COMPANY NUMBER
5275732

turning world class research into business

Fusion IP plc annual report and accounts 2009
www.fusionip.co.uk

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

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

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

summary

business and portfolio

- Simcyp records 19% growth in revenue and 33% growth in profit
- Magnomatics signs six-figure contract with the Ministry of Defence to evaluate its revolutionary, magnetic gear-based, marine propulsion technology
- Mesuro completes a £1m funding round and launches first product in partnership with Tektronix
- Average 45% equity stake maintained across top seven portfolio companies where significant value is expected
- Twelve funding rounds completed across the portfolio with seven third-party investors

financial

- Loss, excluding subsidiary spin-out costs and amortisation, reduced by 31% to £1.1m (2008: £1.6m)
- Loss for the year static at £5.0m (2008: £5.0m)
- Portfolio company fair value uplifts increased by 169% to £1.5m (2008: £0.6m), a net change in fair value of £0.1m uplift (2008: £0.4m write down)
- Cash balances at 31 July 2009 of £5.0m (2008: £6.4m)
- Cash invested in spin-out companies of £2.1m (2008: £2.8m)

post period end

- Proposed Subscription and Placing, with new investors, raising £3.0m (net of expenses) announced 9 November 2009
- As part of the proposed Subscription and Placing, IP Group plc, leaders in the field of commercialising university IP, will hold 19.8% of the Company
- New co-investment agreement entered into on 9 November 2009 with IP Group's wholly owned subsidiary, IP2IPO Limited, which will have the right to acquire for cash, at a predetermined value of £0.5m, 20% of Fusion's equity in any new portfolio company incorporated during the remaining term of Fusion's current university agreements
- On 9 November 2009 the Company terminated its co-investment agreement with Citigroup Capital Ventures UK Limited (CCVU) and as agreed, CCVU sold its 6.3% shareholding in Fusion IP to new and existing shareholders

Our key portfolio companies have continued to perform well and **the university pipelines continue to provide us with outstanding commercial opportunities** from their world-class research.

We are pleased to present Fusion IP's results for the year ended 31 July 2009.

Fusion IP is a leading university IP commercialisation company that owns the rights to 100% of university-owned IP generated at two of the UK's leading universities, the University of Sheffield and Cardiff University, through long-term agreements with these leading research intensive universities.

Although this has been a challenging year for the economy in general, which has made exits difficult, we have continued to successfully fund and grow many of our portfolio companies. Of these, our key portfolio companies have continued to perform well and the university pipelines continue to provide us with outstanding commercial opportunities from their world-class research.

A BALANCED PORTFOLIO
In July 2008, we announced that we had expanded our pipeline agreement with the University of Sheffield to include all the university-owned IP, not just IP emerging from life sciences research. This brings the agreement into line with the Cardiff Agreement, whereby we also own the rights to all the university-owned IP emerging from the University.

This expansion of our IP base means that we now own the rights to over £185m of research spend per annum in areas such as electronics, engineering, software development, energy and medical devices. This is now being reflected in the spread of commercial opportunities emerging from both universities and importantly in the balance of our investment portfolio.

CHERRY PICKING FROM WORLD CLASS PIPELINES
Our IP pipelines are now generating approximately 150 disclosures every year, from which we have the right to select those ideas with the greatest chance of significant

commercial success. The depth of these pipelines and the quality of the IP coming through means we are currently working on business plans for up to three new companies in the fields of semiconductors, engineering and medical devices. We believe these all have the potential to be of significant value to Fusion IP and we hope to launch these companies during the coming year.

SIGNIFICANT EQUITY STAKES
Due to the nature of our university agreements, we continue to have significant equity stakes in our portfolio companies, with our average equity holding in our key top seven companies currently standing at 45%. We therefore hope to be able to realise significant value from these companies upon exit.

EXCELLENT RELATIONSHIPS WITH INVESTORS
During the year we completed twelve funding rounds for our portfolio companies alongside seven third-party investors, five of whom were investing in Fusion IP companies for the first time. We continue to have an excellent relationship with Finance Wales in Cardiff, which has invested in all our Welsh-based spin-out investments since we signed a Memorandum of Understanding with them in 2007.

In addition we have a new relationship with the ERA Foundation, the UK organisation devoted to bridging the gap between research and exploitation in electrotechnology, which recently invested in Mesuro, and will consider investing in Electronics and Electrical Engineering (EEE) spin-outs from both universities.

FOCUSED TEAM, CONTROLLING COSTS
Given the difficult market conditions that have impacted the opportunity to exit companies at an acceptable value, we have focused on controlling the overhead cost within Fusion IP.

20
portfolio companies

£2.1m
invested in 2009

Although we do not run a large team to commercialise the two university pipelines, we have streamlined costs, where appropriate, and are increasing the recovery of our resources when supporting our portfolio companies. Excluding the fees paid to the universities for their technology transfer and patenting services (a combined total of £0.3m per annum (2008: £0.2m per annum)), we have reduced our corporate operating expenses by 18% to £1.5m in the year (2008: £1.8m).

FOCUS ON KEY PORTFOLIO COMPANIES
During the year we have continued to progress our key portfolio companies and consider that despite the difficult conditions, our portfolio is stronger and nearer to exit than at any time in the Company's short history. Below is an update on each of our key portfolio companies.

SIMCYP (WWW.SIMCYP.COM)
FUSION IP OWNS
22% OF SIMCYP

Simcyp, whose "Simcyp Population-based ADME Simulator" enables pharmaceutical companies to simulate the action of drugs within the human body before running clinical testing programmes, reported its fifth consecutive year of both revenue and profit growth. Revenue in the year was up by 24% to £3.9m (2008: £3.1m), profits were up by 26% to £1.2m and its customer base of the major pharmaceutical companies continues to rapidly grow. The company continues to be cash generative and has approximately £3.2m cash in the bank. The company is forecasting similar levels of growth in the year ending 31 July 2010.

Simcyp's revenue was up by 24% to £3.9m, profits were up by 26% to £1.2m and it continues to be cash generative, with approximately £3.2m cash in the bank.

MAGNOMATICS (WWW.MAGNOMATICS.COM)
FUSION IP OWNS
48% OF MAGNOMATICS

Magnomatics, which specialises in the development of advanced magnetic transmission systems and high-torque electrical machines, has had an excellent year. It completed a £0.5m funding rounding in August 2008 and has recently signed a six-figure contract with the Ministry of Defence for the assessment of its technology for use within the next generation of frigates and submarines as part of their Integrated Full Electric Propulsion systems. The Magnomatics technology has considerable potential in the wind energy, marine propulsion and hybrid vehicle markets and was described by one of the UK's leading energy consultants as "a major advance in drive train technology, perhaps the most significant one in the development of the modern wind industry".

The company expects to complete a number of high profile agreements during the course of the next year which should see the technology being developed in all its key market sectors of wind energy, marine propulsion and hybrid vehicles.

PHASE FOCUS (WWW.PHASEFOCUS.COM)
FUSION IP OWNS
56% OF PHASE FOCUS

Phase Focus has developed proprietary software (the Phase Focus Virtual Lens®) that transfers the task of microscope image formation from lenses to a computer algorithm. The Virtual Lens permits imaging without the aberrations or costs typically associated with conventional lens technologies. During the year the company successfully raised £0.7m in funding and now has various applications under development with end users, including stain-free live cell imaging for improved drug discovery. Commercial discussions are already underway with a potential strategic business partner in the materials analysis sector and further agreements are forecast during the next twelve months.

DIURNAL (WWW.DIURNAL.CO.UK)
FUSION IP OWNS
53% OF DIURNAL

Diurnal is developing a "once a day" drug that releases replacement hormones in a way that mimics the body's natural circadian rhythm (the 24 hour body clock). Its first product in development, Chronocort, mimics the body's natural release of cortisol for patients with adrenal insufficiency and has been granted orphan drug status in the EU. It is currently in the process of raising further funds and expects to have completed phase II trials by the middle of 2011, by which time it is anticipated the company would have significant value either through a trade sale or licence opportunity.

MESURO (WWW.MESURO.COM)
FUSION IP OWNS
51% OF MESURO

Mesuro is a new addition to Fusion IP's portfolio and demonstrates the speed with which new software-based companies can be brought to market. Mesuro's innovative Waveform Engineering technology enables the characterisation, analysis and optimisation of radio frequency (RF) power amplifier devices, which in turn allows the design of near theoretically efficient power amplifiers. This is a market which has seen relatively little innovation in the last 20 years and after a successful £1m fundraising in April 2009, Mesuro launched its first product, in partnership with Tektronix, during June 2009. Its key markets include the telecoms, defence and satellite sectors and the directors are hopeful that 2009/10 will be a breakthrough year, with Mesuro anticipating its first sales less than a year after the company was launched.

ASTERION (WWW.ASTERION.CO.UK)
FUSION IP OWNS
38% OF ASTERION

Asterion is developing a range of third generation therapeutic proteins which, based on Asterion's unique ProFuse platform technology, are designed to mimic the body's natural hormones to provide patients with the considerable benefits of requiring smaller doses of their drug, less frequently and at lower risk.

It has an excellent team, led by Michael Moore (ex-Piramed CEO), and is currently in the middle of a significant fundraising that will take one of its key target molecules to the end of phase I trials. During the year Asterion achieved a significant milestone from one of its pharmaceutical development partners triggering £0.5m in milestone payments.

DEMASQ (WWW.DEMASQ.COM)
FUSION IP OWNS
47.5% OF DEMASQ

Demasq has developed a knee imaging software engine (KIS), which at the beginning of the year received FDA clearance and CE approval. The software engine is designed to help a clinician visualise the soft tissue of the knee joint using the original digital X-ray. Demasq has not yet completed its proposed funding round because of difficulties between shareholders. Following recent negotiations, the Directors believe that Demasq has resolved these shareholder issues and are hoping that Demasq will be in a position to complete its funding plans within the next six months. Once completed Demasq would then be able to initiate a number of independent studies to validate the product, prior to launch in the UK and US towards the end of 2010.

Magnomatics' technology was described by one of the UK's leading energy consultants **as "a major advance in drive train technology**, perhaps the most significant one in the development of the modern wind industry".

OTHER PORTFOLIO INVESTMENTS

A number of Fusion IP's other portfolio companies have also made progress during the year:

- Morvus, the oncology company in which Fusion IP owns a 14% shareholding, has raised over £1m during the year to continue the development of its novel oncology drugs;
- Absynth, working in the area of MRSA, has developed significant data on its vaccine programme and is currently seeking potential corporate partners;
- Adjuvantix, who are developing a novel vaccine adjuvant system, completed a fund raising with Yorkshire Cancer Research and White Rose Seedcorn Technology Fund;
- Medaphor continues to develop its haptic software for ultrasound training. The company expects to launch this product in the first half of 2010;
- Q-Chip raised more than £1m during the year and under the experienced guidance of its chairman, Ken Powell, expects to develop its micro encapsulation technology for drug delivery, an area in which the company believes its technology has significant potential value; and
- Abcellute is now selling its cell preservation matrix to the market, albeit at a very low level. The company believes that it can greatly expand its sales during 2010 through both organic and inorganic means.

As would be expected not all of our portfolio companies have had a successful year. In particular Axordia, our stem cell business, was sold in December 2008 to Intercytex Group Plc, the AIM listed biotechnology company. In March 2009 Intercytex announced that the phase III clinical trials of Cyzact, its product for the repair of chronic wounds, had failed. Subsequently, in September 2009 Intercytex announced the temporary suspension of its shares whilst it divested certain business assets and as a result of this uncertainty Fusion IP has fully provided against its Intercytex investment of 3.5m shares, which represents approximately 3.5% of Intercytex's issued share capital.

Biohydrogen, which was developing a novel technology for the production of hydrogen using E.coli, has determined that the scientific challenges of scale-up are too great at this time. We have therefore mothballed the company and returned the technology to the University of Sheffield for further development. Fusion IP retains the right, through its pipeline agreement with the University of Sheffield, to spin this IP back out into a new company if the scale-up obstacles it encountered can be overcome.

BOARD CHANGES

During the year Edwin Moses stepped down from the Board as Non-executive Director to pursue other business commitments. Edwin has been a valuable and significant contributor to the Company since our IPO in 2005. We would like to thank him for his support and advice and wish him every success for the future.

POST YEAR END – PLACING AND NEW CO-INVESTMENT AGREEMENT

On 9 November 2009, the Company announced a proposed fundraising of £3m, net of expenses, through a proposed Subscription and Placing of new Ordinary shares. It is intended that IP Group plc, a company which is the leader in the field of commercialising university IP, will subscribe for all of the Subscription shares, with the Placing shares being purchased by new and existing shareholders. As a result of this transaction IP Group will hold approximately 19.8% of the Company.

The Company also announced that it had agreed with Citigroup Capital Ventures UK Limited (CCVU) (formerly NPI Ventures Limited) to terminate the CCVU co-investment agreement signed in March 2006 and that CCUV intends to sell its 6.3% holding in Fusion IP and Seymour Pierce has procured purchasers for such Ordinary shares.

The Company is proposing to enter into a new co-investment agreement with IP2IPO Limited (a wholly owned subsidiary of IP Group plc). As part of the new co-investment agreement IP2IPO will have the right to acquire for cash, at a predetermined portfolio company valuation of £0.5m, 20% of Fusion IP's equity in any new portfolio company incorporated during the remaining term of the Company's current university agreements. As Fusion IP normally owns 60% of its portfolio companies at start up, the IP2IPO shareholding will normally equate to a 12% stake in the portfolio company's share capital. If IP2IPO exercises this right, IP2IPO will be legally bound to invest in the first funding round of the portfolio company in excess of £0.2m at the same value as the Company and in proportion to the shareholdings of the Company and IP2IPO.

Cash balances after this transaction would amount to £8m, which the Directors believe is sufficient to support the creation of new portfolio companies and to fund its ongoing operations whilst the current portfolio continues to mature and increase in value, ahead of forecast exits beyond the next twelve months.

Further details of the Subscription, Placing and new co-investment agreement can be found in the announcement made on 9 November 2009.

OUTLOOK

After a challenging but positive year, we believe that the proposed co-investment agreement with IP Group and its proposed investment in the Company, combined with the strength of our existing portfolio and pipeline, makes this is an exciting time for Fusion IP and we look forward to the next financial year.

DOUG LIVERSIDGE CBE
CHAIRMAN
9 November 2009

DAVID BAYNES
CHIEF EXECUTIVE

We believe the co-investment agreement with IP Group and its proposed investment in the Company, combined with the strength of our existing portfolio and pipeline, **makes this an exciting time for Fusion IP.**

RESULTS

The Group's reported loss for the year was static at £5,015,000 (2008: £4,964,000 loss). The underlying losses adjusting for subsidiary spin-out operating expenses, together with the amortisation of our two IP pipelines, have reduced to £1,125,000 (2008: £1,632,000) reflecting the focus on streamlining corporate operating expenses and improving revenues from management services and licences.

REVENUES AND OPERATING COSTS

Revenue has increased to £442,000 (2008: £359,000) and represents the amounts charged to spin-out companies for management services provided, licence income and any development grants received.

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

- corporate operating expenses of £1,771,000 (2008: £1,975,000) reflect the cost of running the Parent Company together with the Sheffield and Cardiff operations. The reductions are from targeted cost reductions over the course of the year;
- subsidiary spin-out operating expenses of £1,866,000 (2008: £1,653,000), which are consolidated into the Group's results by virtue of Fusion IP's >50% shareholding in each spin-out company, reflect the growth in the number of spin-out subsidiaries and their continued progression through strategic milestones. During the year Mesuro was established with operating costs ramping up whilst Magnomatics ceased to be a subsidiary at the start of the financial year following its successful fundraising and Fusion IP's subsequent dilution below 50%; and
- amortisation of intangible assets of £2,024,000 (2008: £1,679,000) reflects the charge over the Cardiff IP rights and the additional charge over the IP rights associated with the expanded Sheffield Agreement which are both being amortised on a straight line basis over the ten-year pipeline agreement.

CHANGE IN FAIR VALUES

The Group reported a net gain on the fair value of investments in spin-out companies of £58,000 (2008: £385,000 net loss). The gains arose from increased valuations in unquoted funding rounds with the main component being the successful funding of Magnomatics during the year. The losses arose from provisions against certain investments, primarily influenced by the collapse of the Intercytex share price, following its phase III clinical trial failure, resulting in a full provision of £1,077,000 in the year.

	2009 £000	2008 £000
Fair value gains	**1,483**	551
Fair value losses	**(1,425)**	(936)
	58	(385)

NET INTEREST INCOME

Net interest income reduced to £85,000 (2008: £325,000) as a result of the significant fall in interest rates and lower Group cash balances during the year. Interest payable relates to interest accrued on the loan notes used to purchase the Group's shareholding in portfolio companies, acquired as part of the Sheffield and Cardiff Agreements. These amounts are only payable in the event of an exit and are not considered to be a current liability.

INVESTMENTS

At 31 July 2009 investments in spin-out companies amounted to £6,397,000 (2008: £6,426,000). Additions in the year amounting to £1,300,000 (2008: £1,720,000) consist of equity investments, convertible loan investments and accrued interest to a number of portfolio companies.

Disposal of investments during the year amounted to £1,387,000 and offset the cancellation or repayment of certain loan notes which existed with the University of Sheffield in respect of two former portfolio companies, CellTran and Axordia.

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

Realised and unrealised gains and losses amounting to a net gain of £58,000 (2008: £385,000 net loss) were included in the Consolidated Income Statement in the year.

NON-CURRENT LIABILITIES
Non-current liabilities totalling £3,264,000 (2008: £3,270,000) relate to two components. Firstly £2,177,000 (2008: 3,270,000) owed to the University of Sheffield and Cardiff University in relation to loan notes and accrued interest, 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.

Secondly, as a result of the expanded Sheffield Agreement which was concluded in July 2008, there is an amount of deferred consideration due to the University of Sheffield, representing 1,207,826 Ordinary shares which will be issued once further Ordinary shares are issued but only to the extent that the holding of the University of Sheffield does not exceed 29.9% of the issued share capital of the Company.

CASH BALANCES
Cash balances of the Group as at 31 July 2009 were £5,033,000 (2008: £6,363,000). Cash balances are separately maintained to fund spin-out investments from the University of Sheffield and Cardiff University respectively. These cash balances amounted to £434,000 and £3,774,000 respectively (2008: £285,000 and £5,909,000 respectively) and are also used to fund corporate operating costs on an equivalent basis. The remaining cash balances relate to cash held within consolidated spin-out subsidiaries.

The cash outflow in the year amounted to £1,330,000 and can be summarised as follows:

	2009 £000	2008 £000
Net cash used in operating activities	**(2,759)**	(2,856)
Net cash used in investing activities	**(181)**	(1,381)
Net cash from financing activities	**1,610**	—
	(1,330)	(4,237)

The net cash used in investing activities reflects:

- amounts invested in those portfolio companies which are not subsidiary undertakings of £1,300,000 (2008: £1,945,000);
- amounts received by subsidiary spin-out companies from third-party investors of £1,059,000 (2008: £353,000); and
- interest income on cash deposits of £221,000 (2008: £556,000).

Following the completion of the expanded Sheffield Agreement in August 2008, the Company placed 2.35m Ordinary shares with institutional investors raising £2,115,000 (£1,610,000 net of expenses), with the proceeds used to fund further spin-out investments from the University of Sheffield.

POST YEAR END
In November 2009, the Company announced a successful fundraising of £3.0m, net of expenses, through the Subscription and Placing of new Ordinary shares. It is intended that IP Group will subscribe for all of the Subscription shares, with the Placing shares being purchased by new and existing shareholders. As a result of this transaction, IP Group will hold approximately 19.8% of the Company.

Cash balances after this transaction amount to £8m, which the Directors believe is sufficient to support the creation of new portfolio companies and to fund its ongoing operations.

DAVID BAYNES
CHIEF EXECUTIVE
9 November 2009

DOUG LIVERSIDGE CBE
CHAIRMAN
Appointed to the Board of Fusion IP plc on 1 December 2004, having been a Director of Fusion IP Sheffield since 28 November 2003. He was employed for 21 years at British Steel, before moving to G W Thornton Limited as managing director and subsequently chief executive. He guided the company through its flotation on the full list of the London Stock Exchange in March 1987. In 1991 Doug was awarded South Yorkshire Businessman of the Year.

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.

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

PROF TONY ATKINSON
NON-EXECUTIVE DIRECTOR
Appointed to the Board of Fusion IP plc on 1 December 2004. Tony has extensive experience as both a director and non-executive director for companies including Kymed, Enact Pharma, Protherics, Lab21, Eden Biopharma and TMO Renewables.

DAVID CATTON
NON-EXECUTIVE DIRECTOR
Appointed to the Board of Fusion IP plc on 1 December 2004, having been a Director of Fusion IP Sheffield since 14 August 2003. Prior to his retirement in October 2008, David was managing director of SUEL, the University of Sheffield's tech transfer operation. Prior to this David worked for Ford Motor Company, British Leyland, Rank Xerox Limited and Cambridge Consultants Limited.

DR PETER GRANT
OPERATIONS DIRECTOR
Appointed to the Board of Fusion IP plc on 1 December 2004, having been a Director of Fusion IP Sheffield since 2 January 2003. Peter has a PhD in BioChemistry from Cardiff University and has previously worked at Genzyme UK Limited, Celltech Limited, Enzymatix Limited and Celsis plc, which he co-founded and took to a full listing on the London Stock Exchange.

STUART GALL
COMMERCIAL DIRECTOR
Appointed to the Board of Fusion IP plc on 27 April 2005. 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 TG21 plc).

MIKE DAVIES
NON-EXECUTIVE DIRECTOR
Appointed to the Board of Fusion IP on 29 January 2007. Mike is Cardiff University's director of physical and financial resources. 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.

BOB RABONE
NON-EXECUTIVE DIRECTOR
Appointed to the Board of Fusion IP on 31 July 2008. Bob is director of finance and resources for the University of Sheffield. 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.

The Directors present their report and the audited financial statements for the year ended 31 July 2009.

RESULTS AND DIVIDEND

Group loss for the year after taxation amounted to £5,015,000 (2008: loss £4,964,000). The Directors do not recommend the payment of a dividend (2008: £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 Joint Chairman and Chief Executive's Statement.

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)

T Atkinson

D Catton

M Davies

B Rabone

E Moses (resigned 9 June 2009)

Details of the interests of Directors in the share capital of the Company, together with details of share options granted to them, are set out in the Report on the Directors' Remuneration.

The Company Secretary is R Birtles.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

POST BALANCE SHEET EVENTS

In November 2009, the Company announced a successful fundraising of £3,000,000, net of expenses, through the Subscription and Placing of new Ordinary shares. It is intended that IP Group will subscribe for all of the Subscription shares, with the Placing shares being purchased by new and existing shareholders. As a result of this transaction, IP Group will hold approximately 19.8% of the Company.

MAJOR INTEREST IN SHARES

As at 14 October 2009, according to the Company's register, the following shareholders each held 3% or more of the Company's issued share capital:

Name	Ordinary 1p shares	% holding
The University of Sheffield	12,473,324	29.6
Cardiff University	10,997,541	26.1
Invesco Limited	4,310,363	10.2
AXA Framlington	3,362,647	8.0
NPI Ventures	2,668,858	6.3
Brookwell Limited	1,871,911	4.4
D Baynes	1,333,332	3.2
S Gall	1,333,332	3.2
P Grant	1,333,332	3.2

CREDITOR PAYMENT POLICY

The Group's policy is to:

- 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 2009 was 39 days (2008: 59 days). The Company has no trade creditors.

CHARITABLE DONATIONS

During the year the Group has made no charitable donations (2008: £500).

PROVISION OF INFORMATION TO AUDITORS

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

AUDITORS

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc will be proposed at the forthcoming Annual General Meeting.

By order of the Board

DAVID BAYNES
CHIEF EXECUTIVE
9 November 2009

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 2009, 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 two Non-executive Directors, one of which is the Non-executive Chairman.

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

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

REMUNERATION OF THE NON-EXECUTIVE DIRECTORS
All the Non-executive Directors, except for M Davies, who represents Cardiff University and B Rabone, who represents the University of Sheffield, received a fee for their services. The fee is agreed by the Board following recommendation by the Chairman with a view to rates paid in comparable organisations and appointments. The Non-executive Directors did not receive any pension or other benefits from the Company, nor did they participate in any bonus or incentive schemes other than share options. The Non-executive Directors each have a three-year service contract with the Company with three months' notice either side. After this time their appointment is reviewed annually.

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS
The Company's remuneration policy for Executive Directors is to:

- have regard to the Directors' experience and the nature and complexity of their work in order to pay a competitive salary that attracts and retains management of the highest quality;
- link individual remuneration packages to the Group's long-term performance through the award of discretionary bonus schemes; and
- provide employment-related benefits including life assurance, insurance relating to the Directors' duties and medical insurance.

SALARIES AND BENEFITS
The Remuneration Committee meets at least once a year to consider and set the annual salaries for Executive Directors having regard to personal performance and information regarding the remuneration practices of companies of a similar size and of industry competitors. Executive Directors' salaries were last reviewed in July 2008.

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

Details of individual Directors' service contracts are as follows:

	Effective contract date	Unexpired term at 31 July	Notice period
D Liversidge CBE* (Chairman)	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
T Atkinson	1 December 2004	n/a	3 months
D Catton	1 December 2004	n/a	3 months

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

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

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 for the year are as follows:

	Salary and fees £	Bonuses £	Pension contributions £	Benefits £	**Total 2009 £**	Total 2008 £
Executive						
D Baynes	162,535	—	16,253	1,824	**180,612**	171,556
P Grant	139,315	—	13,932	1,824	**155,071**	147,356
S Gall	139,315	—	13,932	1,824	**155,071**	147,356
Non-executive						
D Liversidge CBE (Chairman)	36,000	—	—	—	**36,000**	36,000
E Moses	21,250	—	—	—	**21,250**	25,750
T Atkinson	25,500	—	—	—	**25,500**	25,750
D Catton	12,750	—	—	—	**12,750**	12,875
M Davies	—	—	—	—	**—**	—
B Rabone	—	—	—	—	**—**	—
	536,665	—	44,117	5,472	**586,254**	566,643

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 £23,953 paid as basic salary.

No Director waived emoluments in the year (2008: nil).

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 2008	**As at 31 July 2009**	Exercise price	Earliest exercise date	Expiry date
D Liversidge CBE	—	**50,000**	33.5p	31.07.12	31.07.19
T Atkinson	33,333	**33,333**	150p	28.01.08	28.01.15
T Atkinson	—	**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**	33.5p	31.07.12	31.07.19

The market price of the Company's shares at the end of the financial year was 32.5p (2008: 86.5p) and the range of market prices during the year was 90.0p to 27.5p (2008: 150.0p to 86.5p).

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.

DIRECTORS' INTERESTS IN SHARES

The Directors at 31 July 2009 and their interests in the share capital of the Company, other than in respect of options to acquire Ordinary shares, were as follows:

The Company – ordinary 1p shares	31 July 2009
D Baynes	**1,333,332**
P Grant	**1,333,332**
S Gall	**1,333,332**
D Liversidge CBE (Chairman)	**10,000**
T Atkinson	–
D Catton	–
M Davies	–
B Rabone	–

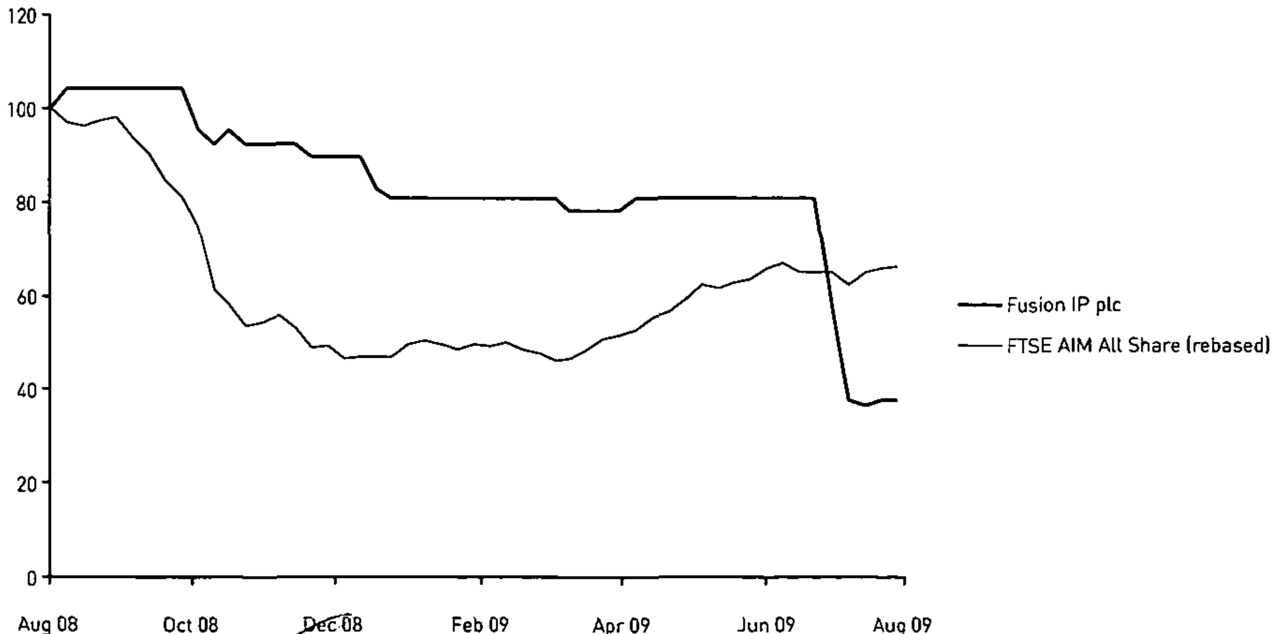
On 27 January 2005, D Baynes, P Grant and S Gall granted an option to D Liversidge CBE entitling him to acquire 97,756 Ordinary shares from each of them at an aggregate exercise price of £44,000. The options can be exercised at any time prior to 27 January 2015. D Liversidge CBE has undertaken to the Company to indemnify it from any PAYE and employers' national insurance contributions payable by the Group as a result of the exercise of any or all of these options.

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

TOTAL SHAREHOLDER RETURN

The following line graph shows, for the financial year ended 31 July 2009, the total cumulative shareholder return on a holding of the Company's Ordinary shares compared with a hypothetical holding of shares made up of companies in the FTSE AIM All Share Index, which the Directors believe reflects the most appropriate benchmark for the Company's performance.

The Company has never paid a dividend and so the total shareholder return has been calculated as the weekly movement in the share price by reference to a base point of 31 July 2009.



DOUG LIVERSIDGE CBE
CHAIRMAN
9 November 2009

The Company is committed to high standards of corporate governance. The revised Combined Code on Corporate Governance (the "Combined Code") was published in 2006. While the Group is not required to report on compliance with the Combined Code since its shares are traded on AIM, we make every effort to comply. The statement below describes how principles of corporate governance are applied to the Group.

THE WORKINGS OF THE BOARD AND ITS COMMITTEES

THE BOARD

The Board currently comprises five Non-executive Directors and three Executive Directors and is responsible for the management of the Group. As disclosed on page 15 D Liversidge CBE, T Atkinson and D Catton have some share options in the Company, however the Board considers them to be independent because the number of share options are not considered to be material. B Rabone and M Davies by virtue of their roles with the University of Sheffield and Cardiff University 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.

Biographies of the Directors including details of their experience and role within the Group are set out on pages 10 and 11.

ATTENDANCE AT MEETINGS

The full Board met six times in the financial year ended 31 July 2009 and all of the Directors in office at that time were in attendance at these meetings, with the exception of M Davies (unable to attend four meetings), T Atkinson (unable to attend two meetings) and E Moses and B Rabone (unable to attend one meeting).

THE AUDIT COMMITTEE

The Audit Committee comprises the Non-executive Chairman, D Liversidge CBE, and one of the Non-executive Directors, T Atkinson. The Audit Committee's remit is set out in its terms of reference and meets with the auditors at least twice a year. The Committee assists the Board in ensuring that the Group's published financial statements give a true and fair view and that, where the auditors provide non-audit services, their objectivity and independence is safeguarded.

THE REMUNERATION COMMITTEE

The Remuneration Committee comprises the Non-executive Chairman, D Liversidge CBE, and one of the Non-executive Directors, T Atkinson. When necessary non-committee members are invited to attend. No Director is involved in deciding his own remuneration. The Committee is responsible for making recommendations to the Board on the scale and structure of remuneration for senior management, including the award of share options.

THE NOMINATION COMMITTEE

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

TERMS OF REFERENCE

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

PERFORMANCE EVALUATION

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

RELATIONS WITH SHAREHOLDERS

Key members of the Executive Board regularly visit institutional investors and the full Board makes itself available to questions at all 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 Investor Relations and contains, amongst other information, details on the Group and its activities, the Group's regulatory announcements, its Annual Reports and Interim Reports and details of the Group's share price.

INTERNAL CONTROLS

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

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

- the Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board. Each Executive Director has been given responsibility for specific aspects of the Group's affairs. The Executive Directors meet monthly to discuss day-to-day operational matters;
- the Directors have established control procedures in response to key risks. Standardised financial control procedures operate throughout the Group to ensure the integrity of the Group's financial statements. The Board has established procedures for authorisation of capital and revenue expenditure; and
- the Board reviews the Group's performance against detailed budgets and working capital forecasts on a bi-monthly basis.

GOING CONCERN

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. Further details are provided in note 2 to the consolidated financial statements.

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 financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and the Parent Company financial statements and the Report on the Directors' Remuneration in accordance with UK Accounting Standards (UK GAAP) and applicable law.

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 (the "financial statements") of Fusion IP plc for the year ended 31 July 2009 set out on pages 20 to 40. 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 Sections 495 and 496 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of the Directors' Responsibilities set out on page 18, 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 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 APB's website at www.frc.org.uk/apb/scope/UKNP.

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 2009 and of the Group's loss for the year then ended; and
- 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 MATTER 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.

Stuart Burdass

STUART BURDASS (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF KPMG AUDIT PLC, STATUTORY AUDITOR
Chartered Accountants
KPMG Manchester
St James's Square
Manchester M2 6DS
9 November 2009

consolidated income statement
for the year ended 31 july 2009

	Note	2009 £000	2008 £000
Revenue	5	**442**	359
Dividend income		**55**	–
Change in fair value of investments	15	**58**	(385)
Gain on disposal of subsidiaries		**6**	44
Operating expenses:			
– corporate operating expenses		**(1,771)**	(1,975)
– subsidiary spin-out operating expenses		**(1,866)**	(1,653)
– amortisation and impairment of intangible assets	14	**(2,024)**	(1,679)
	6	**(5,661)**	(5,307)
Results from operating activities	7	**(5,100)**	(5,289)
Finance income	10	**221**	556
Finance expenses	10	**(136)**	(231)
Loss before taxation		**(5,015)**	(4,964)
Taxation	11	**—**	–
Loss for the year		**(5,015)**	(4,964)
Attributable to:			
– equity holders of the parent		**(4,280)**	(4,289)
– minority interest	20	**(735)**	(675)
Loss for the year		**(5,015)**	(4,964)
Basic and fully diluted loss per share attributable to the equity holders of the parent	12	**(10.15)p**	(11.70)p

consolidated balance sheet
as at 31 july 2009

	Note	2009 £000	2008 £000
Assets			
Non-current assets			
Property, plant and equipment	13	**251**	288
Intangible assets	14	**15,474**	13,608
Investments	15	**6,397**	6,426
Total non-current assets		**22,122**	20,322
Current assets			
Trade and other receivables	16	**503**	983
Cash and cash equivalents	17	**5,033**	6,363
Total current assets		**5,536**	7,346
Total assets		**27,658**	27,668
Equity			
Called up share capital	18	**422**	367
Capital reserve	19	**2**	2
Share premium	18	**36,052**	31,671
Capital redemption reserve	19	**1**	1
Retained earnings		**(12,936)**	(8,611)
Total equity attributable to equity holders of the parent		**23,541**	23,430
Minority interest	20	**139**	—
Total equity		**23,680**	23,430
Non-current liabilities			
Amounts owed to related parties	21	**3,264**	3,270
Current liabilities			
Trade and other payables	22	**714**	968
Total liabilities		**3,978**	4,238
Total equity and liabilities		**27,658**	27,668

These financial statements were approved by the Board of Directors on 9 November 2009 and were signed on its behalf by the Chairman.

DOUG LIVERSIDGE CBE
CHAIRMAN
Fusion IP plc – registered number 5275732

consolidated cash flow statement
for the year ended 31 july 2009

	2009 £000	2008 £000
Cash flows from operating activities		
Loss for the period	**(5,015)**	(4,964)
Adjustments for:		
– depreciation of property, plant and equipment	**170**	41
– amortisation and impairment of intangible assets	**2,024**	1,679
– net finance income	**(85)**	(325)
– share-based payments	**—**	24
– gain on disposal of investments	**(6)**	(44)
– fair value movement on investments	**(58)**	385
Changes in working capital:		
– decrease/(increase) in trade and other receivables	**480**	(188)
– (decrease)/increase in trade and other payables	**(222)**	563
	(2,712)	(2,829)
Interest paid	**(47)**	(27)
Net cash flows used in operating activities	**(2,759)**	(2,856)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(141)**	(288)
Purchase of investments	**(1,300)**	(1,945)
Proceeds from disposal of investments	**1,059**	353
Purchase of intangible assets	**(20)**	(57)
Interest received	**221**	556
Net cash flows used in investing activities	**(181)**	(1,381)
Cash flows from financing activities		
Proceeds from issue of share capital	**2,115**	–
Share issue costs	**(505)**	–
Net cash flows from financing activities	**1,610**	–
Net decrease in cash and cash equivalents	**(1,330)**	(4,237)
Cash and cash equivalents at the beginning of the period	**6,363**	10,600
Cash and cash equivalents at the end of the period	**5,033**	6,363

consolidated statement of changes in equity
for the year ended 31 july 2009

	Attributable to equity holders of the Group						
	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total £000	Minority capital £000	Total £000
At 1 August 2007	367	31,671	3	(3,972)	28,069	—	28,069
Loss for the year	—	—	—	(4,289)	(4,289)	(675)	(4,964)
Minority interest attributable to the Group	—	—	—	(374)	(374)	374	—
Share-based payments	—	—	—	24	24	—	24
Disposal of subsidiary	—	—	—	—	—	301	301
At 31 July 2008	367	31,671	3	(8,611)	23,430	—	23,430
Loss for the year	—	—	—	(4,280)	(4,280)	(735)	(5,015)
Minority interest attributable to the Group	—	—	—	(168)	(168)	45	(123)
Issue of share capital	55	4,381	—	—	4,436	—	4,436
Disposal of subsidiaries	—	—	—	123	123	829	952
At 31 July 2009	**422**	**36,052**	**3**	**(12,936)**	**23,541**	**139**	**23,680**

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 Innovation Centre, 217 Portobello, Sheffield S1 4DP. The registered number of the Company is 5275732.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF PREPARATION

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

	Principal activity	Holding	Class of shares held
Fusion IP Sheffield Limited	Holding company	100%	Ordinary
Fusion IP Cardiff Limited	Holding company	100%	Ordinary
Biofusion Licensing (Sheffield) Limited*	Dormant	100%	Ordinary
Mantelum Limited*	IP development company	100%	Ordinary
Absynth Biologics Limited*	MRSA vaccines	60%	Ordinary
BioHydrogen Limited*	Hydrogen production	60%	Ordinary
Medella Therapeutics Limited*	Cancer therapeutics	60%	Ordinary
Phase Focus Limited*	Lensless microscopy	56%	Ordinary
Diurnal Limited*	Hormone replacement	53%	Ordinary
Mesuro Limited*	Radio frequency solutions	51%	Ordinary
Lifestyle Choices Limited*	Ovarian reserve measurement	51%	Ordinary

* Indirectly held.

All companies are incorporated in England and Wales.

The consolidated financial statements of Fusion IP plc have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. The Company has elected to prepare its Parent Company financial statements in accordance with UK GAAP and these are presented on pages 38 to 40.

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.

GOING CONCERN

The financial statements are prepared on the going concern basis.

The Group's business requires cash to support ongoing operations, create new portfolio companies and invest in existing portfolio companies during early stage funding rounds. Cash balances at 31 July 2009 amount to £5,033,000 (2008: £6,363,000). The Company announced in November 2009 its intention to raise approximately £3m, net of expenses, through a Subscription and Placing of Ordinary shares.

Cash balances after this transaction would amount to approximately £8m, which the Directors believe is sufficient to support the creation of new portfolio companies and to fund its ongoing operations whilst the current portfolio continues to mature and increase in value ahead of forecast exits beyond the next twelve months. In addition the Company's forecast expenditure includes amounts of a discretionary basis in relation to potential investments.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT ADOPTED

At the date of authorisation of these financial statements, the following standards and interpretations, which are relevant to the Company have not been applied in these financial statements, were in issue but not yet effective:

- IFRS 3 (revised) "Business Combinations". Endorsed 3 June 2009, applies prospectively to business combinations for accounting periods commencing on or after 1 July 2009.
- IFRS 8 "Operating Segments". Endorsed 21 November 2007, applies to accounting periods commencing on or after 1 January 2009.
- IAS 1 (revised) "Presentation of Financial Statements". Endorsed 17 December 2008, applies to accounting periods commencing on or after 1 January 2009.
- IAS 23 (revised) "Borrowing Costs". Endorsed 10 December 2008, applies to accounting periods commencing on or after 1 January 2009.
- IAS 27 "Determining the Cost of an Investment in the Separate Financial Statements". Applies to accounting periods commencing on or after 1 January 2009.
- IFRS 1 and IAS 27 "Cost of an Investment in a Subsidiary, Jointly-controlled Entity or Associate". Effective 1 January 2009.
- IAS 32 (amended) "Financial Instruments Presentation". Endorsed 3 June 2009 and IAS 1 "Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation". Endorsed 21 January 2009, applies to accounting periods commencing on or after 1 January 2009.
- IAS 39 (amended) "Financial Instruments: Recognition and Measurement – Eligible Hedged Items". Endorsed 15 October 2008, applies to accounting periods commencing on or after 1 July 2009.
- IAS 39 (revised) "Financial Instruments: Recognition and Measurement". Applies to accounting periods commencing on or after 1 July 2008 and "Reclassification of Financial Instruments". Endorsed 15 October 2008.
- IFRS 2 (amendment) "Share-based Payments: Vesting Conditions and Cancellations". Effective 1 July 2009.
- IFRIC 17 "Distributions of Non-cash Assets to Owners". Applies to accounting periods commencing on or after 1 July 2009.

The Directors do not anticipate that the adoption of any of these standards and interpretations will have a material impact on these financial statements except IFRS 8 and IAS 1 which are likely to have significant presentational impacts.

BASIS OF CONSOLIDATION

SUBSIDIARIES

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

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

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

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

SPIN-OUT INVESTMENTS

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

SEGMENTAL REPORTING

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

FOREIGN CURRENCY TRANSLATION

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

GOODWILL

Goodwill arising on the acquisition of subsidiary undertakings, representing the excess fair value of the consideration given over the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses.

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

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

IP RIGHTS

IP rights comprise IP, patents and licences purchased by the Group together with the IP 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

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

RESEARCH AND DEVELOPMENT EXPENDITURE

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

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

FINANCIAL ASSETS

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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

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

LOANS AND RECEIVABLES

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

TRADE RECEIVABLES

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

PAYMENTS ON ACCOUNT

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

CASH AND CASH EQUIVALENTS

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

FINANCIAL LIABILITIES

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

NON-CURRENT LIABILITIES OWED TO RELATED PARTIES

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

SHARE CAPITAL

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

LEASES

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

DEFERRED TAXATION

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

EMPLOYEE BENEFITS

PENSION OBLIGATIONS

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

SHARE-BASED PAYMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

REVENUE RECOGNITION

Revenue comprises:

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

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

BORROWING FACILITIES

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

CURRENCY EXPOSURES

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

INTEREST RATE RISK

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

The Group's cash and cash deposits as at 31 July 2009 amounted to £5,033,000 (2008: £6,363,000).

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.

3. FINANCIAL RISK MANAGEMENT CONTINUED

CAPITAL MANAGEMENT

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

VALUATION OF UNQUOTED EQUITY INVESTMENTS

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

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

VALUATION OF INTANGIBLE IP RIGHTS

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

SUBSIDIARIES AND SPIN-OUT INVESTMENTS

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

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

5. SEGMENTAL INFORMATION

PRIMARY BUSINESS SEGMENT

For the year ended 31 July 2009 and the year ended 31 July 2008 the Group's revenue and profit was derived from its principal activity, within the UK. For management purposes, the Group is organised into one business segment, which encompasses technology transfer, company incubation and early stage venture capital.

6. RESULTS FROM OPERATING ACTIVITIES

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

	2009 £000	2008 £000
Depreciation on property, plant and equipment	**170**	41
Amortisation and impairment of intangible assets	**2,024**	1,679
Employee costs (see note 8)	**1,210**	1,242
Operating leases – property	**80**	53
Payments to the University of Sheffield/Cardiff University for IP mining	**315**	210
Research, development and patent costs	**804**	741
Legal, professional, insurance and advisory costs	**652**	676
Administration and marketing costs	**406**	665
	5,661	5,307

7. AUDITORS' REMUNERATION

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

	2009 £000	2008 £000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**18**	19
Fees payable to the Company's auditors and their associates for other services:		
- the audit of the Company's subsidiaries	**9**	9
- review of interim financial statements	**14**	20
- other services relating to corporate finance transactions (review of working capital projections)	**—**	35

8. EMPLOYEE COSTS

	2009 £000	2008 £000
Wages and salaries	**1,023**	1,036
Social security costs	**125**	117
Pension costs - contributions to money purchase plans	**62**	65
Share-based payments	**—**	24
	1,210	1,242

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

	2009 Number	2008 Number
Central corporate functions	**14**	14
Subsidiary spin-out companies	**5**	7
	19	21

9. SHARE-BASED PAYMENTS

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

During the year no new share warrants were issued. Share options over 200,000 shares were issued to three Directors and one employee on 31 July 2009, details of which are set out in the table on page 31. The exercise price of these options is 33.5p.

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

On 23 March 2006, as part of a £10m Side Fund Agreement, Fusion IP issued the following warrants to NPI Ventures:

- 1,225,000 Ordinary shares with an exercise price of £1.50;
- 1,225,000 Ordinary shares with an exercise price of £1.60;
- 612,500 Ordinary shares with an exercise price of £1.80; and
- 612,500 Ordinary shares with an exercise price of £2.20.

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

The fair value of the share-based options and warrants are recognised as an expense through the profit and loss account over the relevant vesting periods. The charge in the current year was £nil (2008: £24,000).

9. SHARE-BASED PAYMENTS CONTINUED

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

	Employees	Employees	Directors	Directors	NPI
Fair value at grant date	47.24p	15.65p	47.24p	15.65p	43.98p to 18.83p
Share price at grant	150.00p	33.50p	150.00p	33.50p	152.25p
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%
Expected volatility	18.52%	42.20%	18.52%	42.20%	18.85%
Term to maturity	6.5 years	6.5 years	6.5 years	6.5 years	5.5 years
Risk free interest rate	4.46%	3.00%	4.46%	3.00%	4.28%
Number of shares under option	33,333	50,000	99,999	150,000	3,675,000

The expected volatility was benchmarked against the FTSE AIM All Share Index on those options issued on 31 July 2009 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.

10. FINANCE INCOME AND COSTS

	2009 £000	2008 £000
Finance income		
Interest income on short-term bank deposits	**178**	478
Interest income on loans to spin-out investments	**43**	78
	221	556
Finance expenses		
Interest payable on loans from related parties	**(136)**	(231)
	(136)	(231)
Net finance income	**85**	325

11. TAXATION

	2009 £000	2008 £000
Current tax	**—**	—
Deferred tax	**—**	—
	—	—

Corporation tax is calculated at 21% (2008: 28%) of the estimated assessable profit for the period.

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

	2009 £000	2008 £000
Loss before tax	**(5,015)**	(4,964)
Current tax at 21% (2008: 28%)	**(1,053)**	(1,390)
Effects of:		
– expenses not deductible for tax purposes	**475**	44
- UK research and development tax credits	**2**	—
– adjustments in respect of prior years	**17**	—
– tax losses carried forward	**559**	1,346
Total current charge	**—**	—

Deferred tax assets of £2,143,000 (2008: £1,584,000) 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.

notes to the consolidated financial statements continued
for the year ended 31 july 2009

12. EARNINGS PER SHARE

	2009	2008
Loss attributable to the equity holders of the parent	**£4,280,000**	£4,289,000
Weighted average number of Ordinary shares in issue	**42,153,966**	36,663,967
Basic and fully diluted loss per share	**(10.15)p**	(11.70)p

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

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

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

13. PROPERTY, PLANT AND EQUIPMENT

	Office and computer equipment £000	Prototypes and laboratory equipment £000	Total £000
Cost			
At 1 August 2008	84	266	350
Additions	9	132	141
Disposals	(8)	(4)	(12)
At 31 July 2009	**85**	**394**	**479**
Accumulated depreciation			
At 1 August 2008	(38)	(24)	(62)
Charge for the year	(20)	(150)	(170)
Disposals	3	1	4
At 31 July 2009	**(55)**	**(173)**	**(228)**
Net book value			
At 31 July 2009	**30**	**221**	**251**

	Office and computer equipment £000	Prototypes and laboratory equipment £000	Total £000
Cost			
At 1 August 2007	58	4	62
Additions	26	262	288
At 31 July 2008	84	266	350
Accumulated depreciation			
At 1 August 2007	(21)	–	(21)
Charge for the year	(17)	(24)	(41)
At 31 July 2008	(38)	(24)	(62)
Net book value			
At 31 July 2008	46	242	288

14. INTANGIBLE ASSETS

	IP rights £000	Goodwill £000	Total £000
Cost			
At 1 August 2008	16,121	591	16,712
Additions	3,933	—	3,933
Disposals	(70)	(526)	(596)
At 31 July 2009	**19,984**	**65**	**20,049**
Accumulated amortisation			
At 1 August 2008	(2,526)	(578)	(3,104)
Amortisation charge	(2,024)	—	(2,024)
Disposals	27	526	553
At 31 July 2009	**(4,523)**	**(52)**	**(4,575)**
Net book value			
At 31 July 2009	**15,461**	**13**	**15,474**

	IP rights £000	Goodwill £000	Total £000
Cost			
At 1 August 2007	16,064	599	16,663
Additions	57	—	57
Disposals	—	(8)	(8)
At 31 July 2008	16,121	591	16,712
Accumulated amortisation			
At 1 August 2007	(898)	(527)	(1,425)
Amortisation charge	(1,628)	—	(1,628)
Impairment charge	—	(51)	(51)
At 31 July 2008	(2,526)	(578)	(3,104)
Net book value			
At 31 July 2008	13,595	13	13,608

The IP rights acquired in the year arise from the expansion of the University of Sheffield IP rights agreement. The consideration for the IP rights amounting to £3,913,000 has been treated on the same basis as the Cardiff University IP rights and will be amortised over the ten-year life of the agreement with provision made for any impairment when required.

Goodwill relates to that generated on the acquisition of the Group's subsidiaries Diurnal Limited and Lifestyle Choices Limited.

CARRYING VALUE OF THE UNIVERSITY OF SHEFFIELD AND CARDIFF UNIVERSITY IP PIPELINE RIGHTS

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

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

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. 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 pipeline rights agreements. None of these estimates of fair value is considered more appropriate or relevant than any other. 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 £11,870,000 (2008: £13,465,000). The carrying value of the University of Sheffield IP rights amounted to £3,522,000 (2008: £nil).

notes to the consolidated financial statements continued
for the year ended 31 july 2009

15. INVESTMENTS

	Spin-out companies £000	Loans £000	Total £000
Fair value			
At 1 August 2008	4,667	1,759	6,426
Additions	259	1,041	1,300
Disposals	(968)	(419)	(1,387)
Transfers	945	(945)	–
Change in fair value in the year	87	(29)	58
At 31 July 2009	**4,990**	**1,407**	**6,397**
Change in fair value in the year			
Fair value gains	1,483	–	1,483
Fair value losses	(1,396)	(29)	(1,425)
	87	**(29)**	**58**

	Spin-out companies £000	Loans £000	Total £000
Fair value			
At 1 August 2007	4,209	882	5,091
Additions	681	1,039	1,720
Transfers	11	(11)	–
Change in fair value in the year	(234)	(151)	(385)
At 31 July 2008	4,667	1,759	6,426
Change in fair value in the year			
Fair value gains	551	–	551
Fair value losses	(785)	(151)	(936)
	(234)	(151)	(385)

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

At 31 July 2009, the Group had investments where it holds 20% or more of the issued share capital as follows:

	Principal activity	Holding	Class of shares held
Adjuvantix Limited	Vaccine adjuvants	49%	Ordinary
Demasq Limited	Bone and soft tissue imaging products	48%	Ordinary
Magnomatics Limited	Magnetic devices	48%	Ordinary
Asterion Limited	Cytokine therapies	38%	Ordinary
Medaphor Limited	Medical training solutions	35%	Ordinary
Abcellute Limited	Cell stabilising technology	33%	Ordinary
Art of Xen Limited	Medical use of xenon gas	32%	Ordinary
Simcyp Limited	Drug metabolism	22%	Ordinary

15. INVESTMENTS CONTINUED

At 31 July 2009, the Group had investments where it holds 20% or less of the issued share capital as follows:

	Principal activity	Holding	Class of shares held
Morvus Technology Limited	Oncology therapies	14%	Ordinary
Muscagen Limited	Drug discovery	13%	Ordinary
Q Chip Limited	Life science and therapeutic products	11%	Ordinary
I2L Research Limited	Pesticide testing	10%	Ordinary
Bitecic Limited	Clinical research and support	10%	Ordinary
Zilico Limited	Cervical cancer detection	6%	Ordinary
Intercytex Group plc	Regenerative medicine	3%	Ordinary

All companies are incorporated in England and Wales.

16. TRADE AND OTHER RECEIVABLES

	2009 £000	2008 £000
Trade receivables	**15**	68
Amounts due from related parties	**16**	211
Other tax and social security	**88**	71
Other receivables	**1**	6
Payments on account	**335**	358
Prepayments and accrued income	**48**	269
	503	983

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

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

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

CREDIT RISK

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

AGEING OF TRADE RECEIVABLES

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

17. CASH AND CASH EQUIVALENTS

	2009 £000	2008 £000
Cash and cash equivalents	**5,033**	1,363
Short-term deposits	**—**	5,000
	5,033	6,363

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

For investment purposes the cash balances are in ring-fenced funds for investment into the University of Sheffield and Cardiff University IP. The balances at 31 July 2009 were £434,000 and £3,774,000 respectively (2008: £285,000 and £5,909,000 respectively). The remaining cash balances related to cash held within consolidated spin-out subsidiaries.

SENSITIVITY ANALYSIS – INTEREST RATE RISK

At 31 July 2009, if interest rates had been 2% higher/lower, the loss for the year and other components of equity, would have been £142,000 (2008: £174,000) lower/higher as a result of higher interest received on cash and short-term cash deposits.

notes to the consolidated financial statements continued
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18. SHARE CAPITAL AND PREMIUM

	2009 £000	2008 £000
Authorised		
56,500,000 Ordinary shares of 1p each	**565**	565
Allotted, called up and fully paid		
42,153,966 (2008: 36,663,967) Ordinary shares of 1p each	**422**	367
Share premium	**36,052**	31,671

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 1 August 2008, following the completion of the expanded Sheffield Agreement, the Company issued 5,489,999 Ordinary shares of 1p each. Of the total number of shares, 3,140,000 were issued to the University of Sheffield and 2,349,999 shares were placed on AIM with institutional investors raising £2,115,000. The new shares issued represented 15% of the Company's then existing share capital and following the issue represents 13% of the Company's enlarged issued share capital.

19. OTHER RESERVES

The other reserves totalling £3,000 (2008: £3,000) comprise a capital redemption reserve of £1,000 (2008: £1,000) and a capital reserve of £2,000 (2008: £2,000) arising from the Company's admission to AIM in 2005 and the resulting differences on consolidation under merger accounting.

20. MINORITY INTEREST

	2009 £000	2008 £000
At 1 August	**—**	—
Disposal of subsidiary undertakings	**829**	301
Share of loss in year	**(735)**	(675)
Minority interest attributable to Group	**45**	374
At 31 July	**139**	—

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

21. NON-CURRENT LIABILITIES

	2009 £000	2008 £000
Amounts owed to University of Sheffield	**695**	1,868
Amounts owed to Cardiff University	**1,411**	1,334
Amounts owed to Sheffield University Enterprises Limited	**71**	68
Deferred consideration owed to University of Sheffield	**1,087**	—
Amounts owed to related parties	**3,344**	3,270

The amount owed to the University of Sheffield and Cardiff University relate to loan notes and accrued interest due arising from the purchase of the Group's interest in its portfolio of spin-out companies. These amounts are repayable on the earlier of the sale by Fusion IP of the underlying share capital in the company, or the company making dividend payments, or ten years from the day of issue. These amounts are only payable to the extent that any gain or dividend is received by Fusion IP and can be cancelled by Fusion IP by the return of the shares to which they relate to the University of Sheffield or Cardiff University respectively.

The deferred consideration owed to the University of Sheffield relates to the expanded Sheffield Agreement and represents 1,207,826 Ordinary shares which will be issued to the University of Sheffield. The Ordinary shares will only be issued once additional Ordinary shares are issued and only to the extent that the holding of the University of Sheffield in the Company does not exceed 29.9% of the issued share capital.

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

21. NON-CURRENT LIABILITIES CONTINUED

SENSITIVITY ANALYSIS

All loan notes are as set at a fixed interest rate of LIBOR plus 1.5%. At 31 July 2009, if interest rates had been 2% higher/lower, the loss for the year and other components of equity, would have been £49,000 (2008: £71,000) higher/lower as a result of higher interest payable on amounts owed in respect of loan notes to the University of Sheffield and Cardiff University.

MATURITY ANALYSIS

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

22. TRADE AND OTHER PAYABLES

	2009 £000	2008 £000
Trade creditors	**262**	618
Other creditors	**80**	23
Other tax and social security	**11**	7
Accruals and deferred income	**361**	320
	634	968

23. OPERATING LEASE COMMITMENTS

	2009 £000	2008 £000
Minimum commitments under non-cancellable operating leases on property expiring:		
– no later than one year	**10**	45
– later than one year and no later than five years	**30**	12
	40	57

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

24. RELATED PARTY TRANSACTIONS

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 £64,000 (2008: £91,000). In addition, Fusion IP provided support services to SUEL during the year of £nil (2008: £120,000). At 31 July 2009 the balance due from SUEL was £nil (2008: £211,000).

In addition, under the terms of the agreement dated January 2005, Fusion IP paid the University of Sheffield £nil (2008: £120,000) as payments on account for IP. Fusion IP Sheffield Limited purchased IP from the University during the year with a total value of £20,000 (2008: £57,000). These payments were taken against payments on account.

Under the terms of the Sheffield Agreement, should the amount of cash balances ring-fenced for investment into Sheffield IP fall below £500,000, the University of Sheffield has the right to suspend rights to the future IP pipeline. Cash balances at 31 July 2009 are shown in note 17. The University of Sheffield waived its right to suspend the future IP pipeline through to April 2010 whilst additional funds were raised.

Under the terms of the agreement dated January 2009 Fusion IP Cardiff Limited paid Cardiff University £210,000 (2008: £210,000) as payments to support the management of the IP pipeline. At 31 July 2009 the balance due to Cardiff University was £19,250 (2008: £7,000).

During the year Fusion IP has continued to accrue interest due on loans in respect of the purchase of the original portfolio companies from both the University of Sheffield and Cardiff University. The total amounts due are set out in note 21.

During the year, Fusion IP supplied management services to companies in which it held a participating interest totalling £47,220 (2008: £7,000).

25. EVENTS AFTER THE BALANCE SHEET DATE

In November 2009, the Company announced a successful fundraising of £3m, net of expenses, through a Subscription and Placing of new Ordinary shares. It is intended that IP Group plc will subscribe for all of the Subscription shares, with the Placing shares being purchased by new and existing shareholders. As a result of this transaction IP Group will hold approximately 19.8% of the Company.

company balance sheet
as at 31 july 2009

	Note	2009 £000	2008 £000
Fixed assets			
Tangible assets	3	**23**	32
Investments	4	**2**	2
		25	34
Current assets			
Debtors	5	**37,414**	31,888
		37,414	31,888
Creditors: amounts falling due within one year	6	**(69)**	(75)
Net current assets		**37,345**	31,813
Creditors: amounts falling due after one year	7	**(1,087)**	–
Net assets		**36,283**	31,847
Capital and reserves			
Called up share capital	8	**422**	367
Share premium	8	**36,052**	31,671
Capital redemption reserve	8	**1**	1
Retained deficit	8	**(192)**	(192)
Equity shareholders' funds		**36,283**	31,847

These financial statements were approved by the Board of Directors on 9 November 2009 and were signed on its behalf by the Chairman.

D Liversidge

DOUG LIVERSIDGE CBE
CHAIRMAN
Fusion IP plc – registered number 5275732

notes to the company financial statements
for the year ended 31 july 2009

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 1985. A summary of the Company accounting policies, which have been consistently applied throughout the year, are set out below.

TANGIBLE ASSETS

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

Computer/office equipment - 3 to 4 years

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

INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

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

FIXED ASSET INVESTMENTS

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

LOANS TO SUBSIDIARY UNDERTAKINGS

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

CASH FLOW STATEMENT

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

2. RESULTS FOR THE PARENT COMPANY

The Directors have taken advantage of the exemption available under Section 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 (2008: £nil) 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	
	2009 £000	2008 £000
Cost		
At 1 August	**48**	28
Additions	**4**	20
At 31 July	**52**	48
Depreciation		
At 1 August	**(16)**	(5)
Charge for year	**(13)**	(11)
At 31 July	**(29)**	(16)
Net Book Value	**23**	32

notes to the company financial statements continued
for the year ended 31 july 2009

4. INVESTMENTS

	2009 £000	2008 £000
Investments in subsidiary undertakings	**1**	1
Fixed asset investments	**1**	1
	2	2

Details of the subsidiary undertakings at 31 July 2009 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

	2009 £000	2008 £000
Prepayments and accrued income	**29**	167
Loans to subsidiary undertakings	**37,385**	31,721
	37,414	31,888

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

	2009 £000	2008 £000
Accruals and deferred income	**69**	75

7. CREDITORS – AMOUNTS FALLING DUE AFTER ONE YEAR

	2009 £000	2008 £000
Deferred consideration owed to University of Sheffield	**1,087**	–

The deferred consideration owed to the University of Sheffield relates to the expanded Sheffield Agreement and represents 1,207,826 Ordinary shares which will be issued to the University of Sheffield. The Ordinary shares will only be issued once additional Ordinary shares are issued and only to the extent that the holding of the University of Sheffield in the Company does not exceed 29.9% of the issued share capital.

8. SHARE CAPITAL AND RESERVES

	Share capital £000	Share premium £000	Capital redemption reserve £000	Retained deficit £000	Total £000
At 1 August 2008	367	31,671	1	(192)	31,847
Issue of share capital	55	4,381	–	–	4,436
At 31 July 2009	**422**	**36,052**	**1**	**(192)**	**36,283**

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

Notice is hereby given that the Annual General Meeting of Fusion IP plc will be held at the offices of Ashurst LLP, Broadwalk House, 5 Appold Street, London EC2A 2HA on 29 January 2010 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 by way of poll.

1. To receive the accounts including the Report on the Directors' Remuneration for the financial year ended 31 July 2009, together with the reports of the Directors and auditors thereon (Resolution 1).
2. To re-appoint KPMG Audit Plc as auditors of the Company (Resolution 2).
3. To authorise the Directors to set the remuneration of the auditors (Resolution 3).
4. 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 of £179,000; 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) (when added to any allotments made under (a) above) of £179,000 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 in the Notice of the Annual General Meeting of the Company, 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 that resolution;

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

   (c) 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), 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; and

      (ii) in the case of the authorisation granted under Resolution 4(a) above, and otherwise than pursuant to paragraph (i) of this resolution, up to an aggregate nominal amount of £27,120,

   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).

By order of the Board

RICHARD BIRTLES
COMPANY SECRETARY
9 November 2009

Registered Office:
Innovation Centre
217 Portobello
Sheffield S1 4DP

Registered in England and Wales number 5275732 notes to the notice of annual general meeting

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 by no later than 6.00 p.m. on 27 January 2010 which is two days before the time fixed for the 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.

   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 Registrars at PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU by no later than 6.00 p.m. on 27 January 2010 which is two days before the time fixed for the meeting.

3. 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.

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

EXPLANATORY NOTES TO THE RESOLUTIONS TO BE PROPOSED AT THE 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 2009 together with the Directors' Report and Auditors' Report on those financial statements.

RESOLUTION 2 – RE-APPOINTMENT OF AUDITORS

The Company is required to appoint auditors at each Annual General Meeting at which accounts are laid before shareholders, to hold office until the next such meeting. The resolution proposes that KPMG Audit Plc be re-appointed as auditors for the current year.

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. The authority granted at the last General Meeting is due to expire at this year's Annual General Meeting. Accordingly, Resolution 4 will be proposed as an ordinary resolution to grant new authorities to (a) allot shares and grant rights to subscribe for, on convert any security into, shares up to an aggregate nominal amount of £179,000 and (b) allot equity securities up to an aggregate nominal amount (when added to allotments under part (a) of the resolution) of £179,000 where the allotment is in connection with a rights issue.

RESOLUTION 5 – AUTHORITY TO ISSUE 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. The power granted at the last General Meeting is due to expire at this year's Annual General Meeting. Accordingly, 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 £27,120. If given, this power will expire on at the conclusion of the Annual General Meeting in 2010.

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 appoint the Chairman of the meeting or failing him

as my/our proxy to attend, speak and vote 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 January 2010 at 10.30 a.m. and at any adjournment thereon.

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

		For	Against	Vote Witheld
Resolution 1:	To receive the accounts and reports of the Directors and auditors for the year ended 31 July 2009			
Resolution 2:	To re-appoint KPMG Audit Plc as auditors of the Company			
Resolution 3:	To authorise the Directors to set the remuneration of the auditors			
Resolution 4:	To give the Directors the authority to allot shares			
Resolution 5:	To give the Directors the authority to issue shares for cash			

Signature

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.
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" and insert your proxy's name 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. To appoint more than one proxy, delete the words "the Chairman of the meeting" and insert the name(s) of the person(s) appointed as proxy/proxies in the space provided.
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. 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).
7. 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.
8. You may not use any electronic address provided in this form of proxy to communicate with the Company for any purposes other than those expressly stated.

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first fold

Business Reply
Licence Number
RSBH-UXKS-LRBC

PXS
34 Beckenham Road
BECKENHAM
BR3 4TU

second fold

COMPANY SECRETARY
Richard Birtles

COMPANY NUMBER
5275732

REGISTERED OFFICE
Innovation Centre
217 Portobello
Sheffield S1 4DP

INDEPENDENT AUDITOR
KPMG AUDIT PLC
St James's Square
Manchester M2 6DS

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
SEYMOUR PIERCE
20 Old Bailey
London EC4M 7EN

REGISTRAR
CAPITA REGISTRARS
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0GA

PUBLIC RELATIONS
BUCHANAN COMMUNICATIONS
45 Moorfields
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Cardiff CF24 0AB