

# COMMERCIALISING UNIVERSITY INTELLECTUAL PROPERTY

**bioFusion**

**biofusion plc**  
interim report 2007

# chairman's statement

"In less than two years we have completed agreements with two of the UK's top ten research intensive universities."

I am delighted to announce Biofusion's results for the six months to 31 January 2007, which has been a period of significant progress.

## Key events

→ Biofusion signed an exclusive, ten year pipeline agreement with Cardiff University (Cardiff), one of the UK's leading research intensive universities. Cardiff is ranked seventh in the most recent RAE (Research Assessment Exercise) based rankings. This agreement has:

Given us the rights to commercialise 100% of any Cardiff University owned IP and the right to initially own 100% of the resultant spin-out company;

Trebled Biofusion's research pipeline, for which we own exclusive rights, to £114m per annum (31 January 2006: £37m); and

Expanded our business from the life science sector to include world class research in energy, environment, engineering and IT.

- Raised £7.75m to invest in Cardiff IP, increasing total cash funds to £12.1m (31 January 2006: £5.2m).
- Increased the number of companies in our portfolio to 22 (31 July 2006: 12) through the creation of three new portfolio companies, the transfer of the University of Sheffield's shareholding in one company and the transfer of seven portfolio companies from Cardiff, as part of the Cardiff agreement.
- Invested or committed to invest up to £1.6m in our portfolio companies to support their continued development.

## Post period activity

- We announced the creation of two additional spin-out companies, Magnomatics and BioHydrogen, in the fields of magnetic engineering and bio-energy respectively, increasing the number of companies in our portfolio to 24.

## Cardiff University agreement

The partnership with Cardiff is a significant milestone for Biofusion. In less than two years we have completed agreements with two of the UK's top ten research intensive universities, which the directors believe demonstrates the attractiveness of the Biofusion model for commercialising university research. The Cardiff Agreement allows us to build on our successful partnership with the University of Sheffield, by securing access to a second high quality IP pipeline and expanding our portfolio into non-life science sectors.

In conjunction with the Cardiff Agreement and the £7.75m Placing, Biofusion created a dedicated investment fund of £8.2m, in a new wholly owned subsidiary Fusion Cardiff Limited, exclusively for investing in Cardiff portfolio companies.

## The Cardiff pipeline

The Cardiff agreement gives Biofusion exclusive rights, over ten years, to all of Cardiff's rights to IP generated by Cardiff research, and to commercialise this IP through the formation of portfolio companies. The directors estimate that the research spend available to Cardiff over the life of the Cardiff Agreement will be over £1 billion. Biofusion will initially hold 100% of the equity in each new Cardiff portfolio company and will then allocate an appropriate proportion to the academics involved in these companies.

## Transferred portfolio companies

As part of the agreement Cardiff's shareholding in seven existing companies (see table below) were transferred to Biofusion.

Company name	Potential fully diluted Biofusion shareholding (%)
Abcellute Ltd	24.08
Art of Xen Ltd	31.58
Cardiff Protides Ltd	22.50
Insect Investigations Ltd	10.00
Medaphor Ltd	32.03
Muscagen Ltd	12.97
Q Chip Limited	20.35

Cardiff is a long-established university with an international reputation for the quality of its teaching and research. In August 2004 Cardiff merged with the renowned University of Wales College of Medicine, one of the UK's leading medical schools, and now has more than 5,000 staff and 22,000 students.

A member of the exclusive Russell Group of research-led universities, Cardiff is:

- ranked seventh in the latest RAE (2001) based on average weighted RAE grade;
- ranked joint eighth in the latest RAE (2001) for the number of schools rated "5" and "5\*" (being the highest ratings) in areas which the directors consider to be the most likely to generate IP with commercialisation potential; and
- ranked fifth in the Times Higher Education Supplement 2006 review of university income generated from IP.

### Our portfolio companies

We now have 24 companies in our portfolio, of which two were added subsequent to the year end. Successes in our portfolio during the period include:

#### Axordia – Biofusion shareholding 37%

- Axordia, one of the UK's leading stem cell companies announced it had received significant support for its research programme, in collaboration with Sheffield and Lombard Medical Technologies, through a £0.9m grant from the DTI and MRC, for the development, through to clinical trials, of a regenerative stent – a new generation treatment for cardiovascular disease. Axordia also announced its participation in the European Commission "ESTOOLS" programme.

ESTOOLS is a world leading €12.0m stem cell research initiative that will advance the fundamental understanding and biomedical applications of human embryonic stem cells.

#### Simcyp – Biofusion shareholding 24.9%

- Simcyp, a global leader in the insilico simulation and prediction of pharmacokinetics and drug-drug interactions in virtual patient populations, announced that Dr Steve Toon had joined the board as Executive Director. Dr Toon has over 20 years' experience of building businesses that provide high quality services to the pharmaceutical industry, especially with regard to experimental design and pharmacokinetic-pharmacodynamic data analysis. Dr Toon will be responsible for further developing Simcyp's reputation in modelling and simulation by expanding its global presence and product offering to all the leading pharmaceutical and biotechnology organisations.

#### Diurnal – Biofusion shareholding 60%

- Diurnal, which is developing Chronocort™, a modified release formulation of hydrocortisone to treat adrenal insufficiency, in conjunction with Phocus Group plc, announced that Phocus had raised £3.0m, gross of expenses, to progress Chronocort™ into Phase II clinical trials for the

treatment of adrenal insufficiency. The product is designed to mimic the natural rhythm of hormone levels in the body which is considered important in controlling disease symptoms and reducing unwanted side effects. Chronocort™, which has European Orphan Medicinal Product designation, is expected to be ready for market in the next two to three years and is expected to generate significant royalty revenues in a market worth in excess of £75m.

#### Celltran – Biofusion shareholding 12.4%

- In October 2006 Celltran, a Sheffield based specialist provider of wound treatment products and services successfully completed a merger with Xcellentis, a subsidiary of Innogenetics. The merger with Xcellentis will bring their allogenic product Lyphoderm, which is ready to enter Phase III trials, into the merged Company's product range, significantly enhancing the portfolio and giving it the scale to compete in the rapidly growing field of active wound care.

#### Phase Focus – Biofusion shareholding 58.8%

- Phase Focus is developing an alternative approach to microscopy and imaging that does not rely on sophisticated lenses and has applications in optical, x-ray and electron microscopy, amongst others. Professor John Rodenburg, a founder of Phase Focus, has patent applications pending for a process that can generate high definition images of an object without the need for the high quality lenses that account for a significant element of the cost of high-performance microscopes. The directors believe that Phase Focus' breakthrough technology has the potential to create a new generation of lensless microscopes, which will produce better images at a lower cost in a market which is forecast to grow to \$1.6 billion by 2009.

#### Biofusion Licensing – Biofusion shareholding 100%

- During the period we created Biofusion Licensing, a vehicle for identifying, developing and licensing IP that would not otherwise be suitable for establishing spin-out companies.

### Our portfolio companies continued

#### Aperio Diagnostics – Biofusion shareholding 18%

→ During the period we took over the University of Sheffield's shareholding in Aperio Diagnostics, a spin-out company from Medipex, the NHS commercialisation company for Yorkshire and North Humberside. Aperio is developing a medical device to detect pre-cancerous cells in the cervix. The patented device, which is currently at prototype stage, is targeting the worldwide colcoscopy market.

#### Absynth Biologics – Biofusion shareholding 60%

→ During the period we created Absynth Biologics, which will develop vaccines and antibodies to treat infections caused by the bacterium *Staphylococcus aureus* (*S. aureus*), including its more difficult to treat drug-resistant form, methicillin-resistant *S. aureus* (MRSA). Hospital acquired infections are an increasing public health concern and are responsible for a rise in the number of hospital deaths. Absynth's unique patented technology has been developed at the University of Sheffield and will be used to develop an MRSA vaccine and antibodies to treat significant MRSA related infections as well as other applications.

Subsequent to the period end we have announced the addition of two more companies to our portfolio:

#### Magnomatics – Biofusion shareholding 55%

→ In April 2007 we announced that we had taken over the University of Sheffield's 55% shareholding in one of their non-life science spin-out companies, Magnomatics Ltd (Magnomatics). Magnomatics specialises in the development of novel high-torque magnetic gearboxes, motors and generators for use within wind turbine power generation, transportation and domestic energy products.

High-torque mechanical gearboxes, such as those used in the expanding domestic and industrial wind power generation market, can suffer extremely expensive permanent damage if a gusting wind applies too great a load to their mechanical drive systems. Magnomatics patented 'pseudo' direct drive motor/generator systems remove the risk of expensive damage from high winds with the added benefit of being lighter, lubrication free and more efficient than a conventional high-torque gearbox. The technology has additional applications in the aerospace and hybrid vehicle market.

#### BioHydrogen – Biofusion shareholding 60%

→ In April 2007 we announced the creation of BioHydrogen Limited (BioHydrogen), which is developing a metabolically engineered microbial production method for producing hydrogen from fermentable sugars. Initial results indicate that this unique method of production has the potential to be at the forefront of new low carbon fuel technology developments.

There is significant interest in all forms of renewable 'clean' energy technologies to combat global warming, in response to the depletion of and increasing price of fossil fuels and to address energy security problems. BioHydrogen aims to develop a unique micro bacterial method of producing hydrogen for the industrial hydrogen market and any future hydrogen energy related market.

We have approved an initial investment of up to £200,000 in BioHydrogen and have a 60% shareholding in the business.

### Investments during the period

During the period we invested, or approved facilities for investment, in the following portfolio companies:

Asterion	up to £385,000
Absynth Biologics	up to £325,000
Diurnal	£215,000
BioHydrogen	up to £200,000
Axordia	£189,000
Celltran	£161,000
Aperio Diagnostics	£79,000
Abcellute	£56,000
Magnomatics	£8,000

### Directorate change

In January 2007 Mr Mike Davies became a Non-executive director of the board. Mike is the Director of Physical and Financial Resources for Cardiff University and we welcome him onto the board of Biofusion. We are sure he will make a significant contribution to the business.

### Adoption of International Financial Reporting Standards

From 1 August 2007 Biofusion will adopt International Financial Reporting Standards (IFRS).

### Outlook

Having grown our position in the market by acquiring the Cardiff University pipeline and trebled our associated research pipeline to over £114m, we are now focused on generating value from our world class pipeline agreements and importantly, realising value from our excellent portfolio of companies.

Our business has expanded into a broader range of sectors to now include healthcare, engineering, energy and the environment and IT and in line with our growth strategy we will continue to consider adding a third university/institution to the group which is both synergistic and complementary to our existing portfolio.

We continue to look forward with considerable optimism to the next half of our financial year and intend to update our shareholders and the market on our progress at the time of our full year results.

### Doug Liversidge CBE

Chairman  
2 April 2007

# summary financial information

six months ended 31 January 2007

	<b>Six months ended 31 January 2007 (unaudited) £000</b>	Restated six months ended 31 January 2006 (unaudited) £000	Restated year ended 31 July 2006 (audited) £000
Turnover	<b>106</b>	144	279
Gross profit	<b>99</b>	137	256
Administrative expenses before exceptional items	<b>(786)</b>	(577)	(1,402)
Exceptional items	<b>(104)</b>	(8)	(1,158)
Operating loss before exceptional items	<b>(687)</b>	(440)	(1,146)
Operating loss	<b>(791)</b>	(448)	(2,304)
Loss for the financial period	<b>(611)</b>	(317)	(1,946)
Net assets	<b>29,933</b>	6,061	7,687
Net cash flow	<b>6,265</b>	(988)	(342)

Turnover for the period represented the amounts charged to associated companies for management services provided and the turnover of consolidated portfolio companies. Turnover in 2006 included some one-off management fees relating to the Sheffield pipeline agreement and excluding these turnover has increased in the period.

Costs were closely in line with the Company's internal budgets. Most of these costs related to the administrative and running costs of Biofusion Trading Limited, but also included approximately £260,000 for the running costs of the Company's seven subsidiaries, the results of which have been consolidated. The losses generated were in line with expectations, however as companies in the portfolio grow and are exited the directors believe there is significant potential for future value to be generated by the group.

The Company's adoption of FRS 20 'Share-based payments' has resulted in a prior year exceptional item charge to the year ended 31 July 2006 of £1.3m. This principally relates to the warrants granted to NPI Ventures on 23 March 2006. This charge has no impact on net assets and will not be recurring. Also included in exceptional items for the year ended 31 July 2006 is the £0.2m profit recorded on adjustment to the carrying value of Bioacta Ltd as reported in that year's financial statements.

The net assets of the group increased by £22.9m in the period as a result of the pipeline agreement signed with Cardiff University. 11.0m shares were issued to Cardiff University at a market value of £15.9m and a further 5.3m shares subscribed raised £7.75m. The asset represented by the Cardiff pipeline has been recognised in accordance with FRS 10 as an intangible asset and will be amortised to the profit and loss account. The amortisation charge in the period was £0.1m and is included in Exceptional items.

# consolidated profit and loss account

for the six months ended 31 January 2007

	<b>Six months ended 31 January 2007 (unaudited) £'000</b>	Restated six months ended 31 January 2006 (unaudited) £'000	Restated year ended 31 July 2006 (audited) £'000
Turnover	<b>106</b>	144	279
Cost of sales	<b>(7)</b>	(7)	(23)
Gross profit	<b>99</b>	137	256
Administrative expenses			
– Before exceptional items	<b>(786)</b>	(577)	(1,402)
– Exceptional items	<b>(104)</b>	(8)	(1,158)
	<b>(890)</b>	(585)	(2,560)
Operating loss before exceptional items	<b>(687)</b>	(440)	(1,146)
Operating loss	<b>(791)</b>	(448)	(2,304)
Interest received	<b>151</b>	170	349
Interest payable	<b>(72)</b>	(86)	(102)
<b>Loss on ordinary activities before taxation</b>	<b>(712)</b>	(364)	(2,057)
Tax on loss on ordinary activities	—	—	—
Minority Interests	<b>101</b>	47	111
<b>Loss for the financial period</b>	<b>(611)</b>	(317)	(1,946)
Basic and fully diluted loss per share (pence)	<b>(2.82)</b>	(1.68)	(10.08)
– Before exceptional items (pence)	<b>(2.34)</b>	(1.64)	(4.08)

# consolidated balance sheet

as at 31 January 2007

	As at 31 January 2007 (unaudited) £'000	As at 31 January 2006 (unaudited) £'000	As at 31 July 2006 (audited) £'000
<b>Fixed assets</b>			
Intangible assets	15,994	458	68
Tangible assets	24	20	25
Investments	5,213	2,649	3,370
	<b>21,231</b>	3,127	3,463
<b>Current assets</b>			
Stock	9	4	7
Debtors	566	532	569
Cash	12,148	5,238	5,883
	<b>12,723</b>	5,774	6,459
Creditors: amounts falling due within one year	<b>(533)</b>	(268)	(197)
Net current assets	<b>12,190</b>	5,506	6,262
Total assets less current liabilities	<b>33,421</b>	8,633	9,725
Creditors: amounts falling due after one year	<b>(3,488)</b>	(2,572)	(2,038)
<b>Net assets</b>	<b>29,933</b>	6,061	7,687
<b>Capital and reserves</b>			
Called up share capital	367	188	203
Capital reserve	2	2	2
Share premium	31,672	6,993	8,906
Capital redemption reserve	1	1	1
Profit and loss account	<b>(1,973)</b>	(1,071)	(1,370)
<b>Shareholders' funds</b>	<b>30,069</b>	6,113	7,742
Minority interest	<b>(136)</b>	(52)	(55)
	<b>29,933</b>	6,061	7,687

# consolidated cash flow statement

for the six months ended 31 January 2007

	<b>Six months ended 31 January 2007 (unaudited) £'000</b>	Restated six months ended 31 January 2006 (unaudited) £'000	Restated year ended 31 July 2006 (audited) £'000
Net cash outflow from operating activities	<b>(590)</b>	(298)	(943)
Returns on investment and servicing of finance	<b>151</b>	157	349
Capital expenditure and financial investment	<b>(116)</b>	(7)	(1,574)
Cash outflow before financing and acquisitions	<b>(555)</b>	(148)	(2,168)
Acquisitions	<b>(404)</b>	(840)	(102)
Financing	<b>7,224</b>	—	1,928
<b>Increase/(decrease) in cash in the period</b>	<b>6,265</b>	(988)	(342)
Reconciliation of operating loss to operational cash flow			
Operating loss	<b>(791)</b>	(448)	(2,304)
Depreciation	<b>4</b>	4	4
Loss on sale of fixed assets	<b>—</b>	—	1
Amortisation of goodwill	<b>109</b>	27	55
Impairment losses	<b>—</b>	—	421
Share based payment	<b>8</b>	8	1,339
Deemed profit on disposal	<b>(8)</b>	—	(5)
Increase in stock	<b>(2)</b>	(4)	(7)
Decrease in debtors	<b>46</b>	68	40
Increase/(decrease) in creditors	<b>44</b>	47	(487)
<b>Net cash flow outflow from operating activities</b>	<b>(590)</b>	(298)	(943)
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash in the period	<b>6,265</b>	(988)	(342)
Non cash movement in loan notes	<b>(1,491)</b>	(73)	445
Cash inflow from the increase in debt and financing leasing	<b>40</b>	—	—
Increase/(decrease) in net funds	<b>4,814</b>	(1,061)	103
Opening net funds	<b>3,846</b>	3,743	3,743
Closing net funds	<b>8,660</b>	2,682	3,846

# notes to the financial statements

for the six months ended 31 January 2007

## 1. Basis of preparation

The interim report is prepared on the basis of the accounting policies set out in the Company's Annual Report and Accounts for the year ended 31 July 2006 with the exception of the adoption of FRS 20 'Share-based Payments' as detailed below. The comparative figures for the financial year ended 31 July 2006 are not the Company's statutory accounts for that financial period. Those accounts have been audited by the Company's Auditors and delivered to the Registrar of Companies. The report of the Auditors was unqualified and did not contain a statement under Section 23(2) or (3) of the Companies Act 1985. The comparative accounts for the six months ended 31 January 2006 have also been restated in accordance with the Company's adoption of FRS 20 as detailed below.

## 2. Share-based payments

The Company has applied the requirements of FRS 20 'Share-based Payments' in the preparation of this interim report. The Company operates an equity-settled share-based compensation plan for its directors and has also issued warrants for the purchase of shares in respect of the side fund established by NPI Ventures. The fair value of the share-based compensation has been recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options or warrants granted. Fair value has been determined by reference to the Black Scholes option pricing model.

The adoption of FRS 20 has resulted in a change in accounting policy for share-based payment transactions and resulted in a prior year adjustment. Profit for the year ended 31 July 2006 has been reduced by £1.3m and profit and loss account reserves increased by the corresponding amount. There was no impact on the Company's net assets.

## 3. Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings. These investments that are associated undertakings are carried at cost in accordance with FRS 9 'Associates and Joint Ventures' and are not equity accounted as required by the Companies Act 1985.

## 4. Loss per share

The basic and fully diluted loss per share is calculated on the basis of the profits attributable to ordinary shareholders and the average number of shares in issue being 21,678,724 for the period ended 31 January 2007 (19,318,799 for 31 July 2006 and 18,819,984 for 31 January 2006).

There were no dividends for the period ended 31 January 2007.

The interim report was approved by the board of directors on 30 March 2007.

Copies of these interim results will be sent to shareholders.

# independent auditors' review

to the members of Biofusion plc

## Introduction

We have been engaged by the Company to review the financial information set out on pages 6 to 9 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

## Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the AIM Rules which require that the interim report must be presented and prepared in a form consistent with that which will be adopted in the Company's annual accounts having regard to the accounting standards applicable to such annual accounts.

## Review work performed

We conducted our review having regard to the guidance contained in Bulletin 1999/4: Review of interim financial information issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed.

A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

## Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 January 2007.

## KPMG Audit Plc

Chartered Accountants

2 April 2007

# bioFusion

## Biofusion plc

The Sheffield Bioincubator  
40 Leavygreave Road  
Sheffield  
S3 7RD

[www.biofusion.co.uk](http://www.biofusion.co.uk)

designed and produced by  
**the design portfolio**  
marketing services.  
[www.design-portfolio.co.uk](http://www.design-portfolio.co.uk)