biofusion plc annual report
and accounts 2007

COMPANY NUMBER
5275732

TURNING **WORLD CLASS**
RESEARCH INTO **BUSINESS**

WHO WE ARE

In fields as varied as drug discovery, alternative energy and engineering, Biofusion owns the rights to an amazing depth and quality of research from two of the UK's leading universities, enabling us to invest in some of the world's most advanced and exciting science and turn world class research into business

WHAT WE DO

We create, support and grow a range of companies in an exciting variety of sectors. From lifestyle to energy, we seek to make the very best of emerging IP from two of the UK's leading research intensive universities.

OUR PORTFOLIO COMPANIES

Abcellute s patent protected cell stabilising platform technology enables the non-frozen preservation and transportation of live organ-derived cells without the loss of viability or function for up to seven days

Absynth Biologics is developing vaccines and antibodies to treat infections caused by the bacterium Staphylococcus aureus including its more difficult to-treat drug-resistant form MRSA Its unique patented technology is initially being used to develop an MSRA vaccine and antibodies to treat significant MRSA related infections as well as other applications.

Adjuvants help stimulate the immune system s response to a vaccine so the better the adjuvant the lower the vaccination dose can be making the vaccine cheaper and safer Adjuvantix s adjuvant is capable of a profound enhancement (1 000 fold) of the anti body response

Aperio s prototype medical probe can detect pre-cancerous cells in a woman s cervix without the need for the current painful and lengthy internal colcoscopy examination

Art of Xen holds a number of patents for the cost efficient delivery of the anaesthetic gas Xenon Xenon is showing promise in research as a neuroprotectant that can protect against and reduce brain damage with an almost complete lack of side effects

Asterion s ProFuse technology platform is being used to develop third generation therapeutic protein drugs designed to have greater potency and selectivity to be longer lasting and have a better side effect profile than current protein based therapies

I2L Research provides worldwide agrochemical manufacturers with specialist product testing development services and environmental monitoring services The company has offices in Cardiff and Newcastle

Lifestyle Choices launched its first product a triple hormone ovarian reserve test called Plan Ahead in 2006 The test offers the most accurate hormone based ovarian reserve test available to the public enabling women to make more informed decisions about when they try for a baby The company is developing its second product aimed at the IVF market for launch in 2008

Magnomatics specialises in the development of novel high-torque magnetic gearboxes motors and generators for use within wind turbine power generation transportation and domestic energy products Its patented pseudo direct drive motor/generator system has additional applications in the aerospace and hybrid vehicle market

Morvus is engaged in the discovery development and commercialisation of novel drugs and technologies primarily in the field of oncology It has a broad portfolio of technology with products based upon its core expertise in prodrug-enzyme interactions and knowledge of the mechanism of apoptosis

Muscagen is a computation based rational drug discovery company that design molecules which interact with receptors on the surface of human cells in specific ways Its approach is potentially cost-effective and efficient reduces animal testing and avoids likely side effects

Phase Focus owns the rights to patents for a process that can generate high definition images of an object without the need for the high quality lenses that account for a significant element of the cost of high-performance microscopes This breakthrough technology has the potential to produce better images at a lower cost than currently available microscopes

MEDICINE **ENERGY** **ENVIRONMENT**

ELECTRICAL **ENGINEERING** **LIFESTYLE**

Axordia is a regenerative therapeutics company utilising its platform human embryonic stem cell technology to prevent transplant rejection through the use of its unique endovascular cell technology and cure degenerative blindness through its novel retinal cell technology for the treatment of AMD

Biofusion Licensing is a specialist company that identifies develops and licenses world class university IP to commercial companies and research organisations Their website is a licensing portal for identifying licensing opportunities within the Biofusion technology pipeline

Biohydrogen is developing a metabolically engineered microbial production method that is capable of producing hydrogen from sugar solution media and water through fermentation Initial results indicate this unique method of production has the potential to be at the forefront of new low carbon fuel technology developments

Celltran provides active wound care by delivering living cells for the treatment and active healing of burns and chronic wounds in skin Celltran has a number of products in its portfolio including MySkin (in market) and Lypoderm (ready for Phase III trials)

Diurnal owns the patent rights to Chronocort * a modified release formulation of hydrocortisone to treat adrenal insufficiency The product is designed to release hormone at concentrations that mimic the natural level of hormone in the body controlling disease symptoms and reducing unwanted side effects

Genophrenix has identified several proteins and their genes that interact with a key component implicated in schizophrenia Its initial focus is to develop a diagnostic for schizophrenia and provide licensing opportunities that will be attractive to the global pharmaceutical industry

Mantelum is developing research focused on the G-protein coupled receptor (GPCR) superfamily which are involved in a wide range of disorders including allergies cardiovascular disease pain depression cancer obesity diabetes and a variety of central nervous system disorders

Medaphor designs and develops medical training solutions on multi media and computer based simulations systems The company has two online multimedia gynaecological ultrasound training modules and a prototype haptic ultrasound simulator

Medella is designing monoclonal antibodies that inhibit the action of Adrenomedullin (ADM) a molecule found in 80% of cancer cells It is believed that ADM is a key molecule in enabling cancer cells to survive and Medella is developing drugs that modulate ADM signalling in cancer cells and stop the tumour growing

O Chip develops advanced life science and therapeutic products using its proprietary MicroPlant platform for the production of precision loaded polymer microspheres The company has three core precision microsphere products - ReaX BiologiX and IonX which have just been launched into the UK market

Simcyp s informatics platform enables pharmaceutical companies to simulate drug behaviour in humans prior to running clinical trials by using virtual population data rather than data from one average individual Allowing patients at extreme risk from adverse reaction to be identified at an early stage

HIGHLIGHTS

Trebled the research pipeline, for which we own exclusive rights, to £114m (31 July 2006 £37m) by signing an exclusive ten year pipeline agreement with Cardiff University (Cardiff) Cardiff is one of the UK's leading research intensive universities, ranked seventh in the most recent RAE (Research Assessment Exercise) based rankings

Expanded the business to include world class research in energy, environment, engineering and IT

Raised £7 8m to invest in Cardiff Intellectual Property (IP), increasing total cash funds to £10 6m (31 July 2006 £5 9m)

Increased the number of companies in our portfolio to 24 (31 July 2006 12)

Created four new companies (31 July 2006 2) Biohydrogen, Absynth Biologics, Medella Therapeutics, Biofusion Licensing

Exited our 9% shareholding in Plasso Technologies

Invested or committed to invest up to £3 3m in 14 portfolio companies to support their continued development

POST REVIEW END HIGHLIGHTS

In September 2007 announced that we had signed a co-investment Memorandum of Understanding (MoU) with Finance Wales which provides priority access to Finance Wales' substantial investment funds

In October 2007 announced that we had sold our 50% stakes in each of Cardiff Protides and Cardiff Biologicals to Morvus Technology Ltd (Morvus) in return for a 20% shareholding in Morvus

In October 2007 announced that we signed an exclusive licence agreement with an undisclosed leading US reproductive testing laboratory to sell the Plan Ahead test in the USA and Canada

We own the rights to an amazing depth and quality of research and we aim to turn that into real value for our shareholders

DOUG LIVERSIDGE CBE

CASE STUDY **BIOHYDROGEN**

Professor Phillip Wright and his team at Biohydrogen have metabolically engineered a strain of *E coli* to include a copy of a cyanobacterial derived bi-directional hydrogenase enzyme that leads to the generation of additional hydrogen

This novel and patented platform technology has demonstrated exceptional hydrogen production rates Although at an early stage, the results suggest that the hydrogen is being produced not just from the dark fermentation of the glucose to hydrogen but that the process is also causing a catalytic reaction that is splitting the water to produce extra hydrogen

The technology platform required to develop this bio-hydrogen production method is similar to the technology used by many biotech companies that produce enzymes for drug synthesis (antibiotics, anti cancer, etc), consumer goods (detergents, brewed beverages, food products, plastics, etc), and enhanced animal feed and alternative energy sources such as bio-ethanol As a result the commercialisation of this enzyme-based product should be able to follow a clear and well-defined path with well understood procedures

There is significant interest in all forms of renewable 'clean' energy technologies to combat global warming, in response to the depletion of and increasing price of fossil fuels and to address energy security problems Biohydrogen believes its unique method of production has the potential to be at the forefront of new low carbon fuel technology developments and aims to develop a unique microbiological method of producing hydrogen for the industrial hydrogen market and any future hydrogen energy related market

I am delighted to announce Biofusion's results for the year ended 31 July 2007 which has been a year of significant progress and expansion

KEY EVENTS

- Trebled the research pipeline for which we own exclusive rights, to £114m (31 July 2006 £37m) by signing an exclusive ten year pipeline agreement with Cardiff University (Cardiff) Cardiff is one of the UK's leading research intensive universities ranked seventh in the most recent RAE (Research Assessment Exercise) based rankings,
- Expanded the business to include world class research in energy environment engineering and IT
- Raised £7 8m to invest in Cardiff IP increasing total cash funds to £10 6m (31 July 2006 £5 9m)
- Increased the number of companies in our portfolio to 24 (31 July 2006 12)
- Created four new companies (31 July 2006 two) Biohydrogen Absynth Biologics Medella Therapeutics, Biofusion Licensing
- Exited our 9% shareholding in Plasso Technologies
- Strengthened Asterion's management team with a blue chip Chairman Chief Executive Officer and Non-executive Director, and
- Invested or committed to invest up to £3 3m in 14 portfolio companies to support their continued development

In this our last year under UK GAAP, before we transfer to International Financial Reporting Standards (IFRS) we report turnover of £0 4m (2006 £0 3m) and losses of £2 9m (2006 loss of £1 9m) which were broadly in line with budgets Under UK GAAP no allowance is made for the increase in the value of our portfolio company investments which are currently held at cost less impairment in value Going forward increases in the fair value of our portfolio companies will be shown in the profit and loss account, consistent with the approach taken by our competitors

Post year end we announced

- In September 2007 that we had signed a co-investment Memorandum of Understanding (MoU) with Finance Wales which provides priority access to Finance Wales substantial investment funds
- In October 2007 that we had sold our 50% stakes in each of Cardiff Protides and Cardiff Biologicals to Morvus Technology Ltd (Morvus) in return for a 20% shareholding in Morvus and
- In October 2007, we signed an exclusive licence agreement with an undisclosed leading US reproductive testing laboratory to sell the Plan Ahead test in the USA and Canada

CARDIFF UNIVERSITY

Our partnership with Cardiff is a significant milestone that has enabled us to build on our successful partnership with the University of Sheffield and secure access to a second high quality Intellectual Property (IP) pipeline as well as enabling us to expand our portfolio into non-life science sectors such as engineering energy environment and computing

Cardiff is the seventh ranked research intensive university in the UK and recently announced its second Nobel Prize winner Professor Sir Martin Evans who won the Nobel Prize for Medicine in October 2007

In conjunction with the Cardiff agreement and the £7 8m placing Biofusion created a dedicated investment fund of £8 2m in a new wholly owned subsidiary Fusion Cardiff Limited exclusively for investing in Cardiff portfolio companies

We now have exclusive IP pipeline agreements with two of the UK's top ten research intensive universities and are confident that our model will continue to be attractive to high quality research intensive universities both in the UK and overseas

INVESTMENTS DURING THE PERIOD

During the year we invested or approved facilities for investments, of £3 3m which has been used to fund the creation of four new companies and the continued development of 12 portfolio companies

We continue to believe that our portfolio has a balanced mix of short medium and long term investments and that we remain committed to and focused on, our core strategy which is to achieve high value exits from our portfolio of companies at the appropriate time to realise their value to our shareholders

FINANCE WALES MOU

Post year end on 21 September 2007 we signed a MoU with Finance Wales, the provider of commercial funding to Wales-based businesses detailing a co-investment strategy for investing in opportunities arising from Biofusion's exclusive IP pipeline agreement with Cardiff University Finance Wales already manages funds of more than £100m and has invested £75m in Wales

EXITS

During the year as part of the sale of Plasso Technology (UK) Limited (Plasso) to Becton Dickinson and Company Biofusion disposed of its 9% shareholding in Plasso Financial terms of the deal were not disclosed

Post year end on 10 October 2007 we announced that we had sold our equity shareholdings in Cardiff Protides and Cardiff Biologicals to Morvus a privately owned pharmaceutical company specialising in the discovery and development of novel oncology therapies

Morvus has raised over £3 4m in equity finance to date and its most recent funding, largely concluded in July 2007, valued Morvus at approximately £12m based on a price of 30p per share As a result of the sale Biofusion now owns 13 698 630 shares in Morvus, giving it a 20% shareholding in the enlarged Morvus group

Morvus' expertise in oncology based pharmaceutical development convinced us that the new combined company could be a world leader in the provision of specialist oncology drugs and provided the best opportunity for bringing Cardiff Protides and Cardiff Biologicals' lead compounds to market

DIRECTORATE CHANGE

In January 2007 Mr Mike Davies who is Director of Physical and Financial Resources for Cardiff University became a Non-executive Director of the Board We welcome him onto the Board of Biofusion

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

From 1 August 2007 Biofusion will adopt International Financial Reporting Standards (IFRS) This will have a significant impact on the reporting of the company's financial performance as changes in the carrying value of our portfolio company investments will be recognised in the profit and loss account

At present Biofusion carries all these investments at cost The Directors believe this does not reflect the true value of the portfolio

The adoption of IFRS will bring the company's reporting in line with its major competitors

OUTLOOK

In fields as varied as drug discovery alternative energy and engineering, we now own the rights to a truly significant depth and quality of research from two of the UK's leading universities This has enabled us to create a growing portfolio of companies based on some of the world's most advanced and exciting science Our focus continues to be to expand this portfolio maximise the value of these companies and then exit these companies at the appropriate time, either through trade sale or IPO

We look forward with considerable optimism to the next financial year

DOUG LIVERSIDGE CBE
CHAIRMAN
15 October 2007

This has been an excellent year for Biofusion in which we have continued to expand both our university base and our portfolio of companies

DAVID BAYNES

PORTFOLIO COMPANY INVESTMENTS

	Year to 31 July 2007		Post year end	
	Invested £	Committed not yet invested £	Invested £	Outstanding commitments £
Abcellute	56,000	200,000	200,000	—
Absynth Biologics	140,000	185,000	—	185 000
Aperio Diagnostics	79,000	—	—	—
Asterion	—	265,000	—	265 000
Axordia	378,000	115,000	75 000	40 000
Biohydrogen	54,000	146,000	25 000	121,000
Cardiff Biologicals	—	—	200 000	—
Cardiff Protides	—	—	200 000	—
Celltran	161,000	150,000	75 000	75 000
Diurnal	126,000	99,000	—	99 000
Genophrenix	198,000	—	—	—
Lifestyle Choices	68,000	—	—	—
Medaphor	10,000	—	—	—
Medella Therapeutics	64,000	256,000	—	256 000
Phase Focus	314,000	86,000	—	86 000
Q-Chip	47,000	78,000	—	78 000
Total	1,695,000	1,580,000	775 000	1 205 000

This has been an excellent year for Biofusion in which we have continued to expand both our university base and our portfolio of companies

THE CARDIFF PIPELINE

The Cardiff agreement gives Biofusion exclusive rights, over ten years to all Cardiff's rights to IP generated by Cardiff research and to commercialise this IP through the formation of portfolio companies The Directors estimate that the research spend available to Cardiff over the life of the Cardiff agreement will be well in excess of £1 billion Biofusion will initially hold 100% of the equity in each new Cardiff portfolio company and will then allocate an appropriate proportion to the academics involved in these companies

TRANSFERRED PORTFOLIO COMPANIES

As part of the agreement Cardiff s shareholding in seven existing companies (see table below) were transferred to Biofusion in return for loan notes of £1 4m (£1 65m including the post year end transfer of Cardiff Biologicals)

Company name	Potential fully diluted Biofusion shareholding (%)
Abcellute	24 08
Art of Xen	31 58
Cardiff Protides	22 50
Insect Investigations	10 00
Medaphor	32 03
Muscagen	12 97
Q Chip	20 35
Cardiff Biologicals*	25 00

* Cardiff Biologicals shareholding was transferred to Biofusion on 2 October 2007

OUR PORTFOLIO COMPANIES

We now have 24 companies in our portfolio

Portfolio companies as at 31 July 2006	12
New companies started/acquired in the year	13
Companies exited during the year	1
Portfolio companies as at 31 July 2007	24
New companies added post year end	1
Companies exited post year end	2

Successes in our portfolio during the period include

ASTERION

Biofusion shareholding

34%

Asterion is developing next-generation therapeutic proteins with superior pharmacological profiles that will improve the current treatment options for patients with chronic diseases It owns a novel, patented therapeutic platform technology, ProFuse™ which has tremendous utility and versatility and can be applied to a huge number of cytokine families and targets to generate novel, IP-protected next-generation biopharmaceutical products

Asterion's most advanced product is a long-acting growth hormone (GH) agonist product for the treatment of growth disorders, which is being developed in a strategic alliance with Ipsen The company has internal programmes for other cytokine targets which include erythropoietin (AFT™-EPO) G-CSF (AFT™ – GCSF) interferons (AFT™ – Inteferon α and AFT™ – Inteferon β) and leptin (AFT™ – Leptin)

Post year end Asterion's technology exemplified with GH, was published in the world renowned scientific journal 'Nature Medicine' The current therapeutic procedure for GH replacement in adults and children requires once daily injections of GH which are inconvenient expensive and can be painful The Nature paper reports that tests with the Asterion version of GH showed that a single injection promoted growth for ten days which is far superior when compared with conventional GH The ability to apply this technology to create a wide variety of therapeutic proteins lead the Directors to believe that this technology can lead to a next generation of recombinant protein therapeutics

During the year we strengthened Asterion s management team with the appointment of Dr Kevin Bryett as Chairman Dr Raymond Barlow as CEO and Dr David Lawrence as a Non-executive Director

During the year we committed to invest a further £265,000 in Asterion

SIMCYP

Biofusion shareholding

25%

Simcyp s informatics platform and consultancy services enable pharmaceutical companies to simulate drug behaviour in humans prior to running clinical trials The software uses virtual population data rather than data from just one average' individual This allows patients at extreme risk from adverse reaction to be identified at an early stage In addition, potential drug-drug interactions can also be predicted thus enabling Pharmaceutical companies to tailor their testing programmes on humans in an informed way Simcyp continues to expand its operations with turnover up 34% year on year at £1 99m (2006 £1 48m) and profits up 39% to £0 53m (2006 £0 38m)

DIURNAL

Biofusion shareholding

60%

During the year Diurnal which owns the patent rights to Chronocort™ a modified release formulation of hydrocortisone to treat adrenal insufficiency announced that Phoqus Pharmaceuticals Ltd, the speciality pharmaceutical company with whom it is developing Chronocort™ had raised £6 5m gross of expenses, to progress Chronocort™ into Phase III clinical trials The product is designed to release hormone at concentrations that mimic the natural level of hormone in the body This is considered very important in controlling disease symptoms and reducing unwanted side effects Chronocort™, which has European Orphan Medicinal Product designation, is expected to be ready for market within two years generating significant royalty revenues for Diurnal in a market worth in excess of £100m

During the year we invested £126,000 and committed to a further investment of £99 000 to expand its product pipeline and fund development work on three additional patented products

Cardiff University, established in 1883, has an international reputation for the quality of its teaching and research In August 2004 Cardiff merged with the renowned University of Wales College of Medicine, one of the UK's leading medical schools, and now has more than 5,000 staff and 22,000 students

A member of the exclusive Russell Group of research-led universities, Cardiff is

- ranked 7th in the latest RAE (2001) based on average weighted RAE grade,
- ranked joint 8th in the latest RAE (2001) for the number of schools rated "5" and "5*" (being the highest ratings) in areas which the Directors consider to be the most likely to generate IP with commercialisation potential, and
- ranked 5th in the Times Higher Education Supplement 2006 review of university income generated from IP

In the year to 31 July 2006 Cardiff had a research income of £77m representing a 51% increase over the last two years and has invested over £100m in its infrastructure over the last five years In July 2007 Cardiff announced that it was on course for a record breaking research income year and had already secured research contract awards in excess of £100m

OUR PORTFOLIO COMPANIES CONTINUED

PHASE FOCUS

Biofusion shareholding

56%

Phase Focus is developing an alternative approach to microscopy and imaging that does not require sophisticated lenses and has applications in optical x-ray and electron microscopy, amongst others Phase Focus owns the rights to patents for a process that can generate high definition images of an object without the need for the high quality lenses that account for a significant element of the cost of high-performance microscopes The Directors believe that Phase Focus' breakthrough technology has the potential to create a new generation of 'lensless' microscopes, which will produce better images at a lower cost in a market which is forecast to grow to $1 6 billion by 2009

During the year we invested £314,000 in Phase Focus and committed to invest a further £86 000

ABSYNTH BIOLOGICS

Biofusion shareholding

60%

During the year we created Absynth Biologics which is developing vaccines and antibodies to treat infections caused by the bacterium *Staphylococcus aureus* (*S aureus*), including its more difficult-to-treat drug-resistant form methicillin-resistant *S aureus* (MRSA) Hospital acquired infections are an increasing public health concern and are responsible for a rise in the number of hospital deaths Absynth s unique patented technology has been developed at the University of Sheffield and initially is being used to develop an MSRA vaccine and antibodies to treat significant MRSA related infections as well as other applications

During the year we invested £140 000 in Absynth Biologics and committed to invest a further £185 000

AXORDIA

Biofusion shareholding

45%

Axordia one of the UK s leading stem cell companies announced it had received significant support for its research programme, in collaboration with Sheffield and Lombard Medical Technologies, through a £0 9m grant from the DTI and MRC for the development through to clinical trials of a regenerative stent – a new generation treatment for cardiovascular disease Axordia also announced its participation in the European Commission "ESTOOLS" programme ESTOOLS is a world leading €12m stem cell research initiative that will advance the fundamental understanding and biomedical applications of human embryonic stem cells

Axordia is a major partner in the London Project to Cure Blindness, to which Axordia will be supplying all the RPE cell lines This project has funding of £4m and plans to complete human trials to cure Age Related Macular Degeneration (AMD) within four years

During the year we invested £378,000 in Axordia taking our shareholding to 45%

Q-CHIP

Biofusion shareholding

10%

Q-Chip develops advanced life science and therapeutic products using its proprietary MicroPlant platform for the production of precision loaded polymer microspheres In July 2007 Q-Chip secured £2m of equity investment from groups including CPF E-Synergy Finance Wales Jon Moulton and Biofusion This investment should enable Q-Chip to develop and exploit three core precision microsphere products

- ReaX – for advanced bead based molecular reagents and cell assays
- BiologiX – benign and efficient encapsulation system for the delivery and sustained release of biopharmaceutical drugs
- IonX – microsphere system for delivery and controlled release of small molecule therapies

During the year we invested £47,000 in Q-Chip and committed to invest a further £78,000

MAGNOMATICS

Biofusion shareholding

54%

In April 2007 we announced that we had taken over the University of Sheffield's 55% shareholding in one of their non-life science spin out companies Magnomatics Ltd (Magnomatics) Magnomatics specialises in the development of novel high-torque magnetic gearboxes motors and generators for use within wind turbine power generation transportation and domestic energy products

High-torque mechanical gearboxes such as those used in the expanding domestic and industrial wind power generation market can suffer expensive permanent damage if a gusting wind applies too great a load to their mechanical drive systems Magnomatics patented pseudo direct drive motor/generator systems removes the risk of expensive damage from high winds with the added benefit of being lighter, lubrication free and more efficient than a conventional high torque gearbox The technology has additional applications in the aerospace and hybrid vehicle markets

Magnomatics trades profitably

BIOHYDROGEN

Biofusion shareholding

60%

In April 2007 we announced the creation of Biohydrogen Limited (Biohydrogen) which is developing a metabolically engineered microbial production method for producing hydrogen from fermentable sugars and water Initial results indicate that this unique method of production has the potential to be at the forefront of new low carbon fuel technology developments

There is significant interest in all forms of renewable 'clean energy technologies to combat global warming in response to the depletion of and increasing price of fossil fuels and to address energy security problems

Biohydrogen aims to develop a unique microbiological method of producing hydrogen for the industrial hydrogen market and any future hydrogen energy related market

The company s offices and laboratories are based in Sheffield s Bioincubator

During the year we invested £54 000 in Biohydrogen and committed to invest a further £146 000

ABCELLUTE
Biofusion shareholding
34%

Abcellute s patent protected cell stabilising platform technology enables the non-frozen preservation and transport of live organ-derived cells without the loss of viability or function The Abcellute product is currently being sold to pharmaceutical companies in the UK Europe and Japan for pre-clinical drug testing and the company is actively expanding these sales to Asia and the USA In the long-term the company plans to develop the preservation technology to provide products for cell-based therapeutics

During the year we invested £56,000 in Abcellute and then subsequent to the year end, Abcellute raised £400 000 from Biofusion (£200 000) and Finance Wales (£200 000) increasing Biofusion's shareholding to 34%

PLASSO TECHNOLOGY
Biofusion shareholding
9%

During the year as part of the sale of Plasso Technology (UK) Limited (Plasso) to Becton Dickinson and Company, Biofusion disposed of its 9% shareholding in Plasso Financial terms of the deal were not disclosed

LIFESTYLE CHOICES
Biofusion shareholding
60%

Lifestyle Choices sells the Plan Ahead test which is a patented triple hormone ovarian reserve test that helps a woman to make a more informed decision about whether to try for a baby sooner rather than later

In October 2007 Lifestyle Choices announced it had signed a licence agreement with an undisclosed leading US reproductive diagnostics company (the Partner), for the exclusive rights to sell the Lifestyle Choices' Plan Ahead test which helps measure a woman s egg reserves, in North America and Canada Under the terms of the agreement, the Partner will be given exclusive rights to market sell and distribute Plan Ahead in North America and Canada through its extensive network of speciality physicians Lifestyle Choices will receive an agreed fee on a sliding scale, per test that is sold with a commitment by the Partner

CASE STUDY **ASTERION**

Asterion is developing a range of third-generation therapeutic proteins that will improve the current treatment options for patients with chronic diseases Using its novel, patented ProFuse™ therapeutic platform Asterion is generating and developing long-acting biopharmaceutical products that can be administered at a lower dose, less frequently and with fewer side effects than existing marketed drugs

Asterion is adopting a lower risk development strategy by developing third-generation Asterion Fusion Technology (AFT™) therapeutic proteins that address unmet clinical and commercial needs in large markets where the targets are validated, the clinical development path is known and the commercial opportunity is clear

These proprietary, best-in-class, third-generation, therapeutic products are being developed and commercialised through a combination of internal programmes and external collaborations

Asterion's most advanced product is a long-acting Growth Hormone agonist product for the treatment of growth disorders, which is being developed in a strategic alliance with Ipsen Asterion also has internal programmes for other cytokine targets, which include erythropoietin (AFT™– EPO), G-CSF (AFT™ – GCSF), interferons (AFT™ – Inteferon α, AFT™ – Inteferon β) and leptin (AFT™ – Leptin), products which will be used to treat diseases such as anaemia, neutropenia, multiple sclerosis, growth disorders and autoimmune disorders to selling an agreed minimum number of tests per year The Partner expects to commence sales of the Plan Ahead test at the end of 2007

Subsequent to the year end we announced the addition of one more company to our portfolio an investment in two companies and the sale of two companies to Morvus

CARDIFF BIOLOGICALS
Biofusion shareholding

50%

In September, as part of the Cardiff agreement we took over Cardiff's 25% share holding in Cardiff Biologicals Cardiff Biological s technology is based on Professor Wen Jiang s research specialising in anti-angiogenesis products for the treatment of cancer Their lead compound is KVE702, a novel, hybrid molecule combining anti-angiogenic activity and endothelial cell regulatory activity KVE702 has completed its research phase and is now ready to enter full development This protein comprises two functional sequences each with a different mode of action and so has the potential for dual action giving rise to a greater anti-angiogenic activity

Subsequent to taking over the University s 25% shareholding Biofusion invested £200 000, increasing our shareholding to 50%

CARDIFF PROTIDES
Biofusion shareholding

50%

Cardiff Protide s technology is based on Professor Christopher McGuigan's research which enables the discovery of new and improved nucleoside based drugs This approach has been successfully utilised with a number of major pharmaceutical companies in the anti-viral field and has more recently been applied in the anti-cancer field Cardiff Protide's

CASE STUDY **PHASE FOCUS**

Based on the work of Professor John Rodenburg, Phase Focus is developing microscope and imaging devices that do without the need for traditional focussing devices such as lenses or zone plates This reduces instrument cost and banishes the distortions and aberrations that are inherent in even the most sophisticated of today's microscopes Moreover, it provides images showing not only how much illumination is absorbed by the specimen, but also how much the specimen changes the "phase" of the illumination

Potentially applicable to a wide variety of imaging applications and, most particularly, to microscopy, the application to electron microscopy is expected to create a revolution in visualisation at the nano-scale Indeed, if the same gain in resolution already achieved for x-rays is achieved at electron wavelengths, it will be possible to resolve every atom in an extended object with unprecedented resolution

Phase Focus's truly disruptive technology solves a fundamental challenge in imaging science and promises users, in industries as diverse as bioscience and semiconductor manufacturing, the possibility of observing and analysing their materials, processes and products in new ways and with unprecedented clarity and ease vision is to become a leading developer of cutting edge nucleoside based pharmaceuticals targeted at areas of unmet medical need initially for the treatment of cancer

Subsequent to the year end Biofusion invested £200,000, increasing our shareholding to 50%

SALE OF CARDIFF PROTIDES AND CARDIFF BIOLOGICALS TO MORVUS

On 10 October 2007 Morvus, a privately owned pharmaceutical company specialising in the discovery and development of novel oncology therapies acquired Biofusion s shareholdings in Cardiff Protides and Cardiff Biologicals

Morvus facilities at their new laboratories in Wales, combined with their expertise in pharmaceutical development, convinced the board of Biofusion that the new combined company could be a world leader in the provision of specialist oncology drugs and provided the best opportunity for bringing Cardiff Protides and Cardiff Biologicals exciting lead compounds to market

Morvus has raised over £3 4m in equity finance to date and its most recent funding, largely concluded in July 2007 valued Morvus at approximately £12m based on a price of 30p per share As a result of the sale Biofusion now owns 13,698 630 shares in Morvus giving it a 20% shareholding in the enlarged company

However the valuation of the transaction is based on Morvus last funding round and given that these shares were privately held the Directors of Biofusion will take a conservative view to recognising this value in Biofusion s accounts Our intention will be to re-evaluate this value at Morvus' next third party funding round

FINANCIAL REVIEW
RESULTS

The group s reported loss for the year increased by 53% to £2 9m (2006 £1 9m), but was broadly in line with budget The losses reflect the incremental costs of the Cardiff operations for the last six months of the financial year and an increase in the number of portfolio companies classified as subsidiaries for which overheads and losses are consolidated into the group s results

Turnover has increased by 26% to £351 000 (2006 £279 000) and represents the amounts charged to associated companies for management services provided and the turnover of consolidated portfolio companies The gross profit margin of 91% is consistent with 2006

Administrative expenses for the year before exceptional items were £3 0m (2006 £1 4m) This increase was due to the following

- incremental costs associated with operations established alongside Cardiff University within the Fusion Cardiff subsidiary £170 000,
- increased expenditure incurred in newly acquired/created portfolio subsidiaries £208 000
- increased expenditure in existing portfolio subsidiaries £584 000 (2006 £285 000) as they continue through their research and development phases and
- impairment of fixed asset investments £652 000

As a result of the Cardiff University pipeline agreement, an intangible asset of £15 9m was recognised in accordance with FRS 10 "Goodwill and intangible assets" The asset is being amortised on a straight line basis through the profit and loss account over the length of the agreement The charge of £0 9m has been represented within exceptional items by virtue of its size in comparison to normal administrative expenses

The Company s adoption of FRS 20 "Share-based payments" has resulted in a prior year restatement and exceptional charge of £1 3m This principally relates to the warrants granted to NPI Ventures on 23 March 2006 This charge has no impact on net assets and will not be recurring Also included in the prior year was a £0 2m net credit following the impairment of goodwill relating to the acquisition of Bioacta Limited and the release of related loan notes and accrued interest

Interest income increased 53% to £535 000 (2006 £349 000) as a result of the increase in the group s cash holdings and interest relating to loans made to the group's portfolio companies Interest payable of £195,000 (2006 £102,000) relates to interest accrued on the loan notes used to purchase the group's shareholding in portfolio companies acquired as part of the Sheffield and Cardiff agreements These amounts are only payable in the event of an exit and are not considered to be a current liability

During the year investments on the balance sheet increased to £4 5m (2006 £3 4m) The increase in the year was made up of both equity investments and convertible loan investments plus accrued interest, in a number of our portfolio companies The principal increase was the £1 4m acquisition of the interests in seven companies associated with the Cardiff agreement

Amounts falling due greater than one year rose to £3 3m (2006 £2 0m) The increase is the net impact of loan notes of £1 4m issued as part of the Cardiff agreement from the acquisition of the seven companies plus accrued interest arising in the year and a £0 4m repayment of a loan note to the University of Sheffield following the disposal of the holding in Plasso Technology Limited

Net cash outflow before financing was consistent with the prior year at £2 3m Fund raising net of share issue costs raised £7 0m leaving a closing cash balance of £10 6m (2006 £5 9m) which is sufficient to support the current portfolio of companies, planned creation of new portfolio companies and central overheads beyond the next twelve months

FUNDRAISING

The key fundraising event of the year was a placing of 5 3m shares at a share price of £1 45 which raised £7 8m The costs of this fund raising were £0 8m all of which were taken to the share premium account leaving net funds raised of £7 0m

As part of the consideration for the Cardiff agreement 11 0m shares were issued at a price of £1 45 giving a total value of £15 9m Following the completion of this agreement Cardiff University owns 30% of the issued share capital of the company The University of Sheffield now owns 25% management own 11% and institutional investors the remaining 34%

POST YEAR END

Trading has continued in line with expectations since the year end

DAVID BAYNES
CHIEF EXECUTIVE
15 October 2007

- 10 year exclusive IP agreement
- Top 10 UK research intensive university

- 10 year exclusive IP agreement
- Top 10 UK research intensive university

1 DOUG LIVERSIDGE CBE
CHAIRMAN

Appointed to the Board of Biofusion plc 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 In 1991 Mr Liversidge was awarded South Yorkshire Businessman of the Year

Mr Liversidge acts as a Senior Industrial Advisor to the University of Sheffield and was awarded the CBE in the 2000 New Year s Honours List for services to industry

2 DAVID BAYNES
CHIEF EXECUTIVE

Appointed to the Board of Biofusion plc on 2 November 2004 having been a director of Biofusion Trading since 2 January 2003 David has previously worked at Celsis International plc (Celsis) from its incorporation to its flotation on the full list of the London Stock Exchange in July 1993 Toad plc (now TG21 plc) which he co-founded and was responsible for taking the company from start-up to a full listing on the London Stock Exchange Whereonearth Limited and Codemasters Limited

3 DR PETER GRANT
OPERATIONS DIRECTOR

Appointed to the Board of Biofusion plc on 1 December 2004, having been a director of Biofusion Trading since 2 January 2003 Peter has a PhD in BioChemistry from Cardiff University and has previously worked at Genzyme UK Limited, Celltech Limited Enzymatix Limited and Celsis plc which he co-founded and took to a full listing on the London Stock Exchange

4 STUART GALL
COMMERCIAL DIRECTOR

Appointed to the Board of Biofusion plc on 27 April 2005 Mr Gall has experience in both small company start-ups and public companies and specialises in marketing communications and new business development He has previously worked at British Airways plc, The Promotions Partnership Limited Anvil Limited and Toad plc (now TG21 plc)

5 DR EDWIN MOSES
NON-EXECUTIVE DIRECTOR

Appointed to the Board of Biofusion plc on 1 December 2004 Dr Moses has extensive experience as a non-executive director for companies including Evotec OAI AG, BioImage A/S Inpharmatica Ltd Ionix Limited Amedis Limited Avantium Technologies BV Paradigm Therapeutics and Clinphone Limited

6 PROF TONY ATKINSON
NON-EXECUTIVE DIRECTOR

Appointed to the Board of Biofusion plc on 1 December 2004 Prof Atkinson has extensive experience as both a director and non executive director for companies including Generic Biologicals Kymed Enact Pharma and Chimeleran

7 DAVID CATTON
NON-EXECUTIVE DIRECTOR

Mr Catton was appointed to the Board of Biofusion plc on 1 December 2004 having been a director of Biofusion Trading since 14 August 2003 David is Managing Director of SUEL the University of Sheffield s tech transfer operation Prior to this David worked for Ford Motor Company British Leyland Rank Xerox Limited and Cambridge Consultants Limited

8 MIKE DAVIES
NON-EXECUTIVE DIRECTOR

Appointed to the Board of Biofusion on 29 January 2007 Mike is Cardiff University s Director of Physical and Financial Resources Mike has gained extensive experience of Cardiff s technology transfer activities through his role as Chairman of UC3 and as a Director/ Company Secretary of the General Partner Board of the Cardiff Partnership Fund

9 SIMON OAKLAND
NON-EXECUTIVE DIRECTOR

Appointed to the Board of Biofusion on 20 April 2005 Simon is a Principal of Nikko Principal Investments Limited (NPIL) the European principal finance arm of Nikko Cordial Corporation and a Director of NPI Ventures Simon previously worked for the Corporate Finance Department of Cazenove & Co and prior to that was a management consultant at Accenture

CORPORATE GOVERNANCE

The company is committed to high standards of corporate governance The revised Combined Code on Corporate Governance (Combined Code) was published in 2003 While the group is not required to report on compliance with the Combined Code since its shares are traded on AIM we make every effort to comply The statement below describes how principles of corporate governance are applied to the group

THE WORKINGS OF THE BOARD AND ITS COMMITTEES

THE BOARD

The board currently comprises six Non-executive Directors and three executive Directors and is responsible for the management of the group As disclosed on page 16 Dr Edwin Moses, Prof Tony Atkinson and David Catton have some share options in the company however the board considers them to be independent because the number of share options are not considered to be material Simon Oakland, as a representative of NPI Ventures is not considered to be independent The other Non-executive Directors are considered by the board to be independent The board meets at least six times a year setting and monitoring group strategy reviewing trading performance, reviewing and agreeing on investments in spin-out companies and formulating policy on key issues Day to day operational decisions are delegated to the executive Directors Key issues reserved for the board include the consideration of potential investments share issues and fundraising the setting of group strategy City public relations and the review and evaluation of significant risks facing the business Briefing papers are distributed by the Company Secretary to all Directors in advance of board meetings All Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that board procedures are followed and that applicable rules and regulations are complied with The appointment and removal of the Company Secretary is a matter for the board as a whole In addition, procedures are in place to enable Directors to obtain independent professional advice in the furtherance of their duties if necessary at the company's expense

Biographies of the Directors including details of their experience and roles within the group are set out on pages 10 and 11

ATTENDANCE AT MEETINGS

The full board met six times in the financial year ending 31 July 2007 and with the exception of Doug Liversidge Dr Edwin Moses, Mike Davies and Stuart Gall, who missed one meeting each all of the Directors in office at that time were in attendance at these meetings

THE AUDIT COMMITTEE

The Audit Committee comprises the Non-executive Chairman Doug Liversidge and two of the Non-executive Directors Dr Edwin Moses and Prof Tony Atkinson The Audit Committee s remit is set out in its terms of reference and is scheduled to meet with the auditors at least twice a year The Committee assists the board in ensuring the group's published financial statements give a true and fair view and that, where the auditors provide non-audit services their objectivity and independence is safeguarded

THE REMUNERATION COMMITTEE

The Remuneration Committee comprises the Non-executive Director, Doug Liversidge and two of the Non-executive Directors Dr Edwin Moses and Prof Tony Atkinson The Committee is responsible for making recommendations to the board on the remuneration of all the Directors

THE NOMINATION COMMITTEE

The Nomination Committee comprises the Non-executive Directors and is chaired by the Chairman Doug Liversidge It meets as necessary and is responsible for making recommendations to the board on the appointments of executive and Non-executive Directors When required it is the usual practice for the Nomination Committee to employ specialist external search and selection consultants to assist in the appointment process for new executive and Non-executive Directors

TERMS OF REFERENCE

The terms of reference for the Audit Remuneration and Nomination Committees are available on request from the Company Secretary

PERFORMANCE EVALUATION

Performance of each of the executive Directors is evaluated on an ongoing basis by the Chairman and the Non-executive Directors with a formal review held at least annually The Non-executive Directors are responsible for the performance evaluation of the Chairman, taking into account the views of the other executive Directors The Non-executive Directors will meet with the Chairman on an ad hoc basis but at least once a year to appraise the Chairman's performance The performance of the Non-executive Directors and the sub-committees on which they serve are reviewed by the executive board on an ongoing basis

RELATIONS WITH SHAREHOLDERS

Key members of the executive board regularly visit institutional investors and the full board will make itself available to questions at all shareholder meetings it holds The Chairman and Chief Executive plan to report back to the board views of investors obtained at analyst and brokers briefings The board will use the Annual General Meeting to communicate with private and institutional investors and welcomes their participation The Chairman aims to ensure that the Chairman of the Audit, Remuneration and Nomination Committees is available at Annual General Meetings to answer questions

INTERNAL CONTROLS

The Directors acknowledge that they are responsible for the group s system of internal control and for reviewing its effectiveness Internal control systems are designed to meet the particular needs of the group and the risks to which it is exposed In accordance with the guidance of the Turnbull Committee on internal control the procedures are regularly reviewed in an ongoing process to identify, evaluate and manage the significant risks faced by the group The procedures are designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss

The key procedures which the Directors have established with a view to providing effective internal control are as follows

- **MANAGEMENT STRUCTURE**
  The board has overall responsibility for the group and there is a formal schedule of matters specifically reserved for decision by the board Each executive Director has been given responsibility for specific aspects of the group's affairs The executive Directors meet weekly to discuss day to day operational matters
- **CONTROL ENVIRONMENT**
  The group s control environment is the responsibility of the group s Directors and the internal controls were implemented in February 2005 The effectiveness of the group's internal controls are reviewed annually to ensure they remain appropriate
- **MAIN CONTROL PROCEDURES**
  The Directors have established control procedures in response to key risks Standardised financial control procedures operate throughout the group to ensure the integrity of the group s financial statements The board has established procedures for authorisation of capital and revenue expenditure
- **MONITORING SYSTEM USED BY THE BOARD**
  The board reviews the group s performance against budgets on a monthly basis The group's cash flow is monitored bi-monthly by the board
- **INTERNAL AUDIT**
  The group does not have an independent internal audit function, as the board does not consider the current scale of operations warrants such a function However as the group continues to grow, the board will keep this under review with a view to creating an internal audit function when it is warranted

GOING CONCERN

After making enquiries the Directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future For this reason they continue to adopt the going concern basis in preparing the financial statements

DOUG LIVERSIDGE CBE
CHAIRMAN
15 October 2007

REPORT ON THE DIRECTORS' REMUNERATION

This remuneration report sets out the company's policy on the remuneration of executive and Non-executive Directors together with detail of Directors' remuneration packages and service contracts

REMUNERATION COMMITTEE

For the financial year ended 31 July 2007 remuneration policy for executive and Non-executive Directors and the determination of individual executive Directors remuneration packages have been delegated to the board's Remuneration Committee comprising three Non-executive Directors one of which is the Non-executive Chairman

In setting the remuneration policy the Remuneration Committee considers a number of factors including

(a) the basic salaries and benefits available to executive Directors of comparable companies,

(b) the need to attract and retain Directors of an appropriate calibre,

(c) the need to ensure executive Directors commitment to the continued success of the company by means of incentive schemes, and

(d) the need for the remuneration awarded to reflect performance

REMUNERATION OF THE NON-EXECUTIVE DIRECTORS

All the Non-executive Directors except for Simon Oakland, who represents NPI Ventures and Mike Davies, who represents Cardiff University received a fee for their services The fee is agreed by the board following recommendation by the Chairman with a view to rates paid in comparable organisations and appointments The Non-executive Directors did not receive any pension or other benefits from the company nor did they participate in any bonus or incentive schemes other than share options The Non-executive Directors each have a three year service contract with the company with three months' notice either side After this time their appointment is reviewed annually

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

The company s remuneration policy for executive Directors is to

(a) have regard to the Directors' experience and the nature and complexity of their work in order to pay a competitive salary that attracts and retains management of the highest quality

(b) link individual remuneration packages to the group's long-term performance through the award of discretionary bonus schemes and

(c) provide employment-related benefits including life assurance insurance relating to Directors' duties and medical insurance

SALARIES AND BENEFITS

The Remuneration Committee meets at least once a year to consider and set the annual salaries for executive Directors, having regard to personal performance and information regarding the remuneration practices of companies of similar size and of industry competitors Executive Directors salaries were last reviewed in January 2007

DIRECTORS' SERVICE CONTRACTS

The service contracts of the executive Directors provide for six months' notice of termination Other than the notice periods afforded to the executive and Non-executive Directors, there are no special provisions for compensation in the event of loss of office The Remuneration Committee considers the circumstances of individual cases of early termination and determines compensation payments accordingly

Details of individual Directors service contracts are as follows

	Effective contract date	Unexpired term at 31 July 2007	Notice period
D Liversidge (Chairman)	1 December 2004	4 months	3 months
D Baynes	26 January 2005	n/a	6 months
P Grant	26 January 2005	n/a	6 months
S Gall	1 April 2005	n/a	6 months
E Moses	1 December 2004	4 months	3 months
T Atkinson	1 December 2004	4 months	3 months
D Catton	1 December 2004	4 months	3 months
S Oakland	19 April 2006	21 months	3 months

The Directors are required to retire by rotation once every three years

All the Directors with the exception of Simon Oakland and Mike Davies are required to retire by rotation and being eligible will seek re-election at the forthcoming Annual General Meeting

Mike Davies having been appointed by the Directors since the last general meeting is subject to re-election by shareholders and being eligible will seek re-election

NON-EXECUTIVE DIRECTORSHIPS

With the permission of the Chairman the executive Directors may accept appointments as Non-executive Directors Where an executive Director accepts an appointment to the board of a company in which the group is a shareholder the group retains the Directors' fees Fees earned for directorships of companies in which the group does not have a shareholding would be retained by the Directors

DIRECTORS' DETAILED EMOLUMENTS

Details of individual Directors' emoluments for the year are as follows

	Salary and fees £	Bonuses £	Pension contributions £	Benefits £	Total 2007 £	Total 2006 £
EXECUTIVE						
D Baynes	147 000	10 000	14,700	2 234	173,934	137 652
P Grant	126 000	10 000	12 600	1,860	150,460	123,902
S Gall	126,000	10 000	12 600	1 860	150,460	123 902
NON-EXECUTIVE						
D Liversidge (Chairman)	33,500	—	—	—	33,500	24,000
E Moses	24,250	—	—	—	24,250	24 000
T Atkinson	24 250	—	—	—	24,250	24 000
D Catton	12 125	—	—	—	12,125	12,000
S Oakland	—	—	—	—	—	—
M Davies[1]	—	—	—	—	—	—
	493 125	30 000	39,900	5,954	568,979	469 456

[1] Joined board on 29 January 2007 as part of the Cardiff agreement and is an unpaid Non-executive Director

The pension contributions are paid into private pension plans nominated by the related Directors or can be included with the basic salary At the year end an amount of £36,400 was accrued but unpaid

No Director waived emoluments in the year (2006 nil)

DIRECTORS' INTERESTS IN SHARE OPTIONS

Details of options held by Directors over the company s Ordinary shares of 1p are set out below

The scheme	As at 31 July 2006	As at 31 July 2007	Exercise price	Earliest exercise date	Expiry date
E Moses	33 333	33,333	150p	28 01 08	28 01 15
T Atkinson	33,333	33,333	150p	28 01 08	28 01 15
D Catton	33 333	33,333	150p	28 01 08	28 01 15

The market price of the company s shares at the end of the financial year was 149 0p (2006 160 0p) and the range of market prices during the year was 160 0p to 149 0p (2006 175 5p to 110 0p)

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 the grant until the third anniversary of the date of the grant when the option shall become fully vested Any vested portion of the options will normally be exercisable between the expiry of the third month after the date of the grant and the tenth anniversary of the date of the 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 twelve 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 ten years from their date of grant

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 the exercise Options are not transferable nor are they pensionable

DIRECTORS' INTERESTS IN SHARES

The Directors at 31 July 2007 and their interests in the share capital of the company other than in respect of options to acquire Ordinary shares, were as follows

The company – ordinary 1p shares	31 July 2007
D Baynes	1,333,332
P Grant	1,333 332
S Gall	1,333,332
D Liversidge (Chairman)	—
E Moses	—
T Atkinson	—
D Catton	—
S Oakland	—
M Davies	—

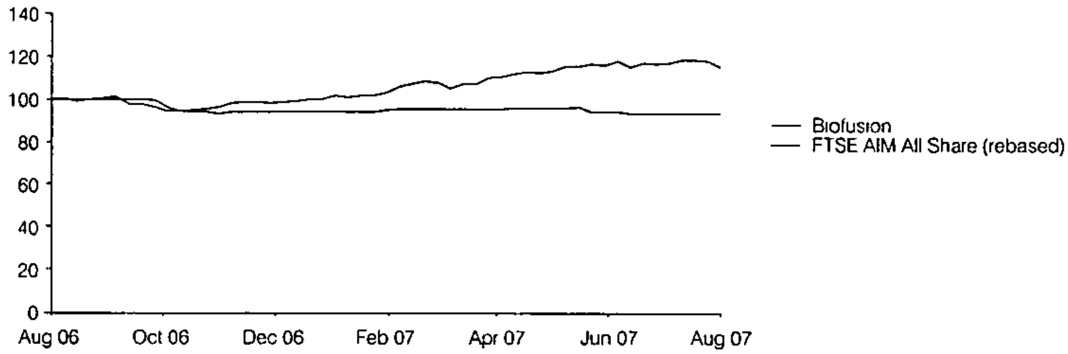
On 27 January 2005 David Baynes, Peter Grant and Stuart Gall granted an option to Doug Liversidge entitling him to acquire 97 756 Ordinary shares from each of them at an aggregate exercise price of £44 000 The options can be exercised at any time prior to 27 January 2015 Doug Liversidge has undertaken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

Apart from the interests disclosed above no Directors held interests at any time in the year, in the share capital or loan stock of the company or other group companies

TOTAL SHAREHOLDER RETURN

The following line graph shows, for the financial year ended 31 July 2007 the total cumulative shareholder return on a holding of the company s Ordinary shares compared with a hypothetical holding of shares made up of companies in the FTSE AIM All Share index which the Directors believe reflects the most appropriate benchmark for the company s performance

The company has never paid a dividend and so the total shareholder return has been calculated as the weekly movement in the share price by reference to a base point of 31 July 2007



Signed on behalf of the board

DOUG LIVERSIDGE CBE
CHAIRMAN
15 October 2007

DIRECTORS' REPORT

The Directors present their report and the group financial statements for the year ended 31July 2007

RESULTS AND DIVIDEND

Group loss for the year after taxation and minority interests amounted to £2 890,000 (2006 loss £1 947,000) The Directors do not recommend the payment of a dividend (2006 £nil)

PRINCIPAL ACTIVITY

The group s principal activity is the commercialisation of intellectual property (IP) that is developed at universities and similar establishments

ENHANCED BUSINESS REVIEW

The Companies Act 1985 (Operating and Financial Review) Regulations 2005 require that the Directors present an enhanced Directors' report These enhancements are provide within the Chairman s statement and Chief Executive s review

DIRECTORS

The names of the Directors who held office during the financial year are as follows

EXECUTIVE	
D Baynes	appointed 2 November 2004
P Grant	appointed 1 December 2004
S Gall	appointed 27 April 2005
NON-EXECUTIVE	
D Liversidge (Chairman)	appointed 1 December 2004
E Moses	appointed 1 December 2004
T Atkinson	appointed 1 December 2004
D Catton	appointed 1 December 2004
S Oakland	appointed 20 April 2006
M Davies	appointed 29 January 2007

Details of the interests of Directors in the share capital of the company, together with details of share options granted to them are set out in the Report on the Directors remuneration

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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 a result, this is the last set of financial statements the group will present under UK Generally Accepted Accounting Practice (UK GAAP)

From 1 August 2007 the group will present its financial statements for the first time under IFRS The group s transition date to IFRS would therefore be 1 August 2006 with the first financial statements complying with IFRS being the year ended 31 July 2008 (with full comparative figures for the year ended 31 July 2007)

The adoption of IFRS is anticipated to have a material impact on the group s financial position and reported results, with key changes in accounting policy expected in dealing with fixed asset investments

All fixed asset investments will be defined as financial assets under International Accounting Standard (IAS) 32 and will be classified as financial assets held at fair value under IAS 39 "Financial instruments recognition and measurement"

The current accounting policy adopted under UK GAAP accounts for investments at historic cost less any provision for impairment in value The carrying value of all investments will be at fair value under IFRS with changes in fair value between accounting periods being charged or credited to the profit and loss account

The change in the basis of the valuation of fixed asset investments is likely to result in significant changes to carrying values

It is anticipated that the introduction of IFRS will not have a material impact on other accounting policies

FINANCIAL RISK MANAGEMENT

The group s principal financial instruments comprise cash and loan notes The main purpose of these financial instruments is to raise finance for the group's operations The group has various other financial instruments such as trade debtors and trade creditors that arise directly from its operations

MAJOR INTEREST IN SHARES

As at 15 October 2007 according to the company s register the following shareholders each held 3% or more of the company's issued share capital

Name	Ordinary 1p shares	% Holding
Cardiff University	10 997 541	30 00
The University of Sheffield	9,333 324	25 46
HSBC Global Custody Nominee (UK)	2,758 620	7 52
Barclayshare Nominees Limited	2 672,614	7 29
Vidacos Nominees Limited	2 300,748	6 28
P Grant	1 333 332	3 64
D Baynes	1 333 332	3 64
S Gall	1 333,332	3 64

CREDITOR PAYMENT POLICY

The group s policy is to

(a) establish the payment terms with suppliers when agreeing the terms of supply

(b) ensure that suppliers are aware of the terms of payment, and

(c) adhere to the agreed terms

The group's average creditor payment period at 31 July 2007 was 41 days (2006 37 days) The company has no trade creditors

CHARITABLE DONATIONS

During the year the group made no charitable donations

DISCLOSURE OF INFORMATION TO AUDITORS

The Directors who held office at the date of approval of this Directors report confirm that, so far as they are each aware there is no relevant audit information of which the company's auditors are unaware, and each Director has taken all the steps that they ought to have taken as Director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

AUDITORS

In accordance with Section 384 of the Companies Act 1985 a resolution for the reappointment of KPMG Audit Plc is to be proposed at the forthcoming Annual General Meeting

By order of the board

DAVID BAYNES
CHIEF EXECUTIVE OFFICER
15 October 2007

STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law, the Directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss for that period

In preparing those financial statements the Directors are required to

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that the financial statements comply with the Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company s website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

INDEPENDENT AUDITORS' REPORT
REPORT OF THE INDEPENDENT AUDITORS, KPMG AUDIT PLC, TO THE MEMBERS OF BIOFUSION PLC

We have audited the group and parent company financial statements (the "financial statements") of Biofusion plc for the year ended 31 July 2007 which comprise the consolidated profit and loss account the consolidated and company balance sheets the consolidated cash flow statement, the consolidated statement of recognised gains and losses and the related notes These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company s members as a body in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company s members those matters we are required to state to them in an auditors report and for no other purpose To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work for this report, or for the opinions we have formed

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors responsibilities for preparing the annual report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors responsibilities on page 20

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements We also report to you if, in our opinion, the company has not kept proper accounting records if we have not received all the information and explanations we require for our audit or if information specified by law regarding Directors' remuneration and other transactions is not disclosed

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company s circumstances consistently applied and adequately disclosed

We planned and performed our audit 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 statements are free from material misstatement whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

OPINION

In our opinion

- the financial statements give a true and fair view in accordance with UK Generally Accepted Accounting Practice, of the state of the group s and the parent company s affairs as at 31 July 2007 and of the group s loss for the year then ended
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors report is consistent with the financial statements

KPMG Audit Plc

KPMG AUDIT PLC
CHARTERED ACCOUNTANTS
REGISTERED AUDITOR
LEEDS
15 October 2007

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 JULY 2007

	Note	Continuing operations 2007 £000	Acquisitions 2007 £000	Total 2007 £000	Restated 2006 £000
TURNOVER	2	301	50	351	279
Cost of sales		(17)	(15)	(32)	(23)
GROSS PROFIT		284	35	319	256
ADMINISTRATIVE EXPENSES					
– normal	3	(2,806)	(208)	(3,014)	(1 402)
– exceptional	4	(903)	—	(903)	(1 158)
		(3,709)	(208)	(3,917)	(2 560)
OPERATING LOSS		(3,425)	(173)	(3,598)	(2 304)
Surplus on disposal of fixed asset investments				58	—
Interest receivable and similar income	7			535	349
Interest payable and similar charges	8			(195)	(102)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	3			(3,200)	(2 057)
Tax on loss on ordinary activities	9			—	—
Minority interests	20			310	110
LOSS FOR THE FINANCIAL YEAR				(2,890)	(1 947)
BASIC AND DILUTED LOSS PER SHARE	10			(9 68p)	(10 08p)

There is no difference between the loss on ordinary activities before taxation and the loss for the years stated above and their historical cost equivalents

The notes on pages 26 to 37 form part of these financial statements

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 JULY 2007

	Note	2007 £000	Restated 2006 £000
Loss for the financial year		(2,890)	(1 947)
TOTAL RECOGNISED LOSSES FOR THE YEAR		(2,890)	(1,947)
Prior year adjustment	4	(1,339)	—
TOTAL LOSSES RECOGNISED SINCE LAST ANNUAL REPORT		(4,229)	(1,947)

CONSOLIDATED BALANCE SHEET
AT 31 JULY 2007

	Note	2007 £000	2007 £000	2006 £000	2006 £000
FIXED ASSETS					
Intangible assets	11		15,204		68
Tangible assets	12		41		25
Investments	13		4,510		3 370
			19,755		3 463
CURRENT ASSETS					
Stock	14	6		7	
Debtors	15	789		569	
Cash at bank and in hand		10,600		5,883	
		11,395		6 459	
CREDITORS amounts falling due within one year	16	(403)		(197)	
NET CURRENT ASSETS			10 992		6 262
TOTAL ASSETS LESS CURRENT LIABILITIES			30,747		9,725
CREDITORS amounts falling due after more than one year	17		(3,293)		(2,038)
NET ASSETS			27,454		7,687
CAPITAL AND RESERVES					
Called up share capital	18		367		203
Capital reserve	19		2		2
Share premium	19		31,671		8 906
Capital redemption reserve	19		1		1
Profit and loss account	19		(4 244)		(1,370)
SHAREHOLDERS' FUNDS			27,797		7 742
Minority interest	20		(343)		(55)
			27,454		7 687

These financial statements were approved by the board of Directors on 15 October 2007 and were signed on its behalf by the Chairman

DOUG LIVERSIDGE CBE
CHAIRMAN

COMPANY BALANCE SHEET
AT 31 JULY 2007

	Note	2007 £000	2007 £000	2006 £000	2006 £000
FIXED ASSETS					
Tangible assets	12		23		—
Investments	13		2		1
			25		1
CURRENT ASSETS					
Debtors	15	31,885		8,917	
		31,885		8 917	
CREDITORS amounts falling due within one year	16	(63)		—	
NET CURRENT ASSETS		31,822		8,917	
NET ASSETS			31,847		8,918
CAPITAL AND RESERVES					
Called up share capital	18		367		203
Share premium	19		31,671		8 906
Capital redemption reserve	19		1		1
Profit and loss account	19		(192)		(192)
SHAREHOLDERS FUNDS			31,847		8 918

These financial statements were approved by the board of Directors on 15 October 2007 and were signed on its behalf by the Chairman

DOUG LIVERSIDGE CBE
CHAIRMAN

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 JULY 2007

	Note	2007 £000	2006 £000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	23	(2,279)	(943)
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest received		535	349
TAXATION		—	—
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS			
Payments for tangible fixed assets		(28)	(13)
Payments for fixed assets investments		(833)	(1 561)
Payments for intangible fixed assets		(118)	—
Proceeds from sales of fixed assets investments		377	—
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		(602)	(1 574)
NET CASH OUTFLOW BEFORE FINANCING AND ACQUISITIONS		(2,346)	(2 168)
ACQUISITIONS			
Payments to acquire investments in subsidiary undertakings		(6)	(128)
Net cash acquired with subsidiaries		29	26
		23	(102)
NET CASH OUTFLOW BEFORE FINANCING		(2 323)	(2,270)
FINANCING			
Issue of ordinary share capital		7,757	2 000
Share issue costs		(717)	(72)
		7,040	1 928
Increase/(decrease) in cash in the period	23	4,717	(342)

1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements except as noted below

In these financial statements the following new standard has been adopted for the first time

- FRS 20 "Share-based payments"

The accounting policies under this new standard are set out below together with an indication of the effect of its adoption

The company operates an equity-settled share-based compensation plan for its Directors and has also issued warrants for the purchase of shares in respect of the side fund established by NPI Ventures The fair value of the share-based compensation has been recognised as an expense The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options or warrants granted Fair value has been determined by reference to the Black-Scholes option pricing model

The adoption of FRS 20 has resulted in a prior year adjustment which reduced the profit for the prior year by £1,339,000 and increased profit and loss reserves by the corresponding amount There was no impact on the group s net assets

BASIS OF PREPARATION

The financial statements have been prepared in accordance with applicable accounting standards, under the historical cost accounting rules and with the requirements of the Companies Act 1985 except as explained below

The financial statements are prepared on the going concern basis Cash balances at 31 July 2007 amount to £10,600 000 (2006 £5 900 000) The balances are considered sufficient to meet expenditure for at least the next 12 months from the date of these financial statements In addition the Company's forecast expenditure includes amounts of a discretionary basis in relation to potential investments

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 July 2007 The acquisition method of accounting has been adopted Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal

Those investments that are associated undertakings are carried at cost in accordance with the group's normal policy and are not equity accounted as required by the Companies Act 1985 The Directors consider that as these investments are held as part of the group's portfolio with a view to the ultimate realisation of capital gains equity accounting would not give a true and fair view of the group's interest in these investments The accounting treatment adopted is in line with the FRS 9 'Associates and joint ventures', with respect to investment funds The Directors have decided not to quantify the effect of the different treatments due to the significant increase in the number of investments in the year

Merger accounting has been adopted to consolidate the subsidiary Biofusion Trading Limited under the provisions of FRS 6 "Acquisitions and Mergers"

TURNOVER

Turnover, comprising fees for various advisory and fund management services is recognised in the profit and loss account when the related services are performed and when considered recoverable All turnover is generated within the United Kingdom and is stated exclusive of value added tax

GOODWILL

Goodwill arising on the acquisition of subsidiary undertakings, representing the excess fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life which is ten years Provision is made for impairment

Intellectual property patents and licences purchased by the company are amortised to nil by equal annual instalments over their useful economic lives, generally their respective unexpired periods, which are ten years

The intellectual property pipeline with Cardiff University has been recognised in accordance with FRS 10 "Goodwill and intangible assets" as an intangible asset The asset is amortised on a straight line basis over the ten year agreement, with provision made for any impairment when required

INVESTMENTS

Investments are stated at historic cost less any provision for impairment in value and are held for long-term investment purposes Investments are classified as equity investments and loans which are convertible to equity in the future

Provisions are based upon an assessment of events or changes in circumstances that indicate that an impairment has occurred This includes the performance and/or prospects (including financial prospects) of the investee company being significantly below the expectations on which the investment was based a significant adverse change in the markets in which the investee company operates or a deterioration in general market conditions and the value implied by third party external funding in the year

1 ACCOUNTING POLICIES CONTINUED

STOCKS

Stocks are stated at the lower of cost and net realisable value

FIXED ASSETS AND DEPRECIATION

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Computer equipment	–	25% per annum
Office equipment	–	33% per annum

PAYMENTS ON ACCOUNT

Payments on account represent transfer of funds in advance to the University of Sheffield held on the balance sheet of Biofusion Trading Ltd The payments on account are held at cost less any amounts transferred to equity investments on account of the acquisition of interests in spin out companies from the University of Sheffield Life Science department

RESEARCH AND DEVELOPMENT EXPENDITURE

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred

PENSION COMMITMENTS

The group makes defined contributions to employees approved personal pension plans Contributions are charged to the profit and loss account in the period in which payments are payable to the pension funds

DEFERRED TAXATION

Provision is made in full for deferred tax liabilities that arise from timing differences where transactions or events that result in an obligation to pay more tax in the future have occurred by the balance sheet date Deferred tax assets are recognised to the extent that it is considered more likely than not that they will be recoverable Deferred tax is measured at the average tax rates that are expected to apply in periods in which the timing differences are expected to reverse based on the tax rates and laws that have been enacted or substantially enacted by the balance sheet date Deferred tax assets and liabilities are not discounted

FINANCIAL INSTRUMENTS

Currently, the group does not enter into derivative financial instruments Financial assets and financial liabilities are recognised and cease to be recognised on the basis of when the related titles pass to or from the group Financial assets are stated at the lower of cost to the group less provision for amortisation and impairment

2 TURNOVER

Turnover and loss on ordinary activities before taxation are derived entirely from the principal activities within the United Kingdom

3 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2007 £000	2006 £000
Loss on ordinary activities before taxation is stated after charging/(crediting)		
Depreciation and other amounts written off tangible fixed assets	12	4
Loss on sale of fixed assets	—	1
Amortisation of intangible fixed assets	903	55
Profit on deemed disposal of subsidiary	(8)	(5)
Impairment of fixed asset investments	652	—
Auditors remuneration		
– audit of financial statements – group	18	15
– audit of financial statements – subsidiaries	8	4
– review of interim financial statements	9	5
– services relating to corporate finance transactions	55	—

4 EXCEPTIONAL ITEMS

	2007 £000	2006 £000
Share-based payments	16	1,339
Goodwill amortisation	887	—
Goodwill impairment/loan note waiver	—	(181)
	903	1,158

Following the adoption of FRS 20 'Share-based payments", a prior year adjustment of £1,339 000 was charged to the profit and loss account and increased profit and loss reserves by the corresponding amount There was no impact on the group's net assets The charge relates primarily to the warrants granted to NPI Ventures on 23 March 2006

The goodwill amortisation charge of £887 000 represents the amortisation of the Cardiff intellectual property pipeline for the period from 9 January 2007

The goodwill impairment and loan note waiver in 2006 arose following an impairment review of Bioacta Ltd

5 REMUNERATION OF DIRECTORS

	2007 £000	2006 £000
Directors' emoluments	529	434
	529	434
Company contributions to money purchase pension schemes	40	35
	569	469

The aggregate of emoluments of the highest paid Director was £159 234 (2006 £125 152) and company pension contributions of £14 700 (2006 £12 500) were accrued for payment to be made to a money purchase scheme on his behalf

	Number of Directors	
	2007	2006
Retirement benefits are accruing to the following number of Directors under		
Money purchase schemes	3	3

6 STAFF NUMBERS AND COSTS

The average number of persons employed by the group (including Directors) during the year, analysed by category, was as follows

	Number of employees	
	2007	2006
Directors	9	8
Staff	4	2
	13	10

The aggregate payroll costs of these persons were as follows

	2007 £000	2006 £000
Wages and salaries	614	488
Social security costs	68	51
Other pension costs	40	35
	722	574

7 INTEREST RECEIVABLE AND SIMILAR INCOME

	2007 £000	2006 £000
Bank interest receivable	467	261
Interest on loans to associated undertakings	68	88
	535	349

8 INTEREST PAYABLE AND SIMILAR CHARGES

	2007 £000	2006 £000
Interest on loans from related parties	195	102

9 TAX ON LOSS ON ORDINARY ACTIVITIES

ANALYSIS OF CHARGE IN YEAR

	2007 £000	2006 £000
CURRENT TAX		
UK corporation tax on loss of the period	—	—
Adjustments in respect of prior year	—	—
Tax on loss on ordinary activities	—	—

No deferred tax asset has been recognised in respect of trading losses carried forward due to the uncertainty of the availability of future taxable profits from which the trading losses can be deducted The total amount unprovided at 31 July 2007 is £1,092 000 (2006 £481,000)

	2007 £000	2006 £000
Accelerated capital allowances	—	1
Tax losses carried forward	(1,114)	(482)
	(1,114)	(481)

FACTORS AFFECTING THE TAX CHARGE FOR THE CURRENT PERIOD

Current tax on income for the period is lower (2006 lower) than the standard rate of corporation tax in the United Kingdom (20%) (2006 19%) The differences are explained below

	2007 £000	2006 £000
CURRENT TAX RECONCILIATION		
Loss on ordinary activities before tax	(3,200)	(2 057)
Current tax at 20% (2006 19%)	(640)	(391)
EFFECTS OF		
Expenses not deductible for tax purposes	8	6
Capital allowances for period in excess of depreciation	—	—
Unutilised tax losses	632	385
Total current tax charge (see above)	—	—

10 BASIC AND FULLY DILUTED LOSS PER ORDINARY SHARE

	2007 No	2006 No
NUMBER OF SHARES		
Basic weighted average number of shares in issue	29,852,493	19,318,799
Loss retained in the year	(2,890)	(1,947)

The basic loss per share is based on the weighted average number of Ordinary shares in issue during the year This included 20 316 429 shares in issue throughout the year and 16,347 538 shares issued on 9 Janaury 2007 which were included for seven months of the year

The calculation of diluted loss per ordinary share is identical to that used for basic loss per share This is because the exercise of options would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of FRS 14 "Earnings per share"

11 INTANGIBLE FIXED ASSETS

Group	IP rights £000	Goodwill £000	Total £000
COST			
At 1 August 2006	—	599	599
Additions – purchased intellectual property	16,064	—	16 064
Additions – negative goodwill on acquisition	—	(25)	(25)
AT 31 JULY 2007	16,064	574	16,638
ACCUMULATED AMORTISATION			
At 1 August 2006	—	(531)	(531)
Charge for the year	(898)	(5)	(903)
AT 31 JULY 2007	(898)	(536)	(1,434)
NET BOOK VALUE			
AT 31 JULY 2007	15,166	38	15,204
At 31 July 2006	—	68	68

The IP rights in the year arise from the acquisition of the Cardiff University pipeline, £15 946,000 and intellectual property acquired from the University of Sheffield in relation to certain subsidiary undertakings £118,000

Goodwill relates to that generated on the acquisition of the group's subsidiaries Bioacta Ltd (fully written down), Diurnal Ltd and Lifestyle Choices Ltd The negative goodwill on acquisition arose when Biofusion acquired a 55% shareholding in Magnomatics Ltd from the University of Sheffield (see note 24)

Intangible fixed assets are written down over their useful economic lives subject to annual impairment reviews The charge for the year includes £887,000 in relation to the Cardiff University pipeline written down over ten years from the commencement of the agreement in January 2007

12 TANGIBLE ASSETS

	Group	Company
	Computer equipment £000	Computer equipment £000
COST		
At 1 August 2006	34	—
Additions	28	7
Aquired with subsidiary undertaking	—	21
AT 31 JULY 2007	62	28
ACCUMULATED DEPRECIATION		
At beginning of year	(9)	—
Charge for year	(12)	(5)
AT END OF YEAR	(21)	(5)
NET BOOK VALUE		
AT 31 JULY 2007	41	23
At 31 July 2006	25	—

13 INVESTMENTS

Group	Equity £000	Loans £000	Total £000
COST			
At 1 August 2006	2,242	1,128	3 370
Additions	1,761	388	2 149
Transfers	634	(634)	—
Disposals	(357)	—	(357)
AT 31 JULY 2007	4,280	882	5,162
PROVISION FOR IMPAIRMENT			
At 1 August 2006	—	—	—
Charge for year	652	—	652
AT 31 JULY 2007	652	—	652
NET BOOK VALUES			
AT 31 JULY 2007	3,628	882	4,510
At 31 July 2006	2,242	1,128	3,370

Investments relate to shareholdings in portfolio companies below 50% In accordance with the group's accounting policies, these amounts are held at cost less any provision for impairment

The value of participating interests comprises of investments in Associates £4,510 000 (2006 £3 012,000) and other investments £nil (2006 £357 000)

Company	Shares in group undertakings £000
COST AND NET BOOK VALUE	
At 1 August 2006	1
Additions	1
AT 31 JULY 2007	2

Shares in group undertakings represent the company s investment in Biofusion Trading Ltd

During the year Fusion Cardiff Ltd was incorporated and the company owns 100% of the issued share capital In addition the company acquired a 10% holding in Bitecic Limited which is a collaboration between industry universities and expert clinicians in the Yorkshire region

13 INVESTMENTS CONTINUED

The group's interest in companies at the year end is as follows

	Country of incorporation	Principal activity	Holding	Class of shares held
SUBSIDIARY UNDERTAKINGS				
Biofusion Trading Limited	United Kingdom	Holding company	100%	Ordinary
Fusion Cardiff Limited	United Kingdom	Holding company	100%	Ordinary
Biofusion Licensing (Sheffield) Limited[1]	United Kingdom	Licensing	100%	Ordinary
Mantelum Limited[1]	United Kingdom	IP development company	100%	Ordinary
Absynth Biologics Limited[1]	United Kingdom	MRSA vaccines	60%	Ordinary
BioHydrogen Limited[1]	United Kingdom	Hydrogen production	60%	Ordinary
Medella Therapeutics Limited[1]	United Kingdom	Cancer therapeutics	60%	Ordinary
Lifestyle Choices Limited[1]	United Kingdom	Ovarian reserve measurement	60%	Ordinary
Diurnal Limited[1]	United Kingdom	Hormone replacement	60%	Ordinary
Genophrenix Limited[1]	United Kingdom	Identification of Schizophrenia targets	60%	Ordinary
Phase Focus Limited[1]	United Kingdom	Lensless microscopy	56%	Ordinary
Magnomatics Limited[1]	United Kingdom	Magnetic devices	54%	Ordinary
Bioacta Limited[1]	United Kingdom	Angiogenesis compounds	52%	Ordinary
PARTICIPATING INTERESTS				
Adjuvantix Limited[1]	United Kingdom	Vaccine adjuvants	49%	Ordinary
Axordia Limited[1]	United Kingdom	Stem cell therapy	45%	Ordinary
Asterion Limited[1]	United Kingdom	Cytokine therapies	34%	Ordinary
Art of Xen Limited[2]	United Kingdom	Medical use of Xenon gas	32%	Ordinary
Medaphor Limited[2]	United Kingdom	Medical training solutions	32%	Ordinary
Simcyp Limited[1]	United Kingdom	Drug metabolism	25%	Ordinary
Abcellute Limited[2]	United Kingdom	Cell stabilising technology	24%	Ordinary
Cardiff Protides Limited[2]	United Kingdom	Nucleoside drugs	23%	Ordinary
Celltran Limited[1]	United Kingdom	Chronic wound therapy	15%	Ordinary
Aperio Diagnostics Limited[1]	United Kingdom	Cervical cancer detection	14%	Ordinary
Muscagen Limited[2]	United Kingdom	Drug discovery	13%	Ordinary
Bitecic Limited	United Kingdom	Clinical research and support	10%	Ordinary
I2L Research Limited[2]	United Kingdom	Pesticide testing	10%	Ordinary
Q Chip Limited[2]	United Kingdom	Life science and therapeutic products	10%	Ordinary

[1] Held indirectly by Biofusion Trading Ltd

[2] Held indirectly by Fusion Cardiff Ltd

14 STOCK

	Group 2007 £000	Group 2006 £000	Company 2007 £000	Company 2006 £000
Finished goods and goods for resale	6	7	—	—

15 DEBTORS

	Group 2007 £000	Group 2006 £000	Company 2007 £000	Company 2006 £000
Trade debtors	243	85	—	—
Amounts due from associated undertakings	—	16	—	—
Amounts due from group undertakings	—	—	31 856	8 917
Other tax and social security	36	19	—	—
Other debtors	8	1	—	—
Payments on account	296	388	—	—
Prepayments and accrued income	206	60	29	—
	789	569	31,885	8,917

16 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2007 £000	Group 2006 £000	Company 2007 £000	Company 2006 £000
Trade creditors	189	87	—	—
Other creditors	—	21	—	—
Other tax and social security	6	—	—	—
Accruals and deferred income	208	89	63	—
	403	197	63	—

17 CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 2007 £000	Group 2006 £000	Company 2007 £000	Company 2006 £000
Amounts owed to related parties	3,293	2 038	—	—

The amount of £3 293,000 due at 31 July 2007 includes £1,754,000 (2006 £1,977 000) and £1,474 000 (2006 £nil) that relates to loan notes and accrued interest due to the University of Sheffield and Cardiff University respectively arising from the purchase of the group s interest in its portfolio of spin out companies These amounts are repayable on the earlier of the sale by Biofusion of the underlying share capital in the company, or the company making dividend payments or ten years from the day of issue These amounts are only payable to the extent that any gain or dividend is received by Biofusion, and can be cancelled by Biofusion by the return of the shares to which they relate to the University of Sheffield or Cardiff University respectively

18 CALLED UP SHARE CAPITAL

	Number of shares	2007 £000	Number of shares	2006 £000
AUTHORISED				
Equity Ordinary shares of £0 01 each	40,000,000	400	40 000 000	400
		400		400
ALLOTTED, CALLED UP AND FULLY PAID				
Equity Ordinary shares of £0 01 each	36,663,967	367	20,316,429	203
		367		203

	Ordinary shares £000
Balance brought forward	203
Issue of shares	164
Balance carried forward	367

As part of the Cardiff University agreement dated 9 January 2007, Biofusion issued 10,997 541 new Ordinary shares of 1p each to Cardiff University at £1 45 per share In addition to this, Biofusion placed 5 349 997 new Ordinary shares of 1p each with institutional investors at £1 45 per share which raised £7 757,000 before expenses

The costs of the combined share issue amounted to £775,000 and have been charged to the share premium account These costs related to legal and brokerage fees incurred on the transaction (see note 19)

19 RESERVES

Group	Profit and loss account £000	Share premium account £000	Capital redemption reserve £000	Capital reserve £000
Balance brought forward	1 370	8,906	1	2
Issued during the year	—	23 540	—	—
Cost of share issue	—	(775)	—	—
Share-based payments	(16)	—	—	—
Loss for the financial year	2,890	—	—	—
Balance carried forward	4 244	31 671	1	2

The capital reserve represents differences on consolidation under merger accounting

Company	Profit and loss account 2007 £000	Share premium account 2007 £000	Capital redemption reserve 2007 £000
Balance brought forward	(192)	8 906	1
Issued during the year	—	23 540	—
Cost of share issue	—	(775)	—
Balance carried forward	(192)	31 671	1

As permitted by Section 230 of the Companies Act 1985 the company s profit and loss account has not been included in these financial statements The company s result for the financial year was a £nil (2006 loss of £192 000)

20 MINORITY INTERESTS

	2007 £000	2006 £000
Balance brought forward	(55)	2
Deemed disposal	(6)	(13)
Introduced at acquisition	28	6
Gain on dilution	—	60
Share of loss in the year	(310)	(110)
Balance carried forward	(343)	(55)

Minority interests of £343,000 represent the minority share of Bioacta Life Style Choices Phase Focus Genophrenix Diurnal Magnomatics BioHydrogen Medella Therapeutics Absynth Biologics and Mantelum s losses generated since the date of acquisition or incorporation of these companies less any amount invested in these companies by the minority shareholders The deemed disposal represents the reduction in Biofusion s shareholding in Phase Focus

21 RELATED PARTY TRANSACTIONS

During the year Biofusion purchased administrative and other services from Sheffield University Enterprises Ltd (SUEL) a wholly owned subsidiary of the University of Sheffield, totalling £19 000 (2006 £7,000) In addition Biofusion provided support services to SUEL during the year of £120 000 (2006 £180 000) At 31 July 2007 the balance due from SUEL was £217,000 (2006 £71 000)

In addition, under the terms of the Agreement dated January 2005 Biofusion Trading Ltd paid the University of Sheffield £120,000 (2006 £130 000) as payments on account for intellectual property Biofusion Trading Ltd purchased intellectual property from the University during the year with a total value of £118 000 These payments were taken against payments on account

Under the terms of the Agreement dated January 2007 Fusion Cardiff Ltd paid Cardiff University £118,000 as payments to support the management of the intellectual property pipeline At 31 July 2007 the balance due to Cardiff University was £3 000

During the year, Biofusion has continued to accrue for interest due on loans in respect of the purchase of the original portfolio companies from both the University of Sheffield and Cardiff University

During the year the company supplied management services to companies in which it held a participating interest totalling £11,000 (2006 £48 000)

22 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Group	2007 £000	Restated 2006 £000
LOSS FOR THE FINANCIAL YEAR	(2,890)	(1,947)
Share-based payments	16	1,340
Proceeds from share issue	23,704	2 000
Costs of share issue	(775)	(73)
NET INCREASE IN SHAREHOLDERS' FUNDS	20 055	1,320
Opening shareholders funds	7,742	6 422
CLOSING SHAREHOLDERS FUNDS	27,797	7 742

Company	2007 £000	2006 £000
LOSS FOR THE FINANCIAL YEAR	—	(192)
Proceeds from share issue	23 704	2 000
Costs of share issue	(775)	(72)
NET INCREASE IN SHAREHOLDERS' FUNDS	22,929	1 736
Opening shareholders funds	8 918	7,182
CLOSING SHAREHOLDERS' FUNDS	31,847	8,918

23 NOTES TO THE CASH FLOW STATEMENT

	2007 £000	2006 £000
(I) RECONCILIATION OF OPERATING LOSS TO OPERATING CASH FLOW		
Operating loss	(3,598)	(2 304)
Amortisation of goodwill	903	55
Share-based payment	16	1 339
Impairment losses	652	421
Deemed profit on disposal	(8)	(5)
Depreciation	12	4
Loss on sale of fixed assets	—	1
Profit on sale of fixed asset investments	58	—
Decrease/(increase) in stock	1	(7)
(Increase)/decrease in debtors	(177)	40
Increase in creditors	(138)	(487)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(2,279)	(943)
(II) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS		
Increase/(decrease) in cash in the period	4,717	(342)
Non cash movement on loan notes	(1,612)	444
Decrease in debt	357	—
Increase in net funds	3,462	102
Opening net funds	3,845	3 743
CLOSING NET FUNDS	7,307	3,845
(III) NET FUNDS		
Cash	10,600	5 883
Loan notes	(3,293)	(2,038)
Opening net funds	7,307	3,845

24 ACQUISITIONS

During the year Biofusion established a number of new companies and acquired a 54 6% shareholding in Magnomatics Ltd from the University of Sheffield

The fair value and book value of assets acquired on 24 January 2007 were

	Book and fair value 24 January 2007 £000
CURRENT ASSETS	
Debtors	43
Cash at bank and in hand	29
	72
Creditors amounts falling due within one year	(11)
NET ASSETS	61
Net consideration	8
Net assets acquired	33
NEGATIVE GOODWILL ARISING ON ACQUISITION	(25)

25 SHARE-BASED PAYMENTS

During the year no new share options or share warrants were issued

Details of the share options held by directors are set out within the Report on Directors Remuneration

On 23 March 2006 as part of a £10m Side Fund agreement, Biofusion issued the following warrants to NPI Ventures

(i) 1 225,000 Ordinary shares with an exercise price of £1 50,

(ii) 1,225,000 Ordinary shares with an exercise price of £1 60,

(iii) 612 500 Ordinary shares with an exercise price of £1 80, and

(iv) 612,500 Ordinary shares with an exercise price of £2 20

All of the Warrants are exercisable at any time commencing on the first anniversary of the associated Warrant Deed and on or before the tenth anniversary of the date of the Warrant Deed

The fair value of the share based options and warrants are recognised as an expense through the profit and loss account over the relevant vesting periods The charge in the current year was £16 000 (2006 £1 339 000)

The fair values are determined by using the Black-Scholes option pricing model and the assumptions used at the fair value measurement date are shown in the table below

	Directors	NPI
Share price at grant	150 00p	152 25p
Dividend yield	0 0%	0 0%
Expected volatility	18 52%	18 85%
Term to maturity	6 5 years	5 5 years
Risk free interest rate	4 46%	4 28%
Number of shares under option	99 999	3 675 000

The expected volatility was benchmarked against an index of similar companies in the biotech index as no historic data was available for the company at the grant date

26 POST BALANCE SHEET EVENTS

On 15 August 2007, the company invested £75 000 in Celltran as part of a £1m syndicated loan, with a further £75 000 due once certain milestones are achieved

On 17 September 2007 the company invested £200 000 in Abcellute as part of a £400 000 funding round with Finance Wales As a result of the funding round Biofusion's holding in Abcellute increased to 34%

On 21 September 2007, Biofusion announced it had signed a Memorandum of Understanding with Finance Wales The agreement detailed a co-investment strategy for investing in spin-out companies formed as part of the IP pipeline agreement with Cardiff University

On 2 October 2007 Biofusion announced that Cardiff University had transferred its 25% holding in Cardiff Biologicals to Biofusion for a loan note to the value of £250 000 Subsequently Biofusion invested £200 000 in Cardiff Biologicals to increase its holding to 50%

On 2 October 2007, Biofusion invested £200 000 in Cardiff Protides to increase its holding to 50%

On 9 October 2007, Biofusion sold its holdings in Cardiff Biologicals and Cardiff Protides to Morvus Technology Limited a privately owned pharmaceutical company In consideration for the transaction Biofusion now owns a 20% holding in Morvus

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Biofusion plc will be held at the offices of Ashurst Broadwalk House 5 Appold Street London EC2A 2HA on Friday 30 November 2007 at 10 30 a m for the following purposes

1 To receive the accounts (including the Directors remuneration report) for the financial year ended 31 July 2007 together with the reports of the Directors and auditors thereon (Resolution 1)

2 To re-appoint KPMG Audit Plc as auditors of the Company (Resolution 2)

3 To authorise the Directors to set the remuneration of the auditors (Resolution 3)

4 To re-elect Mr D Liversidge who retires by rotation as a Director of the Company (Resolution 4)

5 To re-elect Mr D Baynes who retires by rotation as a Director of the Company (Resolution 5)

6 To re-elect Dr P Grant who retires by rotation as a Director of the Company (Resolution 6)

7 To re-elect Mr S Gall who retires by rotation as a Director of the Company (Resolution 7)

8 To re-elect Dr E Moses, who retires by rotation as a Director of the Company (Resolution 8)

9 To re-elect Prof T Atkinson, who retires by rotation as a Director of the Company (Resolution 9)

10 To re-elect Mr D Catton who retires by rotation as a Director of the Company (Resolution 10)

11 To re-elect Mr M Davies as a Director of the company having been appointed as a Director since the last Annual General Meeting (Resolution 11)

By order of the board

RICHARD BIRTLES
COMPANY SECRETARY
15 October 2007

Registered Office
Innovation Centre
217 Portobello
Sheffield S1 4DP

NOTES
PROXIES

1 A member entitled to attend and vote may appoint a proxy or proxies who need not be a member of the company to attend (and on a poll to vote) instead of him or her Forms of proxy need to be deposited with the company s registrar Capita Registrars at The Registry 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 48 hours before the time of the meeting Completion of a form of proxy will not preclude a member attending and voting in person at the meeting

DOCUMENTS ON DISPLAY

2 The register of Directors' interests in the share capital and debentures of the company, together with copies of service agreements under which Directors of the company are employed and copies of the terms and conditions of appointment of Non-executive Directors are available for inspection at the company's registered office during normal business hours from the date of this notice until the date of the Annual General Meeting and will be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting

RIGHT TO ATTEND AND VOTE

3 Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001 (SI 2001 No 3755), the Company specifies that in order to have the right to attend and vote at the meeting (and also for the purpose of calculating how many votes a person entitled to attend and vote may cast) a person must be entered on the register of holders of the Ordinary shares of the Company by no later than 10 30 a m on 28 November 2007, being 48 hours before the time fixed for the meeting Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting

FORM OF PROXY

Please read the notes below before completing this form

Any amendments to this form should be initialled by the signatory

I/We (name(s) in full)

of (address(es))

being (a) member(s) of the above-named company hereby appoint the Chairman of the meeting, or failing him

as my/our proxy to vote for me/us on my/our behalf as directed below at the 2007 Annual General Meeting of the company to be held at the offices of Ashurst Broadwalk House 5 Appold Street London EC2A 2HA on Friday 30 November 2007 at 10 30 a m , and at any adjournment thereof

Please indicate in the boxes below how you wish your votes to be cast

		For	Against	Vote witheld
RESOLUTION 1	To receive the accounts and reports of the Directors and auditors for the year ended 31 July 2007			
RESOLUTION 2	To re-appoint KPMG as auditors of the Company			
RESOLUTION 3	To authorise the Directors to set the remuneration of the auditors			
RESOLUTION 4	To re-elect Mr D Liversidge			
RESOLUTION 5	To re-elect Mr D Baynes			
RESOLUTION 6	To re-elect Dr P Grant			
RESOLUTION 7	To re-elect Mr S Gall			
RESOLUTION 8	To re-elect Dr E Moses			
RESOLUTION 9	To re-elect Prof T Atkinson			
RESOLUTION 10	To re-elect Mr D Catton			
RESOLUTION 11	To re-elect Mr M Davies			

Signature ______________________ Date ______________

NOTES TO THE FORM OF PROXY

1 You may appoint one or more proxies of your own choice, if you are unable to attend the meeting but would like to vote If such an appointment is made delete the words "the Chairman of the meeting" and insert the name(s) of the person or persons appointed as proxy/proxies in the space provided A proxy need not be a member of the company If no name is entered, the return of this form duly signed will authorise the Chairman of the meeting to act as your proxy

2 In the case of a corporation, this form of proxy must be executed under its common seal or under the hand of a duly authorised officer or attorney

3 In order that this form of proxy shall be valid it must be deposited (together with any power of attorney or other authority under which it is signed or a notarially certified copy of such power or a copy certified in accordance with the Powers of Attorney Act 1971 or in some other manner approved by the Directors), at the company s registrars Capita Registrars at The Registry 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 48 hours before the time appointed for the meeting The completion and return of a form of proxy will not, however preclude shareholders from attending and voting in person at the meeting or at any adjournment thereof should they wish to do so

4 If two or more persons are jointly entitled to a share conferring the right to vote, any one of them may vote at the meeting either in person or by proxy, but if more than one joint holder is present at the meeting either in person or by proxy the one whose name stands first in the register of members in respect of the joint holding shall alone be entitled to vote in respect thereof In any event, the names of all joint holders should be stated on the form of proxy

5 The "vote withheld" option is provided to enable you to instruct your proxy not to vote on any particular resolution however, it should be noted that a "vote withheld" in this way is not a vote in law and will not be counted in the calculation of the proportion of votes "for" and "against" a resolution

first fold

third fold and tuck in

Business Reply
Licence Number
MB 122

Capita Registrars (Proxies)
PO Box 25
Beckenham
Kent BR3 4BR

second fold

COMPANY INFORMATION AND ADVISORS

COMPANY SECRETARY
RICHARD BIRTLES

COMPANY NUMBER
5275732

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217 Portobello
Sheffield S1 4DP

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KPMG AUDIT PLC
1 The Embankment
Neville Street
Leeds LS1 4DW

SOLICITOR
ASHURST
Broadwalk House
5 Appold Street
London EC2A 2HA

BANKER
BARCLAYS
Cambridge Business Centre
28 Chesterton Road
Cambridge CB4 3UT

NOMINATED ADVISOR AND BROKER
NOMURA CODE
1 Carey Lane
London EC2V 8AE

REGISTRAR
CAPITA REGISTRARS
34 Beckenham Road
Beckenham
Kent BR3 4TU

PUBLIC RELATIONS
BUCHANAN COMMUNICATIONS
45 Moorfields
London EC2Y 9AE

BIOFUSION

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