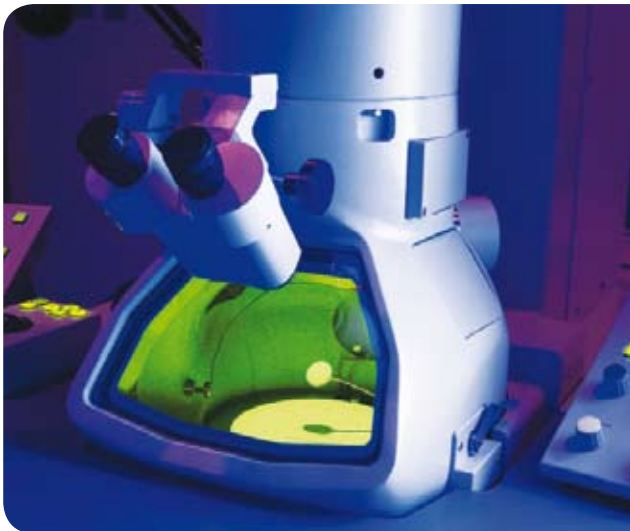


2009

fusion IP plc
interim report

fusion^{IP}

TURNING WORLD CLASS
RESEARCH INTO BUSINESS



WHO WE ARE

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

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

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

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HIGHLIGHTS

BUSINESS AND PORTFOLIO HIGHLIGHTS:

- **Completion of the expanded exclusive ten year agreement with the University of Sheffield** to include all physical sciences IP within the University
- **Magnomatics Ltd**, an engineering and renewable energy company, completed a £565,000 funding round led by White Rose Seedcorn Technology Fund
- **Mesuro Ltd**, an advanced high frequency waveform engineering business, launched out of the partnership with Cardiff University
- **Adjuvantix Ltd**, a vaccine company, completed a £350,000 funding round led by Yorkshire Cancer Research
- **Phase Focus Ltd**, an imaging company, completed a £250,000 funding round led by the Viking Fund
- **Diurnal Ltd** obtained £200,000 grant funding from Pfizer to develop its formulation for congenital adrenal hyperplasia
- **Asterion Ltd**, a biotechnology company, signed a research and option agreement with Genzyme Corp.

POST PERIOD END HIGHLIGHTS:

- **Demasq Ltd**, a medical imaging company, announced FDA and CE approval of its Knee Imaging System (KIS) and the appointment of Peter Gibson (founder of Corin) as Chairman
- **Diurnal Ltd** completed a £250,000 funding round led by Finance Wales
- **Asterion Ltd** completed a £350,000 funding round in conjunction with White Rose Seedcorn Technology Fund and appointed Michael Moore (formerly CEO of Piramed) as Chairman
- **Mesuro Ltd** completed a £1m funding round led by Finance Wales and including the ERA Foundation (ERA)

FINANCIAL HIGHLIGHTS:

- Losses for the period including the cost of subsidiary spin-outs and amortisation amounted to £2.2m (Jan 08: loss of £1.9m; FY July 08: loss of £5.0m)
- Loss for the period, excluding the cost of subsidiary spin-outs and amortisation of £0.4m (Jan 08: loss of £0.4m, FY July 08: loss of £1.6m)
- Increase in fair value of investments of £0.5m (Jan 08: increase of £0.1m; FY July 08: decrease of £0.4m)
- Cash balances at 31 January 2009 of £6.5m (Jan 08: £8.6m; FY July 08: £6.4m)
- Cash invested in period in spin-out companies of £1.3m (Jan 08: £1.1m; FY July 08: £2.8m)
- £2.1m cash raised via Placing with institutional investors in August 2008

CHAIRMAN'S STATEMENT

OVERVIEW

I am pleased to present our interim results for the six month period ended 31 January 2009, in which we have successfully expanded our University of Sheffield pipeline agreement to include the physical sciences such as renewable energy, engineering, electronics and advanced materials.

During the period we have also continued to focus on developing and building our portfolio companies, with over £1.3m invested in the period (2008: £1.1m) and have been successful in both attracting external VC investment and skilled non-executives to help the companies reach their full commercial potential.

BUSINESS MODEL

Our business model continues to be the commercialisation of leading UK university generated IP. Fusion IP owns the rights to a vast amount of quality research from two of the UK's leading universities and to date the Company has invested in some of the world's most exciting science and technology.

Through Fusion IP's exclusive partnerships with the University of Sheffield and Cardiff University, Fusion IP collaborates with university technology transfer units to identify emerging opportunities for investment. Over the duration of the agreements, both universities will have invested more than £2 billion into R&D and thus the potential assets for Fusion IP to commercialise are immense and very exciting.

The IP is then commercialised through the formation of spin-out companies where we put expert management teams in place. Our business model remains unique amongst our peers as Fusion IP initially owns 100% equity in the portfolio companies and allocates an appropriate percentage to the academics involved upon incorporation.

IP PIPELINES

Since the announcement of the expanded Sheffield agreement we have integrated the Sheffield physical sciences IP pipeline into the existing Fusion IP pipeline processes and have begun identifying a number of excellent licensing and new spin-out opportunities. The quality of IP from both the Sheffield and Cardiff pipelines continues to be encouraging. At the end of January 2009 the pipeline contained 295 disclosures including 101 patent applications in sectors varying from engineering, telecommunications, microelectronics, medicine, and biological sciences.

NEW COMPANIES

During the period we formed Mesuro Ltd, which designs and builds advanced testing and measurement systems for the global communications industry. The convergence of handheld phone, e-mail, camera and music devices has put tremendous pressure on the need to improve the power consumption of the high frequency amplifiers and transistors within a handheld device. Mesuro's unique testing and measurement system enables manufacturers to improve dramatically the efficiency of these high frequency components, significantly reducing their power requirements.

Mesuro has successfully completed a £1m fund raising in April 2009, in a round involving Finance Wales, the ERA Foundation and Fusion IP. Mesuro plans to launch its first product to the market in the second half of 2009.

Following the April 2009 funding round Fusion IP has a 49% shareholding in Mesuro.

KEY FOCUS PORTFOLIO COMPANIES

DEMASQ

Demasq is developing a range of innovative bone and soft tissue imaging products based on its advanced medical imaging technology.

Its first product, the Knee Imaging System (KIS), achieved CE approval for the UK and Europe and FDA clearance for the US in March 2009. Demasq has appointed Peter Gibson, founder of Corin, as chairman and is currently formalising a £1.5m fund raising to launch KIS to the UK and US private healthcare market.

Fusion IP currently has a 47.5% shareholding in Demasq.

MAGNOMATICS

Magnomatics continues to develop its revolutionary contactless, lubricant-free magnetic gear systems and ultra high-torque electrical machines, which offer new engineering possibilities for a range of industries from aerospace to automotive to renewable energy and beyond.

In September 2008, the company successfully completed a £565,000 funding round involving White Rose Seedcorn Technology Fund and Fusion IP.

The company will shortly have an enhanced prototype on test and has made significant progress on the development of a large application-specific machine. Magnomatics is continuing to attract significant interest in its technology in the renewable energy and marine propulsion markets, where its systems have the potential to offer lighter, smaller and more energy efficient machines.

Following the successful bid to the DTI Technology Strategy Board, Magnomatics is continuing to work with Volvo Powertrain and Danaher Motion on developing its technology for use within commercial vehicles.

Fusion IP currently has a 48% shareholding in Magnomatics.

SIMCYP

Simcyp is a profitable company which provides a platform for modelling and simulation of drug absorption, distribution, metabolism and excretion in virtual populations. The Simcyp Simulator is recognised as the industry standard for the prediction of drug-drug interactions. Predicting outcomes in virtual patient populations allows individuals at extreme risk from adverse drug reaction to be identified and unnecessary drug exposure to human volunteers and animals to be minimised.

The Simulator is licensed to consortium member clients for use in drug discovery and development. Currently, nine of the top ten pharmaceutical companies worldwide have access to Simcyp expertise through consortium membership. The consortium helps guide scientific development, ensuring that Simcyp's products and services continue to meet and exceed industry requirements.

During the period, the Simulator has been used by the US FDA and scientists from the University of Washington in a study which demonstrated the power of simulations in determining dosing strategies for drug interaction studies.

The company is still on track to achieve targeted growth in revenue and market share despite the current challenging economic environment.

Fusion IP currently has a 22% shareholding in Simcyp.

CHAIRMAN'S STATEMENT CONTINUED

KEY FOCUS PORTFOLIO COMPANIES CONTINUED

PHASE FOCUS

Phase Focus "Virtual Lens™" technology transfers the image-producing step in microscopy from sophisticated lenses to a proprietary computer application.

Following the successful completion of the first lensless optical microscope, Phase Focus raised a further £250,000 from White Rose Seedcorn Technology Fund, Viking Fund and Fusion IP in September 2008. Phase Focus is now actively pursuing strategic alliance opportunities to commercialise the Virtual Lens in optical and electron microscope applications.

Fusion IP currently has a 61% shareholding in Phase Focus.

ASTERION

Asterion is developing novel therapeutic products with superior pharmacological profiles which will improve the current treatment options for patients with chronic and debilitating diseases. The products should require less frequent doses administered at lower levels, potentially resulting in fewer side effects than existing marketed drugs.

In September 2008, the company announced that it had signed a research and option agreement with Genzyme Corp. to develop a long-acting form of a non-cytokine protein.

The development of the growth hormone product which is partnered with Ipsen has continued with another stage payment made on achieving another development milestone in January 2009.

In February 2009, Asterion appointed Dr Michael Moore as Chairman. Dr Moore brings with him a wealth of experience from several therapeutics areas gained in pharmaceutical and biotechnology companies including Piramed, where he was CEO and instrumental in the company's sale to Roche in April 2008.

Asterion also completed a £350,000 funding round in February 2009, with Fusion IP investing alongside the White Rose Seedcorn Technology Fund. These funds will enable the company to continue the development of its range of products alongside the Genzyme and Ipsen programmes.

Fusion IP currently has a 38% shareholding in Asterion.

DIURNAL

Diurnal's innovative research activities in circadian-based endocrinology (mimicking the body's natural hormone levels) have yielded novel product opportunities for a number of hormone disorders. Patients with deficiencies in these hormones require life-long treatment. Diurnal's product pipeline is based on optimising the drug delivery profile and treatment regime of well established small molecule drugs. These have known safety, toxicological profiles and robust clinical efficacy rationale which gives the potential for rapid progression to critical clinical proof-of-concept milestones without the need for substantial pre-clinical development.

Following the termination of its license with Phoqus Pharmaceuticals for the commercialisation of its hydrocortisone product "Chronocort", the licensed IP and clinical package has been returned to Diurnal. The company has progressed the development of the product and in December 2008 secured £200,000 grant funding from Pfizer to develop its formulation for congenital adrenal hyperplasia.

Following the period end in February 2009 the company has completed a £250,000 funding round with Finance Wales, Viking Fund and Fusion IP. This will enable the company to continue to develop its product range, including a testosterone oral therapy, up to the clinical trials stage.

Following the February 2009 funding round Fusion IP has a 53% shareholding in Diurnal.

ADJUVANTIX

Adjuvantix is developing a new approach to stimulate the immune system safely and increase the effectiveness of a wide range of vaccine antigens including proteins, peptides, polysaccharides and organic molecules. The technology also has the potential to improve drugs for cancer and inflammatory diseases as well as infectious diseases such as TB and AIDS.

In January 2009, the company completed a £350,000 funding round with Yorkshire Cancer Research, White Rose Seedcorn Technology Fund and Fusion IP which will enable the further validation of the Adjuvantix technology and the building of a robust data package to attract pharmaceutical partners who wish to co-develop products.

Fusion IP currently has a 43% shareholding in Adjuvantix.

DISPOSALS

AXORDIA

In December 2008, Fusion IP announced that it had sold its stake in its stem cell company, Axordia to Intercytex Group plc (Intercytex). Intercytex is a developer of regenerative medicine products. Following conversion of loans, Fusion IP had a 64.1% shareholding in Axordia, in return for which Fusion IP has received 4,489,213 Intercytex ordinary shares, giving Fusion IP a 4.8% shareholding in the enlarged Intercytex. As part

of the transaction Fusion IP used 1,059,864 Intercytex shares to repay a loan note and accrued interest to the University of Sheffield. Fusion IP currently has a 3.6% shareholding in Intercytex.

It was, however, very disappointing to note that during February 2009 Intercytex announced that their Phase 3 trial of Cyzact, in which the company had great hopes, had failed to reach its primary end point. As a result the value of Intercytex fell dramatically reducing much of the value of Fusion IP's shares in the company. Intercytex has announced that it is now considering all strategic options.

OUTLOOK

As for every company in every sector these are very challenging times, however we are encouraged by our continued ability to raise investment for our portfolio companies and by the exciting development of our key focus companies in particular. In the immediate future we plan to keep corporate operating costs low and to concentrate our efforts and resources on our leading companies. We remain confident that even given the current environment we are making good progress and we look forward to the rest of the year.

DOUG LIVERSIDGE CBE

CHAIRMAN

24 APRIL 2009

FINANCIAL REVIEW

RESULTS

The Group's reported loss from operating activities for the period amounted to £2,187,000 compared to a loss of £1,919,000 for the six months ended 31 January 2008.

The movement in reported losses arose from several factors and can be summarised as follows:

- increase in fair value gains less losses on disposal of investments: £94,000;
- increase in operating expenses primarily due to the additional amortisation of the expanded Sheffield agreement: £273,000; and
- decrease in finance income due to reduced interest rates on cash balances held: £100,000.

Excluding the cost of subsidiary spin-outs and amortisation, the Group achieved an underlying loss of £367,000 compared to a loss of £427,000 for the six months ended 31 January 2009.

CHANGES IN FAIR VALUES

The Group reported a change in fair value of £501,000 (2008: £86,000) in relation to its investments in spin-out companies. The change in fair value reflects an uplift in fair value of £1,737,000 arising from increased valuations in two unquoted funding rounds, offset by unrealised losses against three investments in unquoted portfolio companies as detailed in note 2 to the interim financial statements.

INVESTMENTS

At 31 January 2009, the Group had investments and loans in 15 spin-out companies carried at a fair value of £7,314,000 (31 July 2008: £6,426,000). During the period the Group invested £656,000 in follow-on funding (2008: £792,000).

In addition the Group has eight spin-out subsidiaries which are consolidated. During the half year the Group provided early stage funding of £631,000 to these subsidiaries (2008: £268,000).

CASH BALANCES

Cash balances of the Group as at 31 January 2009 were £6,493,000 (31 July 2008: £6,363,000). Cash balances are separately maintained to fund spin-out investments from the University of Sheffield and Cardiff University. These cash balances amounted to £1,282,000 and £4,843,000 respectively (31 July 2008: £285,000 and £5,909,000) and are also used to fund central overheads on an equal basis. The Directors believe these balances are sufficient to support the current portfolio of companies, planned creation of new portfolio companies and corporate operating expenses for at least the next twelve months.

The cash inflow of £130,000 is primarily summarised as outflows on operating activities of £1,105,000, outflows on investing activities of £375,000 and net cash received from share issues of £1,610,000.

ISSUE OF SHARE CAPITAL

On 1 August 2008, following the completion of the expanded Sheffield agreement, the Company issued 5,489,999 Ordinary shares of 1p each. Of the total number of shares, 3,140,000 were issued to the University of Sheffield and 2,349,999 shares were placed on AIM with institutional investors raising £2,115,000.

CONSOLIDATED INTERIM INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 JANUARY 2009

	Note	Six months ended 31 January 2009 £000	Six months ended 31 January 2008 £000	Year ended 31 July 2008 £000
REVENUE		139	182	359
Dividend income		54	—	—
Change in fair value of investments	2	501	86	(385)
(Loss)/gain on disposal of investments		(240)	81	44
OPERATING EXPENSES:				
– corporate operating expenses		(916)	(971)	(1,975)
– subsidiary spin-out operating expenses		(794)	(689)	(1,653)
– amortisation of intangible assets		(1,026)	(803)	(1,679)
		(2,736)	(2,463)	(5,307)
RESULTS FROM OPERATING ACTIVITIES		(2,282)	(2,114)	(5,289)
Finance income		181	314	556
Finance expenses		(86)	(119)	(231)
LOSS BEFORE TAXATION		(2,187)	(1,919)	(4,964)
Taxation		—	—	—
LOSS FOR THE PERIOD		(2,187)	(1,919)	(4,964)
ATTRIBUTABLE TO:				
– equity holders of the parent		(1,913)	(1,647)	(4,289)
– minority interest		(274)	(272)	(675)
LOSS FOR THE PERIOD		(2,187)	(1,919)	(4,964)
BASIC AND FULLY DILUTED LOSS PER SHARE	3	(4.54)p	(4.49)p	(11.70)p

CONSOLIDATED INTERIM BALANCE SHEET

AS AT 31 JANUARY 2009

	As at 31 January 2009 £000	As at 31 January 2008 £000	As at 31 July 2008 £000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	244	105	288
Intangible assets	16,451	14,427	13,608
Investments	7,314	5,969	6,426
TOTAL NON-CURRENT ASSETS	24,009	20,501	20,322
CURRENT ASSETS			
Trade and other receivables	444	967	983
Cash and cash equivalents	6,493	8,615	6,363
TOTAL CURRENT ASSETS	6,937	9,582	7,346
TOTAL ASSETS	30,946	30,083	27,668
EQUITY			
Called up share capital	422	367	367
Capital reserve	2	2	2
Share premium	36,052	31,671	31,671
Capital redemption reserve	1	1	1
Retained earnings	(10,653)	(5,806)	(8,611)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	25,824	26,235	23,430
Minority interest	—	—	—
TOTAL EQUITY	25,824	26,235	23,430
NON-CURRENT LIABILITIES			
Amounts owed to related parties	4,377	3,159	3,270
CURRENT LIABILITIES			
Trade and other payables	745	689	968
TOTAL LIABILITIES	5,122	3,848	4,238
TOTAL EQUITY AND LIABILITIES	30,946	30,083	27,668

CONSOLIDATED INTERIM CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 31 JANUARY 2009

	Six months ended 31 January 2009 £000	Six months ended 31 January 2008 £000	Year ended 31 July 2008 £000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the period	(2,187)	(1,919)	(4,964)
Adjustments for:			
– depreciation of property, plant and equipment	50	16	41
– amortisation of intangible assets	1,026	803	1,679
– net finance income	(95)	(195)	(325)
– share-based payments	—	24	24
– loss/(gain) on disposal of investments	240	(81)	(44)
– fair value movement on investments	(501)	(86)	385
Changes in working capital:			
– decrease/(increase) in trade and other receivables	539	(172)	(188)
– (decrease)/increase in trade and other payables	(130)	285	563
	(1,058)	(1,325)	(2,829)
Interest paid	(47)	(28)	(27)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(1,105)	(1,353)	(2,856)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(10)	(80)	(288)
Purchase of investments	(713)	(1,017)	(1,945)
Proceeds from disposal of investments	167	151	353
Purchase of intangible fixed assets	—	—	(57)
Interest received	181	314	556
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(375)	(632)	(1,381)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	2,115	—	—
Share issue costs	(505)	—	—
NET CASH FLOWS FROM FINANCING ACTIVITIES	1,610	—	—
Net increase/(decrease) in cash and cash equivalents	130	(1,985)	(4,237)
Cash and cash equivalents at the beginning of the period	6,363	10,600	10,600
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	6,493	8,615	6,363

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 JANUARY 2009

	Attributable to equity holders of the Group					Minority interests £000	Total £000
	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total £000		
At 1 August 2007	367	31,671	3	(3,972)	28,069	—	28,069
Consolidated loss for the period to 31 January 2008	—	—	—	(1,647)	(1,647)	(272)	(1,919)
Minority interest attributable to Group	—	—	—	(211)	(211)	211	—
Share-based payments	—	—	—	24	24	—	24
Disposal of subsidiaries	—	—	—	—	—	61	61
At 31 January 2008	367	31,671	3	(5,806)	26,235	—	26,235
Consolidated loss for the period to 31 July 2008	—	—	—	(2,642)	(2,642)	(403)	(3,045)
Minority interest attributable to Group	—	—	—	(163)	(163)	163	—
Disposal of subsidiaries	—	—	—	—	—	240	240
At 31 July 2008	367	31,671	3	(8,611)	23,430	—	23,430
Consolidated loss for the period to 31 January 2009	—	—	—	(1,913)	(1,913)	(274)	(2,187)
Minority interest attributable to Group	—	—	—	(129)	(129)	129	—
Issue of share capital	55	4,381	—	—	4,436	—	4,436
Disposal of subsidiaries	—	—	—	—	—	145	145
AT 31 JANUARY 2009	422	36,052	3	(10,653)	25,824	—	25,824

NOTES TO THE INTERIM RESULTS

FOR THE SIX MONTHS ENDED 31 JANUARY 2009

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

The interim results of Fusion IP plc (the "Group") are for the six months ended 31 January 2009.

These unaudited consolidated interim financial statements have been prepared in accordance with the AIM Rules. These comprise the Consolidated Interim Income Statement, the Consolidated Interim Balance Sheet, the Consolidated Interim Cash Flow Statement, the Consolidated Interim Statement of Changes in Equity and the related notes ("the interim financial statements"). The Group has chosen not to adopt IAS 34 "Interim Financial Reporting" in the preparation of these interim financial statements.

These interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets at fair value, as required by IAS 39 "Financial Instruments: Recognition and Measurement".

These interim financial statements do not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for the year ended 31 July 2008 were approved by the Board of Directors on 8 October 2008 and delivered to the Registrar of Companies. The report of the auditors was: (i) unqualified; (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and (iii) did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 July 2008, as described in those financial statements. These interim financial statements are presented in Sterling, rounded to the nearest thousand.

GOING CONCERN

The consolidated interim financial statements are prepared on the going concern basis. Cash balances at 31 January 2009 amount to £6,493,000 (31 July 2008: £6,363,000). The balances are considered sufficient to meet expenditure for at least the next twelve months from the date of approval of these consolidated interim financial statements. In addition the Company's forecast expenditure includes amounts of a discretionary basis in relation to potential investments.

Cash balances are separately ring fenced for investment in spin-outs from the University of Sheffield and Cardiff University. At the period end these balances are £1,282,000 and £4,843,000 respectively. Under the terms of the agreements with both universities, should the cash balances in the ring fenced funds fall below £500,000, the university has the right to suspend the rights to the future IP pipeline. Cash balances within the Sheffield fund are likely to fall below the de minimus limit at some stage within the next twelve months assuming no additional funds are raised in the meantime. The Directors have received confirmation from the University of Sheffield that they will waive their right to suspend the future IP pipeline for at least the next twelve months from the date of approval of these consolidated interim financial statements.

NOTES TO THE INTERIM RESULTS CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2009

1 ACCOUNTING POLICIES CONTINUED

BASIS OF CONSOLIDATION

(a) Subsidiaries

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

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

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

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

(b) Spin-out investments

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

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

REVENUE RECOGNITION

Revenue comprises:

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

1. ACCOUNTING POLICIES CONTINUED

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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

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

INTANGIBLE ASSETS – INTELLECTUAL PROPERTY (IP) RIGHTS

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

NON-CURRENT LIABILITIES OWED TO RELATED PARTIES

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

NOTES TO THE INTERIM RESULTS CONTINUED
FOR THE SIX MONTHS ENDED 31 JANUARY 2009**2. INVESTMENTS – DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS**

	Spin-out companies £000	Loans £000	Total £000
FAIR VALUE			
At 1 August 2008	4,667	1,759	6,426
Additional investments/loans	192	464	656
Transfers	945	(945)	—
Disposals	—	(269)	(269)
Change in fair value in the period	501	—	501
AT 31 JANUARY 2009	6,305	1,009	7,314
CHANGE IN FAIR VALUE IN THE PERIOD			
Fair value gains	1,737	—	1,737
Fair value losses	(1,236)	—	(1,236)
	501	—	501

3. LOSS PER SHARE

The basic loss per share is calculated on the basis of the losses attributable to equity shareholders and the average number of shares in issue being 42,153,966 for the period ended 31 January 2009 (36,663,967 for 31 July 2008 and 36,663,967 for 31 January 2008). Share options are non-dilutive for the period because of the loss. There were no dividends for the period ended 31 January 2009.

4. INTANGIBLE ASSETS

Following the signing of the expanded Sheffield agreement for all physical sciences IP, the Group has treated the consideration for the IP rights amounting to £3,913,000 on the same basis as the Cardiff University IP rights and chosen to amortise the IP rights over the ten-year life of the agreement with provision made for any impairment when required.

5. SHARE CAPITAL

On 1 August 2008, following the completion of the expanded Sheffield agreement the Company issued 5,489,999 Ordinary shares of 1p each. Of the total number of shares, 3,140,000 were issued to the University of Sheffield and 2,349,999 shares were placed on AIM with institutional investors raising £2,115,000. The new shares issued represented 15% of the Company's then existing share capital and following the issue represents 13% of the Company's enlarged issued share capital. The Company's current issued share capital is 42,153,966 Ordinary shares of 1p each.

6. RELATED PARTY TRANSACTIONS

During the period, under the terms of the expanded Sheffield agreement dated August 2008, Fusion IP paid the University of Sheffield £52,000 (2008: £nil) as payments to support the management of the IP pipeline. At 31 January 2009, Fusion IP owed the University of Sheffield £1,838,000 (2008: £1,805,000) relating to loan notes and accrued interest arising from the purchase of interests in portfolio spin-out companies.

Under the terms of the agreement dated January 2007, Fusion IP paid Cardiff University £105,000 (2008: £105,000) as payments to support the management of the IP pipeline. At 31 January 2009, Fusion IP owed Cardiff University £1,383,000 (2008: £1,287,000) relating to loan notes and accrued interest arising from the purchase of interests in portfolio spin-out companies.

INDEPENDENT REVIEW REPORT

TO FUSION IP PLC

INTRODUCTION

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly report for the six months ended 31 January 2009 which comprises the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related explanatory notes. We have read the other information contained in the half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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 half-yearly report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly report in accordance with the AIM Rules.

The annual financial statements of the Group are prepared in accordance with IFRS as adopted by the EU. The condensed set of financial statements included in this half-yearly report has been prepared in accordance with the recognition and measurement requirements of IFRS as adopted by the EU.

The accounting policies that have been adopted in preparing the condensed set of financial statements are consistent with those that the Directors currently intend to use in the next annual financial statements.

OUR RESPONSIBILITY

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly report based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 31 January 2009 is not prepared, in all material respects, in accordance with the recognition and measurement requirements of IFRS as adopted by the EU and the AIM Rules.

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