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**Fusion IP plc**  
**REPORT AND FINANCIAL STATEMENTS**  
**31 DECEMBER 2014**

Registered number 05275732

# **Fusion IP plc**

## **Report and financial statements for the period ended 31 December 2014**

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### **Directors**

David Baynes  
Peter Grant  
Greg Smith

### **Secretary and registered office**

Angela Leach  
  
24 Cornhill  
London  
EC3V 3ND

### **Company number**

05275732

### **Independent Auditors**

KPMG LLP  
15 Canada Square  
London  
E14 5GL

## **Fusion IP plc**

### **Strategic report for the period ended 31 December 2014**

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#### **Business review**

##### **Results and Performance**

Fusion IP plc's (the "Company") principal activity is the commercialisation of intellectual property. The Company continues to form and develop spin-out companies from its university partners, either directly or via its subsidiary companies, through the provision of capital to, and active involvement in the management and strategic direction of, such companies during the period.

During the period, the Company, along with its subsidiaries, was acquired by IP Group plc ("IP Group"), a similar intellectual property commercialisation firm and existing shareholder. IP Group acquired the remaining 79.9% equity stake in the Company, in exchange for 39,150,484 shares in IP Group on 20 March 2014. The results of Fusion IP and its subsidiaries are now consolidated into the financial statements of its new parent. The Company extended its financial period end to 31 December 2014 to align with IP Group and its subsidiary companies.

The statement of comprehensive income is set out on page 5 and shows the loss for the period under review. The directors do not recommend the payment of a dividend.

No interim dividend was paid during the period (year to 31 July 2013: £nil) and the directors do not propose a final dividend for the period ended 31 December 2014 (year to 31 July 2013: £nil).

##### **Business environment**

In 2014 recovery was uneven in the global economy and many countries experienced weak growth. Although there were encouraging signs of GDP growth in the first half of the year, the Eurozone was under pressure by the close of 2014 and, at the beginning of 2015, the European Central Bank announced its intention to launch a quantitative easing programme in an attempt to stimulate the economy. Outside the eurozone, the US and UK economies achieved solid growth in 2014. For 2015, although forecasts remain cautious, the UK is still currently expected to have the second fastest-growing economy in the developed world behind the US. As such there is growing appetite from the markets to commercialise intellectual property coming from the UK's top universities.

##### **Strategy**

The directors pursue the commercialisation of intellectual property through their university partnership model. Following the acquisition noted above the directors will utilise the greater resources of the enlarged IP Group in order to access a deeper pool of intellectual property and offer an improved service to the partner research institutions and their associated spin-out companies.

##### **Key performance indicators ("KPIs")**

The directors of IP Group plc manage the group's operations on a divisional basis. For this reason, the Company's directors believe that analysis using KPIs for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of IP Group plc, which includes the Company, is discussed in IP Group plc's annual report which does not form part of this report.

##### **Principal risks and uncertainties**

The management of the business and the execution of the Company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the Company are considered to relate to the protection of intellectual property and market risk in respect of its equity investment.

The directors manage these risks in a variety of ways including confidentiality agreements, industry specific insurance arrangements and utilising the expertise of highly experienced officers, employees, consultants and service providers.

##### **Future outlook**

The directors believe the Company will continue to trade for the foreseeable future, and that, following its acquisition, the enlarged specialised team with a greater breadth of coverage, will allow the Company and its subsidiaries to access a deeper pool of intellectual property while also allowing an improved service offering to existing and potential research institutions.

**Fusion IP plc**

**Strategic report for the period ended 31 December 2014**

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The Strategic Report has been approved by the Board

ON BEHALF OF THE BOARD



Greg Smith  
Director  
30 June 2015

## **Fusion IP plc**

### **Directors' report for the period ended 31 December 2014**

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The directors present their report together with the audited financial statements for the period ended 31 December 2014

#### **Principal activity**

Fusion IP plc's principal activity is the commercialisation of intellectual property. Further detail is included in the strategic report.

#### **Business review and future developments**

The Directors' report should be read in conjunction with the Strategic report on page 1 (which is incorporated in this Directors' report by reference), which together, include information about the Company's business, its financial performance during the period, and likely developments in the future.

The Company changed audit offices during the period under review. The Company continues to be audited by KPMG LLP, however the new audit partner and team are based out of KPMG's London offices. This change is a result of IP Group's acquisition of the Company.

#### **Directors**

The directors who held office during the period were as follows:

David Baynes  
Peter Grant  
Greg Smith (appointed 28 April 2014)  
Alison Fielding (resigned 28 April 2014)  
Robert Rabone (resigned 28 April 2014)  
David Michael Davies (resigned 28 April 2014)  
Douglas Brian Liversidge (resigned 28 April 2014)  
David John Catton (resigned 20 May 2014)  
Stuart Gall (resigned 5 June 2014)

#### **Charitable and political contributions**

During the period the Company made £200 charitable or political contributions (year to 31 July 2013: £522).

#### **Qualifying third party indemnity provision**

The Company has arranged qualifying third party indemnity for all of its directors.

#### **Creditor payment policy**

It is the Company's current policy to establish payment terms with suppliers when agreeing terms of supply, to ensure that suppliers are made aware of the terms of payment, and to adhere to those terms. The Company's average trade payable payment period at 31 December 2014 was 0 days (2013: 0 days).

#### **Financial risk management**

Further information on the Company's financial risk management objectives and policies, including those in relation to credit risk, liquidity risk and market risk, is provided in note 2 to these financial statements, along with further information on the Company's use of financial instruments.

#### **Post balance sheet events**

Details of post balance sheet events are set out in note 18 to these financial statements.

#### **Directors' responsibilities**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

## **Fusion IP plc**

### **Directors' report for the period ended 31 December 2014**

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In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union 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 company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Disclosure of information to auditors**

All of the current directors have taken the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

On behalf of the board



Greg Smith  
Director  
30 June 2015

## **Fusion IP plc**

### **Independent auditor's report to the shareholders of Fusion IP plc**

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We have audited the financial statements of Fusion IP plc for the period from 1 August 2013 to 31 December 2014 set out on pages 6 to 22. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

#### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its loss for the period then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

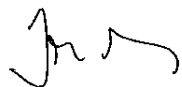
#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial period 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, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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.



**Jonathan Mills (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
15 Canada Square  
London  
E14 5GL  
30 June 2015

# Fusion IP plc

## Statement of comprehensive income for the period ended 31 December 2014

	Note	Period from 1 August 2013 to 31 December 2014 £'000	Year ended 31 July 2013 £'000
<b>Portfolio return and revenue</b>			-
Revenue from services and other income		1,852	979
Change in fair value of equity investment		12	-
		<u>1,864</u>	<u>979</u>
Administrative expenses		(1,966)	(1,043)
<b>Operating loss</b>	3	<u>(102)</u>	<u>(64)</u>
Finance income		114	64
<b>Loss before taxation</b>		<u>12</u>	<u>-</u>
Taxation	7	<u>(170)</u>	<u>-</u>
<b>Profit for the period</b>		<u>(158)</u>	<u>-</u>
<b>Total comprehensive income</b>		<u>(158)</u>	<u>-</u>

All amounts are derived from continuing operations in the period

The notes on pages 8 to 22 form part of these financial statements



**Fusion IP plc**  
**Registered number: 05275732**  
**Statement of financial position as at 31 December 2014**

	Note	31 December 2014 £'000	31 July 2013 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Tangible assets	8	10	14
Equity investment	10	82	-
Investments in subsidiaries	11	1	1
		<u>93</u>	<u>15</u>
<b>Current assets</b>			
Trade and other receivables	12	54,293	45,275
Cash and cash equivalents		10,052	19,214
		<u>64,345</u>	<u>64,489</u>
<b>Creditors amounts falling due within one year</b>	13	<u>(31)</u>	<u>(56)</u>
<b>Net current assets</b>		<u>64,314</u>	<u>64,433</u>
<b>Total assets less current liabilities</b>		<u>64,407</u>	<u>-</u>
Provisions for Liabilities	7	(3)	-
<b>Net assets</b>		<u>64,404</u>	<u>64,448</u>
<b>EQUITY &amp; LIABILITIES</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	14	1,098	1,094
Share premium		63,639	63,529
Other reserves		1	1
Retained deficit		(334)	(176)
<b>Total shareholders' equity</b>		<u>64,404</u>	<u>64,448</u>

The notes on pages 8 to 22 form part of these financial statements

These financial statements were approved by the Board of directors and authorised for issue on 30 June 2015 and were signed on its behalf by



Greg Smith  
Director

## Fusion IP plc

### Statement of cash flows for the period ended 31 December 2014

	Period from 1 August 2013 to 31 December 2014 £'000	Year ended 31 July 2013 £'000
<b>Operating activities</b>		
Profit before taxation	12	-
<i>Adjusted for</i>		
Fair value gain on equity investment	(12)	-
Finance income – interest receivable	(114)	-
Depreciation of property, plant & equipment	8	1
<i>Changes in working capital</i>		
Increase in trade and other receivables	(9,181)	(3,841)
Decrease in trade and other payables	(25)	(23)
<b>Net cash outflow from operating activities</b>	<b>(9,312)</b>	<b>(3,863)</b>
<b>Investing activities</b>		
Purchase of tangible assets	(4)	-
Purchase of equity investment	(70)	-
Interest received	114	-
<b>Net cash inflow from investing activities</b>	<b>40</b>	<b>-</b>
<b>Financing activities</b>		
Net proceeds from issue of share capital	110	19,409
Release of deferred shares	-	(122)
<b>Net cash inflow from financing activities</b>	<b>110</b>	<b>19,287</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(9,162)</b>	<b>15,424</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>19,214</b>	<b>3,790</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>10,052</b>	<b>19,214</b>

### Statement of changes in equity for the period from 1 August 2013 to 31 December 2014

Attributable to equity holders of the Company					
Attributable to equity holders of the Company	Share capital £'000	Share premium £'000	Other Reserves £'000	Retained earnings £'000	Total equity £'000
At 1 August 2012	728	44,486	123	(176)	45,161
Total comprehensive income	366	19,043			19,409
Capital contribution			(122)		(122)
At 1 August 2013	1,094	63,529	1	(176)	64,448
Total comprehensive income	-	-	-	(158)	(158)
Issue of share capital	4	110	-	-	114
<b>At 31 December 2014</b>	<b>1,098</b>	<b>63,639</b>	<b>1</b>	<b>(334)</b>	<b>64,404</b>

## 1 ACCOUNTING POLICIES

### Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations endorsed by the European Union ("EU") and with those parts of the Companies Act 2006 that apply to companies reporting under IFRS

The preparation of financial statements in compliance with IFRS requires the use of estimates and assumptions that affect the amount reported of assets and liabilities at the balance sheet date and the amounts reported as revenue and expenditure of the reporting period

### Going concern

The operations of the Company are structured to focus on developing the most promising commercialisation opportunities whilst maintaining a controlled overhead base. Detailed financial forecasts for the Company, primarily comprising cash flows to June 2016, have been prepared to reflect this. On the basis of these forecasts and the strong cash position, the directors have concluded that the going concern basis of preparation remains appropriate. The financial statements do not include any adjustments that would result if the going concern basis of preparation were no longer appropriate. The Company's cash position at 31 December 2014 was £10,052,054.

The directors continue to pursue the commercialisation of intellectual property through its university and investment partners which have the potential to provide further cash returns in the future.

### Preparation of consolidated financial statements

The financial statements contain information about Fusion IP plc as an individual company and do not contain consolidated financial information as a parent of a group. The Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare group accounts on the basis that the parent company is included in the accounts of a larger group.

### Property, plant and equipment

All property, plant and equipment is shown at cost less subsequent depreciation and impairment. Cost includes expenditure that is attributable to the acquisition of the items. Depreciation on assets is calculated using the straight line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

Office Equipment	Over 3 to 5 years
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Asset residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

### Cash and cash equivalents

Cash and cash equivalents include cash in hand and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### Deferred tax

Full provision is made for deferred tax on all temporary differences resulting from the carrying value of an asset or liability and its tax base. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability settled. Deferred tax assets are recognised to the extent that it is probable that the deferred tax asset will be recovered in the future.

### Financial assets

In respect of regular way purchases or sales, the Company uses trade date accounting to recognise or derecognise financial assets.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or the Company has transferred substantially all risks and rewards of ownership.

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

#### (i) At fair value through profit or loss

Financial assets at fair value through profit or loss are either financial assets held for trading or financial assets which are designated at fair value through profit or loss on initial recognition.

## **1. ACCOUNTING POLICIES (Continued)**

This category includes equity investments and debt investments. Investments in associated undertakings, which are held by the Company with a view to the ultimate realisation of capital gains, are also categorised as at fair value through profit or loss. This measurement basis is consistent with the fact that the Company's performance in respect of investments in equity investments and associated undertakings is evaluated on a fair value basis in accordance with an established investment strategy.

### **(i) At fair value through profit or loss**

Financial assets at fair value through profit or loss are initially recognised at fair value and any gains or losses arising from subsequent changes in fair value are presented in profit or loss in the statement of comprehensive income in the period which they arise.

### **Fair value hierarchy**

The Company classifies financial assets using a fair value hierarchy that reflects the significance of the inputs used in making the related fair value measurements. The level in the fair value hierarchy, within which a financial asset is classified, is determined on the basis of the lowest level input that is significant to that asset's fair value measurement. The fair value hierarchy has the following levels:

**Level 1 — Quoted prices in active markets**

**Level 2 — Inputs other than quoted prices that are observable, such as prices from market transactions.** These are mainly based on prices determined from recent investments in the last twelve months.

**Level 3 — One or more inputs that are not based on observable market data**

### **Equity Investments**

The fair values of quoted investments are based on bid prices in an active market at the reporting date. The fair value of unlisted securities is established using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and earnings multiples. Wherever possible the Company uses valuation techniques which make maximum use of market-based inputs. Accordingly, the valuation methodology used most commonly by the Company is the 'price of recent investment' contained in the International Private Equity and Venture Capital Valuation Guidelines (the "IPEVCV Guidelines") endorsed by the British & European Venture Capital Associations. The following considerations are used when calculating the fair value of unlisted securities:

### **Cost**

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

### **Price of recent investment**

The Company considers that fair value estimates, which are based entirely on observable market data, will be of greater reliability than those based on assumptions and, accordingly, where there has been any recent investment by third parties, the price of that investment will generally provide a basis of the valuation. The length of period for which it remains appropriate to use the price of recent investment depends on the specific circumstances of the investment and the stability of the external environment.

Given the nature of the Company's investments in seed, start-up and early-stage companies, where there are often no current and no short-term future earnings or positive cash flows, it can be difficult to gauge the probability and financial impact of the success or failure of development or research activities and to make reliable cash flow forecasts. Consequently, the most appropriate approach to determine fair value is a methodology that is based on market data, that being the price of a recent investment. Where the Company considers that the price of recent investment, unadjusted, is no longer relevant and there are limited or no comparable companies or transactions from which to infer value, the Company carries out an enhanced assessment based on milestone analysis and/or industry and sector analysis. In applying the milestone analysis approach to investments in companies in early or development stages the Company seeks to determine whether there is an indication of change in fair value based on a consideration of performance against any milestones that were set at the time of the original investment decision, as well as taking into consideration the key market drivers of the investee company and the overall economic environment.

## **1 ACCOUNTING POLICIES (Continued).**

Where the Company considers that there is an indication that the fair value has changed, an estimation is made of the required amount of any adjustment from the last price of recent investment. Wherever possible, this adjustment is based on objective data from the investee company and the experience and judgement of the Company. However, any adjustment is, by its very nature, subjective. Where a deterioration in value has occurred, the Company reduces the carrying value of the investment to reflect the estimated decrease. If there is evidence of value creation the Company may consider increasing the carrying value of the investment, however, in the absence of additional financing rounds or profit generation it can be difficult to determine the value that a purchaser may place on positive developments given the potential outcome and the costs and risks to achieving that outcome and accordingly caution is applied.

Factors that the Company considers include, inter alia, technical measures such as product development phases and patent approvals, financial measures such as cash burn rate and profitability expectations, and market and sales measures such as testing phases, product launches and market introduction.

### **Other valuation techniques**

If there is no readily ascertainable value from following the 'price of recent investment' methodology, or there is objective evidence that a deterioration in fair value has occurred since a relevant transaction, 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 a business by calculating the present value of expected future cash flows, based on the most recent forecasts in respect of the underlying business. Given the difficulty of producing reliable cash flow forecasts for seed, start-up and early-stage companies as described earlier, this methodology is generally used as a confirmatory indicator of the level of any adjustment that may need to be made to the last price of recent investment.

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 by up to 60% for non-marketability and other risks inherent to businesses in early stages of operation.

### **No reliable estimate**

Where a fair value cannot be estimated reliably, the investment is reported at the carrying value at the previous reporting date unless there is objective evidence that the investment has since been impaired.

### **(ii) Loans and receivables**

These assets are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (trade receivables) and are carried at cost less provision for impairment.

### **Cash and cash equivalents**

Cash and cash equivalents include cash in hand and short-term deposits held with financial institutions with an original maturity of three months or less.

### **Financial liabilities**

Financial liabilities are comprised of trade payables and other short-term monetary liabilities, which are recognised at amortised cost. Loans to subsidiary companies represent funding loans provided by the company that are interest free, repayable on demand and unsecured. Unless otherwise indicated, the carrying amounts of the Company's financial liabilities are a reasonable approximation to their fair value.

### **Impairment**

If there is an indication that an asset might be impaired, the Company will perform an impairment review. An asset is impaired if the recoverable amount, being the higher of net realisable value and value in use, is less than its carrying amount. Value in use is measured based on future discounted cash flows ("DCF") attributable to the asset. In such cases, the carrying value of the asset is reduced to recoverable amount with a corresponding charge recognised in the profit and loss account.

## 1 ACCOUNTING POLICIES (Continued)

### Share capital

Financial instruments issued by the Company are treated as equity if the holders have only a residual interest in the Company's assets after deducting all liabilities. The objective of the Company is to manage capital so as to provide shareholders with above average returns through capital growth over the medium to long term. The Company considers its capital to comprise its share capital, share premium and retained earnings. The Company is not subject to any externally imposed capital requirements.

### Share based payments

All employees of the group of companies headed by the Company's ultimate parent company, IP Group plc, are eligible to participate in the IP Group Long Term Incentive Plan ("LTIP"). Awards take the form of ordinary shares of IP Group plc.

### Significant accounting estimates and judgements

The directors make judgements and estimates concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, such as expectations of future events, and are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions that have the most significant effects on the carrying amounts of the assets and liabilities in the financial statements are considered to relate to the valuation of unquoted equity investments. The judgements required in order to determine the appropriate valuation methodology of unquoted equity investments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities.

### New standards, interpretations and amendments effective from 1 January 2014

*Amendment to IFRS 10 — Investment Entities* The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss, rather than consolidating them in its consolidated financial statements. Measurement at fair value through profit or loss must also be applied to an investment entity's separate financial statements. The amendments also introduce disclosure requirements for investment entities into IFRS 12 Disclosure of Interests in Other Entities and amend IAS 27 Separate Financial Statements. The Company, after examination, does not qualify for the investment entity exemption and consequently the amendment has not resulted in changes to the preparation and presentation of the Company's subsidiaries.

No other new standards, interpretations and amendments effective for the first time from 1 January 2014 have had a material effect on the Company's financial statements.

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

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

*IFRS 15 Revenue from Contracts with Customers* IFRS 15 was issued on 28 May 2014 and provides a single global standard on revenue recognition which aligns the IFRS and US GAAP guidance. It replaces existing revenue recognition guidance, including IAS 18 revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The Company has assessed the potential impact on its financial statements resulting from the application of IFRS 15 and does not foresee any material effect when the Standard is applied. While early adoption is permitted, IFRS 15 has an effective date of 1 January 2017 with the year ending 31 December 2017 being the first annual financial statements to which the standard applies.

*IFRS 9 Financial Instruments* IFRS 9 will eventually replace IAS 39 in its entirety. The process has been divided into three main components, being classification and measurement, impairment, and hedge accounting. The Company provisionally assesses the potential effect to be immaterial given that all of its financial assets are currently held at fair value through profit or loss. The previous effective date of 1 January 2015 has been withdrawn and is now expected to be implemented in 2018.

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

## 2. FINANCIAL RISK MANAGEMENT

Through its normal operations, the Company is exposed to a number of financial risks, the most significant of which are liquidity and market risks

In general, risk management is carried out throughout the Company and the group headed by the Company's immediate parent undertaking, IP Group plc, under policies approved by the boards of directors. The following further describes the objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements

### (a) Market risk

#### (i) Price risk

The Company holds no financial assets other than one un-quoted equity investment, cash and cash equivalents and trade and other receivables, and accordingly has little or no exposure to price risk

	<b>31 December 2014 £'000</b>	31 July 2013 £'000
Equity investments	<b>82</b>	-

#### (ii) Interest rate risk

As the Company has no significant interest bearing borrowings it has only a limited interest rate risk. The table below summarises the interest rate profile of the Company

	<b>31 December 2014</b>			<b>31 July 2013</b>		
	<b>Floating rate £'000</b>	<b>Interest free £'000</b>	<b>Total £'000</b>	<b>Floating rate £'000</b>	<b>Interest free £'000</b>	<b>Total £'000</b>
<b>Financial assets</b>						
Equity investments		<b>82</b>	<b>82</b>	-	-	-
Trade and other receivables		<b>54,293</b>	<b>54,293</b>	-	45,275	45,275
Cash and cash equivalents	<b>10,052</b>		<b>10,052</b>	19,214	-	19,214
	<b>10,052</b>	<b>54,375</b>	<b>64,427</b>	19,214	45,275	64,489
<b>Financial liabilities</b>						
Trade and other payables	-	(31)	(31)	-	(56)	(56)
Provisions for liabilities	-	(3)	(3)	-	-	-
	-	(34)	(34)	-	(56)	(56)

At 31 December 2014, if interest rates had been 1% higher / lower, post-tax loss for the period, and other components of equity, would have been £147,805 (year to 31 July 2013 £84,044) higher / lower as a result of higher interest received on floating rate cash deposits

#### (b) Liquidity risk

The Company seeks to manage liquidity risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Accordingly the Company only invests working capital in short-term instruments issued by reputable counterparties. The Company continually monitors rolling cash flow forecasts to ensure sufficient cash is available for anticipated cash requirements

## 2. FINANCIAL RISK MANAGEMENT (Continued).

As at 31 December 2014 and 31 July 2013, with the exception of an equity investment all financial assets and liabilities mature for payment within one year

### (c) Credit risk

The Company's credit risk is limited due to the low level of external receivables held. Cash and cash equivalents are deposited with reputable banking institutions and are immediately available.

The maximum exposure to credit risk for receivables and other financial assets is represented by their carrying amount.

## 3. OPERATING PROFIT

	Period from 1 August 2013 to 31 December 2014 £'000	Year ending 31 July 2013 £'000
Profit from operations is stated after charging		
Depreciation of owned tangible fixed assets	8	1

## 4 AUDITOR'S REMUNERATION

	Period from 1 August 2013 to 31 December 2014 £'000	Year ending 31 July 2013 £'000
<b>Audit services</b>		
Fees payable to company auditor for the audit of the financial statements	5	19
<b>Non audit services</b>		
Fees payable to the Company auditor and its associates for other services		
- auditing of accounts of subsidiaries pursuant to legislation	-	2
- other assurance services	-	-
- other taxation services	-	-
- corporation tax compliance	-	-
- other tax advisory	-	-
	<b>5</b>	<b>21</b>



## Fusion IP plc

### Notes to the financial statements for the period ended 31 December 2014

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#### 5 DIRECTORS' EMOLUMENTS

	<b>Period from 1 August 2013 to 31 December 2014 £'000</b>	<b>Year ending 31 July 2013 £'000</b>
Aggregate emoluments	<b>438</b>	532
Benefits in kind	<b>29</b>	11
	<b>467</b>	<b>543</b>

The highest paid director had aggregate emoluments of £168,627 (2013 £172,052) and benefits in kind of £nil (2013 £7,587). When the Group was acquired by IP Group in March 2014 two of the executive director's salaries were taken over by IP Group. The resignation of a total of six board members during the period has resulted in the decrease in directors' emoluments for the period.

#### 6. EMPLOYEE COSTS

Employee costs (including directors) comprise

	<b>Period from 1 August 2013 to 31 December 2014 £'000</b>	<b>Year ending 31 July 2013 £'000</b>
Salaries	<b>491</b>	563
Defined contribution pension cost	<b>33</b>	73
Social security	<b>66</b>	52
	<b>590</b>	<b>688</b>

The average monthly number of persons (including executive directors) employed by the Company during the period was four (2013: 5). Options granted to employees under the Fusion IP plc Company Share Option Plan during the year are detailed in note 15.

**Notes to the financial statements for the period ended 31 December 2014**

**7. TAXATION**

	2014 £'000	2013 £'000
Analysis of tax charge for the period		
Current tax – Group relief payable	167	-
Deferred Tax – Origination and reversal of temporary differences	3	-
	<u>170</u>	<u>-</u>

The tax assessed for the period is different than the standard rate of corporation tax in the UK (21.5%) Factors affecting the current tax charge for the period are explained below

	2014 £'000	2013 £'000
Profit on ordinary activities before taxation	12	-
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 21.9% (year to 31 July 2013 23.25%)	3	-
Effects of		
Expenses not deductible for tax purposes	223	-
Other differences	(40)	(29,492)
Adjustment in respect of group relief	(1)	-
Adjustment of deferred tax to average rate for period	(2)	-
Deferred tax not recognised	(13)	-
Movement on unutilised tax losses		29,492
Tax charge for the period	<u>170</u>	<u>-</u>

Deferred Tax is provided for as per below

	2014 £'000	2013 £'000
Deferred Tax Liability/(Asset)		
At 1 January	-	-
Charged to the profit and loss account	3	-
At 31 December	<u>3</u>	<u>-</u>

	2014 £'000	2013 £'000
Deferred tax is provided as follows		
Fixed Asset temporary differences	-	1
Other timing differences	3	(1)
	<u>3</u>	<u>-</u>

# Fusion IP plc

## Notes to the financial statements for the period ended 31 December 2014

### 8 PROPERTY, PLANT AND EQUIPMENT

	Office Equipment £'000
<b>Cost</b>	
At 1 August 2013	56
Additions	4
At 31 December 2014	60
<b>Accumulated depreciation</b>	
At 1 August 2013	(42)
Charge for the year	(8)
At 31 December 2014	(50)
<b>Net book value at 31 December 2014</b>	10
Net book value at 31 July 2013	14
<b>Cost</b>	
At 1 August 2012	48
Additions	8
At 31 July 2013	56
<b>Accumulated depreciation</b>	
At 1 August 2012	(37)
Charge for the year	(5)
At 31 July 2013	(42)
<b>Net book value at 31 July 2013</b>	14
Net book value at 31 July 2012	11

### 9. CATEGORISATION OF FINANCIAL INSTRUMENTS

Financial assets	Fair Value Through Profit and loss £'000	Loans and receivables £'000	Total £'000
At 31 December 2014			
Equity investments	82	-	82
Trade and other receivables	-	54,293	54,293
Cash and cash equivalents	-	10,052	10,052
<b>Total</b>	<b>82</b>	<b>64,345</b>	<b>64,427</b>
At 31 July 2013			
Equity investments	-	-	-
Trade and other receivables	-	45,275	45,275
Cash and cash equivalents	-	19,214	19,214
<b>Total</b>	<b>-</b>	<b>64,489</b>	<b>64,489</b>

All financial liabilities are categorised as other financial liabilities and recognised at amortised cost

## Fusion IP plc

### Notes to the financial statements for the period ended 31 December 2014

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#### 10. EQUITY INVESTMENTS

	Unquoted equity investments £'000
At 1 August 2013	-
Investments during the period	70
Disposals in the period	-
At 31 December 2014	-
Increase in fair value in the period	12
<b>At 31 December 2014</b>	<b>82</b>

#### 11. INVESTMENTS IN SUBSIDIARIES

Details of the Company's subsidiary undertakings at 31 December 2014 are as follows

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest and voting power held %
Fusion IP Sheffield Limited	England & Wales	100%
Fusion IP Cardiff Limited	England & Wales	100%

#### 12. TRADE AND OTHER RECEIVABLES

	31 December 2014 £'000	31 July 2013 £'000
Trade debtors	10	-
Amounts owed by subsidiaries	54,276	45,217
Other debtors	3	-
Prepayments	4	58
	<b>54,293</b>	<b>45,275</b>

#### 13. TRADE AND OTHER PAYABLES

	31 December 2014 £'000	31 July 2013 £'000
Trade payables	4	-
Accruals	27	56
	<b>31</b>	<b>56</b>

## Fusion IP plc

### Notes to the financial statements for the period ended 31 December 2014

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#### 14 SHARE CAPITAL

	31 December 2014 £'000	31 July 2013 £'000
<b>Allotted, called up and fully paid</b>		
109,777,096 ordinary shares of 1p each (2013 109,437,096 ordinary shares of 1p each)	1,098	1,094
	<b>1,098</b>	<b>1,094</b>

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

During the period, on the exercise of share options, the Company issued a further 340,000 ordinary shares of 1p each, the total consideration for these shares amounted to £113,900. Details of the share options are given in note 1.

#### 15 SHARE BASED PAYMENTS

##### Long-Term Incentive Plan ("LTIP") awards

On 22 January 2014, the Company's Board approved and adopted the Fusion IP LTIP. Awards under the scheme are subject to the satisfaction of a performance condition measured by reference to the growth in Fusion IP's Net Asset Value ("NAV") between the date on which IP Group obtained control of Fusion IP and 31 December 2017. In summary, if there is NAV growth of 10 per cent, a 30 per cent award vests. Maximum vesting will occur if NAV growth is at least 20 per cent. No part of an award vests if NAV growth is less than 10 per cent.

Subject to the satisfaction of the performance condition, awards will vest following the end of the performance period. Shares will be issued or transferred to the participant shortly after vesting, unless the Fusion IP Board decides to satisfy the award in cash. Participants will not be entitled to vote or to receive dividends in respect of the shares subject to their awards. However, the Fusion IP Board may decide to pay participants a dividend equivalent (in the form of cash or additional shares) on vesting. Shares issued or transferred under the Fusion IP LTIP will rank equally with shares of the same class in issue on the date of allotment/transfer except in respect of rights arising by reference to a prior record date.

Awards will normally lapse when the participant ceases to hold employment before vesting. However, if employment ends because of death, injury, ill-health, disability, redundancy, the sale of the employing company or business or any other reason as the Fusion IP Board may in its absolute discretion permit, awards will vest following the end of the performance period. To the extent that employment of a scheme participant is transferred to another company but was initiated by the Company other than for reason justifying summary dismissal, awards will also vest following the end of the performance period, subject to the satisfaction of the performance conditions. However, unless the Fusion IP Board decides otherwise, awards will be reduced pro rata to reflect the period of the performance period during which the employee was not employed.

On 22 January 2014, the Company's Board conditionally awarded three executive directors one million Fusion IP plc shares each. These awards will vest on 31 December 2017 provided certain performance conditions are met, which relate to, inter alia, the growth in value of Fusion IP's portfolio companies and the continued employment of the relevant directors, as described above. Upon such vesting, each of the relevant directors will be issued and allotted with 0.446 of an IP Group share for each Fusion IP plc share which they are entitled to pursuant to the terms of the Fusion IP LTIP. No further awards will be granted under the Fusion IP LTIP.

The movement in the number of shares notionally awarded under the Fusion IP LTIP is set out below.

# Fusion IP plc

## Notes to the financial statements for the period ended 31 December 2014

### 15 SHARE BASED PAYMENTS (Continued)

	2014	2013
At 1 August	-	-
Forfeited during the period	-	-
Vested during the period	-	-
Notionally awarded during the period	3,000,000	-
Transferred to IP Group subsidiary company – as part of the acquisition by IP Group	(3,000,000)	-
At 31 December	-	-

The fair value charge recognised in the statement of comprehensive income during the year in respect of share awards was £nil (2013 £nil)

#### Share options

Prior to the Company being acquired by IP Group, the Company operated a share option scheme for both directors and certain employees. Each option vested monthly as to 1/36<sup>th</sup> of the ordinary shares under option on the expiry of each month following the date of the grant until the third anniversary of the date of the grant when the option shall become fully vested. Any vested portion of the options will normally be exercisable between the expiry of the third month after the date of the grant and the tenth anniversary of the date of the grant. No performance conditions were required to be met. Options became 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 ceased to be employed by the Company for any reason other than death, his option (to the extent unexercised and unvested) lapsed, unless under the discretion of the board they were allowed to continue. Options lapsed on the expiry of ten years from their date of grant.

The movements relating to share options during the period are set out below

	Period ending 31 December 2014	Year ending 31 July 2013
	Number of share options	Number of share options
Outstanding at the beginning of the period	539,999	644,999
Lapsed during the period	-	-
Re-instated during the period	-	-
Transferred during the period	(166,666)	-
Exercised during the period	(340,000)	(105,000)
Outstanding at the end of the period	33,333	539,999

340,000 share options were exercised during the period, the exercise price per share was 33.5p and the weighted average market share price at the time of exercise was 91p.

166,666 share options were exchanged by formal agreement into options for IP Group shares.

There were no options granted during the period.

## Notes to the financial statements for the period ended 31 December 2014

**15. SHARE BASED PAYMENTS (Continued).**

	Employees	Directors	Directors	Others	Others
Fair value at grant date	14 43p	47 24p	15 65p	47 24p	15 65p
Share price at grant date	33 50p	150 00p	33 50p	150 00p	33 50p
Dividend yield	0 00%	0 00%	0 00%	0 00%	0 00%
Expected volatility	42 17%	18 52%	42 20%	18 52%	42 20%
Expected life	4 years	1 5 years	6 years	1 5 years	6 years
Risk free interest rate	3 00%	4 46%	3 00%	4 46%	3 00%
Number of shares under option	-	-	-	33,333	-

The fair value charge recognised in the statement of comprehensive income during the period in respect of share-based options was £nil (year to 31 July 2013 £nil)

**16 WARRANTS**

On 23 March 2006, as part of a £10m Side Fund Agreement, the Company issued warrants to NPI Ventures. Since this date the warrants have changed ownership and are currently held by a private equity firm.

At the date the Company was acquired the share warrants were transferred to warrants over IP Group plc shares. The below is provided for comparative purposes.

The warrants outstanding were as follows:

- 1,225,000 ordinary shares with an exercise price of £1 50
- 1,225,000 ordinary shares with an exercise price of £1 60
- 612,500 ordinary shares with an exercise price of £1 80
- 612,500 ordinary shares with an exercise price of £2 20

The movements relating to warrants during the period are set out below:

	Period ending 31 December 2014	Year ending 31 July 2013
	Number of warrants	Number of warrants
Outstanding at the beginning of the period	3,675,000	3,675,000
Lapsed during the period	-	-
Re-instated during the period	-	-
Transferred during the period	(3,675,000)	-
Exercised during the period	-	-
Outstanding at the end of the period	-	3,675,000

	Fair value at grant date	Share price at grant date	Dividend yield	Expected volatility	Expected life	Risk free interest rate	Number of shares under option
Warrants	43 98p to 18 83p	152 25p	0 00%	18 85%	2 5 years	4 28%	-

The fair value charge recognised in the statement of comprehensive income during the period in respect of warrants was £nil (year to 31 July 2013 £nil)

## **17 RELATED PARTY TRANSACTIONS**

As part of the provision of ongoing financial support to a number of its subsidiaries, subsidiary companies, as listed below are re-charged for the expenses incurred by the Company to which they benefit during the period. An analysis of the amounts recharged is as follows:

	<b>31 December 2014</b>	<b>31 July 2013</b>
	<b>£</b>	<b>£</b>
IP Fusion Sheffield Limited	<b>926</b>	<b>490</b>
IP Fusion Cardiff Limited	<b>926</b>	<b>489</b>

With the exception of the above, the Company has not sold to, or purchased from, any related party in the year. The amounts owed by group undertakings arose through the settlement of expenses by the Company which were incurred by another group undertaking. This amount is repayable on demand and does not bear interest. Its book value is considered to be its fair value at the balance sheet date.

The directors consider the key management of the Company to solely comprise the board of directors whose aggregate remuneration is that disclosed in note 5 to the financial statements.

## **18 POST BALANCE SHEET EVENT**

On 16 February 2015 the agreement with the University of Sheffield relating to the spin-out of companies originating from the life-science departments reached its end of its term. IP Group plc, the Company's parent, is currently in discussion with the University of Sheffield in order to determine how the IP Group will continue to work in partnership with the university to form further new IP-based spin-out companies.

## **19 IMMEDIATE AND ULTIMATE PARENT COMPANY AND CONTROLLING PARTY**

The immediate parent company and the ultimate controlling party is considered to be IP Group plc. Copies of the ultimate parent company's financial statements may be obtained from the secretary of IP Group plc, 24 Cornhill, London, EC3V 3ND.



