

**2008**

fusion IP plc  
annual report and accounts

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**Fusion IP**  
**(FORMERLY BIOFUSION)**

COMPANY NUMBER 5275732

TURNING WORLD CLASS  
RESEARCH INTO BUSINESS

SATURDAY



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## WHO WE ARE

In fields as varied as alternative energy, drug discovery and engineering, Fusion IP (formerly known as Biofusion) has the exclusive rights to an amazing depth and quality of research from two of the UK's leading research intensive universities, the University of Sheffield and Cardiff University.

Our exclusive partnerships with these universities enable us to invest in some of the world's most advanced and exciting research and turn it into business.

We are fully integrated with the universities' technology transfer system and are responsible for the formation of new spin-out companies from all areas of research within the two universities.

### OUR PARTNERSHIP MODEL

#### IP CREATION

UNIVERSITY	TECH TRANSFER
Long-term pipeline agreements with universities. Directly align university interest with equity position in Fusion IP	Existing tech transfer offices use their relationships with academics to mine for and protect IP with commercial potential

#### COMMERCIALISATION

FUSION IP	FUSION IP PORTFOLIO COMPANY
Fusion IP selects IP with most commercial potential and transfers it to a new Portfolio Company, initially 100% owned by Fusion IP	Fusion IP makes investment in the Portfolio Company and aligns academic with an equity participation in the Portfolio Company

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# CREATING COMPANIES, DELIVERING RESULTS

**OUR FOCUS IS TO TURN  
OUR EXCLUSIVE IP PIPELINE  
AGREEMENTS INTO REAL VALUE  
THROUGH THE CREATION OF  
SPIN-OUT COMPANIES AND  
LICENSES THAT OFFER THE  
POTENTIAL FOR SIGNIFICANT  
COMMERCIAL RETURNS TO ALL  
STAKE HOLDERS.**

Our partnership model allows everyone to play to their strengths – the university focuses on encouraging leading edge research and innovation, whilst we help identify and then develop the most appropriate commercial strategy.

We have dedicated teams based in both Sheffield and Cardiff, with the expertise and money to set up and assist companies in their early stage growth. We have a network of industry-specific specialists and consultants and have the proven skills of being able to turn blue sky research into world class business.

## **Abcellute**

Cell transplantation technology.  
[www.abcellute.co.uk](http://www.abcellute.co.uk)

## **Absynth Biologics**

Vaccines and antibodies to treat MRSA.  
[www.absynthbiologics.co.uk](http://www.absynthbiologics.co.uk)

## **Axordia**

Developing cures for transplant rejection and degenerative blindness.  
[www.axordia.com](http://www.axordia.com)

## **Biohydrogen**

Developing a metabolically engineered microbial production method to produce hydrogen from fermentable sugars.  
[www.biohydrogen.co.uk](http://www.biohydrogen.co.uk)

## **Lifestyle Choices**

Fertility based test for women.  
[www.planaheadtest.com](http://www.planaheadtest.com)

## **Magnomatics**

Magnetic gear and novel electrical machine technology.  
[www.magnomatics.com](http://www.magnomatics.com)

## **Muscagen**

Computational based drug discovery.

## **Phase Focus**

Radical microscopy technology that removes the need for a lens.  
[www.phasefocus.com](http://www.phasefocus.com)

### **Adjuvantix**

Developing a range of improved prophylactic and therapeutic vaccines.  
[www.adjuvantix.com](http://www.adjuvantix.com)

### **Art of Xen**

Art of Xen holds a number of patents for developing Xenon gas for use as an anaesthetic.

### **Asterion**

Developing third-generation therapeutic proteins that mimic the body's natural hormones to treat a number of diseases.  
[www.asterion.co.uk](http://www.asterion.co.uk)

### **Demasq**

Advanced bone and soft tissue imaging from x-rays.  
[www.demasq.com](http://www.demasq.com)

### **Diurnal**

Develops drugs that mimic the patient's natural circadian rhythm.  
[www.diurnal.co.uk](http://www.diurnal.co.uk)

### **i2L Research**

Provides worldwide pesticide manufacturers with product testing and development services.  
[www.i2lresearch.com](http://www.i2lresearch.com)

### **MedaPhor**

Online and portable ultrasound training.  
[www.medaphor.co.uk](http://www.medaphor.co.uk)

### **Medella Therapeutics**

Developing new monoclonal antibody drugs to treat cancerous tumours.  
[www.medellatherapeutics.co.uk](http://www.medellatherapeutics.co.uk)

### **Morvus**

Developing novel cancer therapies.  
[www.morvus.com](http://www.morvus.com)

### **Q-Chip**

Precision loaded polymer microspheres technology.  
[www.q-chip.com](http://www.q-chip.com)

### **Simcyp**

Pharmacokinetic modelling.  
[www.simcyp.com](http://www.simcyp.com)

### **Zilico**

Developing a device to detect pre-cancerous cells in the cervix.  
[www.zilico.co.uk](http://www.zilico.co.uk)



# HIGHLIGHTS

## BUSINESS HIGHLIGHTS:

- Expanded exclusive ten year agreement with the University of Sheffield
- Placing with institutional investors which raised £2.1m
- Change of name to Fusion IP to reflect nature of enlarged multi-sector IP portfolio
- Co-investment Memorandum of Understanding signed with Finance Wales

## PORTFOLIO HIGHLIGHTS:

- Launch of Demasq Ltd – developing a range of innovative bone and soft tissue imaging products. Fusion IP holds a 47.5% shareholding by virtue of its agreement with Cardiff University and has loaned the company £450,000 during the period
- £600,000 invested by Fusion IP and third parties in imaging company, Phase Focus Ltd
- £350,000 investment into biotechnology company, Asterion Ltd
- Sale of Company's 50% stakes in each of Cardiff Protides Ltd and Cardiff Biologicals Ltd

## FINANCIAL HIGHLIGHTS:

- Cash balances at 31 July 2008 of £6.4m (prior to the receipt of the additional £2.1m investment funds in early August 2008) (FY July 2007: £10.6m)
- Cash invested in spin-out companies of £2.8m (FY July 2007: £1.7m)
- Loss for the period, excluding the cost of subsidiary spin outs and amortisation, only increased marginally to £1.6m (FY July 2007: £1.4m). Loss for the period, including the cost of subsidiary spin outs and amortisation increased to £5.0m (FY July 2007: £3.1m)

## POST PERIOD END HIGHLIGHTS:

- £565,000 investment in engineering company, Magnomatics Ltd, in a round led by White Rose Seedcorn Technology Fund
- Additional £250,000 investment in imaging company, Phase Focus Ltd, in a round led by the Viking Fund
- Asterion Ltd signs research agreement with Genzyme Corp.

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## CHAIRMAN'S STATEMENT

**DOUG LIVERSIDGE CBE**  
**CHAIRMAN**

I am pleased to present the results for the year ended 31 July 2008, a year of further growth for the Company, which has seen us expand our ten year exclusive agreement with the University of Sheffield and consolidate our position as one of the UK's leading university, intellectual property (IP), commercialisation businesses.

We now have exclusive IP pipeline agreements with two of the UK's top ten universities, the University of Sheffield (Sheffield) and Cardiff University (Cardiff) and own rights to more than £167m per annum of world class research in areas such as engineering, energy, medical technology (medtech), drug development, IT and electronics. As a result of this expansion, in July 2008, we changed our name from Biofusion to Fusion IP to reflect the nature of the Group's expanded business and portfolio, which is increasingly moving to a more balanced split between medtech, engineering, energy, electronics and software.

In a difficult financial market we raised £2.1m (£1.7m net of expenses) through a Placing with institutional investors for our Fusion IP Sheffield investment fund and we remain confident that there is continued opportunity for expansion of our model in the UK at the appropriate time.

**WE NOW HAVE A STRONG IP PIPELINE FROM WHICH THE FOCUS OF OUR BUSINESS IS BETTER BALANCED BETWEEN THE LONGER TERM DRUG DEVELOPMENT COMPANIES AND THE QUICKER TO MARKET MEDTECH, ENERGY, ENGINEERING AND ELECTRONICS COMPANIES.**





The financials for the year, which were broadly in line with budget, are as follows:

- Losses increased to £5.0m (2007: £3.1m), which reflect the impact of a full year of operating activity in the Cardiff operation (2007 figures only included six months of operating costs in Cardiff) and an increase in the operating costs of our growing portfolio of spin-out companies, which due to our shareholdings in the majority of these being over 50%, are classified as subsidiaries with all their operating costs therefore taken through the Group's income statement. Removing the operating costs of the subsidiary spin-out companies and the amortisation of the Cardiff IP rights, underlying losses increased marginally to £1.6m (2007: £1.4m).
- Cash outflow before financing activities in the year was £4.2m (2007: £2.3m), of which approximately half was invested in portfolio companies, leaving cash balances of £6.4m as at 31 July 2008, prior to the receipt of the additional £2.1m investment funds in early August 2008.

Portfolio activity throughout the year was significant, with two equity-based exits, one exciting new portfolio company created and £2.8m invested (2007: £1.7m) in 17 of our portfolio companies. One portfolio company, CellTran, was put into administration due to the poor funding climate.

The Company's latest portfolio company, Demasq, formed through the Cardiff agreement, is particularly exciting, demonstrating the quality of research at the university and how quickly this type of research can be brought to market. Demasq's proprietary X-ray imaging software will enable clinicians to visualise the soft tissue in the knee from a digital X-ray and help the clinician to identify if a patient's pain is caused by degeneration of their cartilage (osteoarthritis). In the US alone some 20m people visit their physician with knee pain, of which it is estimated 60% is due to osteoarthritis.

Demasq's KIS (Knee Imaging Software) product is on schedule for submission to the European and US regulatory authorities by the end of this year, with a projected UK and US launch in 2009.

During the year we signed a Memorandum of Understanding (MoU) with Finance Wales, the investment arm of the Welsh Assembly government, which has more than £130m of investment funds under its control. Under the MoU we undertake to show Finance Wales all of our potential opportunities that originate at Cardiff and they have subsequently taken part in three portfolio company funding rounds.

We continue to have a co-investment agreement with NPI Ventures, which in 2007 was taken over by Citi. The Directors do not expect NPI Ventures to be investing in the portfolio companies for the foreseeable future.

During the year Simon Oakland, the Non-executive Director representing NPI Ventures, left the Board and we would like to thank Simon for his support and excellent contribution to the running of the Company during his time with the Board.

We continue to have strong support from both our university partners and this support was strengthened in July 2008 when Bob Rabone, the Finance Director from the University of Sheffield, joined the Board as a Non-executive Director.

The year has been both a challenging and an exciting one for the Company and I would like to thank our shareholders for their continued support during this period. We remain totally focussed on creating value from our portfolio of companies and have now balanced the focus of our business between longer term drug development companies and quicker to market medtech, energy, engineering and electronics companies. We are confident that this rebalancing will generate exciting and fruitful results in the next financial year.



**DOUG LIVERSIDGE CBE**  
CHAIRMAN  
8 October 2008



## CHIEF EXECUTIVE'S REVIEW

DAVID BAYNES  
CHIEF EXECUTIVE

During the year we have focussed on expanding our exclusive university pipeline agreements into new non-life science based research such as energy, engineering and electronics as well as generating value out of our existing portfolio of companies.

### NEW UNIVERSITY AGREEMENTS

In July 2008 we successfully raised £2.1m in very challenging financial markets, which enabled us to expand our exclusive agreement with the University of Sheffield and secure ten year rights over all their non-life science IP to include the commercialisation of all non-life science, research-generated IP.

When combined with our Cardiff agreement and our existing life science agreement with Sheffield, we now own the rights to more than £167m of world class research per annum. This is a considerable achievement and one that cements our drive to refocus the business, such that we have a spread of portfolio companies in all investment areas.

Drug development now only makes up 30% of our portfolio, as we have focussed on expanding our portfolio into the quicker to market sectors that include medtech, energy, engineering, IT and electronics. Areas in which both Cardiff and Sheffield are generating significant world class research.

### PORTFOLIO EXITS DURING THE YEAR

In October 2007 we achieved two portfolio exits from our Cardiff agreement – Cardiff Protides and Cardiff Biologicals, which were sold to Morvus, a privately owned pharmaceutical company specialising in the discovery and development of novel oncology therapies, in return for an 18% shareholding in Morvus.

In the opinion of the Board of Fusion IP, Morvus' management team, with its business model and expertise in pharmaceutical development, has the capability to build a successful company in the provision of specialist oncology drugs. The Board believed that the sale provided the best opportunity for bringing Cardiff Protides' and Cardiff Biologicals' exciting lead compounds to market.

### COMPANY DETAILS:

NAME:	Asterion Limited
YEAR FOUNDED:	2003
UNIVERSITY PARTNER:	Sheffield
FUSION IP SHAREHOLDING:	38%
WEBSITE:	<a href="http://www.asterion.co.uk">www.asterion.co.uk</a>

## DEMAsQ IS DEVELOPING PROPRIETARY SOFTWARE THAT HAS THE POTENTIAL TO REVOLUTIONISE THE GLOBAL X-RAY VISUALISATION MARKET.

### PORTFOLIO UPLIFTS DURING THE YEAR

As a result of the transaction with Morvus, we have been able to recognise a fair value uplift in the carrying value of our investment of £0.5m. During the year there have also been smaller uplifts following funding rounds in our portfolio companies Medaphor and Zilico (formerly Aperio Diagnostics).

### PORTFOLIO WRITE DOWNS DURING THE YEAR

In May 2008 CellTran, the advanced wound care business in which we had a 16% shareholding, confirmed that it had been unable to raise the significant funds in the market that were required to progress the business.

CellTran went into administration on 30 May 2008. The value of CellTran had already been fully written down by the Fusion IP Board in previous financial periods, reflecting our policy of taking a rigorous approach to our investments in our portfolio companies and that where appropriate, withdrawing funding support where it is considered that financial returns do not justify it.

### NEW PORTFOLIO COMPANIES CREATED DURING THE YEAR

In February 2008 we announced the formation of Demasq, our first new spin-out company from our pipeline agreement with Cardiff.

Demasq is developing proprietary software that has the potential to revolutionise X-ray visualisation. Based on research carried out by Prof Hechmi Toumi, a specialist in the muscle-bone-tendon unit at Cardiff University School of Biosciences, Demasq's first product will be its Knee Imaging Software (KIS) system.

KIS has the potential to enable surgeons, radiologists, physiotherapists and GPs to visualise the soft tissue detail of the knee joint from a digital X-ray, detail which is currently only visible with MRI techniques or surgery. Demasq plans to file for US FDA approval of its KIS software via a 510K procedure by the end of 2008 with an expected launch of the product in 2009.

Knee pain is one of the most common medical complaints. In the US alone, there are over 20m physician visits due to knee pain each year. With at least an estimated 7m knee X-rays performed in Europe and the US annually, the market for KIS is potentially very large.

Fusion IP has a 47.5% shareholding in Demasq.

### CASE STUDY: ASTERION LIMITED

Asterion is a company which applies its core technologies to generate and develop long-acting biopharmaceutical products that can be administered less frequently than existing marketed drugs. Founded by Prof Richard Ross, Prof Jon Sayers and Prof Peter Artymniuk as a spin-out company from the University of Sheffield.

Asterion's technology is being applied to improve existing products in established markets. The company is focusing on developing third-generation therapeutic products 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.

The first generation biopharmaceuticals such as insulin and EPO were native, recombinantly-derived proteins needing frequent injections. The second generation products such as depot preparations and chemically modified (PEGylated) proteins require more complex manufacture but offer less frequent injections. Asterion's third generation products have the advantages of simple manufacture, potent bioactivity and the potential for significantly less frequent injection.

If developed successfully, Asterion's future products have the potential to be used to treat diseases such as anaemia, neutropenia, multiple sclerosis, growth disorders and autoimmune disorders. Asterion's lead candidates, long acting (AFT™) growth hormone protein candidates, are partnered with the international specialty pharmaceutical group, Ipsen and are being developed for conditions including short stature and acromegaly, a disorder caused by excess production of growth hormone.



## CHIEF EXECUTIVE'S REVIEW

CONTINUED

### PORTFOLIO COMPANY INVESTMENTS

During the year we invested £2.8m in our portfolio companies (2007: £1.7m):

	Year to 31 July 2008		Post year end	
	Invested £	Committed £	Invested £	Outstanding £
Abcellute	203,000	—	—	—
Absynth Biologics*	187,000	210,000	—	210,000
Adjuvantix	175,000	30,000	—	30,000
Asterion	350,000	100,000	50,000	50,000
Axordia	195,000	—	10,000	—
Biohydrogen*	243,000	135,000	20,000	115,000
Cardiff Protides/Biologicals	400,000	—	—	—
CellTran	150,000	—	—	—
Demasq	140,000	315,000	—	315,000
Diurnal*	156,000	90,000	25,000	65,000
Genophrenix*	30,000	—	—	—
Lifestyle Choices*	66,000	—	—	—
Magnomatics*	65,000	—	150,000	—
Medaphor	86,000	—	—	—
Medella Therapeutics*	93,000	200,000	—	200,000
Phase Focus*	185,000	—	125,000	—
Q Chip	78,000	—	—	—
<b>Total</b>	<b>2,802,000</b>	<b>1,080,000</b>	<b>380,000</b>	<b>985,000</b>

\* consolidated subsidiary

### COMPANY DETAILS:

NAME:	Biohydrogen Limited
YEAR FOUNDED:	2007
UNIVERSITY PARTNER:	Sheffield
FUSION IP SHAREHOLDING:	60%
WEBSITE:	www.biohydrogen.co.uk





**SUMMARY OF KEY PORTFOLIO COMPANY EVENTS  
DURING THE YEAR****MAGNOMATICS**

Fusion IP shareholding

**48%**

Magnomatics, which is developing proprietary magnetic gear and novel electrical machine technology for the renewable energy, hybrid vehicle, aerospace and other markets, continues to attract significant interest from a number of key manufacturers in those sectors. The company is currently working on the design of pre-production demonstrators which have the potential to be lighter, smaller and more energy efficient than current motors and generators.

The company led a successful bid to the Technology Strategy Board for a £600,000 project to investigate the use of its technology within hybrid vehicles which commenced in July 2008. The company's activity is funded at 60% and the project includes Volvo Powertrain as a key partner.

In September 2008, the company successfully completed a £565,000 funding round involving White Rose Seedcorn Technology Fund (£350,000) and Fusion IP (£215,000).

The investment will enable the company to bring its novel technology closer to market.

Fusion IP has a 48% (50% prior to the September 2008 funding round) shareholding in Magnomatics.

**PHASE FOCUS**

Fusion IP shareholding

**61%**

Phase Focus, which is developing the world's first "lensless" optical microscope, completed its first working prototype in July 2008. Prior to this in February 2008, the company completed a £600,000 funding round involving White Rose Seedcorn Technology Fund (£200,000) and Fusion IP (£400,000). The company's next milestone is the full proof of principle of the electron microscope technology, expected to be completed by December 2008.

In September 2008, the company completed a further funding round of £250,000 involving Riding Early Growth Investment Company (Viking Fund) (£100,000), White Rose Seedcorn Technology Fund (£25,000) and Fusion IP (£125,000).

Fusion IP has a 61% (63% prior to the September funding round) shareholding in Phase Focus.

**CASE STUDY:  
BIOHYDROGEN LIMITED**

Biohydrogen was created in March 2007 from technology created by Prof Phillip Wright and his team in the Department of Chemical and Process Engineering at the University of Sheffield.

Biohydrogen aims to develop an efficient, robust and economical method of producing biohydrogen via microbial fermentation without the classical technical barriers of needing light sources, a constant absolute anaerobic environment and slow microbial growth.



## CHIEF EXECUTIVE'S REVIEW

### CONTINUED

#### SUMMARY OF KEY PORTFOLIO COMPANY EVENTS

##### DURING THE YEAR CONTINUED

###### BIOHYDROGEN

Fusion IP shareholding

**60%**

Biohydrogen continues to develop its novel methods of producing commercial quantities of industrial hydrogen from waste sugars using genetically modified e-coli. The company has expanded its IP base and expects to reach its first target milestone of 3.1 mols of hydrogen per mol of glucose by the end of the 2008.

During the year, Fusion IP committed to invest a further £175,000 in the company. In addition to this the company won a Yorkshire Forward grant of £75,000.

###### ASTERION

Fusion IP shareholding

**38%**

Asterion is developing a range of third-generation therapeutic proteins with the aim of administering lower doses, less frequently resulting in fewer side effects than existing marketed drugs.

The company has seven products under development including growth hormone (partnered with Ipsen who continue to invest in two programmes), erythropoietin (a treatment for anaemia),

and granulocyte colony stimulating factor (needed to boost white blood cells e.g. after chemotherapy).

In September 2007, the results from the company were published in the peer-reviewed journal Nature Medicine. The article demonstrated that, in studies the new molecule developed by Asterion, promotes growth after a single injection and that growth continues over a minimum of ten days. Asterion believes that this data will allow the development of a long acting version of growth hormone. Current treatment for growth hormone deficiency requires daily injections of growth hormone to promote growth. The Asterion technology has the added attraction of a simple manufacturing process and applicability to other cytokine hormones.

During the year, Fusion IP invested £350,000 in Asterion to accelerate a number of internal development programmes to extend the utility of the company's platform technology.

In September 2008, Asterion announced that it had signed a Research and Option Agreement with Genzyme Corp., one of the world's leading biotechnology companies, to develop a long-acting form of a non-cytokine protein. Under the terms of the Agreement, Genzyme will gain access to elements of Asterion's IP portfolio surrounding a specific protein target and will perform research work designed to look at the creation of a long-acting and potent version of an undisclosed protein of mutual commercial interest.

#### COMPANY DETAILS:

NAME:	Phase Focus Limited
YEAR FOUNDED:	2006
UNIVERSITY PARTNER:	Sheffield
FUSION IP SHAREHOLDING:	61%
WEBSITE:	www.phasefocus.com



**AXORDIA**

Fusion IP shareholding

**49%**

Axordia, one of the UK's leading stem cell companies, continues to work in collaboration with the University of Sheffield and Lombard Medical Technologies, supported by a £0.9m grant from the Technology Strategy Board, for the development of a new generation regenerative stent for cardiovascular disease that reduces restenosis and local inflammation.

In addition, Axordia is a major partner in a project to cure Age Related Macular Degeneration (AMD), to which Axordia will be supplying clinical grade human embryonic stem cells in order to produce therapeutic "retinal" RPE cells. This project has funding of over £5m and plans to move into human trials in 2010.

Axordia continues to generate new intellectual property, participating in the £12m European Commission "ESTOOLS" stem cell research programme and filing two new patent applications. During the year, Fusion IP invested a further £195,000 in Axordia.

**SIMCYP**

Fusion IP shareholding

**23%**

Simcyp, a profitable pharmacokinetic modelling and simulation business, has continued to grow its share of the market with strong sales performance to the major pharmaceutical companies. Its results during the year confirmed this with the company recording a 53% increase in turnover to £3.1m and continued growth in profits. Simcyp is confident that this growth will continue during 2009 as it expands sales of its simulation platform and consultancy services that enable pharmaceutical companies to model the fate of drugs in the human body before undertaking clinical testing programmes.

Predicting outcomes in virtual patient populations allows individuals at extreme risk from adverse drug reaction to be identified, and unnecessary drug exposure to human volunteers and animals to be minimised. The limitations of candidate compounds, including potential drug-drug interactions, can be assessed and managed prior to human clinical studies, allowing better focus of drug development resources. Simcyp's clients form a Consortium which guides the company's scientific development. This ensures that Simcyp's products and services continue to meet, and exceed, industry need. Currently, 14 of the top 20 pharmaceutical companies worldwide are members of the Consortium.

**CASE STUDY:**  
**PHASE FOCUS LIMITED**

Phase Focus was formed in 2006 to exploit the technology invented by Prof John Rodenburg, Prof of Semiconductor Materials and Devices in the University of Sheffield's Department of Electronic and Electrical Engineering.

Phase Focus has developed a proprietary process that can generate high definition images of an object without the need for high quality lenses. The technique uses a novel iterative phase retrieval algorithm to generate both amplitude and phase images of an object and has applications in optical, X-ray and electron microscopy, amongst others.

## CHIEF EXECUTIVE'S REVIEW

CONTINUED

### SUMMARY OF KEY PORTFOLIO COMPANY EVENTS DURING THE YEAR CONTINUED

#### DIURNAL

Fusion IP shareholding

60%

Diurnal uses its knowledge of human physiology combined with advanced proprietary formulations using approved drugs to provide novel treatments in endocrinology e.g. testosterone replacement. Diurnal's product pipeline is based on optimising the drug delivery profile and treatment regimes of well established small molecule drugs that have known safety data and proven clinical efficacy rationales. This enables Diurnal to rapidly progress its products to critical clinical proof-of-concept milestones without the need for substantial pre-clinical development.

Following the decision by Phoqus Pharmaceuticals plc on 16 July 2008, to put its principal trading subsidiary Phoqus Pharmaceuticals Ltd (Phoqus) into administration, Diurnal terminated its licence to Phoqus for the commercialisation of its hydrocortisone product "Chronocort". Subsequent to this event the licensed IP will be returned to Diurnal together with significant clinical data.

The company is now in discussion with alternative development partners for the commercialisation of the hydrocortisone platform and to continue development of its testosterone and thyroid hormone programmes.

#### LIFESTYLE CHOICES

Fusion IP shareholding

51%

Lifestyle Choices sells a female fertility test that helps give women an early warning of whether they are potentially at risk of having too few eggs to conceive a child. In November 2007, Lifestyle Choices signed an exclusive agreement with Repromedix, a leading independent fertility diagnostic laboratory based in Boston, to distribute the test in North America.

In December 2007, South Yorkshire Investment Fund invested £150,000 in Lifestyle Choices. In January 2008, Repromedix announced that they had commenced the beta launch of the product and that they expected to complete the national launch by the summer.

#### COMPANY DETAILS:

NAME:	Demasq Limited
YEAR FOUNDED:	2008
UNIVERSITY PARTNER:	Cardiff
FUSION IP SHAREHOLDING:	48%
WEBSITE:	www.demasq.com

In June 2008 Repromedix announced that it was in financial difficulties and that they were engaged in selling elements of their business to ReproSource, a new US fertility diagnostics company. Lifestyle Choices has been in negotiation with ReproSource since this time to agree a new distribution agreement for the product. In early October 2008 it became clear that these negotiations were likely to terminate and as a result the Directors believe that the likelihood of the product, continuing to be sold in the US is limited. With the low level of sales in the UK, the company is reviewing its options on developing its IVF Predictor test for the European market.

#### MEDAPHOR

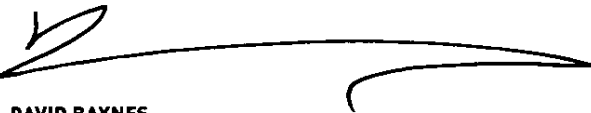
Fusion IP shareholding

**35%**

Medaphor produces innovative training products for postgraduate medical professionals including advanced tutorials for learning or improving ultrasound examination technique. The company has developed a prototype portable ultrasound simulator that enables ultrasound training of physicians to take place without utilising ultrasound machines, which are in heavy demand, or volunteer patients. The ultrasound simulator will enable trainees to perform virtual reality gynaecological ultrasound examinations, using a

virtual probe that conveys the realistic sensation of contact with a live body. This technology has the potential to reduce the hands-on patient contact required to achieve full competence.

In July 2008 Fusion IP and Finance Wales co-invested £75,000 each in Medaphor, which when combined with Medaphor's £100,000 grant from SMART Wales, the Welsh Assembly Government's Award scheme to boost innovative or exploratory ways of solving practical problems, brought the total investment into Medaphor to £250,000. This funding will be used to further develop the simulator prototype for a planned commercial launch by the end of 2009.



**DAVID BAYNES**  
CHIEF EXECUTIVE  
8 October 2008

#### CASE STUDY: DEMASQ LIMITED

Demasq is a new company specialising in medical imaging software. Founded as a result of research carried out by Prof Hechmi Touni, a specialist in the Muscle-bone-tendon Unit at Cardiff University School of Biosciences, Demasq's first product is the Knee Imaging Software (KIS) system.

KIS has the potential to provide surgeons, radiologists, sports medicine physicians and GPs with soft tissue detail of the knee joint, at less cost than conventional knee imaging technologies. It does so by providing the soft tissue detail, which is normally visualised only with MRI techniques, using plain digital X-rays.

The potential benefits of the KIS system are:

- earlier disease intervention;
- reduction in time to treat;
- cost reduction;
- improved accessibility to non-invasive diagnosis;
- risk-reduction;
- improved characterisation of disease progression.

## FINANCIAL REVIEW

### RESULTS

The Group's reported loss for the year increased to £4,964,000 (2007: £3,075,000 loss), but was broadly in line with budget. The losses reflect the impact of a full year of amortisation charges from the Cardiff agreement as opposed to only six months in the prior period results and an increase in the operating costs of portfolio companies classified as subsidiaries as they expand their operations.

### REVENUES AND OPERATING COSTS

Revenue is comparable with the prior year at £359,000 (2007: £351,000) and represents the amounts charged to spin-out companies for management services provided and the revenue of consolidated portfolio companies.

Operating expenses have been broken down into three categories within the income statement to reflect their varying nature:

- Corporate operating expenses at £1,975,000 (2007: £1,580,000) reflect the cost of running the Parent Company together with the Sheffield and Cardiff operations. The increases are due to a full year of costs from the Cardiff operation compared to six months in the prior period.
- Subsidiary spin-out operating expenses of £1,653,000 (2007: £797,000) reflects the growth in the number of spin out subsidiaries and their continued progression through strategic milestones.
- Amortisation of intangible assets of £1,679,000 (2007: £898,000) reflects a full year's charge over the Cardiff IP rights which are being amortised on a straight line basis over the ten year pipeline agreement. The prior period only reflected a six month charge as the pipeline agreement commenced in January 2007.

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### COMPANY DETAILS:

NAME:	Magnomatics Limited
YEAR FOUNDED:	2006
UNIVERSITY PARTNER:	Sheffield
FUSION IP SHAREHOLDING:	48%
WEBSITE:	www.magnomatics.com



**CHANGE IN FAIR VALUES**

The Group reported a reduction in the fair value of investments in spin-out companies of £385,000 (2007: £557,000). The gains arising from increased valuations in unquoted funding rounds have been offset by unrealised losses against certain unquoted portfolio companies.

	2008 £000	2007 £000
Fair value gains	551	96
Fair value losses	(936)	(653)
	(385)	(557)

**NET INTEREST INCOME**

Net interest income reduced to £325,000 (2007: £340,000) as a result of lower Group cash balances in the year. Interest payable 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.

**INVESTMENTS**

During the year investments in spin-out companies increased to £6,426,000 (2007: £5,091,000). Additions in the year amounting to £1,720,000 consist of equity investments, convertible loan investments and accrued interest to a number of portfolio companies.

The investments are all classified as financial assets and are held at fair value through profit and loss. The Group uses the British Venture Capital Association (BVCA) guidelines to establish the fair value of unlisted securities. The valuation method most commonly used is the "price of recent investment" contained in the BVCA guidelines, based on the valuations agreed at funding rounds involving third party investors.

Realised and unrealised gains and losses amounting to a net loss of £385,000 (2007: £557,000) were included in the income statement in the period.

# CASE STUDY: MAGNOMATICS LIMITED

Magnomatics was incorporated in July 2006 to exploit technology developed by Dr Kais Atallah and his research associates from the Electrical Machines and Drives Group within the Department of Electronic and Electrical Engineering at the University of Sheffield.

Magnomatics is developing a large patent portfolio of magnetic gear technologies and ground-breaking electrical machines that feature integral magnetic gearing.

These technologies are being developed with strategic industry cooperation for application within a wide range of market sectors, including renewable energy, aerospace, automotive and marine.

## FINANCIAL REVIEW

### CONTINUED

#### NON-CURRENT LIABILITIES

Amounts totalling £3,270,000 (2007: £3,293,000) owed to Cardiff University and the University of Sheffield relate to loan notes and accrued interest arising from the purchase of the Group's interest in its portfolio of spin-out companies.

#### CASH BALANCES

Cash balances of the Group as at 31 July 2008 were £6,363,000 (2007: £10,600,000). Cash balances are separately maintained to fund spin-out investments from Sheffield and Cardiff Universities respectively. These cash balances amounted to £285,000 and £5,909,000 respectively (2007: £2,660,000 and £7,630,000 respectively) and are also used to fund corporate operating costs on an equivalent basis. The remaining cash balances relate to cash held within consolidated spin-out subsidiaries.

The cash outflow in the year amounted to £4,237,000 and can be summarised as follows:

	2008 £000	2007 £000
Net cash used in operating activities	(2,856)	(2,279)
Net cash used in investing activities	(1,381)	(44)
Financing activities	—	7,040
	<b>(4,237)</b>	<b>4,717</b>

#### POST YEAR END

In July 2008, the Company announced that it had signed a new ten year agreement with the University of Sheffield for all non-life science IP. The consideration for the agreement could be up to 4.35m Ordinary shares with an initial issue of 3.14m Ordinary shares.

#### COMPANY DETAILS:

NAME:	Simcyp Limited
YEAR FOUNDED:	2001
UNIVERSITY PARTNER:	Sheffield
FUSION IP SHAREHOLDING:	23%
WEBSITE:	www.simcyp.com

In conjunction with the agreement, on 1 August 2008, the Company placed 2.35m Ordinary shares with institutional investors raising £2,115,000 (£1,675,000 net of expenses) which will be used to fund further spin-out investments from Sheffield. Cash balances after this transaction amount to £8,038,000, which the Directors believe is sufficient to support the current portfolio of companies, planned creation of new portfolio companies and corporate operating expenses beyond the next twelve months, as detailed in note 1 to the consolidated financial statements.

#### **ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

This year is the Group's first year of reporting under IFRS as adopted by the European Union. The Group's transition date to IFRS is 1 August 2006 with the first financial statements complying with IFRS being the year ended 31 July 2008.

The most significant change from the adoption of IFRS is the way the Group accounts for its financial assets being investments in associates and other equity investments, which are not consolidated. The Group now measures its investments at fair value in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". Realised and unrealised gains on financial assets at fair value are included in the income statement in the period they arise.

The increase to equity arising from the introduction of IFRS is £490,000 (as at 1 August 2006) rising to £615,000 as at 31 July 2007.



**DAVID BAYNES**  
CHIEF EXECUTIVE  
8 October 2008

#### **CASE STUDY: SIMCYP LIMITED**

Simcyp is a company providing predictive pharmacokinetic tools, workshops and consultancy services. Founded by Prof Geoff Tucker (Chairman), Prof Amin Rostami-Hodjegan (Director of Scientific Development) and Mr John Evans (Managing Director) as a spin-out company from the University of Sheffield.

Simcyp's user-friendly simulator and databases predict drug absorption, clearance, distribution and metabolic drug-drug interactions from in vitro data. By simulating pharmacokinetics in virtual patient populations and identifying individuals at extreme risk, the Simcyp Simulator is able to accelerate drug discovery and development.

Simcyp's clients include many of the major global pharmaceutical and bioscience companies, leading academic institutes and regulatory authorities. These clients form the Simcyp Consortium, which together with an independent International Scientific Advisory Board, guide scientific development at Simcyp.



## BOARD OF DIRECTORS

### **DOUG LIVERSIDGE CBE**

#### **CHAIRMAN**

Appointed to the Board of Fusion IP plc on 1 December 2004, having been a Director of Fusion IP Sheffield 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.

### **DAVID BAYNES**

#### **CHIEF EXECUTIVE**

Appointed to the Board of Fusion IP plc on 2 November 2004, having been a Director of Fusion IP Sheffield 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.

### **DR EDWIN MOSES**

#### **NON-EXECUTIVE DIRECTOR**

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

### **PROF TONY ATKINSON**

#### **NON-EXECUTIVE DIRECTOR**

Appointed to the Board of Fusion IP 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 Chimerean.

### **DAVID CATTON**

#### **NON-EXECUTIVE DIRECTOR**

Mr Catton was appointed to the Board of Fusion IP plc on 1 December 2004, having been a Director of Fusion IP Sheffield 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.



**DR PETER GRANT**  
**OPERATIONS DIRECTOR**

Appointed to the Board of Fusion IP plc on 1 December 2004, having been a Director of Fusion IP Sheffield 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.

**STUART GALL**  
**COMMERCIAL DIRECTOR**

Appointed to the Board of Fusion IP 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).

**MIKE DAVIES**  
**NON-EXECUTIVE DIRECTOR**

Appointed to the Board of Fusion IP 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.

**BOB RABONE**  
**NON-EXECUTIVE DIRECTOR**

Appointed to the Board of Fusion IP on 31 July 2008. Bob is Director of Finance and Resources for the University of Sheffield. Bob previously worked as part of the senior management team of the international law firm, Eversheds LLP and prior to that held several finance director positions in both public and private organisations.





## DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 July 2008.

### RESULTS AND DIVIDEND

Group loss for the year after taxation amounted to £4,964,000 (2007: loss £3,075,000). The Directors do not recommend the payment of a dividend (2007: £nil).

### PRINCIPAL ACTIVITY

The Company acts as a holding company for the Group and is incorporated by shares in England and Wales. The Company's subsidiary undertakings are detailed in note 2 to the financial statements. The Group's principal activity is the commercialisation of intellectual property (IP) that is developed at universities and similar establishments.

### BUSINESS REVIEW

The information which is required to fulfil the requirements of the Business Review as set out in the Companies Act 1985 is incorporated 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  
P Grant  
S Gall

#### NON-EXECUTIVE

D Liversidge CBE (Chairman)  
E Moses  
T Atkinson  
D Catton  
S Oakland (resigned 11 June 2008)  
M Davies  
B Rabone (appointed 31 July 2008)

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.

The Company Secretary is R Birtles.

### FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's financial risk management objectives and policies, including those relating to interest rate risk, liquidity risk and market price risk, are provided in note 3 to the financial statements, along with further information on the Group's use of financial instruments.

### POST BALANCE SHEET EVENTS

Subsequent to the year end on 1 August 2008, the Company announced that it had signed a ten year agreement with the University of Sheffield for all non-life science IP. Consideration for the agreement was up to 4,347,826 Ordinary shares with an initial issue of 3,140,000 Ordinary shares. In conjunction with the expanded Sheffield agreement, the Company placed 2,349,999 Ordinary shares at 90p per share with institutional investors raising £2,115,000.

Also on 1 August 2008 the Company changed its name from Biofusion plc to Fusion IP plc to reflect more accurately the Group's enlarged business.

**MAJOR INTEREST IN SHARES**

As at 8 October 2008, 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
The University of Sheffield	12,473,324	29.6
Cardiff University	10,997,541	26.1
Vidacos Nominees + Chase Nominees (Invesco)	4,090,363	9.7
HSBC Nominees (AXA Framlington)	3,216,397	7.6
Barclayshare Nominees (NPI Ventures)	2,668,858	6.3
Schroder Investment Management	1,871,911	4.4
D Baynes	1,333,332	3.2
S Gall	1,333,332	3.2
P Grant	1,333,332	3.2

**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 2008 was 59 days (2007: 41 days). The Company has no trade creditors.

**CHARITABLE DONATIONS**

During the year the Group has made charitable donations of £500 to Hole in the Wall (2007: Nil).

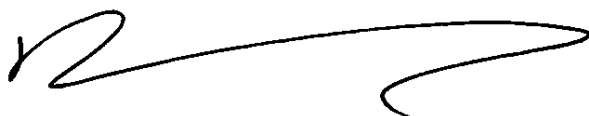
**PROVISION OF INFORMATION TO AUDITORS**

So far as each of the Directors is aware, there is no relevant audit information of which the Group's auditors are unaware. Each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

**AUDITORS**

A resolution for the re-appointment of KPMG Audit Plc will be proposed at the forthcoming Annual General Meeting.

By order of the Board



**DAVID BAYNES**  
CHIEF EXECUTIVE  
8 October 2008



## REPORT ON THE DIRECTORS' REMUNERATION

This Report on the Directors' Remuneration sets out the Company's policy on the remuneration of Executive and Non-executive Directors, together with details of Directors' remuneration packages and service contracts.

### REMUNERATION COMMITTEE

For the financial year ended 31 July 2008, 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:

- the basic salaries and benefits available to Executive Directors of comparable companies;
- the need to attract and retain Directors of an appropriate calibre;
- the need to ensure Executive Directors' commitment to the continued success of the Company by means of incentive schemes; and
- the need for the remuneration awarded to reflect performance.

### REMUNERATION OF THE NON-EXECUTIVE DIRECTORS

All the Non-executive Directors, except for S Oakland, who represents NPI Ventures, M Davies, who represents Cardiff University and B Rabone, who represents the University of Sheffield 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:

- 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;
- link individual remuneration packages to the Group's long term performance through the award of discretionary bonus schemes; and
- provide employment-related benefits including life assurance, insurance relating to the 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 July 2008.

### 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	Notice period
D Liversidge CBE* (Chairman)	01 December 2004	n/a	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	01 December 2004	n/a	3 months
T Atkinson	01 December 2004	n/a	3 months
D Catton	01 December 2004	n/a	3 months

\* Service contract is via an agreement with Quest Investments Limited.

The Directors are required to retire by rotation once every three years. No Director is required to retire by rotation at the forthcoming Annual General Meeting.

B Rabone, having been appointed 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 will 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 2008 £	Total 2007 £
<b>EXECUTIVE</b>						
D Baynes	154,000	—	15,400	2,156	171,556	173,934
P Grant	132,000	—	13,200	2,156	147,356	150,460
S Gall	132,000	—	13,200	2,156	147,356	150,460
<b>NON-EXECUTIVE</b>						
D Liversidge CBE (Chairman)	36,000	—	—	—	36,000	33,500
E Moses	25,750	—	—	—	25,750	24,250
T Atkinson	25,750	—	—	—	25,750	24,250
D Catton	12,875	—	—	—	12,875	12,125
S Oakland	—	—	—	—	—	—
M Davies	—	—	—	—	—	—
B Rabone*	—	—	—	—	—	—
	518,375	—	41,800	6,468	566,643	568,979

\* Joined Board on 31 July 2008, as part of the expanded Sheffield 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. During the year D Baynes chose to have accrued pension contributions amounting to £40,900 paid as basic salary. At the year end an amount of £9,800 was accrued but unpaid.

No Director waived emoluments in the year (2007: 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 2007	As at 31 July 2008	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 86.5p (2007: 150.0p) and the range of market prices during the year was 150.0p to 86.5p (2007: 160.0p to 147.5p).

Each option will vest monthly as to 1/36<sup>th</sup> 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.



## REPORT ON THE DIRECTORS' REMUNERATION

### CONTINUED

#### DIRECTORS' INTERESTS IN SHARES

The Directors at 31 July 2008 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 ip shares	31 July 2008
D Baynes	1,333,332
P Grant	1,333,332
S Gall	1,333,332
D Liversidge CBE (Chairman)	—
E Moses	—
T Atkinson	—
D Catton	—
M Davies	—
B Rabone	—

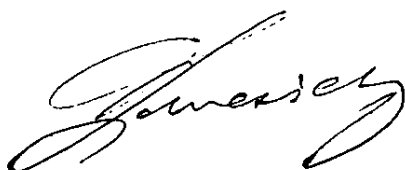
On 27 January 2005, D Baynes, P Grant and S Gall granted an option to D Liversidge CBE entitling him to acquire 97,756 Ordinary shares from each of them at an aggregate exercise price of £44,000. The options can be exercised at any time prior to 27 January 2015. Mr Liversidge CBE has undertaken to the Company 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 2008, 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 2008.



**DOUG LIVERSIDGE CBE**  
CHAIRMAN  
8 October 2008





# CORPORATE GOVERNANCE

The Company is committed to high standards of corporate governance. The revised Combined Code on Corporate Governance (Combined Code) was published in 2006. 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 21 Dr E Moses, Prof T Atkinson and D 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. S Oakland, as a representative of NPI Ventures, prior to his resignation on 11 June 2008 was not considered to be independent. Following the completion of the expanded Sheffield Agreement on 31 July 2008, B Rabone, Director of Finance and Resources of the University of Sheffield was appointed a Non-executive Director. 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 fund raising and the setting of Group strategy, City public relations and the review and evaluation of significant risks facing the business. Briefing papers are distributed 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 role within the Group are set out on pages 16 and 17.

### ATTENDANCE AT MEETINGS

The full Board met six times in the financial year ended 31 July 2008 and all of the Directors in office at that time were in attendance at these meetings, with the exception of Prof T Atkinson and S Oakland who were unable to attend two meetings and M Davies who was unable to attend three meetings.

### THE AUDIT COMMITTEE

The Audit Committee comprises the Non-executive Chairman, D Liversidge CBE, and two of the Non-executive Directors, Dr E Moses and Prof T Atkinson. The Audit Committee's remit is set out in its terms of reference and meets with the auditors at least twice a year. The Committee assists the Board in ensuring that 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 Chairman, D Liversidge CBE, and two of the Non-executive Directors, Dr E Moses and Prof T Atkinson. When necessary non-committee members are invited to attend. No Director is involved in deciding his own remuneration. The Committee is responsible for making recommendations to the Board on the scale and structure of remuneration for senior management, including the award of share options.

### THE NOMINATION COMMITTEE

The Nomination Committee comprises the Non-executive Directors, and is chaired by the Chairman, D Liversidge CBE. 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 of 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 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 makes itself available to questions at all shareholder meetings it holds. The Chief Executive reports back to the Board views of investors obtained at analysts' and brokers' briefings. The Board will use the Annual General Meeting to communicate with private and institutional investors and welcomes their participation.

In addition the Group operates a website, which can be found at [www.fusionip.co.uk](http://www.fusionip.co.uk). The website contains the information about the Group that is required by AIM Rule 26. That information can be found under the section of the website headed Investor Relations and contains, amongst other information, details on the Group and its activities, the Group's regulatory announcements, its Annual Reports and Interim Reports and details of the Group's share price.



## CORPORATE GOVERNANCE

### CONTINUED

#### 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 but 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:

- 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 fortnightly to discuss day-to-day operational matters;
- 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; and
- The Board reviews the Group's performance against detailed budgets and working capital forecasts on a bi-monthly basis.

#### 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. Further details are provided in note 2 to the financial statements.

#### STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report, the Report on the Directors' Remuneration 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 prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the Parent Company financial statements and the Report on the Directors' Remuneration in accordance with UK Accounting Standards (UK GAAP) and applicable law.

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 then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Group financial statements comply with IFRS as adopted by the European Union and that the Parent Company financial statements comply with applicable UK GAAP subject to any material departures disclosed and explained in the financial statements; and
- prepare the Group and Parent Company financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and the Parent Company and to 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 Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



# INDEPENDENT AUDITORS' REPORT

## TO THE MEMBERS OF FUSION IP PLC (FORMERLY BIOFUSION PLC)

KPMG Audit Plc  
1 The Embankment  
Neville Street  
Leeds LS1 4DW  
United Kingdom

We have audited the Group and Parent Company financial statements (the "financial statements") of Fusion IP plc (formerly Biofusion plc) for the year ended 31 July 2008 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity 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 Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU, and for preparing the Parent Company 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 24.

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 whether the financial statements have been 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. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and Chief Executive's Review that is cross referred from the Business Review section of the Directors' Report.

In addition we 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 Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 July 2008 and of its loss for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 July 2008;
- 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**  
CHARTERED ACCOUNTANTS  
REGISTERED AUDITOR  
8 October 2008



**CONSOLIDATED INCOME STATEMENT**

FOR THE YEAR ENDED 31 JULY 2008

	Note	2008 £000	2007 £000
<b>REVENUE</b>	5	<b>359</b>	351
Change in fair value of investments	15	(385)	(557)
Gain on disposal of subsidiaries		44	66
<b>OPERATING EXPENSES:</b>			
– corporate operating expenses		(1,975)	(1,580)
– subsidiary spin-out operating expenses		(1,653)	(797)
– amortisation and impairment of intangible assets	14	(1,679)	(898)
	6	(5,307)	(3,275)
<b>RESULTS FROM OPERATING ACTIVITIES</b>	7	<b>(5,289)</b>	(3,415)
Finance income	10	556	535
Finance expenses	10	(231)	(195)
<b>LOSS BEFORE TAXATION</b>		<b>(4,964)</b>	(3,075)
Taxation	11	—	—
<b>LOSS FOR THE YEAR</b>		<b>(4,964)</b>	(3,075)
<b>ATTRIBUTABLE TO:</b>			
– equity holders of the parent		(4,289)	(2,765)
– minority interest	20	(675)	(310)
<b>LOSS FOR THE YEAR</b>		<b>(4,964)</b>	(3,075)
<b>BASIC AND FULLY DILUTED LOSS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT</b>	12	<b>(11.70)p</b>	(9.26)p






**CONSOLIDATED BALANCE SHEET**

AS AT 31 JULY 2008

	Note	2008 £000	2007 £000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	288	41
Intangible assets	14	13,608	15,238
Investments	15	6,426	5,091
<b>TOTAL NON-CURRENT ASSETS</b>		<b>20,322</b>	<b>20,370</b>
<b>CURRENT ASSETS</b>			
Trade and other receivables	16	983	795
Cash and cash equivalents	17	6,363	10,600
<b>TOTAL CURRENT ASSETS</b>		<b>7,346</b>	<b>11,395</b>
<b>TOTAL ASSETS</b>		<b>27,668</b>	<b>31,765</b>
<b>EQUITY</b>			
Called up share capital	18	367	367
Capital reserve	19	2	2
Share premium	18	31,671	31,671
Capital redemption reserve	19	1	1
Retained earnings		(8,611)	(3,972)
<b>TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>		<b>23,430</b>	<b>28,069</b>
Minority interest	20	—	—
<b>TOTAL EQUITY</b>		<b>23,430</b>	<b>28,069</b>
<b>NON-CURRENT LIABILITIES</b>			
Amounts owed to related parties	22	3,270	3,293
<b>CURRENT LIABILITIES</b>			
Trade and other payables	21	968	403
<b>TOTAL LIABILITIES</b>		<b>4,238</b>	<b>3,696</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>27,668</b>	<b>31,765</b>

These financial statements were approved by the Board of Directors on 8 October 2008 and were signed on its behalf by the Chairman.



**DOUG LIVERSIDGE CBE**  
CHAIRMAN



# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 JULY 2008

	2008 £000	2007 £000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	(4,964)	(3,075)
Adjustments for:		
– depreciation of property, plant and equipment	41	11
– amortisation and impairment of intangible assets	1,679	898
– net finance costs/(income)	(325)	(340)
– share-based payments	24	16
– gain on disposal of investments	(44)	(66)
– negative goodwill acquired with subsidiary	—	(25)
– fair value movement on investments	385	557
Changes in working capital:		
– increase in trade and other receivables	(188)	(117)
– increase/(decrease) in trade and other payables	563	(138)
	(2,829)	(2,279)
Interest paid	(27)	—
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>	<b>(2,856)</b>	<b>(2,279)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(288)	(28)
Purchase of investments	(1,945)	(839)
Net cash acquired with subsidiary	—	29
Proceeds from disposal of investments	353	377
Purchase of intangible assets	(57)	(118)
Interest received	556	535
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(1,381)</b>	<b>(44)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of share capital	—	7,757
Share issue costs	—	(717)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>—</b>	<b>7,040</b>
Net (decrease)/increase in cash and cash equivalents	(4,237)	4,717
Cash and cash equivalents at the beginning of the period	10,600	5,883
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>6,363</b>	<b>10,600</b>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JULY 2008

	Attributable to equity holders of the Group						Total £000
	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total £000	Minority interests £000	
At 1 August 2006	203	8,906	3	(935)	8,177	—	8,177
Loss for the year	—	—	—	(2,765)	(2,765)	(310)	(3,075)
Minority interest attributable to Group	—	—	—	(288)	(288)	288	—
Issue of share capital	164	22,765	—	—	22,929	—	22,929
Share-based payments	—	—	—	16	16	—	16
Disposal of subsidiary	—	—	—	—	—	(6)	(6)
Acquisition of subsidiary	—	—	—	—	—	28	28
At 31 July 2007	367	31,671	3	(3,972)	28,069	—	28,069
Loss for the year	—	—	—	(4,289)	(4,289)	(675)	(4,964)
Minority interest attributable to Group	—	—	—	(374)	(374)	374	—
Share-based payments	—	—	—	24	24	—	24
Disposal of subsidiaries	—	—	—	—	—	301	301
<b>AT 31 JULY 2008</b>	<b>367</b>	<b>31,671</b>	<b>3</b>	<b>(8,611)</b>	<b>23,430</b>	<b>—</b>	<b>23,430</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2008

## 1. GENERAL INFORMATION

Fusion IP plc (formerly Biofusion plc) is a public limited company which is listed on the Alternative Investment Market (AIM) of the London Stock Exchange and is incorporated and domiciled in the UK. The address of its registered office is the Innovation Centre, 217 Portobello, Sheffield, S1 4DP. The registered number of the Company is 5275732.

These financial statements are presented in Sterling because that is the currency of the primary economic environment in which the Group operates.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated statements are set out below.

### BASIS OF PREPARATION

The consolidated financial statements comprise a consolidation of amounts included in the financial statements of the following companies:

	Principal activity	Holding	Class of shares held
Fusion IP Sheffield Limited (formerly Biofusion Trading Limited)	Holding company	100%	Ordinary
Fusion IP Cardiff Limited (formerly Fusion Cardiff Limited)	Holding company	100%	Ordinary
Biofusion Licensing (Sheffield) Limited*	Dormant	100%	Ordinary
Mantelum Limited*	IP development company	100%	Ordinary
Phase Focus Limited*	Lensless microscopy	63%	Ordinary
Absynth Biologics Limited*	MRSA vaccines	60%	Ordinary
BioHydrogen Limited*	Hydrogen production	60%	Ordinary
Medella Therapeutics Limited*	Cancer therapeutics	60%	Ordinary
Diurnal Limited*	Hormone replacement	60%	Ordinary
Genophrenix Limited*	Identification of Schizophrenia targets	60%	Ordinary
Magnomatics Limited*	Magnetic devices	50%	Ordinary
Bioacta Limited*	Dormant	52%	Ordinary
Lifestyle Choices Limited*	Ovarian reserve measurement	51%	Ordinary

\* Indirectly held.

All companies are incorporated in England and Wales.

The consolidated financial statements of Fusion IP plc have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). The Company has elected to prepare its Parent Company financial statements in accordance with UK GAAP and these are presented on pages 46 to 48.

### TRANSITION TO IFRS

The Directors have adopted IFRS for the year ended 31 July 2008 as permitted by the Companies Act 1985, IAS and other accounting amendments and regulations that became law on 11 November 2004. The date of transition to IFRS for the Group is therefore 1 August 2006.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets at fair value through profit and loss, as required by IAS 39 "Financial Instruments: Recognition and Measurement".

The Group's results were prepared in accordance with UK GAAP until the year ended 31 July 2007. UK GAAP differs in a number of areas from IFRS. In preparing the Group's results for the period to 31 July 2008, the Directors have amended certain accounting, valuation and consolidated methods applied in the UK GAAP financial statements. The comparative figures in respect of 2007 have been restated to reflect these IFRS adjustments.

The effect of transition from UK GAAP to IFRS on the Group's profit, net assets and cash flows are provided in the numerical reconciliation and narrative statements in note 26.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

### GOING CONCERN

The financial statements are prepared on the going concern basis. Cash balances at 31 July 2008 amount to £6,363,000 (2007: £10,600,000). In addition the Company raised a further £2,115,000 on 1 August 2008 (see note 25 for details). The balances are considered sufficient to meet expenditure for at least the next twelve 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.

Cash balances are separately ring fenced for investment in spin outs from the University of Sheffield and Cardiff University respectively. Details of these balances are contained in note 17. The Group has a commitment in respect of the cash reserves within the Sheffield agreement. Details of this commitment are given in note 24.





**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** CONTINUED**NEW STANDARDS AND INTERPRETATIONS NOT APPLIED**

The International Accounting Standards Board (IASB) has issued the following standards and interpretations with an effective date after the date of these accounts:

International Accounting Standards (IAS/IFRS)	Effective date
IFRS 8 Operating Segments (endorsed by EU)	1 January 2009

No other endorsed standard is expected to have a material impact.

**BASIS OF CONSOLIDATION****SUBSIDIARIES**

The Group's consolidated financial statements consist of Fusion IP plc and all of its subsidiaries. The consolidated financial statements exclude intra-group transactions.

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control and continues through to the date control ceases. Control consists of the power to govern the financial and operating policies of the entity in order to obtain benefit from its activities, usually by holding more than 50% of the voting rights or by way of contractual agreement.

The cost of acquisition is measured at fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the transaction. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

As permitted by IFRS 1 the Group has elected not to apply IFRS 3 "Business Combinations" retrospectively to business combinations that took place before 1 August 2006.

**SPIN-OUT INVESTMENTS**

Spin-out investments are entities over which the Group has significant influence, but not control, generally accompanied by a shareholding of 20% to 50% of the equity or voting rights. Spin-out investments that are held by the Group with a view to the ultimate realisation of capital gains are accounted for in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" and upon initial recognition are designated at fair value through profit or loss.

Dilution gains and losses arising in spin-out investments are recognised in the income statement.

**SEGMENTAL REPORTING**

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing services within a particular economic environment that is subject to different risks and returns from other segments in other economic environments. All of the Group's revenues and losses arise within the UK and from a single business segment, being the commercialisation of intellectual property.

**FOREIGN CURRENCY TRANSLATION**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss.

**PROPERTY, PLANT AND EQUIPMENT**

All property, plant and equipment is shown at cost less depreciation and impairment. Depreciation is provided to write off the cost, less the estimated residual value by equal instalments over the estimated useful economic lives as follows:

Computer equipment	– 4 years
Office/laboratory equipment	– 3 to 5 years
Demonstration prototypes	– 2 to 3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the income statement.

**INTANGIBLE ASSETS****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, liabilities and contingent liabilities acquired. Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses.

Goodwill in respect of acquisitions prior to 1 August 2006 is included on the basis of its deemed cost, which represents the amount recorded under UK GAAP.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

**IP RIGHTS**

IP rights comprise IP, patents and licences purchased by the Group together with the IP pipeline with Cardiff University. The Group's view is that these assets have a finite life of ten years and to that extent they should be amortised over their respective unexpired periods with provision made for any impairment when required. IP rights are tested annually for impairment and are carried at cost less accumulated impairment losses.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2008 CONTINUED

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### INTANGIBLE ASSETS CONTINUED

#### IMPAIRMENT OF INTANGIBLE ASSETS

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment when events or a change in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use. For the purposes of assessing impairments, assets are grouped at the lowest levels for which there are largely independent cash flows (cash-generating units (CGUs)).

#### RESEARCH AND DEVELOPMENT EXPENDITURE

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group intends to, and has the technical ability and sufficient resources to, complete development and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred.

### FINANCIAL ASSETS

The Group classifies its financial assets into one of the categories listed below, depending on the purpose for which the asset was acquired. None of the Group's assets are categorised as held to maturity or available for sale.

In respect of regular purchases and sales, these are recognised on the trade-date – the date on which the Group commits to purchasing or selling the asset. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or the Group has transferred substantially all risks and rewards of ownership.

#### FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group classifies all its equity investments as financial assets at fair value through profit and loss. Spin-out investments that are held by the Group with a view to the ultimate realisation of capital gains are designated as financial assets at fair value through profit and loss.

The fair value of unlisted securities is established using British Venture Capital Association (BVCA) guidelines. The valuation methodology used most commonly by the Group is the "price of recent investment" contained in the BVCA valuation guidelines. The following considerations are used when calculating the fair value using the price of recent investment guidance:

- where the investment being valued was itself made recently, its cost will generally provide a good indication of fair value;
- where there has been any recent investment by third parties, the price of that investment will provide a basis for the valuation; and
- where a fair value cannot be estimated reliably the investment is reported at cost unless there is evidence that the investment has since been impaired.

Realised and unrealised gains on financial assets at fair value through profit or loss are included in the income statement in the period they arise.

### LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets and comprise "trade and other receivables" and "cash and cash equivalents".

### TRADE RECEIVABLES

Trade receivables are stated initially at fair value and subsequently at amortised cost.

### PAYMENTS ON ACCOUNT

Payments on account are recorded within trade and other receivables and represent the transfer of funds in advance to the University of Sheffield held on the balance sheet of Fusion IP Sheffield Limited. The payments on account are held at cost, less any amounts transferred to investments on account of the acquisition of interests in spin-out companies from the University of Sheffield Life Science Department.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

### FINANCIAL LIABILITIES

Financial liabilities are comprised of trade payables and other short term monetary liabilities, which are recognised at amortised cost. Unless otherwise indicated, the carrying amounts of the Group's financial liabilities are a reasonable approximation of their fair value.

### NON-CURRENT LIABILITIES OWED TO RELATED PARTIES

Non-current liabilities owed to related parties relate to loan notes and accrued interest due to the University of Sheffield and Cardiff University 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 Fusion IP of the underlying share capital in the Company, or the Company making dividend payments, or ten years from the day of issue should the spin-out company generate a return. These amounts are only payable to the extent that any gain or dividend is received by Fusion IP and can be cancelled by Fusion IP by the return of the shares to which they relate to the University of Sheffield or Cardiff University respectively.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED****SHARE CAPITAL**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**LEASES**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

**DEFERRED TAXATION**

Deferred tax arises from temporary differences as a result of the different treatment for accounts and taxation purposes of transactions and events recognised in the financial statements of the current period and previous periods. Deferred tax assets are not currently recognised in the accounts because of the uncertainty of future taxable profits against which they may be recovered.

**EMPLOYEE BENEFITS****PENSION OBLIGATIONS**

The Group does not operate any pension schemes for employees but makes contributions to employee personal pension schemes on an individual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

**SHARE-BASED PAYMENTS**

Share-based incentive arrangements are provided to Directors and certain employees. Share options granted are valued at the date of grant using the Black-Scholes option pricing model and are expensed on a straight line basis over the vesting period to operating profit.

**REVENUE RECOGNITION**

Revenue comprises:

- fees for various advisory and fund management services which are recognised in the income statement when the related services are performed and when considered recoverable; and
- licence fees which are recognised in full upon signing once all the Group's obligations have been completed, in accordance with the substance of the agreement.

**3. FINANCIAL RISK MANAGEMENT**

In the normal course of business, the Group uses certain financial instruments including cash, equity investments and loans to its portfolio of spin-out companies. Loans to spin-out companies are treated on the same basis as equity for valuation purposes.

**RISK MANAGEMENT OBJECTIVES**

The Group is exposed to a number of risks through the performance of its normal operations. The most significant are liquidity and market price risk. Income from surplus funds is dependent on market interest rates.

The Group's main objective in using financial instruments is to promote the commercialisation of IP held by technology businesses through the raising and investing of funds for this purpose. The Group's policies in calculating the nature, amount and timing of investments are determined by planned future investment activity.

Due to the nature of the Group's activities, the Directors do not consider it necessary to use derivative financial instruments to hedge the Group's exposure to fluctuations in interest rates, as these exposures have not been significant during the period covered by this report.

**INTEREST RATE RISK PROFILE OF FINANCIAL LIABILITIES**

The Group's liabilities consist of short term payables, therefore disclosures have been excluded. The amounts owed to related parties falling due after more than one year relate to loan notes and accrued interest due to the University of Sheffield and Cardiff University arising from the purchase of the Group's interest in its portfolio of spin-out companies. These amounts are interest bearing at a rate which tracks the London Interbank Offered Rate (LIBOR).

**BORROWING FACILITIES**

The Group had no undrawn committed borrowing facilities available during the period.

**CURRENCY EXPOSURES**

The Group occasionally enters into transactions in currencies other than Sterling. Any exposure to fluctuations in market currency exchange rates is considered immaterial from a Group perspective. Therefore no sensitivity analysis has been prepared in relation to this risk.

**INTEREST RATE RISK**

The Group has directly maintained special interest bearing accounts with a corporate bank at variable rates of interest related to LIBOR. These deposits are made on a daily basis with minimal balances held on current account. Fixed rate deposits for periods of up to three months are placed with a corporate bank where surplus funds in excess of £1m exist and interest rates above LIBOR are available.

The Group's cash and cash deposits as at 31 July 2008 amounted to £6,363,000 (2007: £10,600,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2008 CONTINUED

## 3. FINANCIAL RISK MANAGEMENT CONTINUED

### LIQUIDITY RISK

The Group seeks to manage financial risk, and in particular liquidity risk, ensuring that sufficient liquidity is available to meet foreseeable requirements and to invest surplus cash in low risk instruments with reputable institutions.

### MARKET PRICE RISK

The Group is exposed to risk in respect of equity investments and loans to spin-out companies. The Group seeks to mitigate this risk by routinely monitoring the performance of the spin-out companies. The Group uses a rigorous investment appraisal process prior to deciding on investment. Regular spin-out company updates are provided to the Board on the status and valuation of investments. Most spin-out companies also have a Fusion IP plc Executive Director on their Board who closely monitors the performance of the company against strategic milestones. The value of early stage technology and life science spin-out companies is affected by the ability to attract strategic industrial partners and venture capital institutions to invest in follow-on funding rounds, which is ultimately determined by the general economic environment and the performance of the international equity markets.

### CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Group does not currently utilise debt within its capital structure. Additional cash and cash equivalents for operating and investment requirements is generated through the issue of new shares.

There were no changes in the Group's approach to capital management during the year.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the Group's accounting policies, which are set out in note 2, the Directors have made certain judgements that have a significant effect on the amounts recognised in the financial statements. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

### VALUATION OF UNQUOTED EQUITY INVESTMENTS

The judgements required to determine the appropriate valuation methodology of unquoted equity investments means there is a risk of material adjustment to the carrying amounts of assets and liabilities. These judgements include a decision whether or not to impair valuations.

Valuations of unquoted equity investments are based on the last external funding round where one has taken place, otherwise at cost.

### VALUATION OF INTANGIBLE IP RIGHTS

The Group is required to test, at least annually, whether the IP rights have suffered any impairment. There are a number of variable assumptions set out in note 14. The Directors consider that for each of these variables there is a wide range of reasonably possible alternative values, which result in a wide range of fair value estimates for the IP rights agreement. None of these estimates of fair value is considered more appropriate or relevant than any other. As a result of this, the Directors' view is that the IP rights should be amortised over the ten year life of the agreement with provision made for any impairment when required.

### SUBSIDIARIES AND SPIN-OUT INVESTMENTS

At the point of investing in a new spin-out company the Directors consider the definitions of a subsidiary and a spin-out investment as set out in note 1. The judgements over control of the company are assessed through:

- proportion of voting rights held;
- power to govern policies of the entity; and
- power to appoint a majority of board members.

## 5. SEGMENTAL INFORMATION

### PRIMARY BUSINESS SEGMENT

For the year ended 31 July 2008 and the year ended 31 July 2007 the Group's revenue and profit was derived from its principal activity, within the United Kingdom. For management purposes, the Group is organised into one business segment, which encompasses technology transfer, Company incubation and early stage venture capital.



**6. RESULTS FROM OPERATING ACTIVITIES**

Results from operating activities have been arrived at after charging/(crediting) the following operating expenses:

	2008 £000	2007 £000
Depreciation on property, plant and equipment	41	11
Amortisation and impairment of intangible assets	1,679	898
Employee costs (see note 8)	1,242	738
Operating leases – property	53	25
Payments to Cardiff University for IP mining	210	118
Research, development and patent costs	741	529
Legal, professional, insurance and advisory costs	676	482
Administration and marketing costs	665	474
	<b>5,307</b>	<b>3,275</b>

**7. AUDITORS' REMUNERATION**

During the year the Group obtained the following services from the Group's auditors:

	2008 £000	2007 £000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	19	18
Fees payable to the Company's auditors and its associates for other services:		
– the audit of the Company's subsidiaries	9	8
– review of interim financial statements	20	9
– other services relating to corporate finance transactions (review of working capital projections)	35	55

**8. EMPLOYEE COSTS**

	2008 £000	2007 £000
Wages and salaries	1,036	614
Social security costs	117	68
Pension costs – contributions to money purchase plans	65	40
Share-based payments	24	16
	<b>1,242</b>	<b>738</b>

Average monthly number of persons (including Executive Directors) employed:

	2008 Number	2007 Number
Central corporate functions	14	12
Subsidiary spin-out companies	7	1
	<b>21</b>	<b>13</b>

**9. SHARE-BASED PAYMENTS**

No share options or share warrants were exercised during the period.

During the year no new share warrants were issued. Options over 33,333 shares were issued to one employee on 30 November 2007, details of which are set out in the table on page 36. The exercise price of these options is £1.50.

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, Fusion IP issued the following warrants to NPI Ventures:

- 1,225,000 Ordinary shares with an exercise price of £1.50;
- 1,225,000 Ordinary shares with an exercise price of £1.60;
- 612,500 Ordinary shares with an exercise price of £1.80; and
- 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 £24,000 (2007: £16,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2008 CONTINUED

## 9. SHARE-BASED PAYMENTS CONTINUED

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:

	Employees	Directors	NPI
Fair value at grant date	47.24p	47.24p	43.98p to 18.83p
Share price at grant	150.00p	150.00p	152.25p
Dividend yield	0.0%	0.0%	0.0%
Expected volatility	18.52%	18.52%	18.85%
Term to maturity	6.5 years	6.5 years	5.5 years
Risk free interest rate	4.46%	4.46%	4.28%
Number of shares under option	33,333	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.

## 10. FINANCE INCOME AND COSTS

	2008 £000	2007 £000
<b>FINANCE INCOME</b>		
Interest income on short term bank deposits	478	467
Interest income on loans to spin-out investments	78	68
	556	535
<b>FINANCE EXPENSES</b>		
Interest payable on loans from related parties	(231)	(195)
	(231)	(195)
<b>NET FINANCE COSTS</b>	325	340

## 11. TAXATION

	2008 £000	2007 £000
Current tax	—	—
Deferred tax	—	—
	—	—

Corporation tax is calculated at 28% (2007: 30%) of the estimated assessable profit for the period. The tax rate of 28% was substantively enacted from 1 April 2008.

The charge for the year can be reconciled to the loss per the income statement as follows:

	2008 £000	2007 £000
Loss before tax	(4,964)	(3,075)
Current tax at 28% (2007: 30%)	(1,390)	(923)
<b>EFFECTS OF:</b>		
– expenses not deductible for tax purposes	44	8
– tax losses carried forward	1,346	915
<b>TOTAL CURRENT CHARGE</b>	—	—

Deferred tax assets of £2,743,000 (2007: £1,397,000) from unutilised tax losses have not been recognised as the Directors consider there to be sufficient uncertainty over the availability of future taxable profits from which the trading losses can be deducted.

The Directors believe that the Group will qualify for the Substantial Shareholder Exemption (SSE) and therefore no deferred tax is provided for in respect of the fair value uplifts in valuation of certain of the equity investments.





**12. EARNINGS PER SHARE**

	2008	2007
Loss attributable to the equity holders of the parent	<b>£4,289,000</b>	£2,765,000
Weighted average number of Ordinary shares in issue	<b>36,663,967</b>	29,852,493
Basic and fully diluted loss per share	<b>(11.70)p</b>	(9.26)p

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of Ordinary shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of Ordinary shares outstanding to assume conversion of all dilutive potential Ordinary shares according to IAS 33. Dilutive potential Ordinary shares include granted share options and warrants where the exercise price is less than the average market price of the Company's Ordinary shares during the year.

IAS 33 requires presentation of diluted earnings per share when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. Only options or warrants that are "in the money" are treated as dilutive and net loss per share would not be increased by the exercise of such options or warrants. Therefore no adjustment has been made to dilute loss per share for any outstanding shares options or warrants.

Subsequent to the year end, on 1 August 2008 the expanded Agreement with the University of Sheffield was completed together with a Placing of Ordinary shares which resulted in the issue of an additional 5,489,999 Ordinary shares (see note 25 for further details). This increased the issued share capital to 42,153,966 Ordinary shares, which would have had a material impact on the calculation of earnings per share above.

**13. PROPERTY, PLANT AND EQUIPMENT**

	Office and computer equipment £000	Prototypes and laboratory equipment £000	Total £000
<b>COST</b>			
At 1 August 2007	58	4	62
Additions	26	262	288
<b>AT 31 JULY 2008</b>	<b>84</b>	<b>266</b>	<b>350</b>
<b>ACCUMULATED DEPRECIATION</b>			
At 1 August 2007	(21)	—	(21)
Charge for the year	(17)	(24)	(41)
<b>AT 31 JULY 2008</b>	<b>(38)</b>	<b>(24)</b>	<b>(62)</b>
<b>NET BOOK VALUE</b>			
<b>AT 31 JULY 2008</b>	<b>46</b>	<b>242</b>	<b>288</b>
	Office and computer equipment £000	Prototypes and laboratory equipment £000	Total £000
<b>COST</b>			
At 1 August 2006	34	—	34
Additions	24	4	28
<b>At 31 July 2007</b>	<b>58</b>	<b>4</b>	<b>62</b>
<b>ACCUMULATED DEPRECIATION</b>			
At 1 August 2006	(10)	—	(10)
Charge for the year	(11)	—	(11)
<b>At 31 July 2007</b>	<b>(21)</b>	<b>—</b>	<b>(21)</b>
<b>NET BOOK VALUE</b>			
<b>At 31 July 2007</b>	<b>37</b>	<b>4</b>	<b>41</b>
<b>At 1 August 2006</b>	<b>24</b>	<b>—</b>	<b>24</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2008 CONTINUED

## 14. INTANGIBLE ASSETS

	IP rights £000	Goodwill £000	Total £000
<b>COST</b>			
At 1 August 2007	16,064	599	16,663
Additions	57	—	57
Disposals	—	(8)	(8)
<b>AT 31 JULY 2008</b>	<b>16,121</b>	<b>591</b>	<b>16,712</b>
<b>ACCUMULATED AMORTISATION</b>			
At 1 August 2007	(898)	(527)	(1,425)
Amortisation charge	(1,628)	—	(1,628)
Impairment charge	—	(51)	(51)
<b>AT 31 JULY 2008</b>	<b>(2,526)</b>	<b>(578)</b>	<b>(3,104)</b>
<b>NET BOOK VALUE</b>			
<b>AT 31 JULY 2008</b>	<b>13,595</b>	<b>13</b>	<b>13,608</b>
	IP rights £000	Goodwill £000	Total £000
<b>COST</b>			
At 1 August 2006	—	599	599
Additions	16,064	—	16,064
At 31 July 2007	16,064	599	16,663
<b>ACCUMULATED AMORTISATION</b>			
At 1 August 2006	—	(527)	(527)
Charge for the year	(898)	—	(898)
At 31 July 2007	(898)	(527)	(1,425)
<b>NET BOOK VALUE</b>			
At 31 July 2007	15,166	72	15,238
At 1 August 2006	—	72	72

The IP rights acquired in the year arise from IP acquired from the University of Sheffield in relation to certain subsidiary undertakings.

Goodwill relates to that generated on the acquisition of the Group's subsidiaries, Bioacta Ltd (fully written down), Diurnal Ltd and Lifestyle Choices Ltd. Following an impairment review the goodwill relating to Lifestyle Choices Ltd was fully written down in the year.

### CARRYING VALUE OF THE CARDIFF UNIVERSITY IP PIPELINE RIGHTS

The following key variables would be relevant in determining a fair value for the IP pipeline rights:

- the timing and number of spin-out companies from Cardiff University;
- dilution of percentage shareholding rates as a result of financing related spin-out companies in the future; and
- disposal values and timings.

The Directors consider that for each of these variables there is a wide range of reasonably possible alternative values, which result in a wide range of fair value estimates for the IP rights agreement. None of these estimates of fair value is considered more appropriate or relevant than any other. As a result of this, the Directors' view is that the IP rights should be amortised over the ten year life of the agreement with provision made for any impairment when required. The carrying value of the Cardiff University IP rights amounted to £13,465,000 (2007: £15,059,000).



**15. INVESTMENTS**

	Unquoted spin-out companies £000	Loans £000	Total £000
<b>FAIR VALUE</b>			
At 1 August 2007	4,209	882	5,091
Additions	681	1,039	1,720
Transfers	11	(11)	—
Change in fair value in the year	(234)	(151)	(385)
<b>At 31 JULY 2008</b>	<b>4,667</b>	<b>1,759</b>	<b>6,426</b>
<b>CHANGE IN FAIR VALUE IN THE YEAR</b>			
Fair value gains	551	—	551
Fair value losses	(785)	(151)	(936)
	<b>(234)</b>	<b>(151)</b>	<b>(385)</b>
	Unquoted spin-out companies £000	Loans £000	Total £000
<b>FAIR VALUE</b>			
At 1 August 2006	2,728	1,127	3,855
Additions	1,762	389	2,151
Disposals	(358)	—	(358)
Transfers	634	(634)	—
Change in fair value in the year	(557)	—	(557)
<b>At 31 July 2007</b>	<b>4,209</b>	<b>882</b>	<b>5,091</b>
<b>CHANGE IN FAIR VALUE IN THE YEAR</b>			
Fair value gains	96	—	96
Fair value losses	(653)	—	(653)
	<b>(557)</b>	<b>—</b>	<b>(557)</b>

The fair value of investments has been determined using a valuation method, details of which are set out in the accounting policy for "financial assets held at fair value through profit and loss".

At 31 July 2008, the Group had investments where it holds 20% or more of the issued share capital as follows:

	Principal activity	Holding	Class of shares held
Axordia Limited	Stem cell therapy	49%	Ordinary
Adjuvantix Limited	Vaccine adjuvants	49%	Ordinary
Demasq Limited	Bone and soft tissue imaging products	48%	Ordinary
Asterion Limited	Cytokine therapies	38%	Ordinary
Medaphor Limited	Medical training solutions	35%	Ordinary
Abcellute Limited	Cell stabilising technology	33%	Ordinary
Art of Xen Limited	Medical use of xenon gas	32%	Ordinary
Simcyp Limited	Drug metabolism	23%	Ordinary

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2008 CONTINUED

**15. INVESTMENTS** CONTINUED

At 31 July 2008, the Group had investments where it holds 20% or less of the issued share capital as follows:

	Principal activity	Holding	Class of shares held
Morvus Technology Limited	Oncology therapies	17%	Ordinary
CellTran Limited	Chronic wound therapy	16%	Ordinary
Muscagen Limited	Drug discovery	13%	Ordinary
Q Chip Limited	Life science and therapeutic products	11%	Ordinary
I2L Research Limited	Pesticide testing	10%	Ordinary
Bitecic Limited	Clinical research and support	10%	Ordinary
Zilico Limited (formerly Aperio Diagnostics Limited)	Cervical cancer detection	6%	Ordinary

All companies are incorporated in England and Wales.

**16. TRADE AND OTHER RECEIVABLES**

	2008 £000	2007 £000
Trade debtors	68	27
Amounts due from related parties	211	216
Other tax and social security	71	36
Other debtors	6	14
Payments on account	358	296
Prepayments and accrued income	269	206
	<b>983</b>	<b>795</b>

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

The amounts due from related parties are detailed in note 24.

Payments on account represent the transfer of funds in advance to the University of Sheffield, details of which are set out in the accounting policy for "payments on account".

**CREDIT RISK**

The Directors believe that given the majority of trade and other receivables are with related parties (primarily public sector organisations) there is little risk to credit quality.

**AGEING OF TRADE RECEIVABLES**

No trade receivables are past their due date and no impairment provision is considered necessary.

**17. CASH AND CASH EQUIVALENTS**

	2008 £000	2007 £000
Cash and cash equivalents	1,363	2,600
Short term deposits	5,000	8,000
	<b>6,363</b>	<b>10,600</b>

Cash and cash equivalents comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

For investment purposes the cash balances are in ring-fenced funds for investment into the University of Sheffield and Cardiff University IP. The balances at 31 July 2008 were £285,000 and £5,909,000 respectively (2007: £2,660,000 and £7,630,000 respectively). The remaining cash balances related to cash held within consolidated spin-out subsidiaries.

**SENSITIVITY ANALYSIS – INTEREST RATE RISK**

At 31 July 2008, if interest rates had been 2% higher/lower, the loss for the year and other components of equity, would have been £174,000 (2007: £170,000) lower/higher as a result of higher interest received on cash and short term cash deposits.

**18. SHARE CAPITAL AND PREMIUM**

	2008 £000	2007 £000
<b>AUTHORISED:</b>		
56,500,000 Ordinary shares of £0.01 each	565	565
<b>ALLOTTED, CALLED UP AND FULLY PAID:</b>		
36,663,967 Ordinary shares of £0.01 each	367	367
<b>SHARE PREMIUM</b>	<b>31,671</b>	<b>31,671</b>

The Company has one class of Ordinary shares which carry equal voting rights, equal rights to income and distribution of assets on liquidation or otherwise and no right to fixed income.

Post year end, on completion of the expanded Sheffield Agreement, an additional 5,489,999 Ordinary shares were issued on 1 August 2008. See note 25 for further details.

**19. OTHER RESERVES**

The other reserves totalling £3,000 (2007: £3,000) comprise a capital redemption reserve of £1,000 (2007: £1,000) and a capital reserve of £2,000 (2007: £2,000) arising from the Company's admission to AIM in 2005 and the resulting differences on consolidation under merger accounting.

**20. MINORITY INTEREST**

	2008 £000	2007 £000
At 1 August	—	—
On acquisition of subsidiary undertaking	—	28
Disposal of subsidiary undertakings	301	(6)
Share of loss in year	(675)	(310)
Minority interest attributable to Group	374	288
At 31 July	—	—

The disposal of subsidiary undertakings reflects the change of the Group's holdings in Lifestyle Choices Limited and Phase Focus Limited following investment monies received from funding rounds involving third parties.

**21. TRADE AND OTHER PAYABLES**

	2008 £000	2007 £000
Trade creditors	618	189
Other creditors	23	—
Other tax and social security	7	6
Accruals and deferred income	320	208
	<b>968</b>	<b>403</b>

**22. NON-CURRENT LIABILITIES**

	2008 £000	2007 £000
Amounts owed to University of Sheffield	1,868	1,754
Amounts owed to Cardiff University	1,334	1,474
Amounts owed to Sheffield University Enterprises Limited	68	65
Amounts owed to related parties	<b>3,270</b>	<b>3,293</b>

The amount owed to the University of Sheffield and Cardiff University relate to loan notes and accrued interest due 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 Fusion IP 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 Fusion IP and can be cancelled by Fusion IP by the return of the shares to which they relate to the University of Sheffield or Cardiff University respectively.

The amounts owed to Sheffield University Enterprises Limited relate to a loan and accrued interest repayable by the subsidiary undertaking, Diurnal Limited.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2008 CONTINUED

## 22. NON-CURRENT LIABILITIES CONTINUED

### SENSITIVITY ANALYSIS

All loan notes are as set at a fixed interest rate of LIBOR plus 1.5%. At 31 July 2008, if interest rates had been 2% higher/lower, the loss for the year and other components of equity, would have been £71,000 (2007: £60,000) higher/lower as a result of higher interest payable on amounts owed in respect of loan notes to the University of Sheffield and Cardiff University.

### MATURITY ANALYSIS

Due to the repayment terms described above, the date of maturity of these loans is uncertain.

## 23. OPERATING LEASE COMMITMENTS

	2008 £000	2007 £000
Minimum commitments under non-cancellable operating leases on property expiring:		
– no later than one year	45	11
– later than one year and no later than five years	12	47
	57	58

The lease payments represent amounts payable by the Group for its offices, accommodation and laboratory requirements in the United Kingdom.

## 24. RELATED PARTY TRANSACTIONS

During the year, the Group purchased administrative and other services from Sheffield University Enterprises Ltd (SUEL), a wholly owned subsidiary of the University of Sheffield, totalling £91,000 (2007: £42,000). In addition, Fusion IP provided support services to SUEL during the year of £120,000 (2007: £120,000). At 31 July 2008 the balance due from SUEL was £211,000 (2006: £216,000).

In addition, under the terms of the agreement dated January 2005, Fusion IP paid the University of Sheffield £120,000 (2007: £120,000) as payments on account for IP. Fusion IP Sheffield Limited purchased IP from the University during the year with a total value of £57,000 (2007: £118,000). These payments were taken against payments on account.

Under the terms of the Agreement with the University of Sheffield, should the amount of cash balances ring-fenced for investment into Sheffield IP fall below £500,000, the University of Sheffield has the right to suspend rights to the future IP pipeline. Additional funds amounting to £2,115,000 were raised on 1 August 2008 as part of the expanded Sheffield Agreement. Cash balances at 31 July 2008 are shown in note 17. The University of Sheffield waived its right to suspend the future IP pipeline in the few days leading to 1 August 2008.

Under the terms of the agreement dated January 2007 Fusion IP Cardiff Limited paid Cardiff University £210,000 (2007: £118,000) as payments to support the management of the IP pipeline. At 31 July 2007 the balance due to Cardiff University was £7,000 (2007: £3,000).

During the year Fusion IP has continued to accrue interest due on loans in respect of the purchase of the original portfolio companies from both the University of Sheffield and Cardiff University. The total amounts due are set out in note 22.

During the year, Fusion IP supplied management services to companies in which it held a participating interest totalling £7,000 (2007: £11,000).

## 25. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the year end on 1 August 2008, the Company announced that it had signed a new ten year agreement with the University of Sheffield for all non-life science IP. Consideration for the agreement was up to 4,347,826 Ordinary shares with an initial issue of 3,140,000 Ordinary shares.

In conjunction with the expanded Sheffield agreement, the Company placed 2,349,999 Ordinary shares at 90p per share with institutional investors raising £2,115,000.

Also on 1 August 2008 the Company changed its name from Biofusion plc to Fusion IP plc to reflect more accurately the Group's enlarged business.

**26. IMPACT OF THE FIRST TIME ADOPTION OF IFRS**

For all periods up to and including the year ended 31 July 2007, the Group prepared its financial statements in accordance with UK GAAP. The Group's financial statements for the year ended 31 July 2008 are its first annual financial statements that comply with IFRS, as adopted by the EU (IFRS).

In preparing these financial statements, the Group has started from an opening balance sheet as at 1 August 2006, the Group's date of transition to IFRS and made those changes in accounting policies and other restatements required by IFRS 1 "First-time Adoption of International Financial Reporting Standards" for the first-time adoption of IFRS.

This note explains the principal adjustments made by the Group in restating its UK GAAP balance sheet as at 1 August 2006 and its previously published UK GAAP financial statements for the year ended 31 July 2007.

There is no impact on the Group's cash flow following the implementation of IFRS although there is an impact on disclosure of cash flow under IFRS presentation which is required.

**BALANCE SHEET RECONCILIATION AT 1 AUGUST 2006**

	Note	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment		25	—	<b>25</b>
Intangible assets	A	68	5	<b>73</b>
Investments	B	3,370	485	<b>3,855</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>3,463</b>	<b>490</b>	<b>3,953</b>
<b>CURRENT ASSETS</b>				
Trade and other receivables		576	—	<b>576</b>
Cash and cash equivalents		5,883	—	<b>5,883</b>
<b>TOTAL CURRENT ASSETS</b>		<b>6,459</b>	<b>—</b>	<b>6,459</b>
<b>TOTAL ASSETS</b>		<b>9,922</b>	<b>490</b>	<b>10,412</b>
<b>EQUITY</b>				
Called up share capital		203	—	<b>203</b>
Capital reserve		2	—	<b>2</b>
Share premium		8,906	—	<b>8,906</b>
Capital redemption reserve		1	—	<b>1</b>
Retained earnings		(1,370)	435	<b>(935)</b>
<b>TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>		<b>7,742</b>	<b>435</b>	<b>8,177</b>
Minority interest	C	(55)	55	<b>—</b>
<b>TOTAL EQUITY</b>		<b>7,687</b>	<b>490</b>	<b>8,177</b>
<b>NON-CURRENT LIABILITIES</b>				
Amounts owed to related parties		2,038	—	<b>2,038</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables		197	—	<b>197</b>
<b>TOTAL LIABILITIES</b>		<b>2,235</b>	<b>—</b>	<b>2,235</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>9,922</b>	<b>490</b>	<b>10,412</b>

A. Goodwill acquired on business combinations is carried at cost less impairment in value under IFRS 3. Previously amortised goodwill has been reversed as there is no impairment in cost (£5,000).

B. Equity investments have been increased to reflect a fair value uplift (£485,000).

C. Minority interests have been restated to comply with the requirements of IAS 27 (£55,000). Minority interests are only recognised where there is a binding obligation to cover the losses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2008 CONTINUED

## 26. IMPACT OF THE FIRST TIME ADOPTION OF IFRS CONTINUED RECONCILIATION OF INCOME STATEMENT YEAR ENDED 31 JULY 2007

	Note	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
REVENUE		351	—	351
Change in fair value of investments	D	(653)	96	(557)
Gain on disposal of subsidiaries		66	—	66
OPERATING EXPENSES:				
– corporate operating expenses		(1,580)	—	(1,580)
– subsidiary spin-out operating expenses	E	(821)	24	(797)
– amortisation of intangible assets	F	(903)	5	(898)
		(3,304)	29	(3,275)
RESULTS FROM OPERATING ACTIVITIES		(3,540)	125	(3,415)
Finance income		535	—	535
Finance expenses		(195)	—	(195)
LOSS BEFORE TAXATION		(3,200)	125	(3,075)
Taxation		—	—	—
LOSS FOR THE YEAR		(3,200)	125	(3,075)
ATTRIBUTABLE TO:				
– equity holders of the parent		(2,890)	(163)	(3,053)
– minority interest	G	(310)	288	(22)
LOSS FOR THE YEAR		(3,200)	125	(3,075)

D. Fair value gains recognised on equity investments during the period (£96,000).

E. Negative goodwill generated on the acquisition of a spin-out company, previously within intangible assets in the balance sheet, has been derecognised at the date of acquisition and taken through the income statement in the year (£24,000).

F. Amortisation of goodwill on business combinations (£5,000) has been reversed under IFRS 3 (see A).

G. Minority interests have been restated to comply with the requirements of IAS 27 (£288,000).



**26. IMPACT OF THE FIRST TIME ADOPTION OF IFRS/IAS CONTINUED**  
**BALANCE SHEET RECONCILIATION AT 31 JULY 2007**

	Note	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment		41	—	41
Intangible assets	H	15,204	34	15,238
Investments	I	4,510	581	5,091
<b>TOTAL NON-CURRENT ASSETS</b>		19,755	615	20,370
<b>CURRENT ASSETS</b>				
Trade and other receivables		795	—	795
Cash and cash equivalents		10,600	—	10,600
<b>TOTAL CURRENT ASSETS</b>		11,395	—	11,395
<b>TOTAL ASSETS</b>		31,150	615	31,765
<b>EQUITY</b>				
Called up share capital		367	—	367
Capital reserve		2	—	2
Share premium		31,671	—	31,671
Capital redemption reserve		1	—	1
Retained earnings		(4,244)	272	(3,972)
<b>TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS</b>		27,797	272	28,069
Minority interest	J	(343)	343	—
<b>TOTAL EQUITY</b>		27,454	615	28,069
<b>NON-CURRENT LIABILITIES</b>				
Amounts owed to related parties		3,293	—	3,293
<b>CURRENT LIABILITIES</b>				
Trade and other payables		403	—	403
<b>TOTAL LIABILITIES</b>		3,696	—	3,696
<b>TOTAL EQUITY AND LIABILITIES</b>		31,150	615	31,765

H. Goodwill acquired on business combinations is carried at cost less impairment in value under IFRS 3. Amortisation on goodwill has been reversed as there is no impairment in cost (£9,000). Negative goodwill generated on the acquisition of a spin out company, previously within intangible assets in the balance sheet, has been derecognised at the date of acquisition and taken through the income statement in the period (£25,000).

I. Equity investments have been increased to reflect a fair value uplift (£581,000).

J. Minority interests have been restated to comply with the requirements of IAS 27 (£343,000).

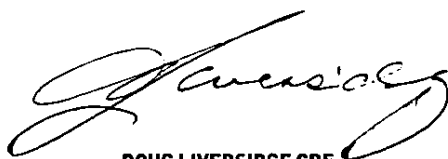


**COMPANY BALANCE SHEET**

AS AT 31 JULY 2008

	Note	2008 £000	2007 £000
<b>FIXED ASSETS</b>			
Tangible assets	3	32	23
Investments	4	2	2
		<b>34</b>	<b>25</b>
<b>CURRENT ASSETS</b>			
Debtors	5	31,888	31,885
		<b>31,888</b>	<b>31,885</b>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	6	<b>(75)</b>	<b>(63)</b>
<b>NET ASSETS</b>		<b>31,847</b>	<b>31,847</b>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	7	367	367
Share premium	7	31,671	31,671
Capital redemption reserve	7	1	1
Retained deficit	7	(192)	(192)
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<b>31,847</b>	<b>31,847</b>

These financial statements were approved by the Board of Directors on 8 October 2008 and were signed on its behalf by the Chairman.



**DOUG LIVERSIDGE CBE**  
CHAIRMAN





# NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2008 CONTINUED

## 1. ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention in accordance with applicable United Kingdom accounting standards and the Companies Act 1985. A summary of the Company accounting policies, which have been consistently applied throughout the year, are set out below.

### TANGIBLE ASSETS

All tangible assets are shown at cost less depreciation and impairment. Depreciation is provided to write off the cost, less the estimated residual value by equal instalments over the estimated useful economic lives as follows:

Computer/office equipment – 3 to 4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

### INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Investments in subsidiary undertakings are stated at historic cost less any provision for impairment in value.

### FIXED ASSET INVESTMENTS

Unlisted investments are held at historic cost less any provision for impairment in value.

### LOANS TO SUBSIDIARY UNDERTAKINGS

All inter-company loans are initially recognised at cost. As all inter-company loans are repayable on demand, their carrying value approximates to their fair value.

### CASH FLOW STATEMENT

The Company has taken advantage of the exemption in FRS 1 "Cash Flow Statements", which provides that where a company is a member of a Group and a Consolidated Cash Flow Statement is published, the Company does not have to prepare a cash flow statement.

## 2. RESULTS FOR THE PARENT COMPANY

The Directors have taken advantage of the exemption available under Section 230 of the Companies Act 1985 and have not presented a profit and loss account for the Parent Company. The Parent Company's result for the year was a profit of £nil (2007: £nil) after recharges.

Details of auditors' remuneration are disclosed in note 7 to the consolidated financial statements.

## 3. TANGIBLE ASSETS

	Computer and office equipment	
	2008 £000	2007 £000
<b>COST</b>		
At 1 August	28	—
Additions	20	7
Acquired from subsidiary undertaking	—	21
At 31 July	48	28
<b>DEPRECIATION</b>		
At 1 August	(5)	—
Charge for year	(11)	(5)
At 31 July	(16)	(5)
<b>NET BOOK VALUE</b>	<b>32</b>	<b>23</b>



# NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2008 CONTINUED

## 4. INVESTMENTS

	2008 £000	2007 £000
Investments in subsidiary undertakings	1	1
Fixed asset investments	1	1
	<b>2</b>	<b>2</b>

Details of the subsidiary undertakings at 31 July 2008 are as follows:

	Principal activity	Holding	Class of shares held
Fusion IP Sheffield Limited (formerly Biofusion Trading Limited)	Holding company	100%	Ordinary
Fusion IP Cardiff Limited (formerly Fusion Cardiff Limited)	Holding company	100%	Ordinary

All companies are incorporated in England and Wales.

## 5. DEBTORS

	2008 £000	2007 £000
Prepayments and accrued income	167	29
Loans to subsidiary undertakings	31,721	31,856
	<b>31,888</b>	<b>31,885</b>

Loans to subsidiary undertakings represent amounts advanced to Fusion IP Sheffield Limited and Fusion IP Cardiff Limited in respect of the IP pipeline agreements with the University of Sheffield and Cardiff University respectively. No interest has been charged on these loans and there is no fixed repayment term.

## 6. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	2008 £000	2007 £000
Accruals and deferred income	75	63

## 7. SHARE CAPITAL AND RESERVES

	Share capital £000	Share premium £000	Capital redemption reserve £000	Retained deficit £000	Total £000
At 1 August 2007	367	31,671	1	(192)	31,847
AT 31 JULY 2008	<b>367</b>	<b>31,671</b>	<b>1</b>	<b>(192)</b>	<b>31,847</b>

Details of the Company's authorised share capital can be found in note 18 to the consolidated financial statements.

## 8. DIRECTORS' EMOLUMENTS AND EMPLOYEE INFORMATION

Full details of Directors' remuneration can be found in the Report on the Directors' Remuneration on pages 20 to 22.



## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Fusion IP plc will be held at the offices of Ashurst, Broadwalk House, 5 Appold Street, London EC2A 2HA on Friday 21 November 2008 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 2008, 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 B Rabone as a Director of the Company, having been appointed as a Director since the last Annual General Meeting. (Resolution 4)

By order of the Board

**RICHARD BIRTLES**  
COMPANY SECRETARY  
8 October 2008

Registered Office:  
Innovation Centre  
217 Portobello  
Sheffield S1 4DP



## NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

### 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 19 November 2008, 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 2008 Annual General Meeting of the Company to be held at the offices of Ashurst, Broadwalk House, 5 Appold Street, London EC2A 2HA on Friday 21 November 2008 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 withheld
<b>RESOLUTION 1</b> To receive the accounts and reports of the Directors and auditors for the year ended 31 July 2008.			
<b>RESOLUTION 2</b> To re-appoint KPMG Audit Plc as auditors of the Company.			
<b>RESOLUTION 3</b> To authorise the Directors to set the remuneration of the auditors.			
<b>RESOLUTION 4</b> To re-elect Mr B Rabone.			

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.



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Business Reply  
Licence Number  
MB 122

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

second fold

# COMPANY INFORMATION AND ADVISORS

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RICHARD BIRTLES

**COMPANY NUMBER**  
5275732

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Cambridge CB4 3UT

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