cause the relevant Portfolio Company to incur product liabilities to affected persons, with a consequential effect on that Portfolio Company's value to the Group. There can be no guarantee that necessary product liability insurance will be available to such Portfolio Company, at all or at an acceptable cost, or that any such insurance as is obtained will cover such liabilities as may arise for it. Any shortfall in such a Portfolio Company's insurance may adversely impact upon its value and the revenue the Group can realise by disposing of its holding in it.

There can also be no guarantee that any such products will achieve market acceptability, including in comparison with third party alternatives, or that they will be sold at a price which generates adequate revenues for the Portfolio Company concerned. Such revenues may also be affected by relevant *government policies concerning pricing or reimbursement for products dispensed through publicly-funded health services*, and whether such products are approved for dispensing through such services, including



on the grounds that they provide value for money. If any of the Portfolio Companies' revenues are adversely affected in this way, this is likely to adversely impact upon its value and the revenue the Group can realise by disposing of its holding in it.

### **Arrangements with other universities**

There can be no guarantee that the Group will be able to secure rights in respect of Intellectual Property generated through research undertaken at universities or other organisations other than the University, or on acceptable terms. Unless the Group can reach arrangements to secure such rights on acceptable terms, its ability to generate revenues will be limited to the Intellectual Property which it is entitled under the Sheffield Agreement to commercialise.

### **Irregular income stream**

The Group seeks to derive income from disposing of its holdings in Portfolio Companies which seek to commercialise Intellectual Property generated through research at the University, or through future arrangements it may reach with other universities or organisations. Such disposals could occur infrequently and irregularly, and so not generate steady, predictable or reliable revenue streams for the Group. The timing of, and revenue derived from, such disposals may be affected by matters outside the Group's control, such that the Group may not achieve the level of revenues it might have anticipated from such disposals, or when it might have anticipated achieving such disposals.

### **Need for further investment in the Group**

The Group may require additional capital in the future for expansion, activity and/or business development, whether from equity or debt sources. As a result, a shareholding in the Group could be substantially diluted. If the Group is not able to obtain additional capital on acceptable terms, or at all, it may be forced to curtail or abandon such planned expansion, activity and/or business development.

### **Intellectual Property**

The Group's objective is to create value from Intellectual Property to which it is entitled under the Sheffield Agreement, and future arrangements it may reach with other universities or organisations, by commercialising this through Portfolio Companies, as well as through disposing of its shareholdings in Portfolio Companies.

There can be no guarantee that Intellectual Property capable of successful commercialisation by the Group will be generated by the University or any other such university or organisation, or that any that is so generated will be identified as suitable for commercialisation. Further, third party Intellectual Property may also be required for the successful commercialisation of that which the Group is entitled to commercialise, which may not be available, either at all or on acceptable terms. Additionally, Intellectual Property which the Group is entitled to exploit may, under the terms of the Sheffield Agreement and such other future arrangements, be subject to third party rights which adversely affect the Group's ability to commercialise it successfully, or as successfully as it otherwise might. There can also be no guarantee that the University or any other such university or organisation, or any of their staff who generate that Intellectual Property, will provide the assistance required for its successful commercialisation.

The Group, or relevant Portfolio Companies, may be unable successfully to obtain and maintain protection for relevant Intellectual Property. There can be no assurance that adequate, or any, protection will be sought, granted or that, if challenged, it will not be found to be invalid or revoked. The scope of protection afforded may also be less than required to prevent third party competitors of the Portfolio Companies developing or selling similar and competing products or technology, and third party Intellectual Property or other rights could prevent the commercialisation of that Intellectual Property available to the Group or Portfolio Companies.

The value of the Intellectual Property depends, in part, on how successfully it is enforced against third party infringers, including through litigation. Despite efforts by the Group or the Portfolio Companies to protect their Intellectual Property, unauthorised parties may attempt to use, and succeed in using, aspects of their technology, or to obtain and use information that they regard as proprietary. It is likely to be difficult or impossible for the Group or those Portfolio Companies to police unauthorised use of Intellectual Property used by, or available to, them in or for their businesses. The entitlement or freedom of the

relevant Portfolio Company to exploit Intellectual Property relevant to its business may also be challenged, including through litigation.

The failure of any such enforcement action, or of the Group or relevant Portfolio Company to overcome any such challenge, could result in the payment of significant damages and legal and other costs, and in the relevant Portfolio Company having to cease the development, manufacture, use, sale or importation of infringing products, expend significant resources to develop or acquire non-infringing technology (including by way of licence) and/or discontinue the use of some of all of its products and/or processes.

Litigation is often protracted and expensive and could result in significant effort and expense for the Group or relevant Portfolio Company (including in acquiring or licensing further Intellectual Property to settle any claim for infringement of a third party's rights), and adversely affect sales of any product to which it relates, whether or not the litigation is determined in favour of the Portfolio Company. Whether disputes result in litigation may be outside the control of the Group or relevant Portfolio Company.

The realisation of any of the above matters could significantly lessen the value of the relevant Portfolio Company, and in turn, the revenue the Group might be able to realise by disposing of its holding in it.

### **Joint Intellectual Property**

As mentioned in Part I of this document, two Portfolio Companies, BioActa and CellTran, jointly own patent applications, such that they do not have exclusive control over their prosecution, maintenance or exploitation. Accordingly, there is an inherent risk, outside their, and the Group's control, that such patent applications, any patents granted further to them and the inventions to which they relate, might become available to third parties, including by way of licence from the relevant joint owner. This could adversely affect their value to those Portfolio Companies and hence the value of those Portfolio Companies to the Group.

### **Limitations on the Group's entitlement to exploit Intellectual Property**

The Group's entitlement to commercialise Intellectual Property generated from research at the University is explained in paragraph 8(c) of Part V of this document.

In particular, if the Group's current account balance falls below £500,000, or it remains in un-remedied breach of the Sheffield Agreement for 30 days or more, the University can suspend this entitlement. Additionally, this entitlement is subject to the terms of financing and collaborative research agreements between the University and third parties entered into in the ordinary course. The nature of the ordinary course of the University's business may change over time, including as a result of changes in the availability to the University of finance as a result of the University's or Government policy, and other factors which may be outside the University's control, such as changes in the practice of third parties with respect to their collaborating with the University. Accordingly, the terms of the University's financing and other collaborative research agreements entered into in the ordinary course may change and, as a result, so may the Group's entitlement to commercialise Intellectual Property generated from research at the University. Such changes could restrict the availability of such Intellectual Property to the Group, or its freedom to commercialise that Intellectual Property through Portfolio Companies, and thus the value of those Portfolio Companies to the Group.

### **Intellectual Property clawback**

Under the Sheffield Agreement, the Group may, from 19 months following Intellectual Property generated through relevant research at the University first having been brought to the attention of the Group, lose its entitlement to commercialise that Intellectual Property if it has not then elected for it to be assigned or licensed to a spin-out company, has no written business plan to prepare for commercialisation in the following 12 months and does not adhere to that plan. Additionally, if any Intellectual Property is not used by a Portfolio Company for a continuous period of 18 months, the University is entitled to recover ownership of it or to terminate any licence granted to a Portfolio Company where a written business plan for commercialisation of the Intellectual Property within 12 months is not adhered to. In either case, the loss of Intellectual Property to the Group or the Portfolio Company could adversely affect the Group's ability to profit from its commercialisation of Intellectual Property through Portfolio Companies.

### **Future Intellectual Property**

Investors in the Group are effectively investing in technology that does not yet, and may never, exist. There can be no guarantee that the University (or any other university or organisation with which the Group has or will have an arrangement entitling it to commercialise Intellectual Property generated through relevant research) will generate sufficient Intellectual Property for the Group to be able to commercialise it successfully, or that any such Intellectual Property will be generated. Additionally, there can be no guarantee that any such Intellectual Property will be suitable for commercialisation or capable of being commercialised successfully.

The Sheffield Agreement does not entitle the Group to direct or concentrate the research efforts of the University, including into areas which may be commercially advantageous to the Group. The Group may also be unable to direct or concentrate the research efforts of any other university or other organisation with which it may reach an arrangement in the future for the Group's commercialisation of Intellectual Property generated through their research. Accordingly, the nature and extent of the Intellectual Property generated through those research efforts, and consequently, the commercial potential and value of the pipeline of Intellectual Property which the Group is entitled to commercialise, are outside of the Group's control.

### **International Financial Reporting Standards**

In June 2002, the Council of Ministers of the European Union ("EU") approved a regulation (the "Regulation") requiring all companies that are governed by the law of a member state of the EU and whose securities are admitted to trading on a Regulated Market of any member state to prepare their consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. The Regulation is to be effective for each financial year starting on or after 1 January 2005 with respect to companies with listed equity securities.

From 12 October 2004, AIM will operate as an exchange-regulated market, relinquishing its EU Regulated Market status. This means that AIM companies will fall outside the scope of the Regulation.

However, on 7 October 2004, the London Stock Exchange confirmed changes to the AIM Rules which will require AIM companies to use IFRS for financial years commencing on or after 1 January 2007. As for any other non-listed UK company, IFRS will continue to be optional for financial years commencing on or after 1 January 2005.

The Group will adopt any relevant standards issued by each of the UK Accounting Standards Board and the International Accounting Standards Board as they become applicable. The adoption of IFRS may have a material impact on Biofusion's financial position and reported results, particularly measurement of the fair value of the Group's financial instruments, although it is not possible to quantify the impact at this time.

### **Accounting for Portfolio Companies**

On Admission, the Group will own shareholdings in Portfolio Companies. The Group will be required to account for its investments according to UK accounting standards, in particular Financial Reporting Standard 2 "Accounting for subsidiary undertakings" and Financial Reporting Standard 9 "Associates and joint ventures".

UK accounting standards require the Group to consolidate each investment that meets the definition of a subsidiary, typically where the Group's shareholding exceeds 50 *per cent*. Such standards also permit the Group to account for investments that do not meet the definition of a subsidiary on a portfolio basis.

The Group may acquire investments that reduce its consolidated net assets. Furthermore, the Group's subsidiary companies are likely to be loss-making during the early stages of their development. When any such losses arising in subsidiary companies are consolidated, the consolidated net assets of the Group will reduce accordingly.

### **Share price volatility and liquidity**

The share price of publicly traded emerging companies can be highly volatile. The price at which the Ordinary Shares will be quoted and the price which investors may realise for their Ordinary Shares will be influenced by a large number of factors, some specific to the Group and its operations and some which may affect the quoted healthcare and pharmaceutical sectors, or quoted companies generally. These

factors could include any of the matters addressed in the above risk factors, large purchases or sales of Ordinary Shares and general economic conditions.

Admission to AIM should not be taken as implying that there will be a liquid market for the Ordinary Shares. It may be more difficult for an investor to realise his investment on AIM than to realise an investment in a company whose shares are quoted on the Official List.

## PART III

### Accountants' report on Biofusion

Set out below is the text of a report received from Deloitte & Touche LLP, registered auditors, chartered accountants and reporting accountants:

# Deloitte.

Deloitte & Touche LLP  
Leda House  
Station Road  
Cambridge  
CB1 2RN

The Directors  
Biofusion plc  
The Innovation Centre  
217 Portobello  
Sheffield  
S1 4DP

Code Securities Limited  
30 St James's Square  
London  
SW1Y 4AL

28 January 2005

Dear Sirs

#### **Biofusion plc (the "Company")**

We report on the financial information set out below. This financial information has been prepared for inclusion in the Admission Document dated 28 January 2005 relating to the Admission of the Company to AIM (the "Investment Circular").

#### **Basis of preparation**

The Company was incorporated on 2 November 2004 under the name of DB 2004 Limited. The Company was re-registered as a public limited company and the name of the Company was changed to Biofusion plc on 20 January 2005.

The Company issued one ordinary share for a consideration of £1 on incorporation. No material contracts or transactions have been entered into save for those detailed in sections 7 and 8 of Part V of the Investment Circular.

The Company has not yet traded and no dividends have been declared or paid.

The financial information set out in this report is based on the audited non-statutory accounts of the Company as at the date of incorporation on 2 November 2004 prepared in accordance with UK accounting standards and to which no adjustments were considered necessary.

#### **Responsibility**

The non-statutory accounts are the responsibility of the Directors of the Company who approved their issue.

The Directors of the Company are responsible for the contents of the Investment Circular in which this report is included.

It is our responsibility to compile the financial information set out in our report from the non-statutory accounts, to form an opinion on the financial information and to report our opinion to you.

### **Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the non-statutory financial information. It also included an assessment of the non-statutory financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States or other jurisdictions outside the United Kingdom and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

### **Opinion**

In our opinion, the non-statutory financial information set out below gives, for the purposes of the Investment Circular, a true and fair view of the state of affairs of the Company as at 2 November 2004.

### **Consent**

We consent to the inclusion in the Investment Circular of this report and accept responsibility for this report for the purposes of paragraph 45(8)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

### **Balance sheet of the Company at 2 November 2004**

	<b>Note</b>	<b>£</b>
<b>Debtors</b>		
Called up share capital not paid		1
		<hr/>
<b>Capital</b>		
Called up share capital	3	1
		<hr/>
<b>Equity shareholders' funds</b>	4	1
		<hr/>

## **1. ACCOUNTING POLICIES**

### **Basis of accounting**

The non-statutory financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards, applied on a consistent basis.

## **2. PROFIT AND LOSS ACCOUNT**

No profit and loss account is presented within this financial information because the Company has not received income, incurred expenditure or recognised any gains or losses during the period under review.

### 3. CALLED UP SHARE CAPITAL

*Authorised share capital:*

	<b>2 November 2004</b>
	<b>£</b>
1,000 ordinary shares of £1 each	1,000
	<hr/>

*Allotted and called up:*

	<b>2 November 2004</b>
	<b>£</b>
1 ordinary share of £1 each	1
	<hr/>

On 2 November 2004, on incorporation, 1 ordinary share was issued at par.

### 4. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	<b>£</b>
New share issued	1
	<hr/>
Net addition to shareholder's funds	1
Opening shareholder's funds	—
	<hr/>
Closing shareholder's funds	1
	<hr/>

### 5. POST BALANCE SHEET EVENTS

On incorporation, David Baynes was appointed as a Director of the Company.

The Company re-registered as a public limited company and its name was changed to Biofusion plc on 20 January 2005. On 14 January 2005, 50,000 redeemable preference shares were issued in consideration for an undertaking to pay up £50,000 upon Admission or £12,500 on 31 December 2007, whichever occurs earlier.

On 17 December 2004, 300 A ordinary shares of £1 each and 2,100 ordinary shares of £0.01 each were issued credited as fully paid to the shareholders in Biofusion Trading in consideration for the acquisition by the Company of the entire share capital of Biofusion Trading.

On 26 January 2005 the Company resolved, subject to and conditional upon Admission that (i) each of the A ordinary shares of £1 each be converted into 1 ordinary share of £0.01 and 99 deferred shares of £0.01 and (ii) that £133,303.20 of the Company's share premium account upon Admission be capitalised by way of bonus issue on the basis of 13,330,320 ordinary shares of £0.01 for each ordinary share of £0.01 each held prior to Admission.

At the date of this report, the Directors of the Company held the following interests in the ordinary shares of the Company:

	<b>A ordinary Shares Number</b>
David Baynes	300
Peter Grant	300

Simultaneous with Admission, the Company will acquire investments from the University. Where such investments meet the definition of a subsidiary, Biofusion will be required to consolidate the results of those investments.

BioActa Limited and Diurnal Limited will meet the definition of a subsidiary. BioActa Limited reported a profit for the year ended 31 July 2004 of £18,523 and had net assets at that date of £67,679. Diurnal does not have any material income or assets.

Yours faithfully

Deloitte & Touche LLP  
Chartered Accountants



## PART IV

### Accountants' report on Biofusion Trading

# Deloitte

Deloitte & Touche LLP  
Leda House  
Station Road  
Cambridge  
CB1 2RN

The Directors  
Biofusion plc  
The Innovation Centre  
217 Portobello  
Sheffield  
S1 4DP

Code Securities Limited  
30 St James's Square  
London  
SW1Y 4AL

28 January 2005

Dear Sirs

#### **Biofusion Trading Limited**

We report on the financial information of Biofusion Trading Limited set out below. This financial information has been prepared for inclusion in the Admission Document dated 28 January 2005 relating to the Admission of the Company to AIM (the "Investment Circular"). On 17 December 2004, the whole of the issued share capital of Biofusion Trading Limited was acquired by Biofusion plc.

#### **Basis of preparation**

The financial information set out in this report, which has been prepared in accordance with applicable United Kingdom generally accepted accounting principles, is based on the unaudited statutory financial statements for the period from incorporation on 12 December 2001 to 31 July 2002 and the audited financial statements for each of the years ended 31 July 2003 and 31 July 2004.

#### **Responsibility**

The financial statements are the responsibility of the directors of Biofusion Trading Limited who approved their issue.

The Directors of the Company are responsible for the contents of the Investment Circular in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

#### **Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors who audited the financial statements underlying the financial information for the years ended 31 July 2003 and 31 July 2004. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

**Opinion**

In our opinion, the financial information set out below gives, for the purposes of the Investment Circular, a true and fair view of the state of affairs of Biofusion Trading Limited as at the dates stated and of its losses for the periods then ended.

**Consent**

We consent to the inclusion in the Investment Circular of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

## PROFIT AND LOSS ACCOUNTS

		Period from 12 December 2001 to 31 July 2002 £	Year ended 31 July 2003 £	Year ended 31 July 2004 £
	Notes			
<b>Administrative expenses</b>		(20,552)	(167,874)	(177,136)
<b>Operating loss, being loss on ordinary activities before taxation</b>	3	(20,552)	(167,874)	(177,136)
Tax on loss on ordinary activities	6	—	—	—
<b>Loss on ordinary activities after taxation, being retained loss for the financial period</b>	13	(20,552)	(167,874)	(177,136)
<b>Loss per ordinary share</b>				
Basic and diluted	7	(22.84)	(80.28)	(59.05)

*All activities derive from continuing operations.*

There are no recognised gains or losses other than as stated above. Therefore no statements of total recognised gains and losses have been presented in this report.

## BALANCE SHEETS

	Notes	31 July 2002 £	31 July 2003 £	31 July 2004 £
<b>Fixed assets</b>				
Tangible assets	8	1,750	1,225	700
<b>Current assets</b>				
Debtors	9	900	—	3,856
Cash at bank and in hand		—	12,041	2,628
		900	12,041	6,484
<b>Creditors: Amounts falling due within one year</b>	10	(22,302)	(183,692)	(339,746)
<b>Net current liabilities</b>		(21,402)	(171,651)	(333,262)
<b>Total assets less current liabilities</b>		(19,652)	(170,426)	(332,562)
<b>Creditors: Amounts falling due after more than one year</b>	11	—	(15,000)	(30,000)
<b>Net liabilities</b>		(19,652)	(185,426)	(362,562)
<b>Capital and reserves</b>				
Called-up share capital	12	900	921	921
Share premium account	13	—	2,079	2,079
Profit and loss account	13	(20,552)	(188,426)	(365,562)
<b>Equity shareholders' deficit</b>	14	(19,652)	(185,426)	(362,562)

## CASH FLOW STATEMENTS

	Notes	Period from 12 December 2001 to 31 July 2002 £	Year ended 31 July 2003 £	Year ended 31 July 2004 £
<b>Net cash inflow (outflow) from operating activities</b>	16	1,200	9,941	(9,413)
Capital expenditure and financial investment	17	(2,100)	—	—
		<hr/>	<hr/>	<hr/>
<b>Cash inflow (outflow) before financing</b>		(900)	9,941	(9,413)
Management of liquid resources		—	—	—
Financing	17	900	2,100	—
		<hr/>	<hr/>	<hr/>
<b>Increase (decrease) in cash in the period</b>	18	—	12,041	(9,413)
		<hr/>	<hr/>	<hr/>

## 1. ACCOUNTING POLICIES

A summary of the principal accounting policies, all of which have been applied consistently throughout all periods presented, is set out below:

### a) Basis of accounting

The financial information has been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards, applied on a consistent basis.

### b) Basis of preparation – going concern

The financial information has been prepared on a going concern basis, on the grounds that the Directors believe that Biofusion Trading Limited will continue in operation for the foreseeable future as a result of the planned financial support from its parent undertaking, Biofusion plc. The planned financial support will be provided out of the anticipated proceeds of the proposed flotation of Biofusion plc, the estimated net proceeds of which is £7.3 million.

The Directors have prepared projected cash flow information for the Group for the period ending 31 July 2006. On the basis that the minimum subscription level is achieved, the Directors believe the Group will have sufficient working capital for at least the next 12 months.

On the basis that this financial information is being included in the Investment Circular for the purpose of the flotation of Biofusion plc, and taking account of the minimum subscription level, the Directors believe it is appropriate for the financial information on Biofusion Trading Limited to be prepared on a going concern basis. Accordingly, the financial information does not include any adjustments that would result if Biofusion Trading Limited did not continue trading.

### c) Tangible fixed assets

Tangible fixed assets are stated at cost, net of accumulated depreciation and any provision for impairment.

Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, on a straight-line basis over their expected useful lives which are as follows:

Computer equipment	4 years
--------------------	---------

Residual values are calculated on prices prevailing at the date of acquisition.

### d) Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

### e) Taxation

Current tax, representing UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

## 2. SEGMENTAL INFORMATION

All results of the company relate to its principal activity, which is the commercialisation of University of Sheffield life sciences intellectual property into self-sustaining commercial enterprises. All activities of the company take place in the United Kingdom.

### 3. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

The loss on ordinary activities before taxation is stated after charging:

	Period from 12 December 2001 to 31 July 2002 £	Year ended 31 July 2003 £	Year ended 31 July 2004 £
Depreciation and amounts written off			
– Owned tangible assets	350	525	525
Auditors' remuneration for audit services	–	500	2,000
	<hr/>	<hr/>	<hr/>

The auditors for the year ended 31 July 2004 were KPMG LLP and for the year ended 31 July 2003 were Grant Thornton. The statutory financial statements for the period of incorporation from 12 December 2001 to 31 July 2002 were not required to be audited.

There has been no remuneration paid to the auditors of Biofusion Trading Limited in respect of non-audit services in any of the periods covered by this report.

### 4. EMPLOYEE NUMBERS AND STAFF COSTS

The company had no employees, other than the executive directors listed in note 5, during any of the periods covered by this report.

### 5. DIRECTORS' REMUNERATION

#### (a) Directors' emoluments and pension contributions

The directors received no emoluments, pension contributions or other remuneration in any of the periods covered by this report.

Fees charged by Dr. P Grant, a director of Biofusion Trading Limited, for consultancy services are disclosed in note 21.

**5. DIRECTORS' REMUNERATION (CONTINUED)**

**(b) Directors' shareholdings and share options**

The Directors held beneficial interests in the shares of Biofusion Trading Limited as follows:

	<b>31 July 2002 Number</b>	<b>31 July 2003 Number</b>	<b>31 July 2004 Number</b>
<b>A ordinary shares of £0.01 each</b>			
<b>Executive</b>			
C Baynes (appointed 11 March 2002, resigned 2 January 2003)	—	—	—
T Pickthorn (appointed 12 December 2001, resigned 11 March 2003)	—	—	—
D Baynes (appointed 2 January 2003)	—	300	300
Dr. P Grant (appointed 2 January 2003)	—	300	300
<b>Non-executive</b>			
D J Catton	—	—	—
D Liversidge	—	—	—
E McGregor (appointed 14 August 2003, resigned 26 May 2004)	—	—	—
Prof. A North (appointed 14 August 2003, resigned 19 January 2004)	—	—	—

The Directors had no interests in share options in Biofusion Trading Limited during any of the periods covered by this report.



## 6. TAXATION

There was no tax charge during any of the periods covered by this report.

The standard rate of tax for the period based on the UK standard small companies rate of corporation tax is 19 *per cent*. The actual tax charge for the current and previous periods differs from the standard rate for the reasons set out in the following reconciliation:

	Period ended 31 July 2002 £	Year ended 31 July 2003 £	Year ended 31 July 2004 £
<b>Loss on ordinary activities before tax</b>	(20,552)	(167,874)	(177,136)
Tax at 19% thereon	(3,905)	(31,896)	(33,656)
<i>Factors affecting charge for the period:</i>			
Capital allowances in deficit of depreciation	–	–	28
Unrelieved tax losses carried forward	3,905	31,896	33,628
<b>Current tax credit for the period</b>	–	–	–

Deferred tax balances, all of which were unprovided, are analysed as follows:

	31 July 2002 £	31 July 2003 £	31 July 2004 £
Accelerated capital allowances	–	(54)	(82)
Tax losses available	–	(9,049)	(42,677)
	–	(9,103)	(42,759)

Biofusion Trading Limited has tax losses available to carry forward against future taxable profits, subject to agreement with the Inland Revenue.

No deferred tax asset has been recognised in respect of timing differences relating primarily to tax losses as there is insufficient evidence that the asset will be recoverable in the foreseeable future. The asset will become recoverable to the extent that Biofusion Trading Limited generates sufficient suitable taxable profits in the future available for offset against the losses carried forward.

## 7. LOSS PER ORDINARY SHARE

The calculations of earnings per share are based on the following losses and numbers of shares.

	Basic and diluted		
	Period ended 31 July 2002	Year ended 31 July 2003	Year ended 31 July 2004
Retained loss for the financial period (£)	(20,552)	(167,874)	(177,136)
Weighted average number of ordinary shares for basic loss per share	900	2,091	3,000

FRS 14 requires presentation of diluted earnings per share when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. Options have been granted prior to Admission. For a loss-making company with outstanding share options, the net loss per share would be decreased by the exercise of options, and hence no diluted loss per share has been presented.

## 8. TANGIBLE FIXED ASSETS

	Computer equipment £
<b>Cost</b>	
At incorporation on 12 December 2001	—
Additions	2,100
<b>At 31 July 2002</b>	2,100
Additions	—
<b>At 31 July 2003</b>	2,100
Additions	—
<b>At 31 July 2004</b>	2,100
<b>Depreciation</b>	
At incorporation on 12 December 2001	—
Charge for the year	(350)
<b>At 31 July 2002</b>	(350)
Charge for the year	(525)
<b>At 31 July 2003</b>	(875)
Charge for the year	(525)
<b>At 31 July 2004</b>	(1,400)
<b>Net book value</b>	
At incorporation on 12 December 2001	—
<b>At 31 July 2002</b>	1,750
<b>At 31 July 2003</b>	1,225
<b>At 31 July 2004</b>	700

**9. DEBTORS**

	31 July 2002 £	31 July 2003 £	31 July 2004 £
Amounts falling due within one year:			
Trade debtors	900	—	—
Other debtors	—	—	3,856
	<u>900</u>	<u>—</u>	<u>3,856</u>

**10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	31 July 2002 £	31 July 2003 £	31 July 2004 £
Trade creditors	—	(86,092)	(83,424)
Amounts owed to parent company	—	(75,000)	(225,181)
Accruals	(22,302)	(22,600)	(31,141)
	<u>(22,302)</u>	<u>(183,692)</u>	<u>(339,746)</u>

**11. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	31 July 2002 £	31 July 2003 £	31 July 2004 £
Amounts owed to parent company	—	(10,500)	(20,500)
Other creditors	—	—	(1,500)
Directors' loan accounts	—	(4,500)	(8,000)
	<u>—</u>	<u>(15,000)</u>	<u>(30,000)</u>

## 12. CALLED-UP SHARE CAPITAL

*Authorised share capital:*

	31 July 2002 £	31 July 2003 £	31 July 2004 £
900 A ordinary shares of £1 each	900	900	900
2,500 ordinary shares of £0.01 each	—	25	25
	<u>900</u>	<u>925</u>	<u>925</u>

*Allotted, called-up and fully paid:*

	31 July 2002 £	31 July 2003 £	31 July 2004 £
900 A ordinary shares of £1 each	900	900	900
2,100 ordinary shares of £0.01 each	—	21	21
	<u>900</u>	<u>921</u>	<u>921</u>

On 5 January 2003, 2,100 ordinary shares of £0.01 each were issued to Sheffield University Enterprises Limited. The difference between the consideration of £2,100 and the aggregate nominal value of £21 was credited to the share premium account.

A proportion of the A ordinary shares is convertible into deferred shares in certain circumstances. Since, as at the date of this report, Biofusion plc is the holder of all of the shares in Biofusion Trading Limited, any such conversion would have no impact on Biofusion plc's control of Biofusion Trading Limited.

## 13. RESERVES

	Share premium account £	Profit and loss account £	Total £
<b>On incorporation at 12 December 2001</b>	—	—	—
Retained loss for the period	—	(20,552)	(20,552)
<b>At 31 July 2002</b>	—	(20,552)	(20,552)
Retained loss for the year	—	(167,874)	(167,874)
Premium on shares issued in the year (net of expenses)	2,079	—	2,079
<b>At 31 July 2003</b>	2,079	(188,426)	(186,347)
Retained loss for the year	—	(177,136)	(177,136)
<b>At 31 July 2004</b>	2,079	(365,562)	(363,483)

#### 14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Period from 12 December 2001 to 31 July 2002 £	Year ended 31 July 2003 £	Year ended 31 July 2004 £
Loss for the period	(20,552)	(167,874)	(177,136)
New shares issued	–	2,100	–
Net increase in shareholders' deficit	(20,552)	(165,774)	(177,136)
Opening shareholders' funds (deficit)	900	(19,652)	(185,426)
Closing shareholders' deficit	(19,652)	(185,426)	(362,562)

#### 15. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

Biofusion Trading Limited's financial instruments comprise cash, debtors and creditors which arise in the normal course of business. It is, and has been throughout the period under review, Biofusion Limited's policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from Biofusion Trading Limited's financial instruments are interest rate risk and liquidity risk.

This note deals with financial assets and financial liabilities as defined in Financial Reporting Standard 13 "Derivatives and other financial instruments: Disclosures" ("FRS 13").

As permitted by FRS 13, short-term debtors and creditors have been excluded from all disclosures other than the currency disclosures.

##### Interest rate risk and liquidity risk

Biofusion Trading Limited has no financial assets other than cash balances of £2,628 as at 31 July 2004 (£12,041 and £nil as at 31 July 2003 and 31 July 2002 respectively) which are part of the financing arrangements of the company. All cash balances can be withdrawn within 24 hours. Interest receipts are earned on cash balances at the prevailing rate.

Biofusion Trading Limited's policy throughout the periods presented has been to minimise liquidity risk by placing cash balances in low risk current accounts.

##### Interest rate profile

Biofusion Trading Limited has earned no material interest to date.

##### Currency risk

Biofusion Trading Limited's principal functional currency is pounds sterling. Biofusion Trading has no material exposure to foreign currencies. All cash balances are held in pounds sterling.

##### Fair values of financial assets

The Directors of the Company consider there to be no material difference between the book value of financial instruments and their fair value at the balance sheet dates.

## 15. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

### Borrowing facilities

Biofusion Trading Limited had no borrowing facilities throughout the period.

### Market price risk and liquidity risk

The principal market price risk comprises interest rate exposure. Cash balances held by Biofusion Trading Limited are held in current accounts with the objective of maintaining a balance between accessibility of funds and competitive rates of return.

## 16. RECONCILIATION OF OPERATING LOSS TO OPERATING CASH FLOWS

	Period ended 31 July 2002 £	Year ended 31 July 2003 £	Year ended 31 July 2004 £
Operating loss	(20,552)	(167,874)	(177,136)
Depreciation charge	350	525	525
(Increase) decrease in debtors	(900)	900	(3,856)
Increase in creditors	22,302	176,390	171,054
<b>Net cash inflow (outflow) from operating activities</b>	<b>1,200</b>	<b>9,941</b>	<b>(9,413)</b>

## 17. ANALYSIS OF CASH FLOWS

	Period ended 31 July 2002 £	Year ended 31 July 2003 £	Year ended 31 July 2004 £
<i>Capital expenditure and financial investment</i>			
Purchase of tangible fixed assets	(2,100)	–	–
<i>Financing</i>			
Issue of ordinary share capital (net of expenses)	900	2,100	–

## 18. ANALYSIS AND RECONCILIATION OF NET FUNDS

	12 Dec 2001 £	Cash flow £	31 July 2002 £
Cash at bank and in hand	—	—	—
Net funds	—	—	—
	31 July 2002 £	Cash flow £	31 July 2003 £
Cash at bank and in hand	—	12,041	12,041
Net funds	—	12,041	12,041
	31 July 2003 £	Cash flow £	31 July 2004 £
Cash at bank and in hand	12,041	(9,413)	2,628
Net funds	12,041	(9,413)	2,628
	31 July 2002 £	31 July 2003 £	31 July 2004 £
Increase (decrease) in cash in the period	—	12,041	(9,413)
Change in net funds resulting from cash flows	—	12,041	(9,413)
Net funds at beginning of period	—	—	12,041
Net funds at end of period	—	12,041	2,628

## 19. FINANCIAL COMMITMENTS

Biofusion Trading Limited had no capital commitments outstanding at 31 July 2004 (31 July 2003: £nil; 31 July 2002: £nil).

## 20. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 July 2004 (31 July 2003: £nil; 31 July 2002: £nil).

## 21. RELATED PARTY TRANSACTIONS

The following transactions took place during the reported periods at arm's length:

At 31 July 2004, Biofusion Trading Limited owed £35,681 (31 July 2003: £nil; 31 July 2002: £nil) for business support and £210,000 for commercial agreement fees (31 July 2003: £85,500; 31 July 2002: £nil) to Sheffield University Enterprises Limited.

During the year ended 31 July 2004, Biofusion Trading Limited purchased consultancy services totalling £16,603 (2003: £37,730 and £2,611 in reimbursed expenses; 2002: £nil) from Athene Associates, a business in which Dr. P Grant, a director of Biofusion Trading Limited, has an interest. At 31 July 2004, the company owed Athene Associates £37,994 (2003: £41,132; 2002: £nil).

**22. ULTIMATE PARENT COMPANY**

As at 31 July 2004, 31 July 2003 and 31 July 2002, the Directors of the Company consider that the immediate parent company was Sheffield University Enterprises Limited. Sheffield University Enterprises Limited had a 70 *per cent* shareholding in Biofusion Trading Limited.

The largest group in which the results of Biofusion Trading Limited are consolidated is that headed by The University of Sheffield, the consolidated accounts of which are available to the public and may be obtained from The University of Sheffield, Firth Court, Western Bank, Sheffield, S10 2TN.

On 17 December 2004, Biofusion plc became Biofusion Trading Limited's immediate parent undertaking.

**23. POST BALANCE SHEET EVENTS**

On 17 December 2004, the entire share capital of Biofusion Trading Limited was acquired by Biofusion plc.

**24. PREVIOUS AUDITORS**

The financial statements for the period from incorporation on 12 December 2001 to 31 July 2002 were not required to be audited. The financial statements for the year ended 31 July 2003 were audited by Grant Thornton. The financial statements for the year ended 31 July 2004 were audited by KPMG LLP.

Yours faithfully

Deloitte & Touche LLP  
Chartered Accountants



## PART V

### Additional information

#### 1. The Company

The Company was incorporated and registered in England and Wales on 2 November 2004 with registered number 5275732 under the Companies Act 1985 as a private limited company under the name DB 2004 Limited. On 20 January 2005, the Company re-registered as a public limited company and changed its name to Biofusion plc. The liability of the members of the Company is limited. The principal legislation under which the Company operates is the Act. The registered office, head office and the principal place of business in the United Kingdom of the Company is at The Innovation Centre, 217 Portobello, Sheffield S1 4DP.

#### 2. Share capital

- 2.1 As at the date of this document, the Company has an authorised share capital of £50,925 divided into 900 'A' ordinary shares of £1 each ("A' Shares"), 2,500 Ordinary Shares of 1 penny each and 50,000 non-voting redeemable preference shares of £1 each ("Preference Shares") of which 900 'A' Shares, 2,100 Ordinary Shares and 50,000 Preference Shares are in issue. The 900 'A' Shares and 2,100 Ordinary Shares are fully paid or credited as fully paid and the 50,000 Preference Shares are issued nil-paid (but the holder has undertaken to pay up such shares in full on Admission).
- 2.2 The Company was incorporated with an authorised share capital of £1,000 divided into 1,000 ordinary shares of £1 each, of which one ordinary share was issued to the subscriber to the Company's memorandum of association.
- 2.3 Since incorporation, there have been the following changes in the authorised share capital and the issued and fully paid share capital of the Company:
- (a) on 2 November 2004, the subscriber to the Company's memorandum transferred the one ordinary share of £1 held by it to David Baynes;
  - (b) by a special resolution passed on 17 December 2004:
    - (i) the issued ordinary share of £1 was converted into one 'A' Share;
    - (ii) 899 of the authorised but unissued shares of £1 each were converted into 899 'A' Shares;
    - (iii) 25 of the authorised but unissued shares of £1 each were subdivided and converted into 2,500 Ordinary Shares;
    - (iv) the remaining 75 authorised but unissued shares of £1 each were cancelled and the authorised share capital was reduced from £1,000 to £925;
    - (v) *new articles of association were adopted with the 'A' Shares and Ordinary Shares having the rights and being subject to the restrictions and obligations set out therein;*
  - (c) on 17 December 2004, the Company acquired the whole of the issued share capital of Biofusion Trading in consideration for the issue of 899 'A' Shares (900 less the one such share already held by a shareholder) and 2,100 Ordinary Shares to the shareholders in Biofusion Trading; and
  - (d) by a special resolution passed on 14 January 2005, the authorised share capital of the Company was increased from £925 to £50,925 by the creation of 50,000 Preference Shares, redeemable at par conditional upon and simultaneously with Admission, or, if earlier, 31 December 2007. On the same day, all of the Preference Shares were issued to SUEL, and SUEL undertook to pay up such shares upon Admission.

- 2.4 By a special resolution passed on 26 January 2005, conditional upon and simultaneously with Admission:
- (a) the authorised share capital of the Company was increased to £300,000 by the creation of an additional 29,996,600 Ordinary Shares;
  - (b) the Directors were generally and unconditionally authorised for the purposes of section 80(1) of the Act to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate nominal amount of £251,000, such authority to expire on the date falling 15 months after the date of Admission or, if earlier, at the conclusion of the Company's annual general meeting to be held in 2006;
  - (c) the Directors were empowered until the conclusion of the Company's annual general meeting in 2006 (or, if sooner, until the expiry of 15 months after the passing of the resolution) to allot equity securities (as defined in section 94(2) of the Act) pursuant to the authority referred to in paragraph 2.4(b) above as if section 89 of that Act did not apply to any such allotment, such power being limited to:
    - (i) the allotment and issue of 5,486,664 Ordinary Shares pursuant to the Placing;
    - (ii) the allotment of equity securities in connection with an offer or issue to holders of Ordinary Shares where the equity securities respectively attributable to the interests of all such holders are proportionate (as nearly as may be practicable) to the respective numbers of Ordinary Shares held by them but including in connection with such an issue, the making of such arrangements as the directors of the Company may deem necessary or expedient to deal with fractional entitlements or problems under the laws of any territory or the requirements of any regulatory body or any stock exchange; and
    - (iii) the allotment (other than pursuant to the powers referred to in paragraphs 2.4(c)(i) and (ii) above) of equity securities up to an aggregate nominal amount equal to 5 *per cent* of the aggregate nominal amount of all Ordinary Shares issued and fully paid after Admission;
  - (d) the 50,000 Preference Shares issued to SUEL were redeemed at par and subsequently cancelled;
  - (e) each of the 900 'A' Shares in issue was converted into one Ordinary Share and 99 deferred shares of 1 penny each;
  - (f) the sum of £133,303.20 standing to the credit of the share premium account of the Company immediately after Admission was capitalised by paying up in full 13,330,320 Ordinary Shares to be allotted credited as fully paid to shareholders on the register of members of the Company immediately prior to Admission on the basis of 4,443.44 Ordinary Shares for every one Ordinary Share held by them; and
  - (g) the Company resolved to purchase the 89,100 deferred shares of 1 penny each in aggregate held by David Baynes, Peter Grant and Stuart Gall for an aggregate consideration of £3.00.
- 2.5 The authorised share capital of the Company immediately following Admission will be £300,000 divided into 30,000,000 Ordinary Shares of which 18,819,984 Ordinary Shares will have been issued fully paid or credited as fully paid.
- 2.6 The provisions of section 89(1) of the Act (to the extent not disapplied pursuant to section 95 of the Act) confer on shareholders rights of pre-emption in respect of the allotment of equity securities (as defined in section 89(2) of the Act) which are, or are to be, paid up in cash and apply to the authorised but unissued share capital except to the extent disapplied by the resolution referred to in paragraph 2.4(c) above.
- 2.7 With effect from Admission, all of the Ordinary Shares will be in registered form and subject to the Ordinary Shares being admitted to and accordingly enabled for settlement in CREST, the Ordinary

Shares will be capable of being held in uncertificated form. Following Admission, no temporary documents of title will be issued.

### **3. Memorandum and articles of association**

3.1 The memorandum of association of the Company provides that the Company's principal object is to carry on the business of a general commercial company. The objects of the Company are set out in full in clause 4 of the memorandum of association which is available for inspection at the address specified in paragraph 11 below.

3.2 The articles of association of the Company (the "Articles"), which were adopted (subject to and conditional upon Admission) pursuant to a special resolution passed on 26 January 2005, contain provisions, *inter alia*, to the following effect:

(a) *Voting rights*

- (i) Shareholders shall have the right to receive notice of, to attend and to vote at all general meetings of the Company. Save as otherwise provided in the Articles, on a show of hands each holder of shares present in person and entitled to vote shall have one vote and upon a poll each such holder who is present in person or by proxy and entitled to vote shall have one vote in respect of every share held by him.
- (ii) No member shall be entitled to vote at any general meeting if any call or other sum presently payable by him in respect of shares remains unpaid or if a member has been served by the directors with a restriction notice in the manner described in paragraph 3.2(b) below.

(b) *Restrictions on Ordinary Shares*

If a member or any person appearing to be interested in shares in the Company has been duly served with a notice pursuant to section 212 of the Act and is in default in supplying to the Company information thereby required within 14 days from the date of service of such notice the directors may serve on such member or on any such person a notice (a "restriction notice") in respect of the shares in relation to which the default occurred ("Default Shares") and any other shares held at the date of the restriction notice directing that the member shall not be entitled to be present or to vote at any general meeting or class meeting of the Company. Where the Default Shares represent at least 0.25 *per cent* of the issued shares of the Company of the same class, the restriction notice may in addition direct, *inter alia*, that any dividend or other money which would otherwise be payable on the Default Shares shall be retained by the Company without liability to pay interest and no transfer of any of the shares held by the member shall be registered unless the member is not himself in default in supplying the information requested and the transfer is part only of the member's holding and is accompanied by a certificate given by the member in a form satisfactory to the directors to the effect that after due and careful enquiry the member is satisfied that no person in default is interested in any shares subject to the transfer or the transfer is an approved transfer.

(c) *Variation of class rights and alteration of capital*

- (i) If at any time the share capital of the Company is divided into different classes of shares, the rights attached to any class of shares may, subject to the Act and any other act relating to companies (the "Statutes"), be modified, abrogated or varied either with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of sections 369, 370, 376 and 377 of the Act and the provisions of the Articles relating to general meetings shall apply, *mutatis mutandis*, but so that the necessary quorum at any such meeting other than an adjourned meeting shall be two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the relevant class and at an adjourned meeting one person holding shares of the class or his proxy. Any holder of shares of the

relevant class present in person or by proxy may demand a poll upon which every holder of shares of that class shall be entitled to one vote for every such share held by him. The rights attached to any class of shares shall, unless otherwise expressly provided by the terms of issue of such shares or by the terms upon which such shares are for the time being held, be deemed not to be modified, abrogated or varied by the creation or issue of further shares ranking *pari passu* therewith or the purchase or redemption by the Company of any of its own shares in accordance with the Statutes or the Articles.

- (ii) The Company may by ordinary resolution increase its share capital, consolidate all or any of its share capital into shares of larger amount, sub-divide all or any of its shares into shares of smaller amount and cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person.
- (iii) Subject to the provisions of the Statutes, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account in any way.
- (iv) Subject to the provisions of the Statutes and subject to any provisions contained in the articles of association of the Company from time to time, all unissued shares of the Company are at the disposal of the directors.
- (v) Subject to the provisions of the Statutes, any shares may be issued on terms that they are redeemed or liable to be redeemed at the option of the Company or the shareholders on the terms and in the manner provided for by the Articles.
- (vi) Subject to the provisions of the Act, the Company may purchase its own shares (including any redeemable shares).

(d) *Transfer of shares*

- (i) Subject to paragraph 3.2(d)(ii) below, the instrument of transfer of a certificated share shall be signed by or on behalf of the transferor (and, in the case of a share which is not fully paid, by or on behalf of the transferee) and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register in respect thereof. All transfers of certificated shares shall be effected by *instrument in writing in any usual or common form or any other form which the directors may approve*. The directors may, in their absolute discretion and without giving any reason, refuse to register the transfer of a share which is not fully paid (whether certificated or uncertificated) provided that where such shares are admitted to trading on AIM (or to the Official List of the UK Listing Authority), such discretion may not be exercised in a way which the London Stock Exchange (or the UK Listing Authority) regards as preventing dealings in the shares of the relevant class or classes from taking place on an open and proper basis. The directors may likewise refuse to register any transfer of a share (whether certificated or uncertificated) in favour of more than four persons jointly. In relation to certificated shares, the directors may decline to recognise any instrument of transfer unless it is left at the registered office of the Company, accompanied by the relevant certificate and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer, and unless the instrument is in respect of only one class of share. The registration of transfers may be suspended by the directors for any period (not exceeding 30 days in any year) except that, in respect of uncertificated shares, the *consent of the operator of the relevant system for those uncertificated shares will first be required*.
- (ii) Notwithstanding any other provision of the Articles to the contrary, any shares in the Company may be held in uncertificated form and title to shares may be transferred by means of a relevant system (in each case as defined in The Uncertificated Securities Regulations 2001) such as CREST.

(e) *Directors*

- (i) The business of the Company shall be managed by the directors, who may exercise all such powers of the Company subject to the provisions of the Articles and the

Statutes and to such directions as may be given by the Company in general meeting by special resolution.

- (ii) Unless and until the Company in general meeting shall otherwise determine, the number of directors shall be not more than ten and not less than two. A director shall not be required to hold any shares in the capital of the Company. A director who is not a member shall nevertheless be entitled to receive notice of and attend and speak at all general meetings of the Company and all separate general meetings of the holders of any class of shares in the capital of the Company.
- (iii) No director shall be disqualified by his office from entering into any contract, arrangement, transaction or proposal with the Company either with regard to his tenure of any other office or place of profit or acting in a professional capacity for the Company or as a seller, buyer or otherwise. Subject to the provisions of the Statutes and save as therein provided, no such contract, arrangement, transaction or proposal entered into by or on behalf of the Company in which any director or person connected with him is in any way interested, whether directly or indirectly, shall be liable to be avoided, nor shall any director who enters into any such contract, arrangement, transaction or proposal or who is so interested be liable to account to the Company for any profit or other benefit realised by any such contract, arrangement, transaction or proposal by reason of such director holding that office or of the fiduciary relationship thereby established, but such director shall declare the nature of his interest in accordance with the Statutes.
- (iv) A director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:
  - (A) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings;
  - (B) the giving of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
  - (C) any proposal concerning an offer of securities of or by the Company or any of its subsidiary undertakings in which offer he is, or may be, entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;
  - (D) any contract, arrangement, transaction or other proposal concerning any other body corporate in which he, or any other person connected with him (within the meaning of section 346 of the Act), is interested, directly or indirectly and whether as an officer or shareholder or otherwise howsoever, provided that he or any person connected with him does not hold an interest (within the meaning of sections 198 to 211 of the Act) in one *per cent* or more of any class of the equity share capital of such body corporate or of the voting rights available to members of the relevant body corporate;
  - (E) any contract, arrangement, transaction or other proposal which does not accord to him any privilege or benefit not generally accorded to the employees to whom the proposal relates; and
  - (F) any proposal concerning any insurance which the Company is to purchase and/or maintain for the benefit of directors or for the benefit of persons who include directors.
- (v) If any question shall arise at any meeting as to the materiality of an interest or as to the entitlement of any director to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the

chairman of the meeting and his ruling in relation to any other director other than himself shall be final and conclusive except in a case where the nature or extent of the interests of the director concerned has not been fairly disclosed.

- (vi) Save as provided in the Articles, a director shall not vote or be counted in the quorum present on any motion in respect of any contract, arrangement, transaction or any other proposal in which he has an interest which (together with any interest of any person connected with him within the meaning of section 346 of the Act) is to his knowledge a material interest otherwise than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through, the Company.
- (vii) The directors shall be paid out of the funds of the Company by way of fees for their services as directors such sums (if any) as the directors may from time to time determine (not exceeding in the aggregate an annual sum (excluding amounts payable under any other provision of the Articles) of £200,000 or such larger amount as the Company may by ordinary resolution determine). Such remuneration shall be divided between the directors as they shall agree or, failing agreement, equally. Such remuneration shall be deemed to accrue from day to day.
- (viii) Subject to the provisions of the Statutes, the directors, or any committee authorised by the directors, may from time to time appoint one or more of their body to the office of managing director or to hold such executive office as they may decide for such period and on such terms as they think fit, and may revoke such appointment. The salary or remuneration of any such executive director shall, subject as provided in any contract, be such as the directors may from time to time determine, and may either be a fixed sum of money, or may altogether or in part be governed by the business done or profits made, and may include the making of provisions for the payment to him, his widow or other dependants, of a pension on retirement from the office or employment to which he is appointed and for the participation in pension and life assurance and other benefits.
- (ix) The directors may entrust to and confer upon a managing director or any such executive director any of the powers and discretions exercisable by them upon such terms and conditions and with such restrictions as they may think fit, and either collaterally with or to the exclusion of their own powers and discretions and may from time to time revoke, withdraw, alter or vary all or any of such powers or discretions.
- (x) Any director who is appointed to any executive office or who serves on any committee or who devotes special attention to the business of the Company, or who goes or resides abroad or who otherwise performs services which, in the opinion of the directors or any committee authorised by the directors, are outside the scope of the ordinary duties of a director, may be paid such extra remuneration by way of salary, percentage of profits or otherwise as the directors may determine.
- (xi) The directors may be paid all reasonable travelling, hotel and other expenses properly incurred by them in attending and returning from meetings of the directors or any committee of the directors or general meetings of the Company or otherwise in connection with the business of the Company.
- (xii) A director may be or continue as or become a director or other officer, servant or member of, or otherwise interested in, any body corporate promoted by the Company or in which the Company may be interested as shareholder or otherwise, and no such Director shall be accountable to the Company for any remuneration or other benefits received or receivable by him as a director or other officer, servant or member of, or from his interest in, such other body corporate. Subject to the provisions of the Act, a director may hold any other office or place of profit under the Company, except that of auditor, in conjunction with the office of director and may act by himself or through his firm in a professional capacity for the Company, and in any such case on such terms

as to remuneration and otherwise as the directors may arrange. Such remuneration shall be in addition to any remuneration otherwise provided by the Articles.

- (xiii) Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment) of two or more directors to offices or employments with the Company or any body corporate in which the Company is interested, such proposals may be divided and considered in relation to each director separately and in such cases each of the directors concerned (subject to the Articles) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.
  - (xiv) Section 293 of the Act (which regulates the appointment and continuation in office of directors who have attained the age of 70) shall not apply to the Company.
  - (xv) Each director shall have the power at any time to appoint as an alternate director either (A) another director or (B) any other person approved for that purpose by a resolution of the directors, and, at any time, to terminate such appointment.
  - (xvi) Each director shall retire from office at the third annual general meeting after the annual general meeting at which he was last elected. A retiring director shall be eligible for re-election.
  - (xvii) Without prejudice to the provisions of the Articles, the directors may exercise all the powers of the Company to purchase and maintain insurance for or for the benefit of any persons who are or were at any time directors, officers, employees or auditors of the Company, or of any other body (whether or not incorporated) which is or was its parent undertaking or subsidiary undertaking or another subsidiary undertaking of any such parent undertaking (together "Group Companies") or otherwise associated with the Company or any Group Company or in which the Company or any such other Group Company has any interest, whether direct or indirect, or of any predecessor in business of any of the foregoing, or who are or were at any time trustees of, or directors of trustees of, any pension, superannuation or similar fund, employees' trust or scheme or any employees' share scheme or other scheme or arrangement in which any of the Company or any such other body is interested, including (without prejudice to the generality of the foregoing) insurance against any costs, charges, expenses, losses or liability suffered or incurred by such person in respect of any act or omission in the actual or purported execution and/or discharge of their duties and/or the exercise or purported exercise of their powers and/or otherwise in relation to or in connection with their duties, powers or offices in relation to the Company or any such other body, fund, trust, scheme or arrangement.
  - (xviii) The directors or any committee authorised by the directors may exercise all the powers of the Company to give or award pensions, annuities, gratuities or other retirement, superannuation, death or disability allowance or benefits to, *inter alia*, any directors, ex-directors, employees or ex-employees of the Company or of any subsidiary undertaking or parent undertaking of the Company or to the wives, widows, children, other relatives and dependants of any such person and may establish, maintain, support, subscribe to and contribute to all kinds of schemes, trusts and funds for the benefit of any such persons.
- (f) *Borrowing powers*
- (i) The directors may, save as the Articles otherwise provide, exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property, assets and uncalled capital, or any part thereof, and, subject to the provisions of the Statutes and the Articles, to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

- (ii) The directors shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings (if any) so as to secure (so far, as regards subsidiary undertakings, as by such exercise they can secure) that the aggregate amount for the time being remaining outstanding of all monies borrowed by the Company and any subsidiary undertakings for the time being (in this paragraph 3.2(f)(ii), the "Group") and for the time being owing to persons outside the Group shall not at any time, without the previous sanction of an ordinary resolution of the Company in general meeting, exceed the greater of (1) £10,000,000 and (2) a sum equal to five times the aggregate of (A) the amount paid up on the issued share capital of the Company and (B) the total of the capital and revenue reserves of the Group (including any share premium account, capital redemption reserve and credit balance on the profit and loss account) all as shown in the latest audited and consolidated balance sheet of the Group but after such adjustments and deductions (including any amounts attributable to intangibles) as are specified in the relevant Article.
- (g) *Dividends and distributions on liquidation to shareholders*
- (i) The Company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the directors. Subject to any priority, preference or special rights, all dividends shall be declared and paid according to the amounts paid up on the shares and shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion of the period in respect of which the dividend is paid.
  - (ii) The directors may pay such interim dividends as they think fit and may pay the fixed dividends payable on any shares of the Company half-yearly or otherwise on fixed dates.
  - (iii) No dividend or interim dividend shall be paid otherwise than in accordance with the provisions of the Statutes.
  - (iv) On a liquidation, the liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Statutes, divide amongst the members *in specie* or in kind the whole or any part of the assets of the Company and may, for such purpose, set such value as he deems fair upon any property to be divided and may determine how such division shall be carried out.
  - (v) The directors may, with the sanction of an ordinary resolution of the Company in general meeting, offer the holders of Ordinary Shares the right to elect to receive New Ordinary Shares credited as fully paid instead of cash in respect of the whole or part of any dividend.
  - (vi) Any dividend unclaimed for a period of 12 years after it became due for payment shall be forfeited and shall revert to the Company.

#### **4. Company's share option agreements**

The following summary sets out the principal terms of options ("Options") granted to each of Edwin Moses, Anthony Atkinson and David Catton (the "Option Holders") under the Share Option Agreements made on 27 January 2005. Under the Share Option Agreements, the Options granted will lapse automatically if Admission does not occur by 30 April 2005.

##### **4.1 Option Holders**

The Option Holders have been appointed to the Board as non-executive directors of the Company.

##### **4.2. Individual limits**

Options have been granted to each Option Holder over such number of Ordinary Shares as is equivalent as at the date of Admission to £50,000 worth of shares at an option exercise price per



Ordinary Share equal to the Placing Price. This represents in aggregate 0.53 *per cent* of the entire issued share capital of the Company immediately following Admission.

#### 4.3 Vesting, exercise and lapse of options

Each Option will vest monthly as to one thirty-sixth of the Ordinary Shares under Option on the expiry of each month following the date of grant until the third anniversary of the date of grant when the Option shall become fully vested. Subject to Admission having occurred, any vested portion of the Options will normally be exercisable between the expiry of the third month after the date of grant and the tenth anniversary of the date of grant. No performance conditions are required to be met. *Options will become immediately exercisable in full on the death of the Option Holder for a period of 12 months from the date of death.* If an Option Holder ceases to be a Non-executive Director of the Company for any reason other than death, his Option (to the extent unexercised and unvested) will lapse. On a change of control or a voluntary winding-up of the Company, Options may be exercised in full for a fixed period. Options will lapse on the expiry of 10 years from their date of grant.

#### 4.4 Issue of shares and other rights

Until Options are exercised, the Option Holders have no voting or other rights in respect of the Ordinary Shares under their Options. Ordinary Shares issued pursuant to the Share Option Agreements shall rank *pari passu* in all respects with the Ordinary Shares already in issue except that they will not rank for any dividend or other distribution announced prior to the date of exercise. Options are not transferable nor are they pensionable.

In the event of any variation in the share capital of the Company, adjustments to the number of Ordinary Shares subject to the Options and the exercise price may be made by the Board in such manner and with effect from such date as the Board may determine to be appropriate.

#### 4.5 Administration and amendment

The Share Option Agreements shall be administered under the direction of the Board and may be amended from time to time by resolution provided that no amendment shall be effective unless agreed in writing with the respective Option Holder.

### 5. Directors' and other interests

#### 5.1 The interests of the Directors (all of which are beneficial unless otherwise stated) in the issued share capital of the Company which:

- (a) are required to be notified by each Director pursuant to section 324 or section 328 of the Act;
- (b) are required pursuant to section 325 of the Act to be entered into the register referred to therein; or
- (c) are interests of a connected person of a Director which would, if the connected person were a Director, be required to be disclosed under paragraph 5.1(a) or (b) above and the existence of which is known to or could with reasonable diligence be ascertained by that Director,

are and will be, immediately following Admission, as follows:

Director	Number of 'A' Shares at 28 January 2005	Shareholding at 28 January 2005 (%)	Number of Ordinary Shares following Admission*	Shareholding following Admission (%)
David Baynes	300	10	1,333,332	7.08
Peter Grant	300	10	1,333,332	7.08
Stuart Gall	300	10	1,333,332	7.08

\* On 27 January 2005 David Baynes, Stuart Gall and Peter Grant granted an option to Douglas Liversidge entitling him to acquire 97,756 Ordinary Shares from each of them at an aggregate exercise price of £44,000. The options can be exercised at any time prior to 27 January 2015.

Mr. Liversidge has undertaken to Biofusion to indemnify it from any PAYE and employers' national insurance contributions payable by the Group as a result of the exercise of any or all of these options.

- 5.2 The following options over Ordinary Shares have been granted at the Placing Price to the Directors under the Share Option Agreements (as referred to in paragraph 4 above). Subject to Admission having occurred, any vested portion of the Options are exercisable at the Placing Price and between the dates shown below:

<i>Director<sup>(1)</sup></i>	<i>Number of options over Ordinary Shares at Admission</i>	<i>Date of exercise</i>
Edwin Moses	33,333	Between February 2005 and February 2015
Anthony Atkinson	33,333	Between February 2005 and February 2015
David Catton	33,333	Between February 2005 and February 2015

Note 1: The individuals are non-executive Directors

- 5.3 Save as set out in paragraphs 5.1 and 5.2 above, following the Placing, no Director will have any interest in the share capital of the Company or any of its subsidiaries.
- 5.4 In addition to those disclosed at paragraph 5.1 above, the Directors are aware that the following persons are, or the Directors expect that immediately following the Placing the following persons will be, interested directly or indirectly in three *per cent* or more of the issued share capital of the Company:

<i>Name</i>	<i>Number of Ordinary Shares at 28 January 2005</i>	<i>Shareholding at 28 January 2005 (%)</i>	<i>Number of Ordinary Shares following Admission</i>	<i>Shareholding following Admission (%)</i>
Sheffield University Enterprises Limited <sup>(1)</sup>	2,100	70	9,333,324	49.59

Note 1: Sheffield University Enterprises Limited holds the shares as nominee for the beneficial owner, being the University

- 5.5 Save as set out in paragraphs 5.1 and 5.4 above, the Directors are not aware of any person who is, or who will be, immediately following the Placing, interested (within the meaning of the Act) directly or indirectly in three *per cent* or more of the issued share capital of the Company, or who does, or who will or could, directly or indirectly, jointly or severally, exercise control over the Company.
- 5.6 The following service agreements have been entered into between the Company and certain of the Directors:
- (a) an agreement dated 26 January 2005 whereunder David Baynes agrees to act as the Chief Executive Officer of the Company. The agreement is terminable upon not less than six months' notice by either party. Under the agreement, Mr. Baynes will be entitled to an annual salary of £120,000 and private medical insurance for himself and his family. The Company will pay pension contributions of 10 *per cent* of basic salary into Mr. Baynes' personal pension plan;
  - (b) an agreement dated 26 January 2005 whereunder Peter Grant agrees to act as the Operations Director of the Company. The agreement is terminable upon not less than six months' notice by either party. Under the agreement, Dr. Grant will be entitled to an annual salary of £110,000 and private medical insurance for himself and his family. The Company will pay pension contributions of 10 *per cent* of basic salary into Dr. Grant's personal pension plan; and

- (c) an agreement dated 26 January 2005 whereunder Stuart Gall agrees to act as the Commercial Director of the Company with effect from 15 July 2005. The agreement is terminable upon not less than six months' notice by either party. Under the agreement, Mr. Gall will be entitled to an annual salary of £110,000 and private medical insurance for himself and his family. The Company will pay pension contributions of 10 *per cent* of basic salary into Mr. Gall's personal pension plan.
- 5.7 Save as set out in paragraph 5.6 above, there are no existing or proposed service contracts between the Directors and any member of the Group other than contracts expiring or determinable by the employing company without payment of compensation (other than statutory compensation) within one year.
- 5.8 The Chairman, Douglas Liversidge, and each of the non-executive Directors, namely Edwin Moses, Anthony Atkinson and David Catton, are appointed under the terms of letters of appointment dated 26, 10, 22, and 10 January 2005 respectively. The appointments are terminable on three months' notice but are envisaged to last initially for 36 months from a deemed appointment commencement date of 1 December 2004, following which they will be reviewed annually. Douglas Liversidge, Edwin Moses and Anthony Atkinson are entitled to a fee of £24,000 per annum. David Catton is entitled to a fee of £12,000 per annum.
- 5.9 In the financial year ended 31 July 2004, the total aggregate of the remuneration paid and benefits in kind granted (under any description whatsoever) to the Directors by members of the Group was £16,603. *The aggregate of the remuneration payable (including such benefits in kind) to the Directors by members of the Group in respect of the year ending 31 July 2005 under the arrangements in force at the date of this document, is expected to amount to approximately £168,500.*
- 5.10 The Directors:
- (a) are or have been directors or partners of the following companies and partnerships at any time in the previous five years (in addition to any directorships of a member of the Group):

<i>Director</i>	<i>Current directorships and partnerships</i>	<i>Previous directorships and partnerships</i>
Douglas Liversidge	Avanticare Limited Dalco Steels Limited Mandall Limited Mandall Engineering Limited Mandall Fabrications Limited Mandall Machinery Limited Medis Diagnostics Ltd Murmment Limited Quest Investments Limited Quest Investments (Properties) Limited Scientific Metal Powders Limited Sheffield University Enterprises Limited Surgical Innovations Group plc Surgical Innovations Limited Tool & Steel Products Limited WAKECO (237) Limited WMT Holdings plc WMT Investments Ltd	Aphora Limited Customflex Limited Finestra Investments Limited Fusion Engineering Limited KMOF Holdings Limited KMOF Trustee Limited KMS Portals Limited Medilink.com Limited Medilink (Yorkshire & The Humber) Limited SLW Architectural Aluminium Limited Whirlow Hall Farm Trust Limited Zynergy Orthopaedics Limited
David Baynes	Out of the Blue Consulting Limited	Codemasters Group Limited Merlin Diagnostics Limited Toad Group plc Whereonearth.com Limited

<i>Director</i>	<i>Current directorships and partnerships</i>	<i>Previous directorships and partnerships</i>
Peter Grant	Adjuvantix Limited Asterion Limited Athene Associates Limited CellTran Limited Celsis International Plc Diurnal Limited	Dolmin Limited
Edwin Moses	Amedis Pharmaceuticals Limited Court Gardens Management Company (Goring-on-Thames) Limited Diurnal Limited Ionix Pharmaceuticals Limited Inpharmatica Limited Paradigm Therapeutics Limited Prolimmune Limited Phoqus Limited	Evotec Oai Limited Hammersmith Imanet Limited Inhibox Limited London Technology Network Oxford Asymmetry Employee Share Trust Limited Oxford Diversity Limited Prolysis Limited Propharma Limited The Centre for Scientific Enterprise
Anthony Atkinson	Clarendon Securities Limited Community Chiropractic Clinics Limited Layat Limited MCAT Limited Morvus Technology Limited Nanomor Biomedical Limited Nutramore Supplements Limited Protherics plc Tilly Masterson and Company Limited The North Wales Coast Light Railway Company Limited Third Millennium Intek Limited TMO Biotec Ltd Zoogen Europe Limited	De Montfort Biopharma Limited Enact Pharma Plc Enzacta Limited Enzacta R&D Limited Kymed GB Limited Pharma-Dynamics Limited Tetricus Limited Zootronic Limited
David Catton	Aivru Systems Limited Aphora Limited Asterion Limited Auxetics Limited Axordia Limited Bethan Technology Limited BioActa Limited Ceregen Limited Dental Teamwork Training Limited Dictionary of Classical Hebrew Limited Diurnal Limited Farapack Polymers Limited Fire Engineering Analysis Limited First World Manufacturing Limited Invector Limited Lifestyle Choices Limited Luminaries Limited Molecular Healthworks Limited Signalbox Limited SimCyp Limited Shefcote Limited Sheffield University Enterprises Limited Thatrailwaysite.com Limited Thixoforge Limited VForge Limited Viewcheck Limited Wohanka and Associates Limited XSuppress Limited	Adjuvantix Limited Cavendish Instruments Holdings Limited CellTran Limited Conteque Limited Derweb Limited Ecus Limited Groundwater Protection & Restoration Consultants Limited Material State Limited Narnklen Limited Pictorial Meadows Limited Proactus Limited Sheffield Data Services Limited Skipworth Englehardt Asset Management Strategists Limited WebElements Limited
Stuart Gall	Toad Group plc	

- (b) have no unspent convictions relating to indictable offences;
- (c) have had no bankruptcies or individual voluntary arrangements;
- (d) save as described in paragraph 5.11 below, have not been directors of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with creditors generally or any class of creditors of such company;
- (e) have not been partners of any partnership at the time of or within 12 months preceding any compulsory liquidation, administration or partnership voluntary arrangements of such partnership;
- (f) have not been partners of any partnership at the time of or within 12 months preceding a receivership of any assets of such partnership;
- (g) have not had any of their assets subject to any receivership; and
- (h) have not received any public criticisms by statutory or regulatory authorities (including recognised professional bodies) and have not been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

5.11 Douglas Liversidge was appointed as a director of Fusion Engineering Limited on 16 June 1993 and was a director of the company when it was placed into creditors' voluntary liquidation on 29 February 1996. All creditors of the company were paid in full and the company was dissolved on 2 September 1998.

5.12 Save for the fees payable to the professional advisers whose names are disclosed in this document, payments to trade suppliers, and the monthly payment of £10,000 payable to the University as set out in Part I under the section headed "The initial funding of new Portfolio Companies" and save as disclosed at paragraphs 5.6, 5.8 and 5.9 of this Part V, there is no person (excluding professional advisers otherwise disclosed in this document and trade suppliers) who has: received, directly or indirectly, from any undertaking in the Group within the 12-month period immediately preceding the application for Admission; or entered into contractual arrangements (not otherwise disclosed herein) to receive, directly or indirectly, from any undertaking in the Group on or after Admission any of the following: fees totalling £10,000 or more; or securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or any other benefit with a value of £10,000 or more at the date of Admission.

## **6. United Kingdom taxation**

The comments set out below are based on existing law and what is understood to be current Inland Revenue practice. They are intended as a general guide only and apply only to Shareholders who hold Ordinary Shares as investments (and not as an asset of a financial trade) and who are the absolute beneficial owners of those shares. Any person who is in any doubt as to their taxation position or who is subject to taxation in any jurisdiction other than the United Kingdom, should consult an appropriate professional adviser immediately. This summary is not exhaustive and does not generally consider tax relief or exemptions.

### **6.1 Taxation of dividends**

- (a) Under current United Kingdom tax legislation, no United Kingdom tax will be withheld from any dividend paid by the Company.
- (b) An individual shareholder resident (for tax purposes) in the United Kingdom who receives a dividend from the Company will be entitled to a notional tax credit in respect of the dividend equal to 10 *per cent* of the sum of the dividend plus the notional tax credit. Individual shareholders who are so resident may set off this notional tax credit against their total income tax liability. Lower and basic rate tax payers would normally have no further liability to tax on the dividend. Higher rate tax payers will be liable to tax on the sum of the dividend plus the notional tax credit at the rate of 32.5 *per cent* against which liability the 10 *per cent* notional tax credit can be offset – giving an effective rate of 22.5 *per cent* of the gross dividend or 25 *per cent* of the net dividend.

- (c) With the exception of investors holding their shares in the Company through Individual Saving Accounts ("ISAs"), individual shareholders who are not liable to income tax or corporation tax on dividends received by them from the Company will not be entitled to claim payment of the tax credit in respect of those dividends.
- (d) Subject to certain exceptions for some insurance companies, a corporate shareholder resident (for tax purposes) in the United Kingdom will not be liable to United Kingdom corporation tax on any dividend received.
- (e) Persons who are not resident (for tax purposes) in the United Kingdom should consult their own tax advisers as to the possible applicability of double tax conventions and what relief or credit may be claimed for such notional tax credit in the jurisdiction in which they are resident. Such persons may also be subject to foreign taxation on dividend income under local tax law.

## 6.2 *Stamp duty/Stamp duty reserve tax*

The Company has been advised as follows in relation to stamp duty and stamp duty reserve tax ("SDRT") on transfers of shares:

### (a) *Sale of shares in certificated form*

An agreement to transfer Ordinary Shares held in certificated form (including pursuant to a purchase of New Ordinary Shares after the latest time for registration of renunciations) will generally give rise to a liability to SDRT, generally at the rate of 0.5 *per cent* of the amount or value of the consideration given, although if the agreement to transfer such shares is completed by a duly stamped transfer to the buyer, the stamp duty payable in respect of such transfer (generally at the rate of 0.5 *per cent* of the consideration given rounded up to the nearest £5) will extinguish the liability to SDRT and enable a refund of any SDRT already paid, to be received. Stamp duty and SDRT are generally paid by the buyer of shares, although where such a purchase is effected through a stockbroker or other financial intermediary, that person should normally account for the liability to SDRT and should indicate this has been done in any contract note issued to a buyer.

### (b) *Dealings in shares in renounceable form*

Although no stamp duty or SDRT will be payable on the issue of provisional allotment letters or split letters of allotment, a charge to SDRT, generally at the rate of 0.5 *per cent* of the amount or value of the consideration given, will arise if an unconditional agreement is entered into to sell shares or rights to shares held in renounceable form. No stamp duty or SDRT will, however, be payable on the registration of New Ordinary Shares by the original holders of provisional allotment letters or by their renounees.

### (c) *Transfer of shares into CREST*

Where shares are transferred to a member of CREST who will hold those shares in uncertificated form as nominee for the transferor, no stamp duty or SDRT will generally be payable.

### (d) *Rematerialisation*

Where shares are transferred by a member of CREST to the beneficial owner (on whose behalf it has held them as nominee), no stamp duty or SDRT will generally be payable.

### (e) *Transfer of shares within CREST or rematerialisation to new owner*

Where a change in the beneficial ownership of shares held in uncertificated form occurs and such change is for a consideration in money or money's worth (whether the transferee will hold those shares in certificated or uncertificated form), a liability to SDRT at the rate of 0.5 *per cent* of the amount or value of the consideration will arise. This will generally be met by the new beneficial owner.

The above statements are intended as a general guide to the current position. Certain categories of person are not liable to stamp duty or SDRT and others may be liable at a higher rate (this arises in connection with depositary receipt arrangements or clearance services) or may, although not primarily liable for the tax, be required to notify and account for it.

Any person who is in any doubt as to his taxation position, requires more detailed information than the general outline above or who is subject to tax in a jurisdiction other than the United Kingdom, should consult his professional advisers.

### 6.3 *Taxation on disposals*

A disposal of Ordinary Shares may, depending on individual circumstances, including the availability of exemptions, reliefs and allowable losses, give rise to a liability to UK tax on chargeable gains.

Individual shareholders who are resident or ordinarily resident in the United Kingdom and who dispose of their shares will generally be liable to Capital Gains Tax on any gain made on that disposal. The gain may be reduced by the availability of exemptions or reliefs and the deduction of allowable losses in certain circumstances. Specifically, taper relief may be available to reduce the gain chargeable to Capital Gains Tax. The amount of taper relief will depend on the business asset status and period of ownership of the shares. If the Ordinary Shares remain business assets throughout the period during which they are owned, then if the period of ownership is greater than one year, only half of the gain will be charged to Capital Gains Tax. Once the period of ownership exceeds two years, only one quarter of the gain will be charged to Capital Gains Tax. For higher rate tax payers, the effect of taper relief is often (although slightly inaccurately) expressed as reducing the rate of tax from 40 *per cent* to 20 *per cent* after one year and to 10 *per cent* after two years. If the Ordinary Shares do not qualify as business assets, they will attract an effective Capital Gains Tax charge of 24 *per cent* once full taper has been achieved (currently after 10 complete years of ownership). The definition of a business asset for taper relief purposes is beyond the scope of this document and shareholders should seek appropriate professional advice.

Corporate shareholders which are resident in the United Kingdom and who dispose of their shares may be liable to corporation tax on any gain made on that disposal. Certain types of company (such as pension funds) and charities are generally exempt from corporation tax on capital gains. In addition, corporate shareholders who own a substantial shareholding for more than 12 months may qualify for exemption from corporation tax under the substantial shareholding exemption. For these purposes a substantial shareholding is (broadly) a shareholding of more than 10 *per cent* of the Company's shares.

Holders of Ordinary Shares who are not resident and ordinarily resident in the United Kingdom will not generally be liable to UK tax on capital gains. However, special rules may apply where an individual returns to the UK within five years of leaving having made capital gains in the meantime on assets owned before their departure from the UK. In this situation, the UK may impose a "re-entry" charge on any gains made during the period of non-residence. Further special rules apply to non-UK entities such as trusts and companies which are set up by UK residents or from which UK residents might take a benefit. Local taxes may also apply in the jurisdiction in which the shareholder is resident and anyone in this position should consult their own tax advisers as to the possible application of double tax conventions and the applicability of local law.

### 6.4 *Inheritance tax*

Individual shareholders who are domiciled or deemed to be domiciled in any part of the United Kingdom may be liable to inheritance tax ("IHT") on the value of any Ordinary Shares held by them. IHT may also apply to individual shareholders who are not domiciled in the United Kingdom although relief under a double tax convention may apply to those in this position. The chief occasions on which IHT is charged are on the death of the shareholder; on any gifts made during the seven years prior to the death of the shareholder; and on certain lifetime transfers, notably when shares are transferred to a discretionary (non-interest in possession) trust.

However, a relief from IHT known as business property relief ("BPR") may apply to Ordinary Shares once these have been held for two years. This relief applies notwithstanding that the Company's shares are listed on AIM (although it does not apply to fully listed shares). BPR operates by reducing the value of shares by 100 *per cent* for IHT purposes.

### 6.5 *Taxation – substantial shareholding exemption*

Disposals by qualifying companies of certain shares in trading subsidiaries are exempt from corporation tax on chargeable gains, provided conditions are met under legislation contained in section 192A and Schedule 7 AC of the Taxation of Chargeable Gains Act 1992 (the "Substantial Shareholding Exemption"). The conditions that have to be satisfied to obtain the exemption relate to the company making the

disposal, the length of time for which the selling company has held shares in the target company and the type of company whose shares are being sold. The conditions, as currently enacted, are explained below as they apply to Biofusion Trading and any sale of shares in a subsidiary of Biofusion Trading (the "Relevant Biofusion Subsidiary").

In order to benefit from the Substantial Shareholding Exemption, in respect of any disposal of shares in a Relevant Biofusion Subsidiary, Biofusion Trading must have held at least 10 *per cent* of the ordinary share capital of that company (and have been entitled to at least 10 *per cent* of the profits on distribution and assets on a winding-up) throughout a 12-month period beginning not more than two years before the day on which the disposal takes place. Throughout that 12-month period (the "qualifying period"), Biofusion Trading, as the company making the disposal, must also have been either a trading company or the member of a qualifying group throughout the qualifying period and must also satisfy this test immediately after making the disposal. Broadly, a qualifying group is a group, one or more of whose members carry on trading activities and where the activities of the group, taken together, do not include non-trading activities to a substantial extent. For these purposes, "group" means a company and its 51 *per cent* subsidiaries. Non-trading activities will constitute a substantial amount of a group's activities if, for example, they generate more than 20 *per cent* of the group's income, represent more than 20 *per cent* of the group's asset base or if the group's officers or employees spend more than 20 *per cent* of their time upon such activities. None of the above tests, in relation to interpreting the meaning of the term "substantial", represent hard and fast rules and each case must be decided on its facts.

The Relevant Biofusion Subsidiary must also have been a trading company, for instance, one that carries on a trade of the development and exploitation of Intellectual Property, throughout the qualifying period and must meet this condition immediately after the disposal.

If all the above conditions are met, a gain which arises to Biofusion Trading on any sale of shares in a Relevant Biofusion Subsidiary is not a chargeable gain and is thus exempt from charge.

The above represents a general guide and it is not possible to say with certainty whether any future disposal will or will not qualify for the Substantial Shareholding Exemption. Nor is it possible to predict how the legislation in its current form might be amended.

## **7. Placing arrangements**

### **7.1 The Placing Agreement**

On 28 January 2005, Code Securities, Bridgewell, the Directors, the University, SUEL and the Company entered into the Placing Agreement pursuant to which Code Securities has agreed, conditionally upon, *inter alia*, Admission taking place not later than 2 February 2005, to use its reasonable endeavours to procure subscribers for the New Ordinary Shares at the Placing Price and, to the extent that it is unable to secure such subscribers, Bridgewell has agreed to subscribe those Ordinary Shares itself.

Under the Placing Agreement, Code Securities will receive (exclusive of VAT) a corporate finance fee of £100,000 plus a commission of 4 *per cent* of the aggregate value at the Placing Price of the New Ordinary Shares to be paid by the Company. The Company has agreed to pay all other costs, charges or expenses of, or incidental to, the Placing and the application for Admission and related arrangements.

The Placing Agreement, which contains certain warranties, undertakings and indemnities by the Company, the Directors and the University in favour of Code Securities and Bridgewell, is conditional, *inter alia*, on (i) Admission occurring not later than 2 February 2005 (or such later date as the Company and Code Securities may agree not being later than 9 February 2005) and (ii) none of the warranties given to Code Securities and Bridgewell prior to Admission being untrue, inaccurate or misleading in any material respect.

Code Securities or Bridgewell may terminate the Placing Agreement in specified circumstances, including breach of warranty and in the event of force majeure at any time prior to Admission.

Under the Placing Agreement, the Directors, the University and SUEL (as nominee for the University) (holding 13,333,320 Ordinary Shares in aggregate, representing 70.85 *per cent* of the Ordinary Shares in issue upon Admission) have agreed (subject to certain limited exceptions) not to dispose of any Ordinary Shares in which they are interested following Admission for a period of one year from the date of the agreement (the "Restricted Period"). Furthermore, the Directors, the University and SUEL have undertaken (subject to certain limited exceptions), to retain at least 50 *per cent* of their respective



shareholding (approximately 35.42 *per cent* of the Enlarged Issued Share Capital) during the 12 month period commencing at the end of the Restricted Period. Any permitted sales in this period are to be conducted through Code Securities.

## **7.2 Nominated adviser and broker agreement**

Pursuant to an agreement dated 26 January 2005 made between the Company and Code Securities, Code Securities has agreed to act as nominated adviser and broker to the Company following Admission as required by the AIM Rules (the "Nominated Adviser Agreement"). Under the Nominated Adviser Agreement, Code Securities shall provide, *inter alia*, such independent advice and guidance to the Directors as the directors of the Company may require from time to time, as to the nature of their responsibilities and obligations to ensure compliance by the Company on a continuing basis with the AIM Rules. The Nominated Adviser Agreement is terminable on three months' notice given by either Code Securities or the Company. Code Securities is entitled to be paid (exclusive of VAT) an annual fee of £50,000 commencing in the year following Admission. The Nominated Adviser Agreement contains provisions for early termination in certain circumstances and also an indemnity given by the Company to Code Securities in relation to the provision by Code Securities of its services.

## **8. Material Contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company and/or its subsidiaries since a date two years before the date hereof, and are or may be material:

- (a) the Placing Agreement (see paragraph 7 above);
- (b) the Nominated Adviser Agreement (see paragraph 7 above);
- (c) the Sheffield Agreement:

The Sheffield Agreement governs Biofusion Trading's entitlement with respect to Intellectual Property which arises from Medical Life Sciences research undertaken by University staff. Biofusion Trading is entitled to direct that all such Intellectual Property of the University be assigned to a Portfolio Company with a licence back to the University for non-medical uses or, if it has mainly non-medical application, to be licensed to Biofusion Trading for medical uses instead. This entitlement is intended to last for 10 years from Admission, subject to earlier termination of the Sheffield Agreement, for Biofusion Trading's insolvency or Biofusion Trading ceasing to be wholly owned by Biofusion plc.

This entitlement is subject to the terms of financing and third party collaborative research agreements into which the University enters in the ordinary course. The University may also, from nineteen months following relevant Intellectual Property first being brought to the attention of Biofusion Trading, exclude it from this entitlement if Biofusion Trading has not then elected for it to be assigned or licensed to a Portfolio Company and no written business plan to prepare for commercialisation in the following 12 months and does not adhere to that plan. Additionally, if any such Intellectual Property that has not had third party funding of £50,000 or more is not used by a Portfolio Company for a continuous period of 18 months, the University is entitled to recover ownership of it or to terminate any licence granted to a Portfolio Company where a written business plan for commercialisation of the Intellectual Property is not adhered to. If Biofusion Trading's current account balance falls below £500,000, or it remains in un-remedied breach of the Sheffield Agreement for 30 days or more, the University can also suspend this entitlement.

These Intellectual Property licences and assignments will be paid for either by the issue of loan notes by the relevant spin-out company secured against the Intellectual Property in question by a fixed charge over that Intellectual Property, or by cash held by the University on account for Biofusion Trading. Biofusion Trading is obliged to pay to the University 2.5 *per cent* of the Placing Proceeds (subject to a £1,000,000 limit) and a further £10,000 per month following Admission. In the event that Intellectual Property is paid for by the issue of a loan note, any such loan note will carry a floating rate of interest being 1.5 *per cent* above LIBOR for 6 month deposits, calculated every six months, and would be repayable in full on the tenth anniversary of the issue of the loan note, upon a listing or sale of the company to which the Intellectual Property is transferred, upon a sale by that company of the relevant Intellectual Property or if that company is in default of its

obligations under the loan note or fixed charge, and would be repayable to the extent that that company pays a dividend.

The Sheffield Agreement also provides for the transfer to Biofusion Trading, upon Admission, of the University's shares in existing Portfolio Companies that have already been established to commercialise University-generated Medical Life Sciences Intellectual Property (together with an option arrangement in relation to one of the Portfolio Companies, Molecular Skin Care, which is described in Part I under the sub-section headed "Molecular Skin Care"). These shares are to be paid for by loan notes issued by Biofusion Trading secured against the shares in question by a fixed charge over those shares. Such loan notes will each carry a floating rate of interest being 1.5 *per cent* above LIBOR for 6 month deposits, calculated every six months, and will be repayable in full on the tenth anniversary of the issue of the loan note, on a change of control of Biofusion Trading or if Biofusion Trading is in default of its obligations under the loan note or fixed charge, and will be repayable to the extent that Biofusion Trading realises value from the relevant shares by way of receiving a dividend or selling or listing the shares;

- (d) a share purchase agreement dated 17 December 2004 between Biofusion, David Baynes, Peter Grant and Stuart Gall and SUEL pursuant to which Biofusion acquired the entire issued share capital of Biofusion Trading for a consideration of 900 'A' Shares of £1 each and 2,100 Ordinary Shares; and
- (e) an undertaking dated 26 January 2005 from the University to the Company (conditional on Admission) that for so long as it is entitled to (acting alone or jointly) exercise, or to control the exercise of, 30 *per cent* or more of the rights to vote at general meetings of the Company, it will procure that all transactions, agreements, relationships or arrangements entered into between it (or a related party to it as defined in the AIM Rules) and the Company or any subsidiary of the Company will be made on an arm's length basis and on normal commercial terms.

## 9. Subsidiaries, associate undertakings and investments

- 9.1 The Company has one wholly-owned subsidiary, Biofusion Trading, through which it carries out the operating and trading activities described in Part I of this document. Biofusion Trading is a private limited company, incorporated in England and Wales and whose registered office is at The Innovation Centre, 217 Portobello, Sheffield S1 4DP. Biofusion Trading has an issued share capital (fully paid) of £921.
- 9.2 Immediately following completion of the Sheffield Agreement (which is subject to and conditional on a fundraising of Biofusion, which will be satisfied upon Admission), Biofusion Trading will hold shares in the following Portfolio Companies, all of whose businesses are described in Part I of this document and all of which are private limited companies and incorporated and with registered offices in England and Wales:

Name	Shareholding at 26 January 2005 (%)
Adjuvantix Limited	34.0
Asterion Limited	39.0
Axordia Limited	33.9
BioActa Limited	52.4
CellTran Limited	25.0
Diurnal Limited	100.0
Plasso Technology Limited	9.4
SimCyp Limited	25.0

## 10. Miscellaneous

### 10.1 Working capital

The Directors are of the opinion that, having made due and careful enquiry, taking into account the net proceeds of the Placing, the Group will have sufficient working capital for its present requirements, that is, for at least 12 months from the date of Admission.

#### 10.2 *Litigation*

Neither the Company nor any member of the Group is involved in any legal or arbitration proceedings which are having or may have a significant effect on the Company's financial position nor is the Company aware that any such proceedings are pending or threatened.

#### 10.3 *Expenses*

The total proceeds expected to be raised pursuant to the Placing (before expenses) are approximately £8.2 million.

The total costs and expenses relating to the Placing (which are payable by the Company), including a placing commission of 4 per cent payable to Code Securities, are estimated to amount to approximately £0.9 million (excluding VAT) and accordingly the net proceeds expected to be raised pursuant to the Placing (after deduction of expenses) are approximately £7.3 million.

#### 10.4 *Consents*

- (a) Deloitte & Touche LLP have given and have not withdrawn their written consent to the issue of this document with the inclusion herein of their reports and the references to such reports and to their name in the form and context in which they are respectively included, and have accepted responsibility for such reports.
- (b) Code Securities has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name in the form and context in which it appears.

#### 10.5 *Exceptional factors*

The Directors are not aware of any exceptional factors which have influenced the Company's activities.

#### 10.6 *Intellectual property*

Other than as described in this document, there are no patents or other intellectual property rights, licences or particular contracts which are of fundamental importance to the Group's business.

#### 10.7 *Investments in progress*

Save as set out in Part I of this document, there are no significant investments in progress.

#### 10.8 *Minimum amount*

In the opinion of the Directors the minimum amount which must be raised pursuant to the Placing (for the purposes set out in paragraph 21(a) of schedule 1 to the POS Regulations) is approximately £2.8 million.

#### 10.9 *No significant change*

Save as disclosed in this document, there has been no significant change in the financial or trading position of the Company or the Group since 31 July 2004, the date to which the latest audited financial statements of Biofusion Trading were made up.

#### 10.10 *Other*

- (a) There are no arrangements in place under which future dividends are to be waived or are agreed to be waived.
- (b) The Ordinary Shares have not been sold, nor are they available, in whole or in part, to the public in conjunction with the application for Admission.

### 11. **Documents available for inspection**

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) at the offices of Ashurst, Broadwalk House, 5 Appold Street, London EC2A 2HA up to and including 25 February 2005:

- (a) the memorandum and articles of association of the Company;
- (b) the audited accounts of Biofusion Trading for the two financial years ended 31 July 2004;
- (c) the reports by Deloitte & Touche LLP set out in Parts III and IV of this document;
- (d) the service contracts and letters of appointment referred to in paragraphs 5.6 and 5.8 above;
- (e) the letters of consent referred to in paragraph 10.4 above; and
- (f) the Share Option Agreements referred to in paragraph 4 above.

**Dated: 28 January 2005**