Proof 7: 22.3.2006

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

If you have sold or otherwise transferred all of your registered holding of Ordinary Shares, please send this document, together with the accompanying Form of Proxy, as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. If you have sold or transferred part of your holding of Ordinary Shares, please consult the stockbroker, bank or other agent through whom the sale or transfer was effected.

The distribution of this document and/or the accompanying Form of Proxy in jurisdictions other than the UK may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any of those restrictions. Any failure to comply with any of those restrictions may constitute a violation of the securities laws of any such jurisdiction.

This document does not constitute a prospectus for the purposes of the Prospectus Rules of the Financial Services Authority and has not been delivered to the Registrar of Companies in England and Wales. Copies of this document will be available free of charge during normal business hours on any weekday (except Saturdays, Sundays and public holidays) at the offices of Ashurst, Broadwalk House, 5 Appold Street, London EC2A 2HA from the date of this document for a period of one month.

The New Ordinary Shares, when issued and fully paid, will rank *pari passu* in all respects with the existing Ordinary Shares and will rank for all dividends or other distributions declared, made or paid after the date of issue of the New Ordinary Shares.

Biofusion plc

(Registered in England and Wales under number 5275732)

£10 million Side Fund Agreement with NPI Ventures Limited and associated subscription of 1,496,445 New Ordinary Shares at 133.65 pence per share and issue of Warrants over 3,675,000 Ordinary Shares

Notice of Extraordinary General Meeting

NOMURA CODE SECURITIES LIMITED

Nominated adviser and broker

Your attention is drawn to the letter from the Chairman of Biofusion plc set out in Part I of this document which provides details of the Side Fund, the Subscription and the Warrants and recommends that you vote in favour of the Resolution to be proposed at the Extraordinary General Meeting referred to below.

Application will be made to the London Stock Exchange for the New Ordinary Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the New Ordinary Shares will commence at 8.00 a.m. on 19 April 2006.

Notice of an Extraordinary General Meeting of Biofusion plc, to be held at the offices of Ashurst, Broadwalk House, 5 Appold Street, London EC2A 2HA at 10.00 a.m. on 18 April 2006 is set out at the end of this document. Shareholders will find enclosed a Form of Proxy for use at the Extraordinary General Meeting. The Form of Proxy should be completed and returned to the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham BR3 4TU, in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received no later than 10.00 a.m. on 16 April 2006. Completion and return of the Form of Proxy will not preclude Shareholders from attending and voting in person at the Extraordinary General Meeting should they so wish.

Nomura Code Securities Limited is regulated in the United Kingdom by the Financial Services Authority, and is acting exclusively as nominated adviser and broker for Biofusion plc. Nomura Code Securities Limited is not acting for, and will not be responsible to, any person other than Biofusion plc for providing the protections afforded to customers of Nomura Code Securities Limited or for advising any other person on the contents of this document or any transaction or arrangement referred to herein.

CONTENTS

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	2006
Date of this document	23 March
Latest time and date for receipt of Forms of Proxy	10.00 a.m. on 16 April
Extraordinary General Meeting	10.00 a.m. on 18 April
Dealings in the New Ordinary Shares commence	8.00 a.m. on 19 April

References to times in this document are to Greenwich Mean Time. Each of the times and dates above are subject to change. If any of the above times and/or dates change, the revised times and/or dates will be notified to Shareholders by announcement on a Regulatory Information Service.

SUBSCRIPTION STATISTICS

Subscription Price	133.65p
Number of Ordinary Shares in issue at the date of this document	18,819,984
Number of New Ordinary Shares to be issued pursuant to the Subscription	1,496,445
New Ordinary Shares as percentage of the Enlarged Issued Share Capital	7.37%
Number of Ordinary Shares reserved for issue pursuant to the Warrants	3,675,000
Maximum number of Ordinary Shares issued pursuant to the Warrants and the New Ordinary Shares as a percentage of the Warrant Enlarged Issued Share Capital[(i)]	21.56%
Number of Ordinary Shares in issue immediately following Admission	20,316,429
Net proceeds of the Subscription to be received by the Company[(ii)]	£1.87m

(i) assumes no issues of Ordinary Shares by the Company, other than the New Ordinary Shares and the Ordinary Shares issued pursuant to the Warrants

(ii) not including any proceeds receivable on exercise of Warrants

DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

"Act"	the Companies Act 1985, as amended
"Admission"	the admission of the New Ordinary Shares to trading on AIM becoming effective in accordance with the AIM Rules
"AIM"	the market of that name operated by the London Stock Exchange
"AIM Rules"	the rules of the London Stock Exchange which govern the admission to trading on and operation of AIM
"Board" or "Directors"	the board of directors of the Company, whose names appear on page 7 of this document
"Biofusion" or "Company"	Biofusion plc
"Enlarged Issued Share Capital"	the issued share capital of the Company immediately after Admission
"Extraordinary General Meeting" or "EGM"	the extraordinary general meeting of Biofusion convened for 10.00 a.m. on 18 April 2006 (or any adjournment of it), notice of which is set out at the end of this document
"Form of Proxy"	the form of proxy relating to the EGM being sent to Shareholders with this document
"IP"	intellectual property
"London Stock Exchange"	London Stock Exchange plc
"New Ordinary Shares"	the 1,496,445 new ordinary shares of 1p each in the capital of the Company proposed to be issued in connection with the Subscription at a price of 133.65 pence per ordinary share
"Nomura Code Securities"	Nomura Code Securities Limited
"NPI Ventures"	NPI Ventures Limited, a wholly owned subsidiary of Nikko Principal Investments Limited
"Ordinary Shares"	ordinary shares of 1 pence each in the capital of Biofusion
"Prospectus Rules"	the rules made for the purposes of Part VI of the Financial Services and Markets Act 2000 in relation to the offers of securities to the public and admission of the securities to trading on a regulated market
"Resolution"	the resolution to be proposed at the EGM
"Shareholder"	a holder of Ordinary Shares
"Sheffield University" or "the University"	The University of Sheffield
"Side Fund"	the £10 million fund established under the Side Fund Agreement
"Side Fund Agreement"	the conditional agreement dated 23 March 2006 between Biofusion, Biofusion Trading Limited and NPI Ventures, relating to the proposed co-investment arrangement between the parties, details of which are set out in Part I of this document
"Subscription"	the conditional subscription by NPI Ventures of the New Ordinary Shares at the Subscription Price pursuant to the Side Fund Agreement

"Subscription Price"	133.65 pence per New Ordinary Share
"Warrants"	the warrants, constituted by the Warrant Deed, to subscribe for up to 3,675,000 ordinary shares of 1p each in the capital of the Company exercisable at prices ranging from £1.50 to £2.20 per Ordinary Share
"Warrant Deed"	the deed constituting the Warrants to be executed by the Company upon completion of the Side Fund Agreement, further details of which are set out in Part II of this document
"Warrant Enlarged Share Capital"	the enlarged issued share capital of the Company after Admission and including the Ordinary Shares issued pursuant to the Warrant Deed assuming they have been exercised and assuming no further issues of Ordinary Shares

PART I

Letter from the Chairman of Biofusion plc

Biofusion plc

(Incorporated and registered in England and Wales under number 5275732)

Directors:	*Registered Office:*
Douglas Liversidge CBE	Innovation Centre
David Baynes	217 Portobello
Peter Grant	Sheffield
Stuart Gall	S1 4DP
Edwin Moses	
Anthony Atkinson	
David Catton	

23 March 2006

Dear Shareholder,

£10 million Side Fund Agreement
with NPI Ventures and associated subscription of
New Ordinary Shares and issue of the Warrants

Notice of Extraordinary General Meeting

Introduction

The Board today announced that Biofusion has entered into an agreement with NPI Ventures which will involve the establishment by NPI Ventures of a £10 million side fund for the dedicated purpose of investing in Biofusion portfolio companies. NPI Ventures is the technology investment business wholly owned by Nikko Principal Investments Limited ("NPIL"), the European principal finance arm of Nikko Cordial Corporation, which is listed on the Tokyo Stock Exchange with a market capitalisation of approximately $17 billion.

As part of this agreement, NPI Ventures will subscribe for 1,496,445 New Ordinary Shares at 133.65p per New Ordinary Share (the equivalent of a discount of 10 *per cent* to the closing middle market price of 148.5p per existing Ordinary Share trading on AIM on 22 March 2006, being the latest practicable date prior to publication of this document) and with a total subscription price of £2 million (£1.87 million, net of expenses) giving NPI Ventures 7.37 *per cent* of the Enlarged Issued Share Capital. In addition, the Warrants will be granted to NPI Ventures with a total potential subscription price of £6.25 million.The Board is authorised to issue for cash a maximum of 5 *per cent* of the Company's issued share capital on a non pre-emptive basis. For this reason the Subscription requires the approval of Shareholders.

The purpose of this document is to provide you with details of the agreement with NPI Ventures, the terms of the Subscription and the Warrants and to explain why the Board considers that they are in the best interests of Biofusion and Shareholders as a whole and recommends that you vote in favour of the resolution to be proposed at the Extraordinary General Meeting.

Principal terms of the Side Fund Agreement and Subscription

The Side Fund

Pursuant to the Side Fund Agreement, NPI Ventures will establish the Side Fund to invest up to £10 million in Biofusion portfolio companies. The Side Fund may be increased by a further £10 million if, after having invested £9.5 million from the Side Fund, NPI Ventures wishes to extend the term of the current agreement.

Biofusion's current model for exploiting university IP is to identify the IP with the most commercial potential arising from a university's research base and then to incorporate it into new companies in which Biofusion normally owns a 60 *per cent* shareholding. Biofusion then provides initial start up funding (usually up to £125,000) and professional management support to develop and grow the value of the new company until further funding is required. By owning a majority shareholding, providing the early stage funding and then maintaining its percentage shareholding in future third party investment rounds, Biofusion aims to hold a significant shareholding of between 15 to 30 *per cent* at any future exit.

Under the Side Agreement, the model for exploiting university IP remains largely the same however:

- Biofusion will now provide up to £200,000 start-up funding;
- once Biofusion has invested its initial £200,000, for the next round only, NPI Ventures will have the "first look" right to co-invest with Biofusion. Any investment by NPI Ventures in this round will be invested on a 50/50 basis by Biofusion and NPI Ventures under terms to be determined by Biofusion;
- where it is first proposed that a third party invest in a portfolio company (whether or not Biofusion has previously invested up to £200,000) NPI Ventures will have a 'first look' right to co-invest on a 50/50 basis with Biofusion or in such other proportions determined by NPI Ventures and Biofusion. Only if NPI Ventures and Biofusion do not wish to fund the full round will a third party be invited to invest; and
- NPI Ventures is under no obligation to participate in any funding round. If NPI Ventures declines to invest in any portfolio company when first offered the opportunity to do so then all investment rights under the Side Fund Agreement in relation to that portfolio company end. After any first investment in a portfolio company by NPI Ventures any further funding will then be made pro rata to shareholdings. To the extent that Biofusion declined to participate in any subsequent funding round, NPI Ventures would have the right of first refusal to take up Biofusion's declined rights to subscribe for shares in that round.

The Directors believe that the Side Fund will:

- enhance the ability of the Biofusion portfolio companies to raise third party funding and support their expansion and growth;
- significantly reduce the time devoted to raising third party funding for Biofusion portfolio companies to approximately 1 to 2 months;
- significantly enhance Biofusion's position within the university IP commercialisation market and in turn enhance the Company's prospects of reaching attractive agreements with other universities and research establishments in the UK;
- greatly enhance the offering that Biofusion is able to make to shareholders and partners; and
- enhance the value of the agreement to Biofusion, when negotiating with new universities or research establishments through the potential to increase the Side Fund further.

As part of the Side Fund Agreement a member of the Board will join NPI Ventures' Side Fund investment committee in a non-voting capacity.

The Subscription

In addition to the establishment of the Side Fund, Biofusion proposes to issue New Ordinary Shares to NPI Ventures which will raise approximately £2 million before expenses.

In addition, the Warrants will be constituted by a warrant deed to be made between Biofusion and NPI Ventures. The Warrant Deed will be executed by Biofusion on completion of the Subscription.

The Warrant Deed provides for the grant of warrants to NPI Ventures to subscribe for Ordinary Shares at the prices set out below:

(i) 1,225,000 Ordinary Shares with an exercise price of £1.50

(ii) 1,225,000 Ordinary Shares with an exercise price of £1.60

(iii) 612,500 Ordinary Shares with an exercise price of £1.80

(iv) 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 Warrant Deed and on or before the tenth anniversary of the date of the Warrant Deed.

The Warrants are exercisable in whole or in part and are freely transferable by NPI Ventures at any time. While the Warrants are owned by a member of the Nikko Group (as defined in the Warrant Deed) the exercise price of the Warrants may be satisfied by the transfer to Biofusion by NPI Ventures of shareholdings owned by NPI Ventures in its university spin out companies to up to 70 *per cent* of the exercise price. Where the holder of the Warrant is not a member of the Nikko Group the exercise price must be settled in full in cash.

Any Ordinary Shares arising on the exercise of any Warrant will rank *pari passu* with the then issued ordinary share capital of the Company at the date of exercise.

If the Warrants are exercised in full for cash, NPI Ventures will have invested £8.25 million in Biofusion.

The Subscription is conditional upon the passing of the Resolution and the Side Fund Agreement becoming unconditional.

The Directors believe that:

- the Subscription demonstrates NPI Ventures' commitment to the Side Fund by aligning its interests with those of Biofusion;
- the net funds from the Subscription will enable the Company to increase its shareholdings in current portfolio companies, many of which the Director's believe show significant promise; and
- the issue of the Warrants at increasing exercise prices demonstrates NPI Ventures' commitment to the Biofusion business model whilst providing the prospect of a significant amount of additional funds for Biofusion at a future date. Any funds received on the exercise of Warrants could be used either for investment in Biofusion portfolio of companies or to finance the Company's expansion into new areas or to new universities and research establishments.

Appointments

Under the Subscription Agreement, NPI Ventures has the right to appoint a non-executive director to the Board of Biofusion. The first such non-executive director will be Simon Oakland and the Directors welcome his appointment and believe that he will further enhance the quality of management in the Company. His appointment highlights NPI Ventures' commitment to Biofusion.

The appointment will be effective from the date of the Side Fund Agreement becoming unconditional. Details of Simon Oakland are set out below.

Simon Oakland, Principal, NPIL, and Director, NPI Ventures

Simon Oakland joined NPIL in 1997 from the Corporate Finance department of Cazenove & Co., where he was responsible for providing corporate finance advice to UK utility clients and corporate valuations across the Cazenove client base. Previously, Simon was a management consultant at Accenture where he undertook a number of projects across a broad spectrum of large corporate clients. Simon has a BA in mathematics from Oxford University and an MBA from Cranfield University. He is also a graduate of the Chartered Institute of Marketing. Simon has structured and executed many of NPIL and NPI Ventures' investments including, among others, Ceres Power, Honours Student Loans, Resolution Life, Menzies Hotels and European Directories SA and has been involved in NPI Ventures since its inception in 2002.

Simon will be appointed as a director of the Company, and will attend meetings of the investment committee of Biofusion.

Jim Totty will be appointed as Simon Oakland's alternate director and will attend investment committee meetings. Details of Jim Totty are set out below.

Jim Totty, Associate, NPIL

Jim Totty joined NPIL in 2001 from PricewaterhouseCoopers where he was a management consultant working principally in the financial services and retail sectors. Jim has a PhD in Physics and an MSc in Semiconductor Physics from Imperial College London and an MA in Physics from Cambridge University. He is a Chartered Financial Analyst. Jim has structured and executed many of NPIL and NPI Ventures' investments including, among others, Ceres Power, Mortgages plc, Capio Hospitals and European Directories SA.

The Directors believe that the inclusion of NPI Ventures' expertise at both board level and on the investment committee of Biofusion will further enhance the quality and expertise of Biofusion's management.

Background to Biofusion

Biofusion was incorporated in 2002 to commercialise university IP into self-sustaining commercial enterprises. The Company's first agreement was with the University and Sheffield University Enterprises Limited ("SUEL"), a wholly owned subsidiary of the University, to convert the University's most commercially promising 'Life Science' IP, including all medical based research and medical applications, (the "Life Science IP") into self-sustaining commercial enterprises. Biofusion has an exclusive 10-year agreement with the University (the "Sheffield Agreement"), to commercialise all Life Science IP, that the Directors believe have commercial potential.

Under the Sheffield Agreement the University granted a right to any future Life Science IP to Biofusion. Over the 10-year period of the Sheffield Agreement, the Directors expect that in excess of £500 million will be spent on research by approximately 1,000 scientists in the faculties of Medicine and Pure Science at the University, the most likely areas to generate Life Science IP for Biofusion.

In addition, under the Sheffield Agreement the University transferred to Biofusion its shareholdings in those life science spin-out companies already owned by the University which the Directors considered to be the most likely to achieve commercial success.

Biofusion's partnership with the University works on the premise that all parties are more efficient and effective if they are able to concentrate on their core skills – so the University focuses on the creation of medical Life Science IP whilst Biofusion focuses on commercialisation. At the point of cross-over the Directors ensure that it is integrated into the University's technology transfer processes, so that the subsequent commercialisation is seamless.

As a shareholder in Biofusion, the University is rewarded and incentivised to ensure that its large R&D spend (expected to be over £500 million over the next 10 years) is focused on generating world class IP, whilst the academics are rewarded with shareholdings in the subsequent portfolio companies.

Biofusion then uses its start-up management skills and funds to commercialise this IP through licensing or through the creation of spin-out companies.

Since the admission of the Company's shares to AIM in February 2005, Biofusion has funded two of its portfolio companies and established two new portfolio companies (one of which it has funded): Lifestyle Choices Limited, which launched its first product in January 2006 in the female fertility sector; and Genophrenix Limited which was established in February 2006 to capitalise on the discovery of specific proteins that are involved with a key biochemical pathway implicated in a range of neuropsychiatric diseases, including schizophrenia. In addition, a number of its companies have made significant commercial advances, including the successful completion of clinical trials by Diurnal Limited, a 60 *per cent* subsidiary, and the entry into of a significant contract by Axordia Limited, the Company's stem cell business, in which Biofusion has a 36 *per cent* shareholding.

The Directors believe that there is significant potential to expand Biofusion's model of commercialisation to other universities and research establishments and that its agreement with NPI Ventures will significantly increase the Company's capability to do this with high quality research establishments.

Background to NPI Ventures

NPI Ventures is the technology investment business of NPIL, the European principal finance arm of Nikko Cordial Corporation.

Nikko Cordial Corporation is a Japanese securities firm offering a wide range of services including investment banking, asset management, merchant banking and retail banking. It has a market capitalisation of approximately $17 billion. Nikko Cordial Corporation's goal is to be the world's leading financial services group focused on providing securities services that make the greatest contributions to the development of financial markets and the expansion of individual monetary assets.

NPIL was founded in London in 1998. NPIL operates as a dynamic principal investor, combining the characteristics of venture capital and private equity firms with the ability to innovatively structure debt. The NPIL team has financed a number of investments in Europe to date, including Menzies Hotels, RoadChef, Powell Duffryn plc, Mortgages plc, British Credit Trust, UK Healthcare Partners, Honours plc, Resolution Life, European Directories SA and Catalina Reinsurance Limited. In 2004, NPIL successfully floated two portfolio companies, PD Ports and Hamworthy, on the London Stock Exchange.

In March 2002, NPI Ventures signed an agreement with Imperial College London and Imperial Innovations Limited, to build a portfolio of investments in early stage research and technology derived spin-out companies. This agreement has provided Imperial College London with access to external funding at an earlier stage than is traditionally available from the venture capital community in order to support the commercialisation of its research. In return NPI Ventures has had the opportunity to benefit from Imperial Innovations' expertise in identifying and developing technology spin-out opportunities. Since 2002 NPI Ventures has made investments in 12 companies and has made a number of follow-on investments into its spin-out portfolio. NPI Ventures' first Imperial College London investment, the innovative fuel cell company, Ceres Power, floated on AIM in November 2004 at a market capitalisation of £65 million and now has a market capitalisation of approximately £168 million.

Summary

The Directors are recommending the approval of the Side Fund Agreement and associated Subscription and issue of Warrants for the following reasons:

- the proposed agreement with NPI Ventures will significantly enhance the Company's position within the university IP commercialisation market and in turn enhance its prospects of reaching agreements with other universities and research establishments in the UK;
- the Directors believe that the Subscription demonstrates NPI Ventures' commitment to the Side Fund by aligning its interests with those of Biofusion;
- the net funds from the Subscription will enable the Company to increase its shareholdings in portfolio companies, many of which the Directors believe show significant promise;
- the Side Fund is dedicated to making investments in Biofusion's portfolio companies and greatly enhances the offering that Biofusion is able to make to shareholders and partners;
- the Side Fund may be increased by a further £10 million – if NPI Ventures, after having invested £9.5 million from the Side Fund, wishes to extend the term of the current agreement it may do so if it commits a further £10 million to the Side Fund, further enhancing the value of the agreement to Biofusion, when negotiating with new universities or research establishments;

- the availability of the Side Fund will significantly reduce the time devoted to raising third party funding for the portfolio companies to approximately 1-2 months;
- the issue of the Warrants at increasing exercise prices demonstrates NPI Ventures' commitment to the Biofusion business model whilst providing the prospect of a significant amount of additional funds for Biofusion at a future date (any funds received could be used either for investment in Biofusion portfolio of companies or to finance the Company's expansion into new areas or to new universities and research establishments); and
- the inclusion of NPI Ventures' expertise at both board level and on the investment committee of Biofusion will further enhance the quality and expertise of Biofusion's management.

The Directors believe that the agreement with NPI Ventures is a very strong endorsement of the Company, its model and its management. For these reasons the Directors recommend to Shareholders that they vote in favour of the Resolution at the EGM.

Use of proceeds

It is the intention of Biofusion to use the net proceeds of the Subscription to increase Biofusion's shareholdings in its portfolio of companies and to help expand the Biofusion model for the commercialisation of university intellectual property to other high quality universities and research establishments.

Extraordinary General Meeting

A notice convening the Extraordinary General Meeting for the purpose of considering and, if thought fit, passing the Resolution, is set out at the end of this document. The Resolution proposes to:

(a) increase the authorised share capital of the Company from £300,000 to £400,000 by the creation of 10,000,000 additional Ordinary Shares. This represents an increase of approximately 33.33 *per cent* over the current authorised share capital of the Company. If the Resolution is passed, and the Subscription is completed, there will be 16,008,571 authorised but unissued Ordinary Shares and assuming the exercise of all Warrants for these purposes, representing 78.80 *per cent* of the enlarged issued share capital of the Company;

(b) authorise the directors of the Company under section 80 of the Act to allot relevant securities up to an aggregate nominal amount of £14,964.45 for the purposes of the Subscription, and £36,750 in respect of the Warrants and, in addition, up to an aggregate nominal amount of £160,085.71 other than for the purposes of the Subscription or in respect of the Warrants. If passed, these authorities will expire on 17 April 2011. The total authority of the directors of the Company to allot relevant securities will relate to an aggregate nominal amount of £211,800.16, representing approximately 112.54 *per cent* of the current issued share capital (with approximately 7.06 *per cent* being in respect of the issue of the New Ordinary Shares, approximately 17.35 *per cent* in respect of the Warrants and approximately 76.59 *per cent* otherwise). After accounting for the New Ordinary Shares and Ordinary Shares issued pursuant to the exercise of the Warrants (assuming the exercise of all Warrants for these purposes), the directors of the Company would have unutilised authority under section 80 of the Act to allot relevant securities up to an aggregate nominal amount of £160,085.71, representing approximately 66.73 *per cent* of the issued share capital as enlarged pursuant to the Subscription and assuming the exercise of all Warrants for these purposes.

    Save in respect of the issue of New Ordinary Shares and Ordinary Shares issued upon the exercise of Warrants, the Directors currently have no plans to allot relevant securities; and

(c) disapply the pre-emption rights provisions of section 89 of the Act in respect of the allotment of equity securities pursuant to the Subscription and in respect of the Warrants, pursuant to any other pre-emptive issues and, in respect of other issues of equity securities for cash, up to an aggregate nominal value of £23,991.43, being 10 *per cent* of the issued share capital as enlarged pursuant to the Subscription and assuming the exercise of all Warrants for these purposes. If given, this authority will expire at the same time as the authorities referred to in paragraph (b) expire.

Other than in relation to the issue of New Ordinary Shares pursuant to the Subscription and Ordinary Shares issued upon the exercise of Warrants, the Directors have no present intention of issuing any equity securities pursuant to the disapplication.

The Resolution will be proposed as a special resolution.

Action to be taken

You will find enclosed with this document a Form of Proxy for use at the Extraordinary General Meeting. Whether or not you propose to attend the Extraordinary General Meeting in person, you are requested to complete, sign and return the Form of Proxy to the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham BR3 4TU in accordance with the instructions printed thereon as soon as possible and, in any event, so as to be received no later than 10.00 a.m. on 16 April 2006. Completion and return of a Form of Proxy will not preclude you from attending the Extraordinary General Meeting and voting in person if you so wish.

Intentions of Directors and other Shareholders

Shareholders holding 13,333,320 Ordinary Shares (representing 70.84 *per cent* of the current issued share capital of the Company), being Sheffield University, holding 9,333,324 Ordinary Shares (representing approximately 49.59 *per cent* of the current issued share capital of the Company) and Stuart Gall, David Baynes and Peter Grant holding in aggregate 3,999,996 Ordinary Shares (representing approximately 21.25 *per cent* of the current issued share capital of the Company) have irrevocably undertaken to vote in favour of the Resolution.

Further information

Your attention is drawn to the Interim Statement issued today, a copy of which is set out in Part II.

Recommendation

Your Directors believe that the Side Fund Agreement and associated Subscription and issue of Warrants are in the best interests of Biofusion and its Shareholders as a whole and, accordingly, unanimously recommend you to vote in favour of the Resolution set out in the notice of Extraordinary General Meeting at the end of this document as some of them have undertaken to do in respect of their own beneficial holdings amounting to an aggregate of 3,999,996 Ordinary Shares, representing approximately 21.25 *per cent* of Biofusion's current issued ordinary share capital.

Yours sincerely,

Doug Liversidge
Non-executive Chairman

PART II

Interim Statement of Biofusion

Below is the text of announcement made earlier today by the Company:

Interim results for the six months ended 31 January 2006

Biofusion plc ("Biofusion" or the "Company"), the university Intellectual Property ("IP") commercialisation company, today announces its interim results for the period ending 31 January 2006, during which the Company made significant advances.

Chairman, Doug Liversidge CBE said: "Biofusion was listed in 2005 to generate value from the world class intellectual property that is created by the UK's universities. Our first agreement, with the University of Sheffield, has highlighted the strength of our model, whereby we identify intellectual property with the most commercial potential arising from the University's research base and then incorporate it into companies to which we provide funding and professional management. The ultimate aim is to grow and eventually exit from these companies with the value considerably enhanced.

Biofusion's current value exists both in our shareholdings in our existing portfolio of ten companies and the potential value of our exclusive access to all of the medical life science intellectual property owned by the University of Sheffield under our 10 year exclusive agreement.

During the period under review we have further invested in the existing company portfolio and started one new start-up company, which is already making sales. Immediately following the period end we started a second new start-up company, which we have also detailed below.

Our successes were;

- The formation of our first new portfolio company, Lifestyle Choices, which focuses on the female fertility and menopause markets. Biofusion provided seed financing of £65k in the form of a repayable loan to launch Plan Ahead – the world's first triple hormone ovarian reserve test. Initial sales of the test, which commenced in January, have been encouraging and, with companies from over fifteen countries around the world indicating an interest in distributing the product internationally, we believe there is potential for sales growth both in the UK and overseas. Biofusion owns 50 *per cent* of Lifestyles Choices;
- Diurnal, which is co-developing with Phoqus Group PLC ("Phoqus", a leading UK drug delivery company) means for the controlled and sustained release of steroids to mimic the circadian rhythm, entered and, subsequent to the period end, completed a successful Phase I clinical study on Chronocort for the treatment of adrenal insufficiency. Diurnal, working in partnership with Phoqus, continues to meet its milestones for the development of this product and to progress this product to market as quickly as possible. Biofusion owns 60 *per cent* of Diurnal;
- Asterion, which develops novel proteins to treat a range of cytokine disorders including cancer, rheumatoid arthritis and diabetes, continues to work successfully with its pharmaceutical partner in order to develop biological drugs with a variety of disease implications. Biofusion owns 32 *per cent* of Asterion;
- Simcyp, which simulates drug variability in humans, signed new licensing deals worth over £1.2m for its predictive pharmacokinetic software during the period under review. This follows new licensing deals of £1.5m during the six months to August 2005. Biofusion owns 25 *per cent* of Simcyp;
- Biofusion has committed to investing £420k (£280k to date) in Axordia, one of the UK's leading stem cell companies, taking our shareholding to 36 *per cent*. In addition to which Axordia made a number of important announcements including:

- signing an agreement with Chemicon Inc to co-develop new antibody markers from Axordia's proprietary human embryonic stem cell lines;
- access to a new facility allowing Axordia to derive GMP human embryonic stem cell lines;
- the UK Stem Cell Initiative report listing the University of Sheffield as the number one university in the UK for stem cell IP;

- Biofusion participated in a £2.7m funding round for Celltran, a company selling biological bandages for the treatment and healing of chronic wounds. Biofusion owns 24 *per cent* of Celltran;
- In addition, since the period end, Biofusion announced the formation of Genophrenix, a company that has discovered specific proteins involved with a key biochemical pathway implicated in a range of neuropsychiatric diseases, including schizophrenia. Genophrenix became the tenth company in our portfolio. Biofusion owns 60 *per cent* of Genophrenix

Biofusion today also announced that it has entered into a Side Fund Agreement with NPI Ventures Limited ("NPI Ventures") which will involve the establishment of a £10 million Side Fund dedicated to investment in Biofusion's current and future portfolio companies. NPI Ventures is the technology investment business wholly owned by Nikko Principal Investments Limited, the European principal finance arm of Nikko Cordial Corporation, the $17 billion Japanese based securities firm. As part of this agreement NPI Ventures will subscribe 1,496,445 New Ordinary Shares at 133.65p per New Ordinary Share and with a total subscription price of £2.0 million (£1.87 million, net of expenses). In addition, Warrants will be granted to NPI Ventures, exercisable between £1.50 and £2.20, with a total potential value of £6.25 million. (see separate announcement).

During the period we have continued to pursue the possibility of expanding the Biofusion model to other universities and we believe our agreement with NPI Ventures will further support us achieving this goal. We look forward to the next financial period with optimism.

Summary financial information

	Six months ended 31 January 2006 (unaudited) £000	*Six months ended 31 January 2005 (unaudited) £000*	*Year ended 31 July 2005 (audited) £000*
Turnover	144	—	229
Gross profit	137	—	126
Operating expenses	(577)	(254)	(616)
Operating loss	(440)	(254)	(490)
Net loss	(309)	(254)	(397)

Turnover for the period represented amounts charged to associated companies for management services provided. 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 they also included approximately £100k for the running costs of the company's three subsidiaries, the results of which have been consolidated. Given the early stage of development of some of the group's companies 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.

For further information:

David Baynes, CEO	Biofusion plc	0114275 5555
Chris Gardner/David Dible	Citigate Dewe Rogerson	020 7638 9571

www.biofusion.co.uk

About Biofusion

Biofusion was established in 2002 to commercialise university-generated IP. The Company has agreed a ten-year exclusive arrangement with the University of Sheffield for the commercialisation of IP owned by the University in the area of medical life sciences. As a result of this agreement Biofusion has shareholdings in a portfolio of ten spin-out companies including Axordia, Celltran, Simcyp and Lifestyle Choices. The University of Sheffield is a world class life sciences research centre, spending £30m in 2002/3 on research in medical life sciences. This spending level is expected to grow year on year giving an estimated £500 million of research funding over the next ten years. The University, which celebrates its centenary this year, can count five Nobel Prize winners among its alumni and researchers, and data from the latest UK Government's Research Assessment Exercise 2001 ("RAE 2001") showed it ranked fifth in the UK for the quality of its life sciences research.

Consolidated profit and loss account for the six months ended 31 January 2006

	Six months ended 31 January 2006 (unaudited) £	*Six months ended 31 January 2005 (unaudited)* £	*Year ended 31 July 2005 (audited)* £
Turnover			
– Continuing operations	133,067	—	229,857
– Acquisitions	10,990	—	—
	144,057	—	229,857
Cost of Sales	(7,285)	—	(103,621)
Gross profit			
– Continuing operations	130,306	—	126,236
– Acquisitions	6,466	—	—
	136,772	—	126,236
Operating expenses	(576,739)	(253,536)	(616,466)
Operation loss			
– Continuing operations	(370,272)	—	(490,230)
– Acquisitions	(69,695)	—	—
	(439,967)	(253,536)	(490,230)
Interest received	169,818	—	141,748
Interest payable	(86,300)	—	(68,819)
Loss on ordinary activities before taxation	(356,449)	(253,536)	(417,301)
Tax on loss on ordinary activities	—	—	—
Minority Interests	46,945	—	20,533
Loss for the financial period	(309,504)	(253,536)	(396,768)
Basic and fully diluted loss per share	(1.64p)	(1.90p)	(2.47p)

Consolidated balance sheet as at 31 January 2006

	As at 31 January 2006 (unaudited)	*As at 31 January 2005 (unaudited)*	*As at 31 July 2005 (audited)*
	£	£	£
Fixed assets			
Intangible assets	457,510	—	491,979
Tangible assets	20,609	1,908	17,446
Investments	2,648,640	—	1,809,183
	3,126,759	1,908	2,318,608
Current assets			
Stock	4,385	—	—
Debtors	532,200	985,406	600,083
Cash	5,237,887	6,788	6,225,435
	5,774,472	992,194	6,825,518
Creditors: amounts falling due within one year	(267,951)	(1,560,199)	(237,055)
Net current assets/(liabilities)	5,506,521	(568,005)	6,588,463
Total assets less current liabilities	8.633,280	(566,097)	8,907,071
Creditors: amounts falling due after one year	(2,572,355)	—	(2,482,670)
Net assets/(liabilities)	6,060,925	(566,097)	6,424,401
Capital and reserves			
Called up share capital	188,200	50,921	188,200
Capital reserve	2,079	2,079	2,079
Share premium	6,993,200	—	6,993,200
Capital redemption reserve	888	—	888
Profit and loss account	(1,071,834)	(619,097)	(762,330)
Shareholders funds/(deficit)	6,112,533	(566,097)	6,422,037
Minority interest	(51,608)	—	2,364
	6,060,925	(566,097)	6,424,401

Cashflow statement for the six months ended 31st January 2005

	Six months ended 31 January 2006 (unaudited) £	*Six months ended 31 January 2005 (unaudited)* £	*Year ended 31 July 2005 (audited)* £
Net cash (outflow)/ inflow from operating activities	(298,124)	35,840	(1,173,164)
Returns on investment and servicing of finance	156,684	—	141,748
Capital expenditure and financial investment	(6,651)	(1,680)	(21,679)
Cash (outflow)/ inflow before financing and acquisitions	(148,091)	34,160	(1,053,095)
Acquisitions	(839,457)		94,532
Financing	—	(30,000)	7,181,370
(Decrease)/increase in cash in the period	(987,548)	4,160	6,222,807
Reconciliation of operating loss to operational cashflow			
Operating loss	(439,967)	(253,536)	(490,230)
Depreciation	3,947	473	4,933
Amortisation of goodwill	26,982	—	54,664
Increase in stock	(4,385)	—	—
Decrease/(increase) in debtors	67,884	(931,550)	(566,650)
Increase/(decrease) in creditors	47,415	1,220,453	(175,881)
Net cashflow (outflow)/inflow from operating activities	(298,124)	35,840	(1,173,164)
Reconciliation of net cashflow to movement in net debt			
(Decrease)/increase in cash in the period	(987,548)	4,160	6,222,807
Non cash movement in loan notes	(73,165)	—	(2,482,670)
Cash (outflow)/inflow from the decrease in debt and financing lease	—	30,000	—
(Increase)/decrease in net debt	(1,060,713)	34,160	3,740,137
Opening net funds (debt)	3,742,765	(27,372)	2,628
Closing net funds	2,682,052	6,788	3,742,765

NOTES TO THE INTERIM FINANCIAL INFORMATION

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 2005. The comparative figures for the financial year ended 31 July 2005 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.

2. **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.

3. **Loss per Share**

   The basic and fully diluted loss per share are calculated on the basis of the profits attributable to ordinary shareholders and the average number of shares in issue for the period being 18,819,984 for 31 January 2006 (16,076,652 for 31 July 2005 and 18,819,984 for 31 January 2005).

4. There were no recognised gains or losses other than the loss for the period.

5. There were no dividends for the period ended 31 January 2006.

6. The interim report was approved by the board of directors on 22 March 2006. Copies of these interim results will be sent to shareholders.

Independent review report by KPMG Audit Plc to Biofusion plc

Introduction

We have been engaged by the Company to review the financial information set out above 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 2006.

KPMG Audit Plc
Chartered Accountants

22 March 2006

Biofusion plc

(Registered in England and Wales under number 5275732)

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is hereby given that an extraordinary general meeting of Biofusion plc ("the Company") will be held at 10.00 a.m. on 18 April 2006 at the offices of Ashurst, Broadwalk House, 5 Appold Street, London EC2A 2HA for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as a special resolution of the Company:

SPECIAL RESOLUTION

THAT:

(a) the share capital of the Company be and it is hereby increased from £300,000 to £400,000 by the creation of 10,000,000 ordinary shares of 1p each identical to and ranking *pari passu* with the existing authorised but unissued ordinary shares of 1p each in the capital of the Company;

(b) the directors of the Company be and they are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 (the "Act") (and in substitution for any existing authority to allot relevant securities) to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the said Act) in connection with the Subscription and in respect of the Warrants and otherwise (each such term as defined in the circular of the Company dated 23 March 2006 of which this notice forms part (the "Circular")) up to an aggregate nominal amount of £211,800.16, such authorities to expire on 17 April 2011 (save that the Company may before such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors of the Company may allot relevant securities pursuant to any such offer or agreement as if such authority had not expired); and

(c) the directors of the Company be and they are hereby empowered (in substitution for any existing power) pursuant to section 94(2) of the Act to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority referred to in paragraph (b) above as if section 89(1) of the Act did not apply to any such allotment, provided that such power shall be limited to:

    (i) the allotment of 1,496,445 New Ordinary Shares (as defined in the Circular) pursuant to or in connection with the Subscription and 3,675,000 ordinary shares of 1p each in the capital of the Company on the exercise of the Warrants (each such term as defined and on the basis set out in the Circular); and

    (ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities to a maximum aggregate nominal amount of £23,991.43,

    such power to expire on 17 April 2011 (save that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors of the Company may allot relevant securities in pursuance of any such offer or agreement as if such power had not expired).

BY ORDER OF THE BOARD

R M Birtles
Secretary

23 March 2006

Registered Office:
Innovation Centre
217 Portobello
Sheffield
S1 4DP

Notes:

1. A member entitled to attend and vote may appoint a proxy or proxies who need not be a member of the Company to attend (and on a poll to vote) instead of him or her. Forms of proxy need to be deposited with the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 48 hours before the time of the meeting. Completion of a form of proxy will not preclude a member attending and voting in person at the meeting.
2. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001 (SI 2001 No 3755), the Company specifies that in order to have the right to attend and vote at the meeting (and also for the purpose of calculating how many votes a person entitled to attend and vote may cast), a person must be entered on the register of holders of the ordinary shares of the Company by no later than 10.00 a.m. on 16 April 2006, being 48 hours before the time fixed for the meeting. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

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