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Fusion IP plc
Annual Report and Accounts 2010

Company number
5275732

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.

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Highlights

Business and portfolio highlights

- Revenue & portfolio return increased by 733% to £4 4m (2009 £0 6m)
- Profit, excluding subsidiary spin-out costs and amortisation of £2 5m (2009 £1 1m loss)
- Reduced loss before taxation to £1 6m (2009 £5 0m loss)
- Cash balances of £4 6m (2009 £5 0m)
- Co-investment agreement signed with market leaders IP Group who also take a 19 8% holding in the company
- Subscription and placing agreement raising £3 0m (net of expenses)
- Three new companies started and funded in the year (Asalus Medical Instruments, Seren Photonics and Progenteq)
- Six portfolio companies in trading phase of growth, two of which are trading profitably
- Portfolio company Simcyp increases turnover by 21% to £4 7m (2009 £3 9m) and profit by 42% to £1 7m (2009 £1 2m)
- Portfolio company Magnomatics increases turnover by 266% to £0 8m (2009 £0 3m) in the year
- £2 1m invested in the portfolio companies by Fusion
- £6 9m invested in the portfolio companies by third party investors
- 20 funding rounds completed by portfolio companies
- £0 8m licensing deal with leading global orthopaedic company demonstrates potential value in Sheffield licensing

Post year end highlights

- Absynth completes licensing and collaboration deal with MorphoSys to further work on Staphylococcus aureus infections including MRSA
- Magnomatics as part of a consortium wins a £3m grant from the Department of Transport to build a new lightweight refuse collection vehicle

Recognition

Increasingly our companies are being recognised for their novelty and potential, awards during the period include

- Simcyp received a Queen's award for Enterprise
- Simcyp was 15th on the XL Rising Star 2009 Rapid Growth Survey, which identifies the 50 fastest growing companies in the UK
- Magnomatics won a Bloomberg New Energy Pioneer 2010 This award identifies the 5 most promising new green tech companies in the world
- Phase Focus shortlisted for the Institute of Engineering and Technology 2010 Innovation Awards

Chairman and Chief Executive's Statement

We are delighted to present our full year results for the year ended 31 July 2010, a year which has seen our revenue and portfolio returns increase to £4.4m (2009: £0.6m) and our first profit, excluding subsidiary spin-out costs and amortisation, of £2.5m (2009: loss of £1.1m).

This has been a significant year for Fusion We continue to exploit the world class IP being produced by the University of Sheffield (Sheffield) and Cardiff University (Cardiff), our portfolio of companies continues to grow in value and we have entered into a long term co-investment agreement with IP Group We have continued to control our central overhead, whilst focussing on increasing revenue opportunities, such as licensing As a result we remain a lean operation that is well positioned to maximise the enormous potential value in our portfolio companies

Strong pipeline

During the year we created three new spin-out companies from our exclusive IP commercialisation agreements with Sheffield and Cardiff, which demonstrate the world class research being generated by these two leading universities

Seren Photonics

Launched in January 2010 and founded on the invention of Dr Tao Wang, Reader in the Department of Electronic and Electrical Engineering at the University of Sheffield, Seren Photonics is developing an ultra high efficient light-emitting diode (LED) which greatly increases the efficiency at which an LED converts energy into light

Successful demonstrations of the technology have so far resulted in a tripling of the light output compared to untreated devices, which means that either much brighter luminaries can be manufactured or that the power consumption of state-of-the-art lighting can be further reduced

Seren Photonics' revolutionary technology is targeted at the large and fast growing white LED markets such as back lighting for laptop computers and TVs, signs and displays, as well as domestic and architectural lighting This market is currently worth an estimated $5bn and is set to grow to $12bn by 2013

Driven by global warming and environmental regulatory requirements, new technology is needed by the lighting industry to replace the incandescent bulbs that most countries have agreed to scrap by the middle of the decade Seren Photonics patent pending technology expects to be at the forefront of developments that will meet this need, offering LEDs that will have exceptional performance, efficiency and provide a significant reduction in the cost of manufacture, enabling ultra high efficient LEDs to be the first choice replacement for incandescent bulbs

The company announced in May 2010 that it had appointed Dr Godfrey Ainsworth as non-executive chairman Godfrey has extensive knowledge and experience in the compound semiconductor industry having a twenty year relationship with AIM listed compound semiconductor epitaxial wafer manufacturer IQE plc, where he has been Chairman since 1999

Fusion has a 48% (undiluted) holding in Seren Photonics

Asalus Medical Instruments

Based in Cardiff, Asalus Medical Instruments (Asalus) is developing a range of innovative medical devices that will improve the safety and efficiency of laparoscopic surgery, and was launched in January 2010

Laparoscopic surgery is a modern surgical technique in which operations in the abdomen are performed through small incisions, as compared to the larger incisions needed in traditional surgical procedures There are several benefits to conducting laparoscopic surgery and, as a result, the number of procedures conducted using this technique has grown rapidly over recent years Over 2 million laparoscopic operations per year are now performed in the USA alone

Asalus has three products under development

- The Ioniser – a novel smoke and steam clearance device that represents a significant change in the way in which electrosurgical smoke is removed from both minimal access and open surgical procedures,
- The Port – a novel access port that will provide significant benefits over those currently on the market, and
- The Manipulator – a novel, multifunctional device for the manipulation of tissues and organs

In January 2010, Asalus raised £0 5m in its launch funding round, to advance its three new laparoscopic devices through pre-clinical development Both of Fusion's investment partners, Finance Wales and IP Group, participated in the round

Asalus plans to seek further funding by the end of 2010 that will allow it to complete development of the devices, after which licensing partners will be sought

Fusion has a 46% (undiluted) shareholding in Asalus

Progenteq

Launched in January 2010, Progenteq is developing a novel cartilage replacement therapy that has the potential to revolutionise the treatment of acute knee injuries The company is founded on the work of Professor Charlie Archer's research group at Cardiff University's School of Biosciences, where Professor Archer is Leader of the Connective Tissue Biology Group, recognised for its excellence in tissue engineering and repair research

Progenteq has successfully isolated a defined population of cells from the articular cartilage which surround the main bones in the knee joint These cells display stem-cell like properties and can be expanded in the laboratory to produce very large quantities of cartilage As a result this cell type could provide an ideal source of material for an "allogeneic" cartilage replacement therapy (the holy grail of cartilage repair), whereby cells derived from donors can be taken and used to grow a large tissue bank of cartilage that can be stored and is suitable for insertion into patients with acute knee injuries as and when needed The Progenteq model promises a more cost-effective cell therapy than current "autologous" approaches, which require cells to be removed from a patient, expanded and then implanted into the same patient The successful development of a cartilage cell bank could also pave the way for treatment of degenerative cartilage damage, such as that seen in osteoarthritis

To date Progenteq has received funding of £0 5m through a combination of loans from Fusion, Finance Wales and IP Group together with two TSB (Technology Strategy Board) grants and plans to seek further funding by the end of 2011 to enable it to complete "First in Man" trials

Fusion has a 48% (undiluted) shareholding in Progenteq

A strengthening portfolio

We now have 23 companies in our portfolio, employing nearly 200 staff, a well balanced mix of engineering, software and medical businesses Six of the companies are trading businesses and three are profitable, with growing revenues and profits A number of the key companies are listed below

Simcyp

Simcyp is a profitable company based in Sheffield providing predictive pharmacokinetic/pharmacodynamic tools, workshops and consultancy services to the global pharmaceutical industry and was listed by Business XL magazine as one of the UK's top 15 fastest growing companies earlier this year The company has just recorded its sixth straight year of growth with turnover up 21% to £4 7m (2009 £3 9m) and profits up 42% to £1 7m, a credit to the company's outstanding team

Experts at simulating how the body deals with new drugs in development, Simcyp's technology enables pharmaceutical scientists to analyse how a drug is absorbed, distributed, metabolised and excreted in virtual populations of patients, prior to clinical trials in humans By including extensive information on demographics, genetics, environmental factors and disease state, complex "real-life" scenarios can be easily investigated including the likelihood and effects of drug-drug interactions Simulations can also optimise the design of human trials, minimising unnecessary drug exposure to human volunteers and animals This has significant cost and time-saving benefits in the development of new medicinal products

In April 2010, Simcyp received the Queens' Award for Enterprise in the Innovation category in recognition of its continuous development of modelling and simulation software for evaluating drugs in the safety of a computer Simcyp continues to expand into new fields tackling key areas of interest for drug developers and the regulatory agencies As such the company expects its excellent growth record to continue in 2011 and beyond

Fusion has a 21% (undiluted) shareholding in Simcyp

Magnomatics

Sheffield based Magnomatics signed a number of significant development contracts during the year and was recognised by Bloomberg New Energy Finance as potential 'game-changers' in the field of clean energy technology and innovation, who could "play a significant role in the world's transition to a lower carbon, more secure, smart, decentralised energy system" Turnover during the year to July 2010 was up 266% to £0 8m (2009 £0 3m) and the company expects this consultancy development work to continue to grow in 2011 as more companies recognise the potential of their technology

Chairman and Chief Executive's Statement continued

Magnomatics develops and delivers revolutionary magnetic transmissions and ultra-compact and highly efficient magnetically-geared, motors and generators Its contactless, lubricant-free, magnetic transmissions and magnetically-geared Pseudo Direct Drive (PDD) machines offer dramatic new engineering possibilities ranging from efficient, gearless generators for wind turbines, to lighter and more compact motors for hybrid vehicles

Operating without a mechanical gearbox, the PDD has all the low maintenance and reliability advantages of a direct drive generator, but with the reduced size benefits of a geared system The PDD offers particular benefits for large offshore wind turbines where efficiency and reliability are paramount and the greatest challenges are presented for mechanical gearboxes

The six-figure development contract signed with the Ministry of Defence (MoD) is an excellent example of the numerous contracts that the company is signing Magnomatics performed a detailed design study of a Magnetically Geared Propulsion Motor, based on its patented PDD system Post year end, another MoD contract has been won to enable Magnomatics to further develop its technology towards the MW scale, such that Defence Equipment and Support can assess the potential for its use within Integrated Full Electric Propulsion systems within future frigates and submarines

Also post year end, in September 2010 Magnomatics was part of a consortium that won a £3m Department of Transport low carbon grant to develop a lightweight Heavy Goods Vehicle designed for refuse collection in an urban environment, that will halve the overall carbon emissions per tonne of waste collected of current best-in-class Refuse Collection Vehicles (RCV)

The vehicle, which will incorporate Magnomatics technology, will be designed to significantly exceed legislative and Government requirements for greener vehicles The project will produce a demonstrator for a commercially viable, highly competitive, improved performance RCV for urban use with a high percentage of UK sourced technology and components

Fusion has a 48% (undiluted) shareholding in Magnomatics

Phase Focus

Phase Focus, the Sheffield-based microscopy company, raised £0 4m in May 2010 to help take the company towards to its first commercial deals

The Phase Focus Virtual Lens eliminates the need for high-quality lenses in microscopes by transferring the image-producing step to a computer programme This disruptive innovation is expected to revolutionise microscopy, not only by eliminating the restrictions and performance limitations of today's conventional focussing devices, but also by enabling a range of new capabilities including post-acquisition focussing and high-contrast stain-free imaging

The Virtual Lens is developing commercial relationships in its three key markets

- $3 4 billion laboratory R&D microscopy market,
- $700 million cellular assays market, and
- $2 1 billion semiconductor metrology market

Fusion has a 53% (undiluted) shareholding in Phase Focus

Diurnal

Diurnal has developed a delayed and sustained release therapy to deliver hydrocortisone in a manner that mimics the body's normal circadian rhythm (the body's natural 24 hour hormone cycle) This therapeutic approach has the potential to help patients with deficiencies in steroid hormones, testosterone, thyroid hormones and associated conditions by regulating metabolism, growth development and puberty, tissue function and in determining mood Each of these deficiencies requires life-long treatment and Diurnal's novel approach to drug delivery has the potential to drastically improve patients' lives

Working closely with Penn Pharmaceuticals and Simbec Research, Diurnal raised £0 6m in November 2009 to continue to develop its new formulation approach to endocrine therapy and progress its clinical trials of its lead product Chronocort® for adrenal insufficiency The company is due to complete its extended Phase 1 trials in 2011 and intends to take the product through Phase 2 trials prior to sale or licensing in 2012

Chronocort® has already received two related Orphan Drug designations from the European Medicines Agency, which affords ten years of market exclusivity after the grant of marketing authorisation in Europe

Diurnal estimates the global market for the use of Chronocort to treat Congenital Adrenal Hyperplasia (CAH), the first indication, to be £100m CAH is the result of mutations in genes that are responsible for controlling the amount of cortisol produced in the body Hydrocortisone is the 'synthetic' version of cortisol

Fusion has a 52% (undiluted) shareholding in Diurnal

MedaPhor

MedaPhor, is a Cardiff based ultrasound simulation business, specialising in the development and sale of advanced virtual ultrasound training systems for the healthcare service

In May 2010 the company raised £0 3m to launch its new ScanTrainer simulator in the UK and sign up overseas distributors ScanTrainer bridges the gap between conventional training and the patient, by combining the latest 'real-feel' haptic simulation techniques with curriculum-based interactive learning modules, to provide fast, effective ultrasound training The systems are designed to provide sophisticated ultrasound learning in a non-clinical environment, solving the current resource conflict between the provision of clinical service and the need to train In addition the ScanTrainer's self directed learning significantly reduces the need for expert direct supervision, making the system highly cost effective

MedaPhor's first ScanTrainer product, the Transvaginal ScanTrainer, was launched at the British Society for Gynaecological Imaging meeting held at the Royal College of Obstetricians and Gynaecologists in London in April 2010 and four of the training simulators have already been sold to hospitals in the UK The company expects to sign a number of overseas distributors for the system before the end of 2010

MedaPhor plans to launch a range of additional ScanTrainer platform systems in the Transabdominal, Transrectal and General Medical markets during the next 12 months

Fusion has a 38% (undiluted) shareholding in MedaPhor

i2L Research

Based in Cardiff, i2L Research is a leading European product testing and development centre for the pest control industry The company, which increased turnover by 20% to £0 8m (2009 £0 6m) with profits of £0 1m (2009 £0 05m) in 2010, has offices in the UK, Czech Republic and in 2010 opened a third office in Spain The company is confident that its profits and turnover will continue to grow in the next financial year

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

Absynth

Based in Sheffield, Absynth is a UK biotechnology company focused on the discovery and development of products for the prevention and treatment of bacterial infections such as Staphylococcus aureus (including MRSA) Absynth's novel targets offer two lines of attacking infection vaccines for prophylactic use to stimulate an immune response or antibodies for anti-infective treatments In its vaccine programmes, the company has shown that its S aureus antigens effectively harness the immune system and reproducibly protect against infection in the gold standard in vivo model of infection Absynth's novel antigens are also found in other infectious bacteria, which forms the basis of the company's pipeline

Post year end in September 2010, Absynth signed a license and collaboration agreement with German based biotechnology company, MorphoSys Absynth will receive an upfront payment together with development dependent milestone payments and long term royalties Further financial details were not disclosed Absynth has filed patent applications on all targets involved in the collaboration

Hospital acquired or nosocomial infections are a growing public health concern and are associated with increasing levels of mortality The Center for Disease Control and Prevention estimates that in the United States alone about 1 7 million nosocomial infections and 99,000 associated deaths occur each year These infections are caused by micro organisms including drug resistant MRSA In the United Kingdom, S aureus accounts for almost half of all hospital acquired infections

Fusion has a 60% (undiluted) shareholding in Absynth

Abcellute Holdings

During the year Cardiff based Abcellute Holdings, completed a £0 2m funding round that will enable Abcellute to apply its proprietary transport media to human cells giving researchers across the globe access to this precious and vital resource for drug development For the first time researchers on different continents will be able to use the same fresh cells to undertake their biomedical research improving the speed and reliability of their work

In February 2010, Abcellute Holdings subsidiary company Abcellute Tissue Bank, gained a favourable opinion from the NHS Research Ethics Committee to operate as a Research Tissue Bank under NRES guidelines The new Abcellute Tissue Bank, based in Welwyn Garden City's BioPark, is working with a number of UK NHS Trusts to supply fresh tissue and cells to the global pharmaceutical industry and research organisations The launch of the new Tissue Bank is a step change for the Abcellute business, which can now offer a much broader range of tissues to supplement its existing product portfolio

Fusion has a 41% (undiluted) shareholding in Abcellute Holdings

Chairman and Chief Executive's Statement continued

Morvus

Morvus Technology (Morvus) is a Welsh based pharmaceutical company that specialises in the discovery and commercialisation of novel drugs for the oncology market Fusion's holding in Morvus results from Fusion's sale of its specialist oncology portfolio companies, Cardiff Protides Limited and Cardiff Biologicals Limited, to Morvus in late 2007 Cardiff Protides and Cardiff Biologicals were formed to exploit the innovative research of Professors Chris McGuigan and Wen Jiang at Cardiff University

In 2008 Morvus secured ring-fenced funding of £3 4m to progress its radiation sensitiser through pre-clinical development and initial patient trials, which are due to commence in 2011 In late 2009 Morvus signed an exclusive, world-wide, licensing agreement with NuCana BioMed Ltd (NuCana) which grants NuCana the right to develop Morvus' ProTide technology for the enhancement of nucleoside analogues in return for certain rights and future milestone payments and royalties resulting from the commercialisation of the technology In December 2009 it completed a £2 15m fund raising to advance and boost its oncology portfolio and in early 2010 it strengthened its Board by appointing Andrew Heath, formerly CEO of Protherics plc, as a non-executive director

Fusion has a 10% (undiluted) shareholding in Morvus

Demasq

Despite securing FDA and CE approval for the product in 2009, the company has had significant technical and operational issues These problems remain unresolved and as a result both the patent and CE approval have been withdrawn Although Demasq continues to operate, Fusion has fully written down its investment in Demasq and does not expect any return on its investment

Licensing – a growing contribution

During the year we have invested time and resource in developing the Company's licensing arm, such that we could begin to exploit the licensing potential in the Sheffield pipeline Under Fusion's expanded Sheffield IP agreement, the Company has the right to license any University owned IP, with half the net income receivable by Fusion In November 2009, this began to bear fruit with our first significant licensing agreement with a leading global orthopaedic company, for the use of orthopaedic surgical planning software that originated from Sheffield's Medical Physics team The deal, which was worth just over £0 8m, resulted in a one-off licence fee income for Fusion of £0 4m

IP Group – a growing relationship for the future

In November 2009, we raised £3 2m before expenses in a Subscription by IP Group Plc and a Placing of new Ordinary Shares at 27p per share with another new institutional shareholder

Fusion also entered into a co-investment agreement with IP Group that combines the knowledge and resources of IP Group and Fusion to evaluate and assist new portfolio companies The agreement gives IP Group the right to acquire for cash, at a predetermined portfolio company valuation of £0 5m, 20% of Fusion's equity in any new portfolio company formed from its agreements with Cardiff and Sheffield This will normally equate to a 12% stake in the new portfolio company's share capital If IP Group exercises this right, it will be legally bound to invest in the seed 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

At the same time we agreed with CCVU (formerly NPI Ventures Limited) to terminate the CCVU Co-Investment Agreement signed in March 2006 and CCVU sold its 6 3% holding (equating to 2,668,858 Ordinary Shares) in Fusion to an institutional shareholder As a result of terminating this agreement, CCVU lost the right to appoint a director to the Fusion board, but retained its warrants to subscribe for 3,675,000 Ordinary Shares, which have exercise prices between 150p and 220p

During the year IP Group has taken up its investment option on all three of the new Fusion spin-outs started since the deal was signed We have an excellent relationship with the IP Group team and with the agreement about to enter its second year, we continue to work closely with them at all levels across the organisations

Finance Wales

Finance Wales are responsible for promoting new business opportunities in Wales, a role they conduct with great skill

During the year Finance Wales invested in six Fusion portfolio companies and we continue to have an excellent working relationship with them

A stronger Board

In January 2010, Dr Alison Fielding, Chief Technology Officer at IP Group plc, joined the Board as Non-Executive Director Alison brings a wealth of intellectual property commercialisation experience to the Board At IP Group, Alison is responsible for the evaluation and

commercialisation of intellectual property originating from the ten, research intensive, universities with which IP Group has partnerships Alison joined IP Group when it acquired Techtran Group Limited in January 2005, a technology transfer company that provides commercialisation services to the University of Leeds, where she was co-founder and Chief Operating Officer Prior to Techtran, Alison spent five years at McKinsey & Co where she consulted primarily to the pharmaceutical and health care sectors and four years as a development chemist for Zeneca

We have found Alison to be a major asset to our Board

Post year end Tony Gardiner was appointed to the board as Finance Director Tony, who has been Chief Financial Officer for the company since he joined the company in 2007 has in effect been doing the Finance Director's job for much of this period This promotion is in recognition of the excellent job he has done during this time

Outlook

We believe that our business model continues to work well and the IP pipelines with Sheffield and Cardiff remain strong There are plans to create further new spin-out companies in the coming year We have a lean focused team, creating exciting new spin-out companies and generating revenue and licence income, which will ensure we have sufficient funds to support our business for the foreseeable future

Our portfolio is stronger and better balanced than ever, with an increasing number of companies moving towards a potential exit With our long term relationship with IP Group, coupled with our relationship with Finance Wales, we look forward to the next financial year with confidence

Doug Liversidge CBE
Chairman
11 October 2010

David Baynes
Chief Executive

Financial Review

Summary

The Group generated its first ever profit, excluding subsidiary spin-out costs and amortisation of £2,517,000 (2009 £1,125,000 loss) The Group's reported loss for the year to 31 July 2010 has significantly reduced to £1,600,000 (2009 £5,015,000 loss) Cash balances remain strong at £4,610,000 (2009 £5,033,000) following a successful fundraising of £2,989,000, net of expenses in December 2009 The value of the Group's investments in non-subsidiary spin-out companies has increased to £10,788,000 (2009 £6,397,000)

Revenues and portfolio return

Total revenue and portfolio returns increased to £4,363,000 (2009 £561,000) due to increases in revenue and net fair value gains on investments

Revenue which includes the amounts charged to non-subsidiary spin-out companies for management services provided, licence income and development grants received has increased to £1,137,000 (2009 £442,000) The largest component of the increase was due to a licensing deal with a leading global orthopaedic company for the use of orthopaedic planning software amounting to £400,000

The net gain in the fair value of investments amounted to £2,590,000 (2009 £58,000) The Group's gains arose from valuation uplifts in seven of the Group's holdings during the year, with uplifts in Simcyp, Mesuro and Morvus being the major component Fair value write downs were taken on three investments, with the main impact being the full provision against the loans made to Demasq

	2010 £000	2009 £000
Fair value gains	3,671	1,483
Fair value losses	(1,081)	(1,425)
	2,590	58

The gain on disposal of subsidiaries of £545,000 (2009 £6,000) relates to the three subsidiary spin-out investments Mesuro, Seren Photonics and Asalus Medical Instruments in which the Group's holding has fallen below 50% follow completion of funding rounds in the year

Operating expenses

Operating expenses have increased marginally to £5,956,000 (2009 £5,661,000) and are broken down into three components

- corporate operating expenses of £1,839,000 (2009 £1,771,000) reflect the cost of running the Parent Company together with the Sheffield and Cardiff operations Included within these costs is a non-cash share-based payments charge of £57,000 (2009 £nil) for share option awards to employees, which is accounted for under IFRS 2 "Share-based payments",
- subsidiary spin-out operating expenses of £2,119,000 (2009 £1,866,000), which are consolidated into the Group's results by virtue of Fusion's >50% shareholding in each spin-out company The majority of the expenses relate to Diurnal, Phase Focus and Mesuro until it was deconsolidated in December 2009, and
- amortisation of intangible assets of £1,998,000 (2009 £2,024,000) reflects the charge over the Cardiff and Sheffield IP rights which are both being amortised on a straight line basis over the ten-year pipeline agreements, together with an amortisation charge for purchased patent costs within certain subsidiary spin-out companies

Investments

At 31 July 2010 investments in spin-out companies amounted to £10,788,000 (2009 £6,397,000) Additions in the year amounting to £1,801,000 (2009 £1,300,000) consist of equity investments, convertible loan investments and accrued interest to a number of portfolio companies

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

Non-current liabilities

Non-current liabilities totalling £3,304,000 (2009 £3,344,000) consist of two components classified as amounts owed to related parties Firstly the Group owes amounts totalling £2,162,000 (2009 £2,106,000) 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 signed in 2008, there is an amount of deferred consideration due to the University of Sheffield, representing 785,609 Ordinary shares (2009 1,207,826 Ordinary shares) which will be issued once further Ordinary shares are issued to the extent that its shareholding does not exceed 29 9% of the issued share capital of the Company

Cash flows

The Group's cash balances at 31 July 2010 amount to £4,610,000 (2009 £5,033,000) These balances include £258,000 (2009 £825,000) in relation to consolidated subsidiary spin-out companies

The cash outflow in the year amounted to £423,000 (2009 £1,330,000) and can be summarised as follows

	2010 £000	2009 £000
Net cash used in operating activities	(2,827)	(2,814)
Net cash used in investing activities	(585)	(126)
Net cash from financing activities	2,989	1,610
	(423)	(1,330)

The net cash used in investing activities reflects two main components

- amounts invested in spin-out companies which are not subsidiary undertakings £1,515,000 (2009 £1,300,000), and
- amounts received by subsidiary spin-out companies from third-party investors of £853,000 (2009 £1,059,000)

Share capital

As a result of the successful fundraising of £2,989,000, net of expenses, in December 2009, through the subscription and placing of new shares, the Company issued 12,088,884 Ordinary shares of 1p each The new shares issued represented 22% of the Company's enlarged issued share capital

Tony Gardiner
Finance Director
11 October 2010

Board of Directors

Doug Liversidge CBE

Chairman

Appointed to the Board of Fusion IP plc on 1 December 2004 He was employed for 21 years at British Steel, before moving to G W Thornton Limited as managing director and subsequently chief executive He guided the company through its flotation on the full list of the London Stock Exchange in 1987

Doug acts as a senior industrial advisor to the University of Sheffield and was awarded the CBE in the 2000 New Year's Honours List for services to industry He is also the non-executive chairman of Surgical Innovations plc

David Baynes

Chief Executive

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

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)

Dr Peter Grant

Operations Director

Appointed to the Board of Fusion IP plc on 1 December 2004 Peter has a PhD in biochemistry from Cardiff University and has previously worked at Genzyme UK Limited, Celltech Limited, Enzymatix Limited and Celsis plc, which he co-founded and took to a full listing on the London Stock Exchange

Tony Gardiner

Finance Director

Appointed to the Board of Fusion IP plc on 5 October 2010, having previously been Chief Financial Officer since he joined the Group in June 2007 Tony is a Chartered Accountant and has worked across numerous industries including managing the financial operations of the international law firm Eversheds LLP and prior to this he was the Group Financial Controller of the UK telecommunications business Kingston Communications (Hull) plc

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 David was previously managing director of SUEL, the University of Sheffield's tech transfer operation Prior to this David worked for Ford Motor Company, British Leyland, Rank Xerox Limited and Cambridge Consultants Limited

Mike Davies

Non-executive Director

Appointed to the Board of Fusion IP plc on 29 January 2007 Mike is 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

Dr Alison Fielding

Non-executive Director

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

Bob Rabone

Non-executive Director

Appointed to the Board of Fusion IP plc on 31 July 2008 Bob is 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

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 July 2010

Results and dividend

Group loss for the year after taxation amounted to £1,600,000 (2009 loss £5,015,000) The Directors do not recommend the payment of a dividend (2009 £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
T Gardiner (appointed 5 October 2010)

Non-executive

D Liversidge CBE (Chairman)
T Atkinson
D Catton
M Davies
B Rabone
A Fielding (appointed 29 January 2010)

The Company Secretary is R Birtles

Major interest in shares

As at 1 October 2010, 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	12,895,541	23 8
Cardiff University	10,997,541	20 3
IP Group plc	10,740,741	19 8
Invesco Limited	5,570,363	10 3
AXA Framlington	3,716,370	6 9
Legal & General	3,325,926	6 1

Directors' interests in shares

The Directors at 31 July 2010 with interests in the share capital of the Company were as follows

The Company – Ordinary 1p shares	31 July 2010
D Baynes	1,333,332
P Grant	1,333,332
S Gall	1,333,332
D Liversidge (Chairman)	10,000

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

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

Financial instruments and risk management

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

Creditor payment policy

The Group's policy is to

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

The Group's average creditor payment period at 31 July 2010 was 15 days (2009 39 days) The Company has no trade creditors

Employee participation

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

Equal opportunities

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

Directors' Report continued

Disabled employees

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

Political and charitable donations

During the year the Group has made no political or charitable donations (2009 £nil)

Provision of information to auditors

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

Annual General Meeting

The Annual General Meeting of the Group will be held at 10 30 a m on 26 November 2010 at the offices of Ashurst LLP, Broadwalk House, 5 Appold Street, London EC2A 2HA

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
11 October 2010

Report on the Directors' Remuneration

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

Remuneration Committee

For the financial year ended 31 July 2010, remuneration policy for Executive and Non-executive Directors and the determination of individual Executive Directors' remuneration packages have been delegated to the Board's Remuneration Committee comprising three Non-executive Directors, one of which is the Non-executive Chairman

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

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

Remuneration of the Non-executive Directors

D Liversidge, T Atkinson and D Catton 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 They did not receive any pension or other benefits from the Company, nor did they participate in any bonus or incentive schemes other than share options They each have a three-year service contract with the Company with three months' notice either side After this time their appointment is reviewed annually

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

Remuneration policy for Executive Directors

The Company's remuneration policy for Executive Directors is to

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

Salaries and benefits

The Remuneration Committee meets at least once a year to consider and set the annual salaries for Executive Directors having regard to personal performance and information regarding the remuneration practices of companies of a similar size and of industry competitors Executive Directors' salaries were last reviewed in January 2010

Directors' service contracts

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

Details of individual Directors' service contracts are as follows

	Effective contract date	Unexpired term at 31 July	Notice period
D Liversidge* (Chairman)	1 December 2004	n/a	3 months
D Baynes	26 January 2005	n/a	6 months
P Grant	26 January 2005	n/a	6 months
S Gall	1 April 2005	n/a	6 months
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 All the Directors with the exception of A Fielding and B Rabone are required to retire by rotation at the forthcoming Annual General Meeting A Fielding, having been appointed by the Directors since the last general meeting, is subject to re-election by shareholders and being eligible, will seek re-election

Report on the Directors' Remuneration continued

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	Salary and fees £	Bonuses £	Pension contributions £	Benefits £	**Total 2010 £**	Total 2009 £
Executive						
D Baynes	161,382	—	16,138	—	177,520	180,612
P Grant	138,310	—	13,831	1,647	153,788	155,071
S Gall	138,310	—	13,831	1,749	153,890	155,071
Non-executive						
D Liversidge (Chairman)	36,000	—	—	—	36,000	36,000
T Atkinson	25,500	—	—	—	25,500	25,500
D Catton	12,750	—	—	—	12,750	12,750
E Moses	—	—	—	—	—	21,250
	512,252	—	43,800	3,396	559,448	586,254

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 £16,138 paid as basic salary

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

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	As at 31 July 2009	As at 31 July 2010	Exercise price	Earliest exercise date	Expiry date
D Liversidge	50,000	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	50,000	33 5p	31 07 12	31 07 19
D Catton	33,333	33,333	150p	28 01 08	28 01 15
D Catton	50,000	50,000	33 5p	31 07 12	31 07 19

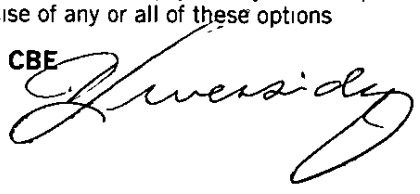
The market price of the Company's shares at the end of the financial year was 29 5p (2009 32 5p) and the range of market prices during the year was 34 5p to 29 5p (2009 90 0p to 27 5p)

Each option will vest monthly as to 1/36th of the Ordinary shares under option on the expiry of each month following the date of the grant until the third anniversary of the date of the grant when the option shall become fully vested Any vested portion of the options will normally be exercisable between the expiry of the third month after the date of the grant and the tenth anniversary of the date of the grant No performance conditions are required to be met Options will become immediately exercisable in full on the death of the option-holder for a period of twelve months from the date of death If an option-holder ceases to be a Non-executive Director of the Company for any reason other than death, his option (to the extent unexercised and unvested) will lapse On a change of control or a voluntary winding-up of the Company, options may be exercised in full for a fixed period Options will lapse on the expiry of ten years from their date of grant

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

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

Doug Liversidge CBE
Chairman
11 October 2010



Corporate Governance

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

The workings of the Board and its committees

The Board

The Board currently comprises six Non-executive Directors and three Executive Directors and is responsible for the management of the Group As disclosed on page 14 D Liversidge, 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, M Davies and A Fielding by virtue of their roles with the University of Sheffield, Cardiff University and IP Group plc respectively are not considered to be independent Non-executive Directors

The Board meets at least six times a year, setting and monitoring Group strategy, reviewing trading performance, reviewing and agreeing on investments in spin-out companies and formulating policy on key issues Day to day operational decisions are delegated to the Executive Directors Key issues reserved for the Board include the consideration of potential investments, share issues and fund raising and the setting of Group strategy, City public relations and the review and evaluation of significant risks facing the business

Briefing papers are distributed to all Directors in advance of Board meetings All Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with The appointment and removal of the Company Secretary is a matter for the Board as a whole In addition, procedures are in place to enable Directors to obtain independent professional advice in the furtherance of their duties if necessary, at the Company's expense

The Audit Committee

The Audit Committee comprises D Liversidge, T Atkinson and D Catton 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

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

The Remuneration Committee

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

The Nomination Committee

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

Terms of reference

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

Relations with shareholders

Key members of the Executive Board regularly visit institutional investors and the full Board makes itself available to questions at all the shareholder meetings it holds The Chief Executive reports back to the Board views of investors obtained at analysts' and brokers' briefings The Board will use the Annual General Meeting to communicate with private and institutional investors and welcomes their participation

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

Corporate Governance continued

Going concern

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

Internal controls

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

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

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

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

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period In preparing each of the Group and Parent Company financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU, for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities

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

Independent Auditors' Report to the members of Fusion IP plc

We have audited the financial statements of Fusion IP plc for the year ended 31 July 2010 set out on pages 18 to 43 The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 16, 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 2010 and of the Group's loss for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the EU,
- the Parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

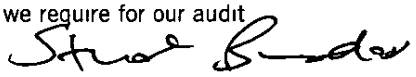
Opinion on other matter prescribed by the Companies Act 2006

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 (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
KPMG Manchester
St James's Square
Manchester M2 6DS

11 October 2010

Consolidated Statement of Comprehensive Income

for the year ended 31 July 2010

	Note	2010 £000	2009 £000
Revenue and portfolio return			
Revenue	5	1,137	442
Dividend income		91	55
Change in fair value of investments	15	2,590	58
Gain on disposal of subsidiaries	15	545	6
		4,363	561
Operating expenses			
– corporate operating expenses		(1,839)	(1,771)
– subsidiary spin-out operating expenses		(2,119)	(1,866)
– amortisation of intangible assets	14	(1,998)	(2,024)
	6	(5,956)	(5,661)
Results from operating activities	6	(1,593)	(5,100)
Finance income	10	55	221
Finance expenses	10	(62)	(136)
Loss before taxation		(1,600)	(5,015)
Taxation	11	—	—
Loss and total comprehensive loss for the year		(1,600)	(5,015)
Attributable to.			
– owners of the parent		(789)	(4,280)
– non-controlling interests	20	(811)	(735)
		(1,600)	(5,015)
Basic and fully diluted loss per share	12	(1 57)p	(10 15)p

Consolidated Statement of Financial Position

as at 31 July 2010

	Note	2010 £000	2009 £000
Assets			
Non-current assets			
Property, plant and equipment	13	58	251
Intangible assets	14	13,507	15,474
Investments	15	10,788	6,397
Total non-current assets		24,353	22,122
Current assets			
Trade and other receivables	16	402	503
Cash and cash equivalents	17	4,610	5,033
Total current assets		5,012	5,536
Total assets		29,365	27,658
Equity			
Called up share capital	18	542	422
Capital reserve	19	2	2
Share premium	18	39,034	36,052
Capital redemption reserve	19	1	1
Retained earnings		(13,853)	(12,936)
Equity attributable to equity holders of the parent		25,726	23,541
Non-controlling interests	20	—	139
Total equity		25,726	23,680
Non-current liabilities			
Other payables	21	85	80
Amounts owed to related parties	21	3,219	3,264
Total non-current liabilities		3,304	3,344
Current liabilities			
Trade and other payables	22	335	634
Total liabilities		3,639	3,978
Total equity and liabilities		29,365	27,658

These financial statements were approved by the Board of Directors on 11 October 2010 and were signed on its behalf by the Chairman

Doug Liversidge CBE
Chairman
Fusion IP plc – registered number 5275732

Consolidated Statement of Cash Flows

for the year ended 31 July 2010

	2010 £000	2009 £000
Cash flows from operating activities		
Loss for the period	(1,600)	(5,015)
Adjustments for		
– depreciation of property, plant and equipment	177	170
– amortisation of intangible assets	1,998	2,024
– net finance costs/(income)	7	(85)
– share-based payments	57	—
– dividend income	(91)	(55)
– gain on disposal of subsidiaries	(545)	(6)
– change in fair value of investments	(2,590)	(58)
Changes in working capital		
– decrease in trade and other receivables	101	480
– decrease in trade and other payables	(341)	(222)
	(2,827)	(2,767)
Interest paid	—	(47)
Net cash flows used in operating activities	(2,827)	(2,814)
Cash flows from investing activities		
Purchase of property, plant and equipment	(72)	(141)
Proceeds from sale of property, plant and equipment	34	—
Purchase of investments	(1,515)	(1,300)
Third party investment into subsidiary spin-out companies	853	1,059
Purchase of intangible assets	(31)	(20)
Dividend income	91	55
Interest received	55	221
Net cash flows used in investing activities	(585)	(126)
Cash flows from financing activities		
Proceeds from issue of share capital	3,150	2,115
Share issue costs	(161)	(505)
Net cash flows from financing activities	2,989	1,610
Net decrease in cash and cash equivalents	(423)	(1,330)
Cash and cash equivalents at the beginning of the period	5,033	6,363
Cash and cash equivalents at the end of the period	4,610	5,033

Consolidated Statement of Changes in Equity

for the year ended 31 July 2010

	Attributable to equity holders of the Group						
	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total £000	Non-controlling interests £000	Total £000
At 1 August 2008	367	31,671	3	(8,611)	23,430	—	23,430
Loss and total comprehensive loss for the year	—	—	—	(4,280)	(4,280)	(735)	(5,015)
Non-controlling 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
Loss and total comprehensive loss for the year	—	—	—	(789)	(789)	(811)	(1,600)
Non-controlling interest attributable to the Group	—	—	—	(185)	(185)	185	—
Issue of share capital	120	2,982	—	—	3,102	—	3,102
Share-based payments	—	—	—	57	57	—	57
Disposal of subsidiaries	—	—	—	—	—	487	487
At 31 July 2010	542	39,034	3	(13,853)	25,726	—	25,726

Notes to the Consolidated Financial Statements

for the year ended 31 July 2010

1 General information

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

These consolidated financial statements are presented in Sterling 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
Asalus Medical Instruments Limited*[1]	Medical devices	60%	Ordinary
Seren Photonics Limited*[1]	High brightness LEDs	60%	Ordinary
Phase Focus Limited*	Lensless microscopy	53%	Ordinary
Diurnal Limited*	Hormone replacement	52%	Ordinary
Lifestyle Choices Limited*	Ovarian reserve measurement	51%	Ordinary

* Indirectly held *[1] Deconsolidated when holdings dropped below 50% in March 2010

All companies are incorporated in England and Wales

The consolidated financial statements of Fusion IP plc have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU The Company has elected to prepare its Parent Company financial statements in accordance with UK GAAP and these are presented on pages 41 to 43

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

Change in accounting policies

(i) New standards, interpretations and amendments effective from 1 August 2009

The following new standards, interpretations and amendments, applied for the first time from 1 August 2009, have had an effect on the financial statements

- Improving Disclosures about Financial Instruments (Amendments to IFRS 7) The application of this amendment has resulted in changes to the disclosures provided in respect of financial instruments, primarily in note 15 to the financial statements, including an analysis of financial assets and financial liabilities that are measured at fair value in the statement of financial position, into a two level fair value measurement hierarchy The amendment does not change the recognition or measurement of transactions and balances in the financial statements

- Amendments to IAS 1 Presentation of Financial Statements A Revised Presentation As a result of the application of this amendment the Group has elected to present a single statement of comprehensive income, previously it presented an income statement and the statement of recognised income and expense In addition, a statement of changes in equity is now presented as a primary statement where previously the information was included in a note An analysis of the tax effect of any items recognised in other comprehensive income will be included if this is applicable in the future The amendment does not change the recognition or measurement of transactions and balances in the financial statements

- IFRS 8 Operating Segments This standard sets out requirements for the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers The segments are to be identified on the basis of internal reports about components of the entity that are regularly reviewed by the chief operation decision maker in order to allocate resources to the segments and to assess its performance It replaces IAS 14 Segmental Reporting The adoption of the standard has not resulted in a change of the number and composition of the segments reported by the Group

- Revised IFRS 3 Business Combinations Revised IFRS 3 retains the requirement to apply acquisition accounting in all cases and to identify and recognise intangible assets separately from goodwill However, for all future acquisitions, all acquisition costs shall be written off to the statement of comprehensive income instead of being included in the cost of investment, an intangible asset shall be recognised even if it cannot be reliably measured, and, it will be possible to gross up the balance sheet for goodwill attributable to 'non-controlling interests' (previously 'minority interests') The revised standard did not require the restatement of the Group's previous business combinations

- Amendments to IAS 27 Consolidated and Separate Financial Statements This amendment affects in particular the acquisition of subsidiaries achieved in stages and disposals of interests, with significant differences in the accounting depending on whether or not control is obtained as a result of the transaction, or where a transaction results only in a change in the percentage of a controlling interest The amendment did not require the restatement of previous transactions

The following new standards, interpretations and amendments, also effective for the first time from 1 August 2009, have not had a material effect on the financial statements

- Amendment to IAS 23 Borrowing Costs
- Amendment to IFRS 2 Share-based Payment Vesting Conditions and Cancellations
- Amendments to IAS 32 and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation
- Improvements to IFRS (2009)
- IFRIC 15 Agreements for the Construction of Real Estate
- Embedded Derivatives (Amendments to IFRIC 9 and IAS 39)

Notes to the Consolidated Financial Statements continued

for the year ended 31 July 2010

2. Summary of significant accounting policies continued

(ii) New standards, interpretations and amendments not yet effective

The following new standards, interpretations and amendments, which have not been applied in these financial statements, will or may have an effect on the Group's future financial statements

- IFRS 9 Financial Instruments IFRS 9 will eventually replace IAS 39 in its entirety However, the process has been divided into three main components (classification and measurement, impairment, and, hedge accounting) and it is considered unlikely that the new standard will be endorsed until all of these components are in their final form While the current standard is largely incomplete, its eventual adoption may result in changes to the classification and measurement of the Group's financial instruments, including any impairment thereof

None of the other new standards, interpretations and amendments not yet effective is expected to have a material effect on the Group's future financial statements

Going concern

The Group has cash balances as at 31 July 2010 of £4,610,000 The Directors have prepared and review on a regular basis financial forecasts based upon assumptions as to funding, investments in new and existing spin-out companies and the realisation of assets, along with other factors known to have a significant impact on results Based upon these the Directors have concluded that the Group has adequate working capital and cash balances to operate for the foreseeable future and that it is appropriate to use the going concern basis of preparation for this financial information

Basis of consolidation

Subsidiaries

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

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

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

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

Spin-out investments

Spin-out investments are entities over which the Group has significant influence, but not control, generally accompanied by a shareholding of less than 50% of the equity or voting rights Spin-out investments that are held by the Group with a view to the ultimate realisation of capital gains are accounted for in accordance with IAS 39 "Financial Instruments Recognition and Measurement" and upon initial recognition are designated at fair value through profit or loss This treatment is permitted by IAS 28, in which, investments held by entities which are akin to venture capitalist organisations can be excluded from its scope

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

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

Basis of consolidation continued

Loan investments

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

Transactions with minority shareholders – "economic entity approach"

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

Operating segments

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

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 the statement of comprehensive income

Property, plant and equipment

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

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

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

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 statement of comprehensive income

IP rights

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

Notes to the Consolidated Financial Statements continued

for the year ended 31 July 2010

2 Summary of significant accounting policies continued

Impairment of intangible assets

Assets that are subject to amortisation are tested for impairment annually as a matter of policy An impairment loss is recognised for the amount by which the carrying amount exceeds its recoverable amount The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use For the purposes of assessing impairments, assets are grouped at the lowest levels for which there are largely independent cash flows (cash-generating units (CGUs))

Research and development expenditure

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

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

Financial assets

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

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

Financial assets at fair value through profit or loss

The Group classifies all its equity and loan 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 Realised and unrealised gains on financial assets at fair value through profit or loss are included in the statement of comprehensive income in the period they arise

Price of recent investment

The fair value of unlisted securities is established using IPEVCV guidelines The valuation methodology used most commonly by the Group is the "price of recent investment" The following considerations are used when calculating the fair value using the price of recent investment guidance

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

Other valuation techniques

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

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

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" They are carried at cost less any provision for impairment

Trade receivables

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

Cash and cash equivalents

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

Payments on account

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

Trade and other payables

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

Non-current liabilities owed to related parties

Non-current liabilities owed to related parties relate to loan notes and accrued interest due to the University of Sheffield and Cardiff University arising from the purchase of the Group's interest in its portfolio of spin-out companies These amounts are repayable on the earlier of the sale by Fusion 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 They are recognised at amortised cost which is a reasonable approximation of fair value

Share capital

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

Leases

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

Income tax

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

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

Notes to the Consolidated Financial Statements continued

for the year ended 31 July 2010

2 Summary of significant accounting policies continued

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

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

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

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

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

Employee benefits

Pension obligations

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

Share-based payments

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

Revenue recognition

Revenue comprises

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

Corporate operating expenses

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

Subsidiary spin-out operating expenses

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

3. Financial risk management

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

Risk management objectives

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

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

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

Interest rate risk profile of financial liabilities

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

Borrowing facilities

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

Currency exposures

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

Interest rate risk

The Group has directly maintained special interest bearing accounts with corporate banks at variable rates of interest related to LIBOR These deposits are made on a daily basis with minimal balances held on current account Fixed rate deposits for periods of up to three months are placed with corporate banks 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 2010 amounted to £4,610,000 (2009 £5,033,000)

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

Notes to the Consolidated Financial Statements continued

for the year ended 31 July 2010

3. Financial risk management continued

Capital management

The capital structure of the group is a mixture of cash balances and equity comprising issued share capital and reserves as detailed in note 18 The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders

The Group 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 when required

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

4 Critical accounting estimates and judgements

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

Valuation of unquoted equity investments

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

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

Where unquoted equity investments are trading profitably and cash generative they will be valued using either DCF or price-earnings multiples, which will be discounted to reflect non-marketability and other risks inherent to businesses in early stages of operation The estimates included in these valuations are described in the accounting policy for financial assets at fair value through profit or loss These valuations will be reviewed on a regular basis based on the trading performance of the companies and decisions on whether to increase or impair the carrying value will be reviewed by the Directors

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 2 The judgements over control of the company are assessed through

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

5 Operating segments

For the year ended 31 July 2010 and the year ended 31 July 2009 the Group's revenue and profit was derived from its principal activity which encompasses technology transfer, company incubation and early stage venture capital The Group's Board, which is considered to be the Group's chief operating decision maker, have undertaken a review of the Group's operations and its associated business risks and consider the performance of the business as one reportable segment The portfolio of investments is reviewed with no differentiation made based on the market sector of the company or whether the company originated from the Sheffield or Cardiff IP pipeline No distinction is made between the assessment of subsidiaries and spin-out companies

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

The disclosures for the reportable segments are therefore given by the primary financial statements and related notes

6 Results from operating activities

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

	2010 £000	2009 £000
Depreciation on property, plant and equipment	177	170
Profit on disposal of property, plant and equipment	(19)	—
Amortisation of intangible assets	1,998	2,024
Employee costs (see note 8)	1,349	1,210
Operating leases – property	63	80
Payments to the University of Sheffield/Cardiff University for IP mining	249	315
Research, development and patent costs	1,039	804
Legal, professional, insurance and advisory costs	726	652
Administration and marketing costs	374	406
	5,956	5,661

7 Auditors' remuneration

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

	2010 £000	2009 £000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	19	18
Fees payable to the Company's auditors and their associates for other services		
– the audit of the Company's subsidiary spin-out companies	7	9
– review of interim financial statements	—	14

8 Employee costs

	2010 £000	2009 £000
Wages and salaries	1,095	1,023
Social security costs	132	125
Pension costs – contributions to money purchase plans	65	62
Share-based payments	57	—
	1,349	1,210

Average monthly number of persons (including Directors) employed

	2010 Number	2009 Number
Central corporate functions	14	14
Subsidiary spin-out companies	5	5
	19	19

Notes to the Consolidated Financial Statements continued

for the year ended 31 July 2010

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 400,000 shares were issued to three employees on 6 November 2009, details of which are set out in the table below 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 £57,000 (2009 £nil)

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	Employees	Directors	Directors	NPI
Fair value at grant date	47 24p	15 65p	14 43p	47 24p	15 65p	43 98p to 18 83p
Share price at grant	150 00p	33 50p	33 50p	150 00p	33 50p	152 25p
Dividend yield	0 00%	0 00%	0 00%	0 00%	0 00%	0 00%
Expected volatility	18 52%	42 20%	42 17%	18 52%	42 20%	18 85%
Term to maturity	6 5 years	6 5 years	5 5 years	6 5 years	6 5 years	5 5 years
Risk free interest rate	4 46%	3 00%	3 00%	4 46%	3 00%	4 28%
Number of shares under option	33,333	50,000	400,000	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 2010 and for the previous options against an index of similar companies in the Biotech Index as no historic data was available for the Company at the grant date

10 Finance income and costs

	2010 £000	2009 £000
Finance income		
Interest income on short-term bank deposits	19	178
Interest income on loans to spin-out investments	36	43
	55	221
Finance expenses		
Interest payable on loans from related parties	(62)	(136)
	(62)	(136)
Net finance (cost)/income	(7)	85

11 Taxation

	2010 £000	2009 £000
Current tax	—	—
Deferred tax	—	—
	—	—

Deferred tax assets of £1,855,000 (2009 £1,807,000) from unutilised tax losses have not been recognised as the Directors consider there to be sufficient uncertainty over the availability of future taxable profits from which the trading losses can be deducted

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

Corporation tax is calculated at 21% (2009 21%) 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

	2010 £000	2009 £000
Loss before tax	(1,600)	(5,015)
Current tax at 21% (2009 21%)	(336)	(1,053)
Effects of.		
– expenses not deductible for tax purposes	150	475
– depreciation in excess of capital allowances	24	—
– UK research and development tax credits	(38)	(28)
– adjustments in respect of prior years	1	17
– tax losses carried forward	199	589
Total current charge	—	—

On the 22 June 2010 it was announced that the rate of corporation tax for small companies will be reduced from 21% to 20% with effect from 1 April 2011 The change in the tax rate has not yet been substantively enacted and therefore the calculations in the accounts are based on the rates applicable at the balance sheet date and do not reflect the change in tax rate which, as yet, has not become effective

12 Earnings per share

	2010	2009
Loss attributable to the equity holders of the parent	£789,000	£4,280,000
Weighted average number of Ordinary shares in issue	50,213,222	42,153,966
Basic and fully diluted loss per share	(1 57)p	(10 15)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

Notes to the Consolidated Financial Statements continued
for the year ended 31 July 2010

13 Property, plant and equipment

	Office and computer equipment £000	Prototypes and laboratory equipment £000	Total £000
Cost			
At 1 August 2009	85	394	479
Additions	15	57	72
Disposals	(19)	(200)	(219)
At 31 July 2010	81	251	332
Accumulated depreciation			
At 1 August 2009	(55)	(173)	(228)
Charge for the year	(16)	(161)	(177)
Disposals	19	112	131
At 31 July 2010	(52)	(222)	(274)
Net book value			
At 31 July 2010	29	29	58

	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

14 Intangible assets

	IP rights £000	Goodwill £000	Total £000
Cost			
At 1 August 2009	19,984	65	20,049
Additions	31	—	31
Disposals	(37)	(52)	(89)
At 31 July 2010	19,978	13	19,991
Accumulated amortisation			
At 1 August 2009	(4,523)	(52)	(4,575)
Amortisation charge	(1,998)	—	(1,998)
Disposals	37	52	89
At 31 July 2010	(6,484)	—	(6,484)
Net book value			
At 31 July 2010	13,494	13	13,507

	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

Goodwill relates to that generated on the acquisition of the Group's subsidiary Diurnal Limited

Recoverable amount of the University of Sheffield and Cardiff University IP pipeline rights

The following key variables are relevant in determining a recoverable amount for the IP pipeline rights

- the timing and number of spin-out companies from both universities,
- dilution of percentage shareholding rates as a result of financing related spin-out companies in the future,
- disposal values and timings, and
- discount factors of 6-8% (2009 6-8%)

Each year the Directors review the IP pipeline rights for any evidence of impairment This review is based on a discounted cash flow model which looks at historic information based on the key variables noted above and projects forwards over the remaining life of the IP pipeline rights and through to the exit of the spin-out companies Based on the review this year, the Directors believe that there is no impairment of the IP rights and that the most appropriate treatment is for the IP rights to be amortised over the ten-year life of the agreement with provision made for any impairment when required, consistent with the treatment in the prior year The carrying value of the Cardiff University IP rights amounted to £10,275,000 (2009 £11,870,000) The carrying value of the University of Sheffield IP rights amounted to £3,130,000 (2009 £3,522,000)

Notes to the Consolidated Financial Statements continued

for the year ended 31 July 2010

15 Investments

	Spin-out companies £000	Loans £000	Total £000
Fair value			
At 1 August 2009	4,990	1,407	6,397
Additions	1,022	779	1,801
Transfers	62	(62)	—
Change in fair value in the year	3,601	(1,011)	2,590
At 31 July 2010	9,675	1,113	10,788
Change in fair value in the year			
Fair value gains	3,671	—	3,671
Fair value losses	(70)	(1,011)	(1,081)
	3,601	(1,011)	2,590

	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

The total fair value of investments of £10,788,000 (2009 £6,397,000) has been determined using two valuation methods

- Level 1 – inputs other than quoted prices that are observable for the assets - £8,806,000 (2009 £6,397,000)
- Level 2 – inputs for the asset that are not based on observable market data - £1,982,000 (2009 £nil)

During the year, the disposal of subsidiary undertakings whereby the Group's holdings in Mesuro Limited, Asalus Medical Instruments Limited and Seren Photonics Limited dropped below 50% following third party funding rounds resulting in a gain of £545,000 (2009 £6,000 gain)

At 31 July 2010, the Group had investments where it holds 20% or more of the issued share capital as follows

	Principal activity	Holding	Class of shares held
Magnomatics Limited	Magnetic devices	48%	Ordinary
Asalus Medical Instruments Limited	Medical devices	48%	Ordinary
Seren Photonics Limited	High brightness LEDs	48%	Ordinary
Progenteq Limited	Cartilage replacement therapies	48%	Ordinary
Demasq Limited	Bone and soft tissue imaging products	48%	Ordinary
Mesuro Limited	Radio frequency design and test instrumentation	47%	Ordinary
Adjuvantix Limited	Vaccine adjuvants	43%	Ordinary
Abcellute Limited	Cell stabilising technology	41%	Ordinary
Iterate Control Limited	Advance control testing software	40%	Ordinary
Asterion Limited	Cytokine therapies	38%	Ordinary
Medaphor Limited	Medical training solutions	38%	Ordinary
Art of Xen Limited	Medical use of xenon gas	32%	Ordinary
I2L Research Limited	Pesticide testing	31%	Ordinary
Simcyp Limited	Drug metabolism	21%	Ordinary

At 31 July 2010, the Group had investments where it holds 20% or less of the issued share capital as follows

	Principal activity	Holding	Class of shares held
Muscagen Limited	Drug discovery	13%	Ordinary
Morvus Technology Limited	Oncology therapies	10%	Ordinary
Bitecic Limited	Clinical research and support	10%	Ordinary
Zilico Limited	Cervical cancer detection	6%	Ordinary
Regenerative Medicine Assets Limited	Regenerative medicine	4%	Ordinary
Q Chip Limited	Life science and therapeutic products	2%	Ordinary

All companies are incorporated in England and Wales

16 Trade and other receivables

	2010 £000	2009 £000
Trade receivables	9	15
Amounts due from related parties	26	16
Other tax and social security	24	88
Other receivables	—	1
Payments on account	278	335
Prepayments and accrued income	65	48
	402	503

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

Notes to the Consolidated Financial Statements continued
for the year ended 31 July 2010

17 Cash and cash equivalents

	2010 £000	2009 £000
Cash and cash equivalents	4,610	5,033
	4,610	5,033

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

Sensitivity analysis – interest rate risk

At 31 July 2010, if interest rates had been 2% higher/lower, the loss for the year and other components of equity, would have been £76,000 (2009 £142,000) lower/higher as a result of higher interest received on cash and short-term cash deposits

18 Share capital and premium

	2010 £000	2009 £000
Allotted, called up and fully paid		
54,242,850 (2009 42,153,966) Ordinary shares of 1p each	542	422
Share premium	39,034	36,052

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 3 December 2009, following the successful completion of a placing and Subscription for new shares, the Company issued 12,088,884 Ordinary shares of 1p each Of the total number of shares, 10,740,741 Subscription shares were issued to IP Group plc, 925,926 Placing shares were issued to new and existing institutional shareholders and 422,217 shares were issued to the University of Sheffield Net proceeds raised amounted to £2,989,000 after deducting share issue costs of £161,000 from the gross proceeds of £3,150,000 The share issue costs of £161,000 representing legal and brokerage fees incurred on the transaction have been charged to the share premium account

The new shares issued represented 29% of the Company's then existing share capital and following the issue represents 22% of the Company's enlarged issued share capital

Details of the share options are given in note 9

19. Other reserves

The other reserves totalling £3,000 (2009 £3,000) comprise a capital redemption reserve of £1,000 (2009 £1,000) and a capital reserve of £2,000 (2009 £2,000) arising from the Company's admission to AIM in 2005 and the resulting differences on consolidation under merger accounting

20. Non-controlling interests

	2010 £000	2009 £000
At 1 August	139	—
Disposal of subsidiary undertakings	487	829
Share of loss in year	(811)	(735)
Non-controlling interests attributable to Group	185	45
At 31 July	—	139

The disposal of subsidiary undertakings reflects the change of the Group's holdings in Phase Focus Limited, Diurnal Limited, Mesuro Limited, Asalus Medical Instruments Limited and Seren Photonics Limited following investment monies received from funding rounds involving third parties

21. Non-current liabilities

	2010 £000	2009 £000
Other payables	85	80
Amounts owed to University of Sheffield	713	695
Amounts owed to Cardiff University	1,449	1,411
Amounts owed to Sheffield University Enterprises Limited	84	71
Deferred consideration owed to University of Sheffield	973	1,087
Amounts owed to related parties	3,219	3,264
	3,304	3,344

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 785,609 Ordinary shares (2009 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

Sensitivity analysis

All loan notes are as set at a fixed interest rate of LIBOR plus 1 5% At 31 July 2010, if interest rates had been 2% higher/lower, the loss for the year and other components of equity, would have been £48,000 (2009 £49,000) 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

Other payables represent preference shares issued by the subsidiary undertaking, Diurnal Limited to third party investors The preference shares do not carry any dividend rights or the right to vote unless the business of the general meeting includes the consideration of a resolution for the winding up of the company or for redeeming the share capital of the company or any resolution altering or abrogating any of the special rights attached to the preference shares The preference shareholders are entitled to monthly interest of 6% per annum on the total number of preference shares held by them

22. Trade and other payables

	2010 £000	2009 £000
Trade creditors	108	262
Other tax and social security	40	11
Accruals and deferred income	187	361
	335	634

Notes to the Consolidated Financial Statements continued

for the year ended 31 July 2010

23. Operating lease commitments

	2010 £000	2009 £000
Minimum commitments under non-cancellable operating leases on property expiring		
– no later than one year	10	10
– later than one year and no later than five years	30	30
	40	40

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 £59,317 (2009 £71,680) At 31 July 2010 the balance due to SUEL was £nil (2009 £nil)

Fusion IP Sheffield Limited purchased IP from the University of Sheffield during the year with a total value of £31,797 (2009 £20,000) These payments were taken against payments on account

Under the terms of the agreement dated January 2009 Fusion IP Cardiff Limited paid Cardiff University £210,000 (2009 £210,000) as payments to support the management of the IP pipeline At 31 July 2010 the balance due to Cardiff University was £nil (2009 £19,250)

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 £180,440 (2009 £47,220) At 31 July 2010 the amount owed to Fusion IP was £26,087 (2009 £15,888)

Company Balance Sheet

as at 31 July 2010

	Note	2010 £000	2009 £000
Fixed assets			
Tangible assets	3	17	23
Investments	4	2	2
		19	25
Current assets			
Debtors	5	40,410	37,414
		40,410	37,414
Creditors amounts falling due within one year	6	(71)	(69)
Net current assets		40,339	37,345
Creditors. amounts falling due after one year	7	(973)	(1,087)
Net assets		39,385	36,283
Capital and reserves			
Called up share capital	8	542	422
Share premium	8	39,034	36,052
Capital redemption reserve	8	1	1
Retained deficit	8	(192)	(192)
Equity shareholders' funds		39,385	36,283

These financial statements were approved by the Board of Directors on 11 October 2010 and were signed on its behalf by the Chairman

Doug Liversidge CBE
Chairman
Fusion IP plc – registered number 5275732

Notes to the Company Financial Statements

for the year ended 31 July 2010

1. Accounting policies

The Company financial statements have been prepared under the historical cost convention in accordance with applicable UK Accounting Standards and the Companies Act 2006 A summary of the Company accounting policies, which have been consistently applied throughout the year, are set out below

Tangible assets

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

Computer/office equipment – 3 to 4 years

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

Investments in subsidiary undertakings

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

Fixed asset investments

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

Loans to subsidiary undertakings

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

Cash flow statement

The Company has taken advantage of the exemption in FRS 1 "Cash Flow Statements", which provides that where a company is a member of a group and a consolidated cash flow statement is published, the company does not have to 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 (2009 £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 13 to 14

3 Tangible assets

	Computer and office equipment	
	2010 £000	2009 £000
Cost		
At 1 August	52	48
Additions	4	4
Disposals	(19)	—
At 31 July	37	52
Depreciation		
At 1 August	(29)	(16)
Charge for year	(10)	(13)
Disposals	19	—
At 31 July	(20)	(29)
Net Book Value	17	23

4 Investments

	2010 £000	2009 £000
Investments in subsidiary undertakings	1	1
Fixed asset investments	1	1
	2	2

Details of the subsidiary undertakings at 31 July 2010 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

	2010 £000	2009 £000
Prepayments and accrued income	22	29
Loans to subsidiary undertakings	40,388	37,385
	40,410	37,414

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

	2010 £000	2009 £000
Accruals and deferred income	71	69

7 Creditors – amounts falling due after one year

	2010 £000	2009 £000
Deferred consideration owed to University of Sheffield	973	1,087

The deferred consideration owed to the University of Sheffield relates to the expanded Sheffield Agreement and represents 785,609 Ordinary shares (2009 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 2009	422	36,052	1	(192)	36,283
Issue of share capital	120	2,982	—	—	3,102
At 31 July 2010	542	39,034	1	(192)	39,385

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

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Fusion IP plc (the "Company") will be held at the offices of Ashurst LLP, Broadwalk House, 5 Appold Street, London EC2A 2HA on 26 November 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 on a show of hands unless a poll is validly demanded

1 To receive the accounts including the Report on the Directors' Remuneration for the financial year ended 31 July 2010, 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 (within the meaning of section 551(3) and (6) of the Act) of £180,809 50 (such amount to be reduced by the nominal amount allotted or granted under (b) below in excess of such sum), and

(b) comprising equity securities (as defined in section 560 of the Act) up to an aggregate nominal amount (within the meaning of section 551(3) and (6) of the Act) of £361,619 (such amount to be reduced by any allotments of grants made under (a) above) in connection with or pursuant to an offer or invitation by way of a rights issue in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective number of ordinary shares held by them on the record date for such allotment (and holders of any other class of equity securities entitled to participate therein or if the Directors consider it necessary, as permitted by the rights of those securities), but subject to such exclusions or other arrangements as the Directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of, any regulatory body or stock exchange in any territory or any other matter whatsoever,

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

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

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

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

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 (or in the case of any transfer of treasury shares), and otherwise than pursuant to paragraph (i) of this resolution, up to an aggregate nominal amount of £27,121 42,

and shall expire at the conclusion of the next Annual General Meeting of the Company, save that the Company may before such expiry make any offer or agreement that would or might require equity securities to be allotted, or treasury shares to be sold, after such expiry and the Directors may allot equity securities, or sell treasury shares in pursuance of any such offer or agreement as if the power conferred hereby had not expired (Resolution 5)

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

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

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

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

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

10 To re-elect Prof T Atkinson who retires by rotation as a Director of the Company (Resolution 10)

11 To re-elect Mr D Catton who retires by rotation as a Director of the Company (Resolution 11)

12 To re-elect Mr M Davies who retires by rotation as a Director of the Company (Resolution 12)

In accordance with article 110 of the Company's articles of association

13 To re-elect Dr A Fielding as a Director of the Company, having been appointed as a Director since the last Annual General Meeting (Resolution 13)

By order of the Board

Richard Birtles
Company Secretary
11 October 2010
Registered in England and Wales number 5275732

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

Notes

1 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that in order to have the right to attend and vote at the Annual General Meeting (and also for the purpose of determining how many votes a person entitled to attend and vote may cast), a person must be entered on the register of members of the Company at 6 00 p m on 24 November 2010 or, in the event of any adjournment, at 6 00 p m on the date which is two days before the adjourned meeting Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting

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

3 To be valid any form of proxy or other instrument appointing a proxy must be received by post or by hand (during normal business hours only) by our registrar Capita Registrars at PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU by no later than 10 30 a m on 24 November 2010 (or if the meeting is adjourned 48 hours before the time fixed for the meeting)

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

5 Copies of service agreements under which Directors of the Company are employed, and copies of the terms and conditions of appointment of Non-executive Directors are available for inspection at the Company's registered office during normal business hours from the date of this notice until the date of the Annual General Meeting and will be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting

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

Notice of Annual General Meeting continued

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 2010 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 Accordingly, Resolution 4 will be proposed as an ordinary resolution to grant new authorities to allot shares and grant rights to subscribe for and convert any securities into, shares If given these authorities will expire at the conclusion of the Company's Annual General Meeting in 2011

Paragraph (a) of Resolution 4 will allow the Directors to allot ordinary shares up to a maximum nominal amount of £180,809 50, representing approximately one third (33 33 per cent) of the Company's existing issued share capital and calculated as at 1 October 2010 (being the latest practicable date prior to publication of this document) In accordance with the latest institutional guidelines issued by Paragraph (b) of Resolution 4 will also Directors to allot, including the ordinary shares referred to in paragraph (a) of Resolution 4, further ordinary shares in connection with a pre-emptive offer by way of a rights issue to ordinary shareholders up to a maximum nominal amount of £361,619, representing approximately two thirds (66 67 per cent) of the Company's existing issued share capital calculated as at 1 October 2010 The Directors have no present intention of exercising this authority

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

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 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 £27,121 42 (being five per cent of the Company's issued ordinary share capital at 1 October 2010, the latest practicable date prior to the publication of this notice) If given, this power will expire at the conclusion of the Annual General Meeting in 2011

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 26 November 2010 at 10 30 a m and at any adjournment thereof

☐ Tick box if one of a multiple proxy appointment (see note 4)

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

		For	Against	Vote Withheld
Resolution 1	To receive the accounts and reports of the Directors and auditors for the year ended 31 July 2010			
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 pursuant to section 551 of the Companies Act 2006			
Resolution 5·	To give the Directors the authority to disapply pre-emption rights pursuant to sections 570 and 573 of the Companies Act 2006			
Resolution 6	To re-elect Mr D Liversidge			
Resolution 7	To re-elect Mr D Baynes			
Resolution 8·	To re-elect Dr P Grant			
Resolution 9	To re-elect Mr S Gall			
Resolution 10.	To re-elect Prof T Atkinson			
Resolution 11	To re-elect Mr D Catton			
Resolution 12·	To re-elect Mr M Davies			
Resolution 13·	To re-elect Dr A Fielding			

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

Signature _____

[Notes to the form of proxy on the following page]

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 If you wish to appoint more than one proxy using this form, please photocopy this form or contact Capita Registrars for further forms of proxy When you submit the form of proxy, please indicate on each copy the name of the proxy and the number of shares in respect of which the proxy is appointed Please also indicate by ticking the box provided if the proxy is one of multiple instructions being given All forms of proxy must be signed and should be returned together in the same envelope You should send all proxies to Capita Registrars at PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU

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

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

- ☐ completed and signed,
- ☐ sent or delivered to Capita Registrars at PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU, and
- ☐ received by Capital Registrars no later than 10 30 a m 24 November 2010 (or in the case of an adjourned meeting 48 hours before the time fixed for the meeting)

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

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

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

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

Company Information and Advisors

Company secretary
Richard Birtles

Company number
5275732

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

Independent auditor
KPMG Audit Plc
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

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