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Fusion IP plc

Annual Report and Accounts 2013

Contents

Highlights

Business and portfolio highlights:

- £20m raised in a placing with new and existing investors
- Partnership agreements signed with The University of Nottingham and Swansea University
- Investment Memorandum of Understanding (MOU) extended with Finance Wales
- 26% increase in the carrying value of our investments to £25 0m (2012 £19 8m)
- Cash and deposit balances totalling £21 3m (2012 £5 9m)
- Five new portfolio companies started in the year (Proflu, Extraject, PH Therapeutics, Wound Genetics and Rhedyn)
- £2 6m invested in the portfolio companies by Fusion (2012 £2 9m)
- £9 5m invested in the portfolio companies by third party investors (2012 £10 0m)

Post year end highlights:

- Diurnal's lead drug Chronocort's successful progression of Phase II trials

Chairman's Statement

I am delighted to present our results for the year ended 31 July 2013 This has been a good year for the Group, we raised £20m in a placing in April, signed new university agreements with the Universities of Nottingham and Swansea, extended our excellent co-investment MOU with Finance Wales for a further five years, started five new portfolio companies and grew the carrying value of our investments by 26% to £25 0m (2012 £19 8m) Although revenue and portfolio returns were lower at £3 0m (2012 £4 8m) and profit, excluding subsidiary spin-out costs and amortisation, was reduced to £1 4m (2012 £3 2m), this has been a year of significant change for the Group In addition to this, post year-end one of our key life science companies announced the successful progression of its Phase II Chronocort trials, a positive conclusion to these trials in 2014 will be a significant event for the Group

It is well acknowledged that the UK needs to maximise the commercial benefit of the extraordinary science that emanates from its world-class universities We believe that Fusion, with its access to some of the UK's leading research-intensive universities, is well placed to generate some of the high technology growth businesses of the future

Our university partnership model, extensive experience in business building, and IP sector expertise enables us to identify innovative research that has the potential to be a high value business that will benefit our shareholders, the university and ultimately UK plc With over £20m of funds, four excellent universities, established relationships with a number of key co-investment partners and a growing and diverse portfolio of exciting companies, we believe we are well placed to fulfil this vision

Our priority in the year ahead is therefore to continue to focus on the growth of the portfolio and we look forward to the year with confidence

Finally, I would like to thank all our stakeholders, including our university partners, investment partners and employees at both Group and portfolio level, for their unstinting support during the year I was also delighted to see that during the year, our CEO David Baynes was awarded Executive Director of the Year in the Small Cap Awards, sponsored by the London Stock Exchange and others, which recognises the excellent leadership David has demonstrated over the last seven years in building Fusion

Doug Liversidge CBE
Chairman

Chief Executive's Statement

This has been another strong year for the Group, as we expanded our university base, increased our available investment funds and accelerated the growth in the value of our portfolio

£20m placing
In April 2013 we were pleased to announce we had successfully raised £20m through a placing with existing and new institutional investors The placing provided Fusion with the funding to

- access additional world class IP from an expanded university base,
- ensure the Group has the financial strength to invest further in its key portfolio companies, and
- continue investing in establishing new companies out of its expanded pipeline

Growing university base
At the same time as the placing, we announced that we had expanded our university base with the signing of agreements with The University of Nottingham and Swansea University

These new agreements complement Fusion's existing equity-based university agreements with Sheffield and Cardiff, by providing Fusion with access to IP, but without having to make on-going or equity-based payments This structure provides a flexible partnership for both parties, and enables the university to access Fusion management and funds, while Fusion gains access to that university's IP, without tying up equity or contractual service fees

It also enables Fusion to generate more start-up companies per annum and utilise our central resource more effectively The new agreements allow for co-investment by IP Group, in line with the existing IP Group co-investment agreement

The University of Nottingham
Nottingham is one of the UK's top 10 universities, with centres of excellence in aerospace, advanced manufacturing, energy and biomedical imaging It has over 40,000 students on its three campuses in the UK, Malaysia and China and as a member of the Russell Group is recognised as one of the UK's leading research-intensive universities In 2012 it generated over £100m in research grants and after the most recent Research Assessment Exercise (RAE) results in 2008, it was ranked 7th in the UK for its research excellence, according to the research power rankings produced by Research Fortnight

Following the RAE results, 90 per cent of all research at The University of Nottingham was classified as of an 'international standard' and 60 per cent as 'world-leading' or 'internationally excellent' In 2008 The University of Nottingham was named Entrepreneurial University of the Year

The University of Nottingham has a well-established technology transfer office, with close links with its academic community To date the university has been involved in over 40 spin-out related companies and has a current portfolio of 30 spin-outs, of which 16 have products in the marketplace

Swansea University
We are delighted to expand our operation in Wales through the addition of Swansea University to our university portfolio Established in 1920, Swansea University is a research led university In the latest RAE, 85 per cent of its staff submitted for assessment were classified as producing research of an international quality or above and almost 50 per cent as "world-class" or "internationally excellent" It has a number of excellent research departments, including the College of Engineering, which received a 5 QS star rating for the excellence of its teaching, the highest achievable Its newly built Institute of Life Sciences is one of the premier research facilities in Wales and the largest university campus investment by the Welsh Government The University also has a well-established technology transfer office

Since the announcement of these new partnerships, Fusion has been working with the Universities to identify the first potential investment opportunities and expects to be announcing its first new investments in Nottingham and Swansea over the next six months

Although we are currently completing the integration of our newly established partnerships, Fusion remains committed to adding additional universities to its partnership portfolio in the longer term

Chief Executive's Statement continued

Extension of the Finance Wales investment MOU
Following on from the successful investment MOU signed between the two companies in 2007, the new MOU continues the co-investment strategy for investing in opportunities arising from Fusion's IP pipeline agreements with its growing portfolio of Welsh universities

This agreement provides Fusion with access to substantial additional funding for its portfolio of companies and endorses the success of the original agreement To date Finance Wales has made 26 investments alongside Fusion totalling £4 9m in Fusion portfolio companies

Portfolio highlights
We continue to have a well-balanced portfolio of more than 20 companies, in a range of engineering, nanotechnology, software and medical sectors The companies are at varying stages of maturity, growth and profitability and nine of the leading companies in the portfolio are described below

Diurnal – *drug development*
Diurnal, our drug development company, spun-out from The University of Sheffield now based in Cardiff, had another busy and extremely successful year, with significant progress made towards approval of its lead product Chronocort

The majority of the year was spent progressing Chronocort through its Phase II trial and post year end in September 2013, Diurnal passed a key landmark when it announced the trial had successfully completed the pharmacokinetic part of its Phase II CATCH (Chronocort As Treatment for Congenital adrenal Hyperplasia) clinical study Chronocort is a modified release therapy that delivers hydrocortisone in a manner that mimics the body's natural 24-hour hormone cycle, thus combating diseases caused by cortisol deficiency Diurnal's novel approach to drug delivery has the potential to significantly improve the lives of patients suffering from diseases such as congenital adrenal hyperplasia and adrenal insufficiency

The CATCH trial is a Phase II study in patients suffering from congenital adrenal hyperplasia and is being run by the National Institute of Health, Maryland, US under a Cooperative Research and Development Agreement

Chronocort has already received two related orphan drug designations from the European Medicines Agency, which afford ten years of market exclusivity after the grant of marketing authorisation in Europe

Pharmacokinetic data from the first part of the CATCH study has been received by Diurnal The CATCH trial will now continue until the end of 2013 so that further data can be collected to support a Phase III registration study of Chronocort The full read-out of the CATCH study is expected during the first quarter of 2014, and subject to a successful outcome, Diurnal would then progress to a Phase III trial

Fusion holds a 43% (undiluted) shareholding in Diurnal

Phase Focus – *software/engineering*
Based in Sheffield, Phase Focus has developed a novel 'Virtual Lens' which is a digital replacement for the conventional image-forming optics used in imaging and microscopy As well as eliminating the limitations and aberrations of conventional lens-based instruments, it can be exploited to visualise and quantify numerous specimen attributes such as surface topography, thickness and refractive index variations, or electric and magnetic field phenomena Its current products include an Ophthalmic Lens Profiler that can measure soft contact lenses with unprecedented levels of resolution and accuracy, and an optical microscope used for stain-free imaging of biological cells

In February 2013, Phase Focus announced that it had entered into a Licence Agreement with Gatan, Inc ("Gatan") Gatan is the world's leading manufacturer of instrumentation and software used to enhance and extend the operation and performance of electron microscopes The Licence Agreement provides for joint development of a range of products, including a Phase Focus Virtual Lens "add-on" product for existing electron microscopes Once fully developed, Gatan will market the product through its worldwide sales and distribution network

Fusion holds a 35% (undiluted) shareholding in Phase Focus

Seren Photonics – *electronics*

Seren Photonics's revolutionary new light emitting diode (LED) nanotechnology, developed by Professor Tao Wang from The University of Sheffield, has been shown in tests to greatly increase the efficiency of conventional phosphor-converted white LEDs and enable ultra-high bright green LEDs The ground breaking nanotechnology can be deployed to significantly reduce 'droop' in conventional LEDs which means they can be run much harder and so reducing the number of die required per luminaire It also means that the 'Green Gap' could be closed enabling efficient pico-projectors, destined for inclusion in future mobile devices such as cell phones and much more efficient colour-mixed white LEDs In simple terms, Seren's technology means that either for a given power consumption, much brighter LED lamps can be manufactured, or that for equivalent light output, the power consumption of LED lamps can be significantly reduced

High brightness (HB) LEDs are set to replace incandescent lamps as governments around the world bring in legislation banning the manufacture and sale of incandescents and concerns increase about the poor light quality and environmental contamination fears from compact fluorescents The rate of adoption is expected to accelerate as the brightness of HB LEDs increases and the cost of manufacture reduces

Seren's technology is targeted at the fast growing $13bn white light HB LED markets, such as back lighting for laptops and TVs, signs and displays, as well as domestic, architectural and street lighting

Fusion holds a 40% (undiluted) shareholding in Seren

Magnomatics – *engineering*

Our Sheffield-based electric motor company, Magnomatics, develops high torque magnetic transmissions and ultra-compact magnetically-geared motors and generators The technology uses magnetic fields with high-powered permanent magnets to replace the meshed teeth that normally transmit mechanical power in gear systems The magnetic fields eliminate the friction of contacting parts As such, the super quiet, compact technology requires minimal maintenance, no oil lubrication and the gears can't be "stripped" through miss-use The product has the potential to offer new engineering possibilities ranging from efficient, gearless generators for wind turbines, to lighter and more compact motors for hybrid vehicles

In November 2012, Magnomatics successfully raised £2 5m to develop its novel products for the hybrid and electric vehicle market It is active in a range of industries, including renewable energy, automotive, aerospace and defence, and has industrial development contracts with some of the world's largest transportation/engineering companies for its PDD system

Fusion holds a 39% (undiluted) shareholding in Magnomatics

Asalus Medical Instruments – *medical devices*

Cardiff based Asalus Medical Instruments ("Asalus"), is developing a range of innovative medical devices that aim to improve the safety and efficiency of laparoscopic surgery Laparoscopic surgery is a modern surgical technique in which operations in the abdomen are performed through small incisions, as compared to the larger incisions needed in traditional surgical procedures There are several benefits to conducting laparoscopic surgery and, as a result, the number of procedures conducted using this technique has grown rapidly over recent years

Over two million laparoscopic operations per year are now performed in the USA alone and the market for laparoscopic surgery products is estimated at approximately $18bn worldwide, growing 7–8 per cent annually

Its lead product is Ultravision, Asalus's revolutionary surgical smoke clearing system for use in laparoscopic surgery, which successfully completed its 'first-in-man' trial in January 2013 The randomised, controlled, comparative study was the first use of the Ultravision device in patients, with the dual aims of assessing safety and performance The trial assessed the use of Ultravision in 30 participants undergoing scheduled laparoscopic gallbladder removal at University Hospital Llandough (Cardiff & Vale University Health Board, Wales, UK) The results demonstrated that Ultravision was effective in maintaining a clear visual field throughout the laparoscopic procedure This was achieved without the need to deflate the abdomen or release smoke produced during surgery into the operating theatre environment In addition 77% of the procedures were completed without interruption compared to less than 1% in the control group that did not use Ultravision There were no adverse events The Company is currently seeking CE mark approval and is targeting European launch in Q4 2013

Fusion holds a 44% (undiluted) shareholding in Asalus

MedaPhor – *medical simulation*
MedaPhor is a Cardiff based global provider of advanced ultrasound education and training for medical professionals Its lead product is ScanTrainer, a virtual reality ultrasound training simulator, which combines 'real-feel' haptic simulation with real patient scans and curriculum-based interactive learning, to provide fast and effective ultrasound training in a non-clinical environment

These educationally driven training systems relieve the pressure and costs on service delivery within hospitals and training schools, by allowing doctors to learn on 'real' patients in their own time, through self-directed learning

MedaPhor has had another excellent year of growth, expanding its sales in the US and Europe, with over 80 hospitals now using the system in eleven countries around the world During the year MedaPhor signed distribution agreements in Germany and Holland and an exclusive Chinese distribution agreement with Tellyes Scientific, which will enable it to expand sales into the large Chinese medical training market MedaPhor also launched its second product, the TransAbdominal ScanTrainer, which it hopes will open up the large, general medical ultrasound training market in 2014

In February 2013, US based Riccardo Pigliucci joined MedaPhor as non-exec Chairman, to help drive expansion in the US

Fusion holds a 39% (undiluted) shareholding in MedaPhor

i2L Research – *environmental testing*
Based in Cardiff, i2L Research is a product testing and development centre for the pest control industry and agrochemicals industry across Europe i2L has offices in Newcastle and Cardiff and has expanded its operations into Europe, through new offices in the Czech Republic and Spain

In October 2012, i2L acquired Baltimore based ICR Inc from MGK of Minneapolis in the USA The acquisition significantly expands i2L's European based agrochemicals, biocide and regulatory operations into the USA, the world's largest market for these services

Fusion holds a 31% (undiluted) shareholding in i2L Research

Absynth – *lifesciences*
Absynth is a UK biotechnology spin-out company from The University of Sheffield, which has developed a distinctive, non-conventional approach to developing vaccines and therapeutic antibodies based on identifying novel, conserved bacterial antigens that are essential and also antibody-accessible Bacterial infections are a major cause of death worldwide, with microbial drug resistance being a significant contributing factor

Absynth's target is *Staphylococcus aureus*, including its drug-resistant form MRSA, against which vaccines and antibodies of other companies have failed to show clinical efficacy It is believed that Absynth's approach has the potential to succeed where others have previously failed and that Absynth's novel antigens offer broad potential against a range of bacterial infections and form the basis of its pipeline that includes vaccines to prevent *Clostridium difficile* and *Streptococcus pyogenes* infections

In July 2013 Absynth announced it had raised £850,000 (of which Fusion invested £450,000) to advance the *Staphylococcus aureus* programme to key pre-clinical milestones The investment complements the £175,000 funding secured from the Biomedical Catalyst to further develop Absynth's product pipeline

Fusion holds a 43% (undiluted) shareholding in Absynth

FaultCurrent (FCL) – *electrical power grid components*
FCL, which is founded on the invention of Dr Jeremy Hall of the Wolfson Centre for Magnetics, based at Cardiff University's School of Engineering, has devised a unique magnetic fault current limiter design that protects utility electrical distribution networks from unanticipated power surges

The need for fault current limiters is driven by a dramatic increase in electrical power system fault current levels as energy demand increases and more clean energy sources, such as wind and solar, are added to an ageing and already overburdened national electrical infrastructure

Deployed in an electrical network substation, a fault current limiter is a smart grid system component that can help protect the grid by absorbing the destructive nature of faults, extending the life of existing network equipment and allowing utilities to defer or eliminate costly equipment replacements or upgrades Estimates from Europe and the USA suggest investing in smart grid technologies, such as fault current limiters, can save billions of dollars in replacement cost, increase safety, reliability and power quality

Unlike competing fault current limiters currently in service, FCL's unique solution is designed to be a completely passive, 'fit and forget' permanent magnet device, that requires no external power or back-up, recovers automatically when a fault is cleared and requires minimal maintenance

FCL expects its first full scale system to be deployed for field testing at the end of 2014

Fusion holds a 47% (undiluted) shareholding in FCL

During the year we started five companies, however these are at the earliest, high-risk phase of their potential development and therefore may not all progress to later stage funding rounds

Proflu is the latest application for Cardiff University's Professor Chris McGuigan's 'pro-tide' drug delivery technology The most effective anti-viral drugs on the market all rely upon a slow and inefficient process within the cells called phosphorylation in order to become active against the virus Creating a 'pro-tide' can allow a pre-phosphorylated version of the drug to be given, potentially resulting in a several hundred fold increase in potency This technology could create a highly effective anti-influenza drug to combat one of the world's biggest killers During the yearly epidemics, influenza infects around three to five million people and kills around 10% of these, a greater threat arises from flu pandemics, which have occurred, on average, three times per century for the last 300 years, where the emergence of a new viral strain results in a death toll in the tens of millions

Extraject Technologies has been founded on the work of Professor James Birchall and colleagues in the School of Pharmacy and Pharmaceutical Sciences, Cardiff University Extraject exploits over ten years' experience of designing and testing microneedle delivery systems to develop unique medical devices and processes which could allow new pain free treatment of a range of conditions The Extraject technology aims to offer a safe and efficacious solution to patients through precise targeting of effective therapies to the appropriate locations in skin Extraject is part-funded by a grant from the Technology Strategy Board

PH Therapeutics is developing novel antibody therapies to treat the rare disease Pulmonary Arterial Hypertension (PAH), a chronic condition with high levels of mortality Based on the research of Dr Allan Lawrie, The University of Sheffield, PH Therapeutics is developing therapeutics which address the underlying causes of the disease by blocking the action of proteins that play a key role in the development of PAH PAH is caused by both constriction and thickening of the pulmonary arteries Current drugs relieve symptoms by dilating the narrowed blood vessels but they are unable to reverse the progress of the disease because they do not address the tissue changes that cause thickening of the vessel wall PH Therapeutics is developing a new class of therapy that specifically targets the cause of vessel thickening in order to both control and reverse this devastating disease This would represent a major step forward in a disease area that is currently valued as a $3bn global market

Chief Executive's Statement continued

Wound Genetics is founded on the work of two leading academics at Cardiff University Professors Keith Harding and Wen Jiang have discovered a unique "prognostic" gene signature that may allow patients with 'hard to heal' chronic wounds to be identified at first presentation Such early identification of 'hard to heal' wounds enables early referral to specialist care and avoids potentially years of ineffective and costly primary care treatment The test, currently in its early development phase, involves collecting and processing a tissue sample from the wound which is then used to determine the expression of certain genes indicative of a 'healing' or 'hard to heal' wound The treating doctor could then use these results to provide different treatment pathways for those patients with 'hard to heal' wounds The team is also exploring the use of the gene signature to identify novel therapeutic drug candidates by identifying inhibitors of genes that are active in 'hard to heal' wounds The ability to accurately and effectively diagnose, treat and manage wounds is an enormous challenge for healthcare providers worldwide The annual cost of caring for these patients in the UK is conservatively estimated at 5% of the total NHS budget

Rhedyn (Bladder Cancer Diagnostics) is based on the latest research undertaken by Professor Ian Weeks and colleagues in the School of Medicine, Cardiff University Ian's previous work includes the development of chemiluminesence technology which is used in over 50 million tests annually and was named as one of the top 100 life-changing discoveries of the last 50 years The new technology is being used to address the need for accurate non-invasive diagnostic tests for the detection and monitoring of bladder cancer The fifth most common type of cancer, the disease often responds well to treatment but almost always recurs meaning that patients have to endure monitoring by repeated cystoscopy which involves the insertion of a fibre optic camera into the bladder through the urethra This invasive and costly technique has limited accuracy, is unpleasant for patients and contributes significantly to the fact that bladder cancer management has the highest per patient cost of any cancer Rhedyn is developing a highly accurate, non-invasive diagnostic test for bladder cancer (based on a urine sample) which should detect the presence of the disease within minutes

Research pipeline potential

We continue to have extremely strong relationships with our partner universities and the depth and scale of the research activity at all four of our partner universities is strong

Outlook

As an innovator in the field of university IP commercialisation, we continue to work closely with our four research-intensive universities and investment partners, to ensure we maximise our ability to create world-class businesses from university research With a number of our exciting companies moving towards maturity we look forward to 2014 with confidence

David Baynes
Chief Executive

Financial Review

Summary

The Group generated an operating profit (excluding subsidiary spin-out costs and amortisation) of £1,250,000 (2012 £3,042,000) In line with expectations the Group reports a loss before tax of £1,204,000 (2012 £505,000 profit) Closing cash and deposits of £21,288,000 (2012 £5,923,000) have increased significantly following the £20m fundraising during the year The value of the Group's investments in non-subsidiary spin-out companies increased to £24,983,000 (2012 £19,763,000)

Revenue

Total revenue and portfolio returns decreased to £3,035,000 (2012 £4,750,000) due to both a reduction in revenue and fewer funding rounds leading to lower net fair value gains on investments

Revenue, which includes the amounts charged to non-subsidiary spin-out companies for management services provided, licence income and income generated by consolidated companies, decreased to £540,000 (2012 £705,000) The decrease relates to reduced revenue in subsidiaries

The net gain in the fair value of investments amounted to £1,108,000 (2012 £3,567,000) The Group's gains mainly arose from valuation uplifts in five (2012 eight) of the Group's holdings during the year, with uplifts in Diurnal and Asalus being the major components Fair value write downs and provisions were taken on three investments as we applied a critical eye to company prospects versus funding requirements

	2013 £000	2012 £000
Fair value gains	2,727	4,178
Fair value losses	(1,619)	(611)
	1,108	3,567

The gain on disposal of subsidiaries/investments of £1,368,000 (2012 £459,000) relates to the deconsolidation of Absynth and FaultCurrent, as a result of Fusion's shareholding dropping to below 50% after funding rounds in the year

Operating expenses

Operating expenses amounted to £4,401,000 (2012 £4,360,000) and are broken down into three components

- corporate operating expenses of £1,785,000 (2012 £1,708,000) reflect the cost of running the parent PLC company, together with the university operations,
- subsidiary spin-out operating expenses of £628,000 (2012 £656,000), which are consolidated into the Group's results by virtue of Fusion's >50% shareholding in each spin-out company Two significant deconsolidations occurred in the second half of 2013, which may reduce the impact of consolidated costs going forward, and
- amortisation of intangible assets of £1,988,000 (2012 £1,996,000), which reflects the charge over the Cardiff and Sheffield IP rights which are both being amortised on a straight line basis over the ten-year pipeline agreements, together with an amortisation charge for purchased patent costs within certain subsidiary spin-out companies

Investments

As at 31 July 2013 investments in spin-out companies amounted to £24,983,000 (2012 £19,763,000) Movement in the year relates to additions of £2,615,000 (2012 £2,885,000), transfers of £1,497,000 relating to the deconsolidated companies less disposals of £nil (2012 £3,457,000), with net gains in fair value of £1,108,000 (2012 £3,567,000) Additions consist of equity investments, convertible loan investments, accrued interest and rolled up fees to a number of portfolio companies

The investments are all classified as financial assets and are held at fair value under IAS 39 "Financial Instruments Recognition and Measurement" The Group uses the International Private Equity and Venture Capital Valuation (IPEVCV) guidelines to establish the fair value of unlisted securities

Intangible assets and Liabilities

IP rights comprise IP, patents and licences purchased by the Group together with the IP pipelines with Cardiff University and The University of Sheffield As outlined above, 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

Non-current liabilities totalling £2,354,000 (2012 £2,337,000) are classified as amounts owed to related parties

The Group owes amounts totalling £2,354,000 (2012 £2,277,000) to The University of Sheffield and Cardiff University in relation to loan notes and accrued interest, for the most part arising from the purchase of the Group's interest in certain spin-out companies when the IP pipeline agreements were signed in 2005 and 2007 respectively These liabilities are only repayable in the event of an exit of the underlying investment they relate to

Cash flows

The Group's cash balances at 31 July 2013 amount to £21,288,000 (2012 £3,923,000) These balances include £5,000 (2012 £122,000) in relation to consolidated subsidiary spin-out companies

The cash inflow in the year amounted to £17,365,000 (2012 £1,961,000) and can be summarised as follows

	2013 £000	2012 £000
Net cash used in operating activities	(1,908)	(2,066)
Net cash used in investing activities	(14)	(760)
Net cash from financing activities	19,287	4,787
	17,365	1,961

The net cash used in investing activities mainly reflects amounts invested in spin-out companies £2,592,000 (2012 £2,885,000), less amounts received back from longer-term bank deposits £2,000,000 (2012 £2,000,000 transferred to deposits), less third party investments into subsidiary undertakings £351,000 (2012 £nil) 2012 also included proceeds from disposals of investments of £3,937,000

Share capital

As a result of the successful fundraising of £19,252,000, net of expenses, in April 2013, through the placing of new shares, the Company issued 36,499,246 Ordinary shares of 1p each The new shares issued represented 33% of the Company's enlarged issued share capital 105,000 Ordinary shares of 1p each were also issued during the year in respect of the exercise of share options, the consideration for these shares amounted to £35,000

Board of Directors

Doug Liversidge CBE
Chairman
Appointed to the Board of Fusion IP plc on 1 December 2004 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 1987

Doug 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 He is also the non-executive chairman of Surgical Innovations plc

David Baynes
Chief Executive
Appointed to the Board of Fusion IP plc on 2 November 2004 David has previously worked at Celsis International plc from its incorporation to its flotation on the full list of the London Stock Exchange in 1993, Toad plc (now 21st Century Technology 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

Stuart Gall
Commercial Director
Appointed to the Board of Fusion IP plc on 27 April 2005 Stuart 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 21st Century Technology plc)

Dr Peter Grant
Operations Director
Appointed to the Board of Fusion IP plc on 1 December 2004 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

David Catton
Non-executive Director
Appointed to the Board of Fusion IP plc on 1 December 2004 David was previously 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

Mike Davies
Non-executive Director
Appointed to the Board of Fusion IP plc on 29 January 2007 Mike is Director of Physical and Financial Resources at Cardiff University He 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

Dr Alison Fielding
Non-executive Director
Appointed to the Board of Fusion IP plc on 29 January 2010 Alison is the Chief Technology Officer of IP Group plc Alison co-founded Techtran Group Limited and was the Chief Operating Officer of Techtran when it was acquired by IP Group in January 2005 Previously, she worked for McKinsey & Co and Zeneca plc Alison holds an MBA from Manchester Business School and a PhD in organic chemistry from the University of Glasgow

Bob Rabone
Non-executive Director
Appointed to the Board of Fusion IP plc on 31 July 2008 Bob is Chief Financial Officer of The University of Sheffield He 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 2013

Results and dividend
Group loss for the year after taxation amounted to £1,204,000 (2012 £505,000 profit) The Directors do not recommend the payment of a dividend (2012 £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 consolidated 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 necessary to fulfil the requirements of the Business Review, is incorporated within the respective Chairman and Chief Executive Statements

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)
D Catton
M Davies
R Rabone
A Fielding

The Company Secretary is R Birtles

Major interest in shares
As at 30 September 2013, the Company had been advised of the following shareholders with interests of 3% or more in its Ordinary share capital

Name	% holding
IP Group	20 1
Lansdowne Partners	16 6
Invesco	12 8
The University of Sheffield	12 5
Cardiff University	10 1
AXA Framlington	9 2
Legal & General	5 6

Directors' interests in shares
The Directors at 31 July 2013 with interests in the share capital of the Company were as follows

The Company – Ordinary 1p shares	31 July 2013
D Baynes	1,333,332
P Grant	1,333,332
S Gall	1,333,332
D Liversidge (Chairman)	10,000

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

The Directors' interests in respect of options to acquire Ordinary shares are set out in the Report on the Directors' Remuneration

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 consolidated financial statements, along with further information on the Group's use of financial instruments

Creditor payment policy
The Group's policy is to

- establish the payment terms with suppliers when agreeing the terms of supply,
- ensure that suppliers are aware of the terms of payment, and
- adhere to the agreed terms

The Group's average creditor payment period at 31 July 2013 was 27 days (2012 22 days) The Company has no trade creditors

Employee participation
The Group values the involvement of its employees and keeps them informed of matters affecting them as employees and on the various factors affecting the performance of the Group

Equal opportunities
The Group endorses and supports the principles of equal employment opportunities It is the policy of the Group to provide equal employment opportunities to all qualified individuals which ensures that all employment decisions are made, subject to legal obligations, on a non-discriminatory basis

Disabled employees
Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned In the event of members of staff becoming disabled, every effort is made to ensure that the training, career development and promotion opportunities of disabled persons should, as far as possible, be identical with those of other employees

Political and charitable donations
During the year the Group has made no political donations (2012 £nil), charitable donations were made of £522 (2012 £325)

Provision of information to auditor
So far as each of the Directors is aware, there is no relevant audit information of which the Group's auditor is 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 auditor is aware of that information

Annual General Meeting
The Annual General Meeting of the Group will be held at 10 30am on Friday 29 November 2013 at the offices of Ashurst LLP, Broadwalk House, 5 Appold Street, London EC2A 2HA

By order of the Board

David Baynes
Chief Executive
14 October 2013

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 2013, 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
D Liversidge and D Catton receive remuneration for their services The remuneration is agreed by the Board following recommendation by the Remuneration Committee with a view to rates paid in comparable organisations and appointments They 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 They each have a three-year service contract with the Company with three months' notice either side After this time their appointment is reviewed annually

M Davies, who represents Cardiff University, R Rabone, who represents The University of Sheffield and A Fielding, who represents IP Group plc receive no fee for their services and as a result of this do not have service contracts

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 a similar size and of industry competitors Executive Directors' salaries were reviewed during the year and a 3% cost of living increase in Executive pay was approved from 1 January 2013

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* (Chairman)	1 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
D Catton	1 December 2004	n/a	3 months

* D Liversidge receives a salary from the Company for his services as Chairman Fees for consultancy work are paid via an agreement with Quest Investments Limited

The Directors are required to retire by rotation once every three years All the Directors with the exception of R Rabone are required to retire by rotation and being eligible, will seek re-election at the forthcoming Annual General Meeting

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 Director's fees Fees earned for directorships of companies in which the Group does not have a shareholding will be retained by the Director

Directors' detailed emoluments

Details of individual Directors' emoluments who served during the year are as follows

	Salary £	Fees £	Pension contributions £	Benefits £	Total 2013 £	Total 2012 £
Executive						
D Baynes	172,052	–	17,205	7,587	196,844	185,087
P Grant	147,436	–	14,744	1,749	163,929	158,392
S Gall	147,436	–	14,744	1,886	164,066	158,498
Non-executive						
D Liversidge (Chairman)	6,000	30,500	–	–	36,500	35,000
D Catton	12,750	–	–	–	12,750	12,750
	485,674	30,500	46,693	11,222	574,089	549,727

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 £17,205 paid as basic salary

M Davies, R Rabone and A Fielding receive no emoluments for their role as Non-executive Directors

Report on the Directors' Remuneration continued

Directors' interests in share options

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

	As at 31 July 2012	As at 31 July 2013	Exercise price	Earliest exercise date	Expiry date
D Liversidge	50,000	50,000	33 5p	31 07 12	31 07 19
D Catton	33,333	33,333	150p	28 01 08	28 01 15
D Catton	50,000	50,000	33 5p	31 07 12	31 07 19

The market price of the Company's shares at the end of the financial year was 58 0p (2012 46 0p) and the range of market prices during the year was 78 5p to 43 5p (2012 74 0p to 22 5p)

Each option will vest monthly as to 1/36th 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

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

Remuneration review 2013

Following the recent fundraising an independent review of senior executive long term remuneration is being conducted on behalf of the Remuneration Committee It is the Remuneration Committee's intent to consult with shareholders before any recommendations are implemented

D Liversidge

Doug Liversidge CBE
Chairman
14 October 2013

Corporate Governance

The Board acknowledges the importance of the Combined Code on Corporate Governance (the "Code") Whilst the Group is not required to report on compliance with the Code since its shares are traded on AIM, every effort is made to comply with the Code The statement below describes how principles of corporate governance have been consistently complied with by the Group throughout the year

The workings of the Board and its committees

The Board

The Board currently comprises five Non-executive Directors and three Executive Directors and is responsible for the management of the Group As disclosed on page 16, D Liversidge 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 R Rabone, M Davies and A Fielding by virtue of their roles with The University of Sheffield, Cardiff University and IP Group plc respectively are not considered to be independent Non-executive Directors

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

The Audit Committee

The Audit Committee comprises D Liversidge and D Catton The Audit Committee's remit is set out in its terms of reference and meets with the auditors at least once 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

Due to the nature and size of the Group at present it would not be appropriate for the Company to have its own internal audit department reporting directly to the Audit Committee

The Remuneration Committee

The Remuneration Committee comprises D Liversidge, D Catton and A Fielding 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 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

Relations with shareholders

Key members of the Executive Board regularly visit institutional investors and the full Board makes itself available to questions at all the 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 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 Investors 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

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 consolidated financial statements

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 The internal control procedures are regularly reviewed on an ongoing basis 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 monthly to discuss operational matters including management and technical reports, government and fiscal policy issues, employment and information technology and cash control procedures,

- the Directors have established control procedures in response to key risks Standardised financial control procedures operate throughout the Group to ensure the integrity of the Group's financial statements The Board has established procedures for authorisation of capital and revenue expenditure, and

- the Board reviews the Group's performance against detailed budgets and working capital forecasts on a bi-monthly basis

Corporate and social responsibility

Policy statement

Fusion aims to conduct its business in a socially responsible manner, to contribute to the communities in which it operates and to respect the needs of its employees and all of its stakeholders

Business review

The principal activity of the Group is the commercialisation of intellectual property generated at its partner universities, mainly through the formation of, and investment in, spin-out companies During the year the Group employed an average of 15 people including Non-executive Directors The Group seeks to conduct its business in a socially responsible manner and endeavours to maintain integrity and professionalism and to have due regard to all of its stakeholders, university partners, employees, suppliers and businesses in which it invests

The Group actively looks for opportunities to invest in inventions that have the potential to improve lives and the environment that we live in This is shown in the current portfolio of companies which include many in healthcare and those helping to generate clean energy through efficiency, reliability and reduction in greenhouse gas emissions

In healthcare many of our companies are seeking to develop therapeutics and diagnostics across a wide range of disease/infection areas including cancer, MRSA and most recently Pulmonary Arterial Hypertension (PAH) alongside those companies aiming to improve lives via novel approaches to drug delivery (Diurnal) and safer, more efficient medical procedures (Asalus, Medaphor)

Physical science companies are developing technology that looks to reduce energy requirements in certain processes including light generation (Seren), various engineering applications and chemical processes One of our engineering companies has recently joined The Proving Factory, an organisation aiming to bridge the gap between low carbon proof of concept prototypes and the requirements of vehicle manufacturers

Our business ethics and social responsibility

The Group seeks to conduct all of its operating and business activities in a socially responsible manner and, in all such activities, for its directors and employees to maintain integrity and professionalism, to be commercial and fair and to have due regard to the interest of all of its stakeholders including investors, university partners, investment partners, employees, suppliers and the businesses in which the Group invests

Statement of the Directors' responsibilities in respect of the Annual Report, Directors' Report and the Financial Statements

The Directors are responsible for preparing the Annual Report, Directors' Report and the Group and Parent Company financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare group and parent company financial statements for each financial year As required by the AIM rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period In preparing each of the Group and Parent Company 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,
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU, for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006 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

We have audited the financial statements of Fusion IP plc for the year ended 31 July 2013 set out on pages 21 to 47 The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditor's 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 auditor

As explained more fully in the Statement of the Directors' Responsibilities set out on page 19, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www frc org uk/auditscopeukprivate

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 July 2013 and of the Group's loss for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the EU,
- the Parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the Parent Company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

David Morritt

David Morritt (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
KPMG Leeds
1 The Embankment
Neville Street
Leeds
LSI 4DW

14 October 2013

Consolidated Statement of Comprehensive Income

for the year ended 31 July 2013

	Note	2013 £000	2012 £000
Revenue and portfolio return			
Revenue	5	540	705
Dividend income		19	19
Change in fair value of investments	15	1,108	3,567
Gain on disposal of investments/subsidiaries	15	1,368	459
		3,035	4,750
Operating expenses			
– corporate operating expenses		(1,785)	(1,708)
– subsidiary spin-out operating expenses		(628)	(656)
– amortisation of intangible assets	14	(1,988)	(1,996)
	6	(4,401)	(4,360)
Results from operating activities	6	(1,366)	390
Finance income	10	220	177
Finance expenses	10	(58)	(62)
(Loss)/Profit before taxation		(1,204)	505
Taxation	11	–	–
(Loss)/Profit and total comprehensive (loss)/profit for the year		(1,204)	505
Attributable to			
– owners of the parent		(959)	669
– non-controlling interests	20	(245)	(164)
		(1,204)	505
Basic and fully diluted (loss)/profit per share	12	(1 14)p	1 00p

Consolidated Statement of Financial Position

as at 31 July 2013

	Note	2013 £000	2012 £000
Assets			
Non-current assets			
Property, plant and equipment	13	17	12
Intangible assets	14	7,448	9,446
Investments	15	24,983	19,763
Total non-current assets		32,448	29,221
Current assets			
Trade and other receivables	16	929	1,055
Deposits	17	–	2,000
Cash and cash equivalents	17	21,288	3,923
Total current assets		22,217	6,978
Total assets		54,665	36,199
Equity			
Called up share capital	18	1,094	728
Share premium	18	63,529	44,486
Other reserves	19	3	125
Retained earnings		(12,518)	(11,848)
Equity attributable to equity holders of the parent		52,108	33,491
Non-controlling interests	20	–	–
Total equity		52,108	33,491
Non-current liabilities			
Amounts owed to related parties	21	2,354	2,337
Current liabilities			
Trade and other payables	22	203	371
Total liabilities		2,557	2,708
Total equity and liabilities		54,665	36,199

These financial statements were approved by the Board of Directors on 14 October 2013 and were signed on its behalf by the Chairman

Doug Liversidge CBE
Chairman
Fusion IP plc – registered number 5275732

Consolidated Statement of Cash Flows

for the year ended 31 July 2013

	2013 £000	2012 £000
Cash flows from operating activities		
(Loss)/Profit for the year	(1,204)	505
Adjustments for		
– depreciation of property, plant and equipment	7	12
– amortisation of intangible assets	1,988	1,996
– net finance income	(162)	(115)
– share-based payments	–	32
– dividend income	(19)	(19)
– gain on disposal of investments/subsidiaries	(642)	(459)
– change in fair value of investments	(1,834)	(3,567)
Changes in working capital		
– decrease/(increase) in trade and other receivables	126	(442)
– decrease in trade and other payables	(168)	(9)
Net cash flows used in operating activities	(1,908)	(2,066)
Cash flows from investing activities		
Purchase of property, plant and equipment	(12)	(8)
Purchase of investments	(2,592)	(2,885)
Proceeds from sale of investments	–	3,937
Third party investment into subsidiary spin-out companies	351	–
Cash transfers from/(to) longer-term bank deposits	2,000	(2,000)
Dividend income	19	19
Interest received	220	177
Net cash flows used in investing activities	(14)	(760)
Cash flows from financing activities		
Proceeds from issue of share capital	20,035	5,026
Share issue costs	(748)	(239)
Net cash flows from financing activities	19,287	4,787
Net increase in cash and cash equivalents	17,365	1,961
Cash and cash equivalents at the beginning of the year	3,923	1,962
Cash and cash equivalents at the end of the year	21,288	3,923

Consolidated Statement of Changes in Equity

for the year ended 31 July 2013

	Attributable to equity holders of the Group						
	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total £000	Non-controlling interests £000	Total £000
At 1 August 2011	542	39,034	3	(12,347)	27,232	–	27,232
Profit and total comprehensive profit for the year	–	–	–	669	669	(164)	505
Non-controlling interest attributable to the Group	–	–	–	(202)	(202)	202	–
Issue of share capital	186	4,783	–	–	4,969	–	4,969
Share-based payments	–	–	–	32	32	–	32
Part disposal of subsidiaries	–	–	–	–	–	(38)	(38)
Movement in shares to be issued	–	669	122	–	791	–	791
At 31 July 2012	728	44,486	125	(11,848)	33,491	–	33,491
Loss and total comprehensive loss for the year	–	–	–	(959)	(959)	(245)	(1,204)
Non-controlling interest attributable to the Group	–	–	–	289	289	(289)	–
Issue of share capital	366	18,996	(75)	–	19,287	–	19,287
Disposal of subsidiaries	–	–	–	–	–	534	534
Movement in shares to be issued	–	47	(47)	–	–	–	–
At 31 July 2013	1,094	63,529	3	(12,518)	52,108	–	52,108

Notes to the Consolidated Financial Statements

for the year ended 31 July 2013

1. General information

Fusion IP plc is a public limited company which is listed on AIM, part of the London Stock Exchange, and is incorporated and domiciled in the UK The address of its registered office is The Sheffield Bioincubator, 40 Leavygreave Road, Sheffield S3 7RD The registered number of the Company is 5275732

These consolidated financial statements are presented in Sterling which is also the currency of the primary economic environment in which the Group operates The financial statements are presented in round thousands

2 Summary of significant accounting policies

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

Basis of preparation

The consolidated financial statements principally 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	Holding company	100%	Ordinary
Fusion IP Cardiff Limited	Holding company	100%	Ordinary
Biofusion Licensing (Sheffield) Limited*	Dormant	100%	Ordinary
Mantelum Limited*	Dormant	100%	Ordinary
Resagen Limited*	Orphan drug	100%	Ordinary
Rhedyn Limited*	Cancer diagnostics	100%	Ordinary
Wound Genetics Limited*	Advanced wound care	100%	Ordinary
BioHydrogen Limited*	Dormant	60%	Ordinary
Extraject Technologies Limited*	Microneedle technology	60%	Ordinary
Medella Therapeutics Limited*	Cancer therapeutics	60%	Ordinary
PH Therapeutics Limited*	Antibody therapies	60%	Ordinary
Proflu Limited*	Novel new pharmaceuticals	60%	Ordinary
Lifestyle Choices Limited*	Dormant	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 ("IFRS") as adopted by the EU The Company has elected to prepare its Parent Company financial statements in accordance with UK GAAP and these are presented on pages 45 to 47

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 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

2 Summary of significant accounting policies continued

Change in accounting policies

(i) New standards, amendments and interpretations effective for the first time in the year ended 31 July 2013

The following new standards, amendments and interpretations have become effective for the current financial year These changes have not had a significant impact on the Group

- IAS 1 (amended) Presentation of Financial Statements, presentation of other comprehensive income
- IAS 12 (amended) Income Taxes, recovery of underlying assets

(ii) Standards, amendments and interpretations not yet effective

At the date of approval of these financial statements, the following standards, amendments and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases have not yet been adopted by the EU)

- Amendments to IFRS 1 First time adoption of IFRS – Government loans
- Amendments to IFRS 1 First time adoption of IFRS – Severe hyperinflation and removal of fixed dates for first time adopters
- IFRS 9 Financial Instruments and subsequent amendments
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- Amendments to IFRS 10, 11, 12 Transitional guidance
- Amendments to IFRS 10, 12 and IAS 27 Investment entities
- IFRS 13 Fair Value Measurement
- IAS 19 (revised) Employee Benefits
- IAS 27 (revised) Separate Financial Statements
- IAS 28 (revised) Investments in Associates and Joint Ventures
- Amendments to IAS 32 and IFRS 7 Financial Instruments, on asset and liability offsetting
- Amendments to IAS 36 Recoverable amount disclosures for non-financial assets
- Amendments to IAS 39 Novation of derivatives and continuation of hedge accounting
- IFRIC 20 Stripping costs in the production phase of a surface mine
- IFRIC 21 Levies
- Amendments resulting from Annual Improvements 2009-2011 Cycle

At this point in time it is not expected that these standards will have a significant impact on the Group financial statements with the exception of IFRS10 & IFRS11, which may impact on the criteria by which we assess which companies the Group will consolidate The Board are aware of the effective date and are reviewing the potential impact on the Group financial statements

Going concern

The Group's business, together with the factors likely to affect its future development, performance and financial position are set out in the Chief Executive's Review on pages 3 to 8 The financial position of the Group, its cash flows, and its liquidity position are described in the Financial Review on pages 9 to 10

The Group has cash and deposit balances as at 31 July 2013 of £21,288,000 The Directors have prepared and review on a regular basis financial forecasts based upon assumptions as to funding, investments in new and existing spin-out companies and the realisation of assets, along with other factors known to have a significant impact on results Based upon these the Directors have concluded that the Group has adequate working capital and cash balances to operate for the foreseeable future and that it is appropriate to use the going concern basis of preparation for this financial information

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 Costs directly attributable to the transaction are expensed as incurred 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 statement of comprehensive income

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and other components of equity related to the subsidiary Any surplus or deficit arising on the loss of control is recognised in the statement of comprehensive income If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost Subsequently it is accounted for as a spin-out investment as detailed below

Spin-out investments

Spin-out investments are entities over which the Group has significant influence, but not control, generally accompanied by a shareholding of less than 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 This treatment is permitted by IAS 28, in which investments held by entities which are akin to venture capitalist organisations can be excluded from its scope

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

Dividends received from spin-out investments are recognised in the statement of comprehensive income in the period in which they are received

Loan investments

Loan investments are generally unquoted loan instruments, which are convertible to equity at a future point in time Such instruments are considered to be hybrid instruments containing a fixed rate of debt host contract with an embedded equity derivative The Group designates the entire hybrid contract at fair value through the statement of comprehensive income on initial recognition and accordingly, the embedded derivative is not separated from the host contract and accounted for separately The fair value of loan instruments is established by calculating the present value of expected future cash flows associated with the instrument

Transactions with minority shareholders – "economic entity approach"

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity Gains or losses on disposals to non-controlling interests are also recorded in equity For disposals to non-controlling interests, differences between any proceeds received and the relevant share of non-controlling interests are also recorded in equity

2 Summary of significant accounting policies continued

Operating segments

An operating segment is a group of assets and operations, which are identified on the basis of internal reports that are regularly reviewed by the Board, which analyse the Group in order to allocate resources to the segment and to assess its ongoing performance

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 statement of comprehensive income

IP rights

IP rights comprise IP, patents and licences purchased by the Group together with the IP pipelines with Cardiff University and The University of Sheffield 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

Impairment of intangible assets

Assets that are subject to amortisation are tested for impairment annually as a matter of policy 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 statement of comprehensive income 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 statement of comprehensive income 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

Spin-out investments and associated loans 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 Realised and unrealised gains on financial assets at fair value through profit or loss are included in the statement of comprehensive income in the period they arise

Cost

Where the investment being valued was itself made recently, its cost may provide a good indication of fair value unless there is objective evidence that the investment has since been impaired, such as observable data suggesting deterioration of the financial, technical, or commercial performance of the underlying business

Price of recent investment
The fair value of unlisted securities is established using IPEVCV guidelines The valuation methodology used most commonly by the Group is the "price of recent investment" 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

Other valuation techniques
Where spin-out investments are trading profitably and cash generative there is usually no readily ascertainable value from following the "price of recent investment" methodology In these circumstances the Group considers alternative methodologies in the IPEVCV guidelines, such as discounted cash flows ("DCF") or price-earnings multiples DCF involves estimating the fair value of business by calculating the present value of expected future cash flows, based on the most recent forecasts in respect of the underlying business

When using the earnings multiple methodology, earnings before interest and tax ("EBIT") are generally used, adjusted to a maintainable level A suitable earnings multiple is derived from an equivalent business or group of businesses, for which the average price-earnings multiple for the relevant sector index can generally be considered a suitable proxy This multiple is applied to earnings to derive an enterprise value which is then discounted to reflect non-marketability and other risks inherent to businesses in early stages of operation

Other receivables
Other 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", "deposits" and "cash and cash equivalents" They are carried at cost less any provision for impairment

Deposits
Deposits comprise longer term deposits held with financial institutions with an original maturity of greater than three months

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

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 or the transfer of IP from The University of Sheffield

Trade and other payables
Trade and other payables 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 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, and can be cancelled by Fusion by the return of the shares to which they relate to The University of Sheffield or Cardiff University respectively They are recognised at amortised cost, which is a reasonable approximation of fair value

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

Income tax

Income tax expense comprises current and deferred tax Current tax and deferred tax is recognised in the statement of comprehensive income except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years Current tax payable also includes any tax liability arising from the declaration of dividends

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes Deferred tax is not recognised for

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss,
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future, and
- taxable temporary differences arising on the initial recognition of goodwill

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised

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 statement of comprehensive income 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

Corporate operating expenses
Corporate operating expenses reflect the costs associated with running the central functions of the Group The costs are contained within the Parent Company, Fusion IP plc and the two wholly owned subsidiaries, Fusion IP Sheffield Limited and Fusion IP Cardiff Limited

Subsidiary spin-out operating expenses
Subsidiary spin-out operating expenses reflect the costs associated with running the early stage spin-out companies in the period from when they are first incorporated through to when they have completed third-party venture capital funding which then dilutes the Group's holding below 50% of the equity or voting rights At this stage the spin-out company is then de-consolidated and accounted for as a financial asset at held fair value

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 trade and other payables consist of short-term payables, therefore disclosures have been excluded The amounts owed to related parties falling due after more than one year generally relates 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

3. Financial risk management continued

Interest rate risk

The Group has directly maintained special interest bearing accounts with corporate banks 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 are placed with corporate banks where surplus funds in excess of £1m exist and interest rates above LIBOR are available Currently no fixed rate deposits are placed due to the small differential between interest rates on fixed rate deposits and those with instant access The current market situation is constantly reviewed and fixed rate deposits will be held should interest rates improve sufficiently

It is estimated that the effect of a 0 5% increase/decrease in interest rates based on the average expected cash balance for next year on profit before tax would be £87,000

The Group's cash and deposits as at 31 July 2013 amounted to £21,288,000 (2012 £5,923,000)

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 capital structure of the Group is a mixture of cash balances and equity comprising issued share capital and reserves as detailed in note 18 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 looks to achieve this by endeavouring to invest in the right opportunities at the right time, balancing cash requirements with forecasts of future cash inputs

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

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 These judgements are by nature more subjective when investments have experienced a period of time between funding rounds

Valuations of unquoted equity investments are based on the last external funding round where one has taken place, otherwise at cost, less any provision for impairment if the most recent external funding round establishes a valuation lower than the cost to the Group

Where unquoted equity investments are trading profitably and cash generative they will be valued using either DCF or price-earnings multiples, which will be discounted to reflect non-marketability and other risks inherent to businesses in early stages of operation The estimates included in these valuations are inherently subjective, especially where assigning non-marketability and risk discounts to unique companies These valuations are reviewed on a regular basis based on the trading performance of the companies and decisions on whether to increase or impair the carrying value are reviewed by the Directors

Valuation of intangible IP rights

It is Group policy 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 2 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

Whilst generally considered to be a largely non-judgemental area, the choice between subsidiary or spin-out investment has a material impact on the financial statements The Directors do not consider that there have been any decisions requiring the application of significant judgement in the current period

5 Operating segments

For the year ended 31 July 2013 and the year ended 31 July 2012 the Group's revenue and profit or loss was derived from its principal activity which encompasses technology transfer, company incubation and early stage venture capital The Group's Board, which is considered to be the Group's chief operating decision maker, have undertaken a review of the Group's operations and its associated business risks and consider the performance of the business as one reportable segment The portfolio of investments is reviewed with no differentiation made based on the market sector of the company or whether the company originated from the Sheffield or Cardiff IP pipeline No distinction is made between the assessment of subsidiaries and spin-out companies

The principal activity of the Group is based solely within the UK hence no geographical analysis is presented

The disclosures for the reportable segment is therefore given by the primary financial statements and related notes There are no material differences between the segment information as presented to the chief operating decision maker, and the financial information is presented under IFRS as adopted by the EU

6. Results from operating activities

Results from operating activities have been arrived at after charging the following operating expenses

	2013 £000	2012 £000
Depreciation on property, plant and equipment	7	12
Amortisation of intangible assets	1,988	1,996
Employee costs (see note 8)	1,019	994
Net operating leases – property	40	30
Payments to The University of Sheffield/Cardiff University for IP mining	306	315
Research, development and patent costs	433	540
Legal, professional, insurance and advisory costs	253	205
Administration and marketing costs	355	268
	4,401	4,360

Notes to the Consolidated Financial Statements continued

for the year ended 31 July 2013

7 Auditors' remuneration

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

	2013 £000	2012 £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 their associates for other services		
– the audit of the Company's subsidiary spin-out companies	2	3

8. Employee costs

	2013 £000	2012 £000
Wages and salaries	853	798
Social security costs	108	107
Pension costs – contributions to money purchase plans	58	57
Share-based payments	–	32
	1,019	994

Average monthly number of persons (including Non-executive Directors) employed

	2013 Number	2012 Number
Central corporate functions	14	13
Subsidiary spin-out companies	1	1
	15	14

9 Share-based payments

Share option schemes

The Company has share option schemes for both Directors and certain employees Details of the share options held by Directors are set out within the Report on Directors' Remuneration

Each option will vest monthly as to 1/36th 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 employed by the Company for any reason other than death, his option (to the extent unexercised and unvested) will lapse, unless under the discretion of the board they are allowed to continue 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

Warrants

On 23 March 2006, as part of a £10m Side Fund Agreement, Fusion issued warrants to NPI Ventures Since this date the warrants have changed ownership and last year we were informed that they are currently held by a private equity firm The warrants outstanding are as follows

- 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

Movements and fair value

The movements relating to share options and warrants during the year are set out below

	2013		2012	
	Number of share options	Number of warrants	Number of share options	Number of warrants
Outstanding at the beginning of the period	644,999	3,675,000	699,999	–
Reinstated during the period	–	–	–	3,675,000
Exercised during the period	(105,000)	–	(55,000)	–
Outstanding at the end of the period	539,999	3,675,000	644,999	3,675,000

105,000 share options were exercised during the year, the exercise price per share was 33 5p and the weighted average market share price at the time of exercise was 60 9p

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	Directors	Others*	Others*	Warrants
Fair value at grant date	14 43p	47 24p	15 65p	47 24p	15 65p	43 98p to 18 83p
Share price at grant	33 50p	150 00p	33 50p	150 00p	33 50p	152 25p
Dividend yield	0 00%	0 00%	0 00%	0 00%	0 00%	0 00%
Expected volatility	42 17%	18 52%	42 20%	18 52%	42 20%	18 85%
Expected life	4 years	1 5 years	6 years	1 5 years	6 years	2 5 years
Risk free interest rate	3 00%	4 46%	3 00%	4 46%	3 00%	4 28%
Number of shares under option	270,000	33,333	100,000	66,666	70,000	3,675,000

*Others reflects share options held by the Company Secretary and the spouse of T Atkinson (deceased)

The expected volatility was benchmarked against the FTSE AIM All Share Index on those options issued on 31 July 2010 and for the previous options against an index of similar companies in the Biotech Index as no historic data was available for the Company at the grant date

The fair value of any outstanding 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 £nil (2012 £32,000)

10. Finance income and expenses

	2013 £000	2012 £000
Finance income		
Interest income on bank deposits	122	26
Interest income on loans to spin-out investments	98	151
	220	177
Finance expenses		
Interest payable on loans from related parties	(58)	(62)
	(58)	(62)
Net finance income	162	115

11 Taxation

	2013 £000	2012 £000
Current tax	–	–
Deferred tax	–	–
	–	–

Deferred tax assets of £4,570,000 (2012 £3,943,000) 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

Corporation tax is calculated at a rate of 20% (2012 20%) of the estimated assessable profit for the period

The charge for the year can be reconciled to the (loss)/profit per the income statement as follows

	2013 £000	2012 £000
(Loss)/Profit before tax	(1,204)	505
Current tax at 20% (2012 20%)	(241)	101
Effects of		
– expenses not deductible for tax purposes	(672)	(120)
– depreciation in excess of capital allowances	(1)	1
– UK research and development tax credits	16	(29)
– non taxable gains	–	(768)
– tax losses carried forward	898	815
Total tax charge	–	–

12. Earnings per share

	2013	2012
(Loss)/Profit attributable to the equity holders of the parent	(£959,000)	£669,000
Weighted average number of Ordinary shares in issue	84,142,368	66,626,200
Basic and fully diluted (loss)/profit per share	(1 14)p	1 00p

Basic earnings per share is calculated by dividing the profit or loss 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 earnings per share for any outstanding shares options or warrants

13 Property, plant and equipment

	Office and computer equipment £000
Cost	
At 1 August 2012	87
Additions	12
Disposals	(18)
At 31 July 2013	81
Accumulated depreciation	
At 1 August 2012	(75)
Charge for the year	(7)
Disposals	18
At 31 July 2013	(64)
Net book value	
At 31 July 2013	17
Cost	
At 1 August 2011	79
Additions	8
At 31 July 2012	87
Accumulated depreciation	
At 1 August 2011	(63)
Charge for the year	(12)
At 31 July 2012	(75)
Net book value	
At 31 July 2012	12

14 Intangible assets

	IP rights and patent/licences £000
Cost	
At 1 August 2012	19,893
Disposals	(23)
At 31 July 2013	19,870
Accumulated amortisation	
At 1 August 2012	(10,447)
Amortisation charge	(1,988)
Disposals	13
At 31 July 2013	(12,422)
Net book value	
At 31 July 2013	7,448
Cost	
At 1 August 2011	19,893
At 31 July 2012	19,893
Accumulated amortisation	
At 1 August 2011	(8,451)
Amortisation charge	(1,996)
At 31 July 2012	(10,447)
Net book value	
At 31 July 2012	9,446

Recoverable amount of The University of Sheffield and Cardiff University IP pipeline rights
The following key variables are relevant in determining a recoverable amount for the IP pipeline rights

- the timing and number of spin-out companies from both universities,
- dilution of percentage shareholding rates as a result of financing related spin-out companies in the future,
- disposal values and timings, and
- discount factors of 6–8% (2012 6–8%)

Each year the Directors review the IP pipeline rights for any evidence of impairment This review is based on a discounted cash flow model which looks at historic information based on the key variables noted above and projects forwards over the remaining life of the IP pipeline rights and through to the exit of the spin-out companies Based on the review this year, the Directors believe that there is no impairment of the IP rights and that the most appropriate treatment is for the IP rights to be amortised over the ten-year life of the agreement with provision made for any impairment when required, consistent with the treatment in the prior year The carrying value of the Cardiff University IP rights amounted to £5,492,000 (2012 £7,086,000) The carrying value of The University of Sheffield IP rights amounted to £1,956,000 (2012 £2,348,000)

15 Investments

	Spin-out companies £000	Loans £000	Total £000
Fair value			
At 1 August 2012	18,930	833	19,763
Additions	1,858	757	2,615
Transfers	64	1,433	1,497
Change in fair value in the year	1,962	(854)	1,108
At 31 July 2013	22,814	2,169	24,983
Change in fair value in the year			
Fair value gains	2,727	–	2,727
Fair value losses	(765)	(854)	(1,619)
	1,962	(854)	1,108
Fair value			
At 1 August 2011	15,053	1,715	16,768
Additions	2,058	827	2,885
Disposals	(3,457)	–	(3,457)
Transfers	1,371	(1,371)	–
Change in fair value in the year	3,905	(338)	3,567
At 31 July 2012	18,930	833	19,763
Change in fair value in the year			
Fair value gains	4,178	–	4,178
Fair value losses	(273)	(338)	(611)
	3,905	(338)	3,567

The total fair value of investments of £24,983,000 (2012 £19,763,000) has been determined using two valuation methods

- Level 2 – inputs other than quoted prices that are observable for the assets – £24,203,000 (2012 £19,252,000)
- Level 3 – inputs for the asset that are not based on observable market data – £780,000 (2012 £511,000)

Fair values relating to unquoted equity investments classified as Level 3 have been determined in part or in full by a valuation method that is not supported by observable market prices or rates Investments in i2L Research Limited and i2L Research USA, Inc have been classified as Level 3 and the individual valuations have been calculated using price-earnings multiples The increase shown from 2012 to date relates to an uplift based on the year-end price-earnings multiple calculation

During the year both Absynth Biologics and FaultCurrent deconsolidated, whereby the Group's holdings in both these companies dropped below 50% following third party investment This has led to gains on disposal of subsidiaries/investments £1,368,000 (2012 £459,000), and at the year end carrying values for these companies (including loans held) total £1,980,000 In 2012 gains on disposal were mainly made on the sale of the Group's investment in Simcyp Limited

15 Investments continued

At 31 July 2013, the Group had investments where it holds 20% or more of the issued share capital as follows

	Principal activity	Holding	Class of shares held
Progenteq Limited	Cartilage replacement therapies	48%	Ordinary
Demasq Limited	Bone and soft tissue imaging products	48%	Ordinary
FaultCurrent Limited	Fault current limiters	47%	Ordinary
Mesuro Limited	Radio frequency design and test instrumentation	47%	Ordinary
Asalus Medical Instruments Limited	Medical devices	44%	Ordinary & Preference
Absynth Biologics Limited	MRSA vaccines	43%	Ordinary & A Ordinary
Adjuvantix Limited	Vaccine adjuvants	43%	Ordinary
Diurnal Limited	Hormone replacement	43%	Ordinary
Seren Photonics Limited	High Brightness LEDs	40%	Ordinary & A Ordinary
Iterate Control Limited	Advance control testing software	40%	Ordinary
Magnomatics Limited	Magnetic devices	39%	Ordinary & A Ordinary
Medaphor Limited	Medical training solutions	39%	Ordinary
Asterion Limited	Cytokine therapies	38%	Ordinary
Phase Focus Limited	Lensless microscopy	35%	Ordinary
Perlemax Limited	Industrial gas processes	35%	Ordinary
Art of Xen Limited	Medical use of xenon gas	32%	Preference
i2L Research Limited	Pesticide testing	31%	A & B Ordinary
i2L Research USA, Inc	Pesticide testing	31%	Ordinary
Nanotether Discovery Science Limited	Drug discovery technology	22%	Ordinary

At 31 July 2013, the Group had investments where it holds 20% or less of the issued share capital as follows

	Principal activity	Holding	Class of shares held
Simm Investments Limited	Investment company	20%	B Ordinary
Muscagen Limited	Drug discovery	13%	A4 Ordinary
Morvus Technology Limited	Oncology therapies	9%	Ordinary
Zilico Limited	Cervical cancer detection	5%	Ordinary & C Ordinary
Sarum Biosciences Limited	Antibacterial treatments	2%	Ordinary
Q Chip Limited	Life science and therapeutic products	1%	A Ordinary

All companies are incorporated in England and Wales except for i2L Research USA, Inc which is incorporated in USA

16 Trade and other receivables

	2013 £000	2012 £000
Trade receivables	5	8
Amounts due from related parties	54	171
Other tax and social security	29	33
Other receivables	655	573
Payments on account	82	132
Prepayments and accrued income	104	138
	929	1,055

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

Other receivables mainly represents an amount due in respect of the sale of Simcyp – £573,000 is held in escrow for two years as security for certain warranty and indemnity cover This amount is due early 2014

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 was considered necessary in the current or preceding years

17 Deposits and cash and cash equivalents

	2013 £000	2012 £000
Deposits	–	2,000

Deposits comprise treasury deposits held by the Group with an original maturity of greater than three months The carrying amount of these assets approximates their fair value

	2013 £000	2012 £000
Cash and cash equivalents	21,288	3,923

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

18. Share capital and premium

	2013 £000	2012 £000
Allotted, called up and fully paid		
109,437,096 (2012 72,832,850) Ordinary shares of 1p each	1,094	728
Share premium	63,529	44,486

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

On 11 April 2013, following the successful completion of a Placing for new shares, the Company issued 36,499,246 Ordinary shares of 1p each Of the total number of shares, 3,045,000 shares were issued to IP Group plc and 33,318,637 shares were issued to new and existing institutional shareholders, the consideration from these shares amounted to £20,000,000 less share issue costs of £748,000 The share issue costs represent legal and brokerage fees incurred on the transaction and have been charged to the share premium account The remaining 135,609 shares were issued to The University of Sheffield to satisfy a pre-existing pipeline agreement and therefore had no consideration As a result of this transaction IP Group plc hold 20% of the Company

The new shares issued represented 50% of the Company's then existing share capital and following the issue represents 33% of the Company's enlarged issued share capital

Additionally during the year, on the exercise of share options, the Company issued a further 105,000 Ordinary shares of 1p each, the total consideration for these shares amounted to £35,000 Details of the share options are given in note 9

19 Other reserves

The Other reserves totalling £3,000 (2012 £125,000) comprise a capital redemption reserve of £1,000 (2012 £1,000) and a capital reserve of £2,000 (2012 £2,000) arising from the Company's admission to AIM in 2005 and the resulting differences on consolidation under merger accounting The additional £122,000 in 2012 represented the 135,609 shares still to be issued in respect of the extended pipeline agreement with The University of Sheffield, these have now been issued, see note 18

20 Non-controlling interests

	2013 £000	2012 £000
At 1 August	–	–
Disposal of subsidiary undertakings	534	–
Part disposal of subsidiary undertakings	–	(38)
Share of loss in year	(245)	(164)
Non-controlling interests attributable to Group	(289)	202
At 31 July	–	–

The disposal of subsidiary undertakings reflects the deconsolidation impact of Absynth Biologics Limited and FaultCurrent Limited

21 Non-current liabilities

	2013 £000	2012 £000
Amounts owed to The University of Sheffield	769	811
Amounts owed to Cardiff University	1,585	1,526
Amounts owed to related parties	2,354	2,337

£769,000 owed to The University of Sheffield (2012 £751,000) and £1,585,000 owed to Cardiff University (2012 £1,526,000) relate to loan notes and accrued interest 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 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 and can be cancelled by Fusion by the return of the shares to which they relate to The University of Sheffield or Cardiff University respectively The additional £60,000 owed to The University of Sheffield in 2012 related to a loan with Absynth Biologics Limited, a previously consolidated subsidiary spin-out company

Maturity analysis

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

22 Trade and other payables

	2013 £000	2012 £000
Trade creditors	104	71
Amounts due to related parties	13	71
Other creditors	5	6
Other tax and social security	–	1
Accruals and deferred income	81	222
	203	371

23 Operating lease commitments

	2013 £000	2012 £000
Minimum commitments under non-cancellable operating leases on property expiring		
– no later than one year	15	–
– later than one year and no later than five years	–	25
	15	25

The lease payments represent amounts payable by the Group for its office requirements in the UK

Notes to the Consolidated Financial Statements continued

for the year ended 31 July 2013

24 Related party transactions

During the year, the Group entered into the following transactions with various related parties All transactions were conducted on terms prevailing in an arms length transaction

Under the terms of the agreement dated January 2009 Fusion IP Sheffield Limited paid The University of Sheffield £96,250 (2012 £105,000), as payments to support the management of the IP pipeline

During the year, as part of the April 2013 funding round, the remaining 135,609 shares required to satisfy a pre-existing pipeline agreement were issued to The University of Sheffield for no consideration, see note 18

Fusion has continued to accrue interest due on loans in respect of the purchase of the original portfolio companies from The University of Sheffield The total amount due is set out in note 21

Fusion IP Sheffield Limited purchased IP and made contributions towards patent costs from The University of Sheffield during the year with a total value of £39,520 (2012 £92,767)

Fusion IP Sheffield Limited incurred costs of £26,448 (2012 £26,124) under a secondment agreement with The University of Sheffield for services from personnel

Fusion IP Sheffield Limited incurred costs in respect of leased office premises and related expenses from The University of Sheffield £21,060 (2012 £19,902)

At 31 July 2013 the total balance due to The University of Sheffield in respect of the above transactions was £10,172 (2012 £16,428)

Fusion IP Sheffield Limited received licence income via The University of Sheffield for the year of £53,828 (2012 £35,114) with balance owed to Fusion from the University at 31 July 2013 of £164 (2012 £nil)

During the year, the Group purchased administrative and other services from Sheffield University Enterprises Limited (SUEL), a wholly owned subsidiary of The University of Sheffield, totalling £32,118 (2012 £31,470) At 31 July 2013 the balance due to SUEL was £2,408 (2012 £3,459)

Under the terms of the agreement dated January 2007 Fusion IP Cardiff Limited paid Cardiff University £210,000 (2012 £210,000) as payments to support the management of the IP pipeline

Fusion has continued to accrue interest due on loans in respect of the purchase of the original portfolio companies from Cardiff University and during the year, under the same terms as the original agreement, an additional loan of £22,301 was added in exchange for shares in Sarum Biosciences Limited The total amounts due are set out in note 21

Fusion IP Cardiff Limited made payments of £7,321 (2012 £nil) to Asalus Medical instruments Limited, a participating interest, in respect of the Cardiff office space

During the year whilst a subsidiary company, Absynth Biologics Limited, increased their loan from The University of Sheffield to £140,000 (2012 £60,000) Absynth Biologics Limited deconsolidated on 10 July 2013 and therefore no balances are included as at 31 July 2013 (2012 £60,212) Interest to the point of deconsolidation of £3,936 (2012 £425) is included in finance expenses

During the year, Fusion supplied management services to companies in which it held a participating interest totalling £310,756 (2012 £375,737) At 31 July 2013 the amount owed to Fusion was £54,062 (2012 £171,134)

During the year, companies in which Fusion held an interest contracted for £644,528 (2012 £725,565) of research services combined from The University of Sheffield and Cardiff University At 31 July 2013 the combined amount owed to the Universities for these contracted research services was £47,353 (2012 £198,853 which includes a consolidated balance of £50,911)

During the year, IP Group plc invested £1,220,821 (2012 £948,777) in companies in which Fusion held a participating interest

As part of the April 2013 fundraising IP Group purchased a further 3,045,000 shares in Fusion, see note 18

During the year, directors of Fusion invested £5,000 (2012 £nil) in companies in which Fusion held a participating interest

Company Balance Sheet

as at 31 July 2013

	Note	2013 £000	2012 £000
Fixed assets			
Tangible assets	3	14	11
Investments	4	1	1
		15	12
Current assets			
Debtors	5	45,275	41,436
Cash at bank and in hand		19,214	3,790
		64,489	45,226
Creditors amounts falling due within one year	6	(56)	(77)
Net current assets		64,433	45,149
Net assets		64,448	45,161
Capital and reserves			
Called up share capital	7	1,094	728
Share premium	7	63,529	44,486
Other reserves	7	1	123
Retained deficit	7	(176)	(176)
Equity shareholders' funds		64,448	45,161

These financial statements were approved by the Board of Directors on 14 October 2013 and were signed on its behalf by the Chairman

Doug Liversidge CBE
Chairman
Fusion IP plc – registered number 5275732

Notes to the Company Financial Statements

for the year ended 31 July 2013

1 Accounting policies

The Company financial statements have been prepared under the historical cost convention in accordance with applicable UK Accounting Standards and the Companies Act 2006 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 present an individual cash flow statement

2. Results for the Parent Company

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 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 (2012 £16,000) after recharges

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

Full details of Directors' remuneration and employee information can be found in the Report on the Directors' Remuneration on pages 14 to 16

3 Tangible assets

	Computer and office equipment	
	2013 £000	2012 £000
Cost		
At 1 August	48	40
Additions	8	8
Disposals	–	–
At 31 July	56	48
Depreciation		
At 1 August	(37)	(29)
Charge for year	(5)	(8)
Disposals	–	–
At 31 July	(42)	(37)
Net Book Value	14	11

4 Investments

	2013 £000	2012 £000
Investments in subsidiary undertakings	1	1

Details of the subsidiary undertakings at 31 July 2013 are as follows

	Principal activity	Holding	Class of shares held
Fusion IP Sheffield Limited	Holding company	100%	Ordinary
Fusion IP Cardiff Limited	Holding company	100%	Ordinary

All companies are incorporated in England and Wales

5 Debtors

	2013 £000	2012 £000
Prepayments and accrued income	58	31
Loans to subsidiary undertakings	45,217	41,405
	45,275	41,436

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

	2013 £000	2012 £000
Accruals and deferred income	56	77

7 Share capital and reserves

	Share capital £000	Share premium £000	Other reserves £000	Retained deficit £000	Total £000
At 1 August 2012	728	44,486	123	(176)	45,161
Issue of share capital	366	18,996	(75)	–	19,287
Movement in shares to be issued	–	47	(47)	–	–
At 31 July 2013	1,094	63,529	1	(176)	64,448

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

Other reserves relate to a capital redemption reserve of £1,000 (2012 £1,000) and shares to be issued £nil (2012 £122,000) In 2012 shares to be issued represented 135,609 shares in respect of the extended pipeline agreement with The University of Sheffield, these have now been issued as part of the fundraising in April 2013 see note 18 in the consolidated notes

8 Related party transactions

The Company has taken advantage of the exemption granted by paragraph 3b of FRS8, not to disclose transactions and balances with other Group companies

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Fusion IP plc (the **"Company"**) will be held at the offices of Ashurst LLP, Broadwalk House, 5 Appold Street, London EC2A 2HA on 29 November 2013 at 10 30 a m to consider and, if thought fit, pass the following resolutions It is intended to propose Resolution 5 as a special resolution and all other resolutions as ordinary resolutions Voting on all resolutions will be on a show of hands unless a poll is validly demanded

1 To receive the accounts including the Report on the Directors' Remuneration for the financial year ended 31 July 2013, together with the reports of the Directors and auditors thereon (Resolution 1)

2 To appoint KPMG LLP as auditors of the Company as a replacement for KPMG Audit Plc (Resolution 2)

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

4 That, in substitution for all previously granted but unutilised authorities, the Directors be generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the "Act"), to exercise all the powers of the Company to allot shares and grant rights to subscribe for, or convert any security into shares

(a) up to an aggregate nominal amount (within the meaning of section 551(3) and (6) of the Act) of £364,790 (such amount to be reduced by the nominal amount allotted or granted under (b) below in excess of such sum), and

(b) comprising equity securities (as defined in section 560 of the Act) up to an aggregate nominal amount (within the meaning of section 551(3) and (6) of the Act) of £729,580 (such amount to be reduced by any allotments of grants made under (a) above) in connection with or pursuant to an offer or invitation by way of a rights issue in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective number of ordinary shares held by them on the record date for such allotment (and holders of any other class of equity securities entitled to participate therein or if the Directors consider it necessary, as permitted by the rights of those securities), but subject to such exclusions or other arrangements as the Directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of, any regulatory body or stock exchange in any territory or any other matter whatsoever,

these authorisations to expire at the conclusion of the next Annual General Meeting of the Company (save that the Company may before such expiry make any offer or agreement that would or might require shares to be allotted, or rights to be granted, after such expiry and the Directors may allot shares, or grant rights to subscribe for or to convert any security into shares, in pursuance of any such offer or agreement as if the authorisations conferred hereby had not expired) (Resolution 4)

5 That subject to the passing of Resolution 4 set out above, the Directors be given power pursuant to sections 570 and 573 of the Act to

(a) allot equity securities (as defined in section 560 of the Act) of the Company for cash pursuant to the authorisations conferred by Resolution 4,

(b) sell ordinary shares (as defined in section 560(1) of the Act) held by the Company as treasury shares for cash, and

(c) allot up to 3,675,000 ordinary shares in the capital of the Company in connection with any exercise of warrants created by the Company pursuant to a deed between the Company and NPI Ventures Limited and dated 23 March 2006 (the **"Warrant Deed"**),

as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall be limited to the allotment of equity securities for cash and the sale of treasury shares

(i) in connection with or pursuant to an offer or invitation (but in the case of the authorisation granted under Resolution 4(b) above, by way of a rights issue only) in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective number of ordinary shares held by them on the record date for such allotment or sale (and holders of any other class of equity securities entitled to participate therein or if the Directors consider it necessary, as permitted by the rights of those securities) but subject to such exclusions or other arrangements as the Directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal regulatory or practical difficulties which may arise under the laws of or the requirements of any regulatory body or stock exchange in any territory or any other matter whatsoever,

(ii) in connection with the allotment of up to 3,675,000 ordinary shares in the capital of the Company pursuant to any exercise of warrants created by the Warrant Deed, and

(iii) in the case of the authorisation granted under Resolution 4(a) above (or in the case of any transfer of treasury shares), and otherwise than pursuant to paragraph (i) of this resolution, up to an aggregate nominal amount of £54,718 55, and shall expire at the conclusion of the next Annual General Meeting of the Company, save that the Company may before such expiry make any offer or agreement that would or might require equity securities to be allotted, or treasury shares to be sold, after such expiry and the Directors may allot equity securities, or sell treasury shares, in pursuance of any such offer or agreement as if the power conferred hereby had not expired (Resolution 5)

In accordance with article 106 of the Company's articles of association

6 To re-elect Mr D Liversidge, who retires by rotation as a Director of the Company (Resolution 6)

7 To re-elect Mr D Baynes, who retires by rotation as a Director of the Company (Resolution 7)

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

9 To re-elect Mr S Gall, who retires by rotation as a Director of the Company (Resolution 9)

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

11 To re-elect Mr M Davies, who retires by rotation as a Director of the Company (Resolution 11)

12 To re-elect Dr A Fielding, who retires by rotation as a Director of the Company (Resolution 12)

By order of the Board

Richard Birtles
Company Secretary
14 October 2013
Registered in England and Wales number 5275732

Registered Office
The Sheffield Bioincubator
40 Leavygreave Road
Sheffield S3 7RD

Notes

1 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that in order to have the right to attend and vote at the Annual General Meeting (and also for the purpose of determining how many votes a person entitled to attend and vote may cast), a person must be entered on the register of members of the Company at 6 p m on 27 November 2013 or, in the event of any adjournment, at 6 00 p m on the date which is two working days before the adjourned meeting Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting

2 A member is entitled to appoint another person as his proxy to exercise all or any of his or her rights to attend, to speak and to vote at the Annual General Meeting A member may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him or her A proxy need not be a member of the Company A form of proxy for the meeting is enclosed

3 To be valid any form of proxy or other instrument appointing a proxy must be received by post or by hand (during normal business hours only) by our registrar Capita Asset Services at PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU by no later than 10 30 a m on 27 November 2013 (or, if the meeting is adjourned, 48 hours before the time fixed for the meeting, excluding non-working days)

4 Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares

5 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

6 You may not use any electronic address (within the meaning of section 333(4) of the Companies Act 2006) provided in this notice of Annual General Meeting (or in any related documents including the proxy form) to communicate with the Company for any purposes other than those expressly stated

Explanatory Notes to the Resolutions to be proposed at the 2013 Annual General Meeting

Resolution 1 – Report and Accounts

The Directors will present the audited financial statements of the Company for the year ended 31 July 2013 together with the Directors' Report and Auditors' Report on those financial statements

Resolution 2 – Change of Auditors

KPMG Audit Plc have notified the Company that they are not seeking reaapointment following their intention to gradually wind down the registered firm It is proposed that KPMG LLP be and are hereby appointed auditors of the Company which will hold office from the conclusion of this meeting until the conclusion of the next general meeting at which the accounts are laid before the Company

Resolution 3 – Fixing of Auditors' Remuneration

The resolution proposes that the Directors be authorised to set the fees of the auditors

Resolution 4 – Authority to Allot Shares

The Directors may allot shares and grant rights to subscribe for, or convert any security into, shares only if authorised to do so by shareholders Accordingly, Resolution 4 will be proposed as an ordinary resolution to grant new authorities to allot shares and grant rights to subscribe for, and convert any securities into, shares If given, these authorities will expire at the conclusion of the Company's Annual General Meeting in 2014

Paragraph (a) of Resolution 4 will allow the Directors to allot ordinary shares up to a maximum nominal amount of £364,790, representing approximately one third (33 33 per cent) of the Company's existing issued share capital and calculated as at 1 October 2013 (being the latest practicable date prior to publication of this notice) In accordance with the latest issued institutional guidelines, paragraph (b) of Resolution 4 will allow the Directors to allot, including the ordinary shares referred to in paragraph (a) of Resolution 4, further ordinary shares in connection with a pre-emptive offer by way of a rights issue to ordinary shareholders up to a maximum nominal amount of £729,580, representing approximately two thirds (66 67 per cent) of the Company's existing issued share capital calculated as at 1 October 2013

As at the date of this notice the Company holds no treasury shares

Resolution 5 – Authority to Allot Shares for Cash

The Directors also require a power from shareholders to allot equity securities or sell treasury shares where they propose to do so for cash and otherwise than to existing shareholders pro rata to their holdings Resolution 5 will be proposed as a special resolution to grant such a power Apart from offers or invitations in proportion to the respective number of shares held, the power will be limited to the allotment of equity securities and sales of treasury shares for cash up to an aggregate nominal value of £54,718 55 (being five per cent of the Company's issued ordinary share capital at 1 October 2013, the latest practicable date prior to the publication of this notice) If given, this power will expire at the conclusion of the Company's Annual General Meeting in 2014

Resolution 6 to 12 – To Re-elect Directors

The resolutions propose to re-elect the current directors who are required to retire by rotation this year

Form of Proxy

Before completing this form, please read the explanatory notes below

I/We (name(s) in full)

of (address(es))

being (a) member(s) of the Company, hereby appoint the Chairman of the meeting, or the following person

*

Please leave this box blank if you have selected the Chairman See note 3 Do not insert your own name(s)

as my/our proxy to exercise all or any of my/our rights to attend, speak and vote in respect of my/our voting entitlement* on my/our behalf as directed below at the Annual General Meeting of the Company to be held at the offices of Ashurst LLP, Broadwalk House, 5 Appold Street, London EC2A 2HA on 29 November 2013 at 10 30 a m and at any adjournment thereof

Please tick here if this proxy appointment is one of multiple appointments being made *

*For the appointment of more than one proxy, please refer to note 4

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

		For	Against	Vote Withheld
Resolution 1	To receive the accounts and reports of the Directors and auditors for the year ended 31 July 2013			
Resolution 2:	To appoint KPMG LLP as auditors of the Company as replacement for KPMG Audit Plc			
Resolution 3	To authorise the Directors to set the remuneration of the auditors			
Resolution 4	To give the Directors the authority to allot shares pursuant to section 551 of the Companies Act 2006			
Resolution 5	To give the Directors the authority to disapply pre-emption rights pursuant to sections 570 and 573 of the Companies Act 2006			
Resolution 6	To re-elect Mr D Liversidge			
Resolution 7	To re-elect Mr D Baynes			
Resolution 8	To re-elect Dr P Grant			
Resolution 9	To re-elect Mr S Gall			
Resolution 10	To re-elect Mr D Catton			
Resolution 11	To re-elect Mr M Davies			
Resolution 12	To re-elect Dr A Fielding			

I/We would like my/our proxy to vote on the resolutions proposed at the Annual General Meeting as indicated on this form Unless otherwise instructed, the proxy may vote or abstain as he or she sees fit in relation to any business of the meeting

Signature

Date

Form of Proxy continued

Notes to the form of proxy

1 As a member of the Company you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at a general meeting of the Company You can only appoint a proxy using the procedures set out in these notes If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box next to the proxy holder's name, the number of shares in relation to which they are authorised to act as your proxy If this box is left blank, your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account)

2 Appointment of a proxy does not preclude you from attending the meeting and voting in person If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated

3 A proxy does not need to be a member of the Company but must attend the meeting to represent you To appoint as your proxy a person other than the Chairman of the meeting, delete the words "the Chairman of the meeting or" and insert the name(s) of the person or persons appointed as proxy/proxies in the space provided If you sign and return this form of proxy with no name inserted in the space provided, the Chairman of the meeting will be deemed to be your proxy Where you appoint as your proxy someone other than the Chairman, you are responsible for ensuring that they attend the meeting and are aware of your voting intentions If you wish your proxy to make any comments on your behalf, you will need to appoint someone other than the Chairman and give them the relevant instructions directly

4 You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares You may not appoint more than one proxy to exercise rights attached to any one share If you wish to appoint more than one proxy using this form, please photocopy this form or contact Capita Asset Services for further forms of proxy When you submit the form of proxy, please indicate on each copy the name of the proxy and the number of shares in respect of which the proxy is appointed Please also indicate by ticking the box provided if the proxy is one of multiple instructions being given All forms of proxy must be signed and should be returned together in the same envelope You should send all proxies to Capita Asset Services at PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU

5 To direct your proxy how to vote on the resolutions, mark the appropriate box with an "X" To abstain from voting on a resolution, select the relevant "Vote withheld" box A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting

6 To appoint a proxy using this form, this form must be

completed and signed,

sent or delivered to Capita Asset Services at PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU, and

received by Capita Asset Services no later than 10 30 a m on 27 November 2013 (or, in the case of an adjourned meeting, 48 hours before the time fixed for the meeting, excluding non-working days)

7 In the case of a member which is a company, this proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company

8 Any power of attorney or any other authority under which this proxy form is signed (or duly certified copy of such power or authority) must be included with the proxy form

9 In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior)

10 If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence

Company Information and Advisors

Company secretary
Richard Birtles

Company number
5275732

Registered office
The Sheffield Bioincubator
40 Leavygreave Road
Sheffield S3 7RD

Independent auditor
KPMG Audit Plc
1 The Embankment
Neville Street
Leeds LS1 4DW

Solicitor
Ashurst LLP
Broadwalk House
5 Appold Street
London EC2A 2HA

Banker
Barclays
Cambridge Business Centre
28 Chesterton Road
Cambridge CB4 3UT

Nominated advisor and broker
Cenkos Securities plc
6 7 8 Tokenhouse Yard
London EC2R 7AS

Registrar
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham BR3 4TU

Sheffield Office
The Sheffield Bioincubator
40 Leavygreave Road
Sheffield S3 7RD

Cardiff/Swansea Office
Cardiff Medicentre
Heath Park
Cardiff CF14 4UJ

Nottingham Office
Sir Colin Campbell Building
Triumph Road
Nottingham NG7 2TU

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