

## Enterprise and Learning Committee

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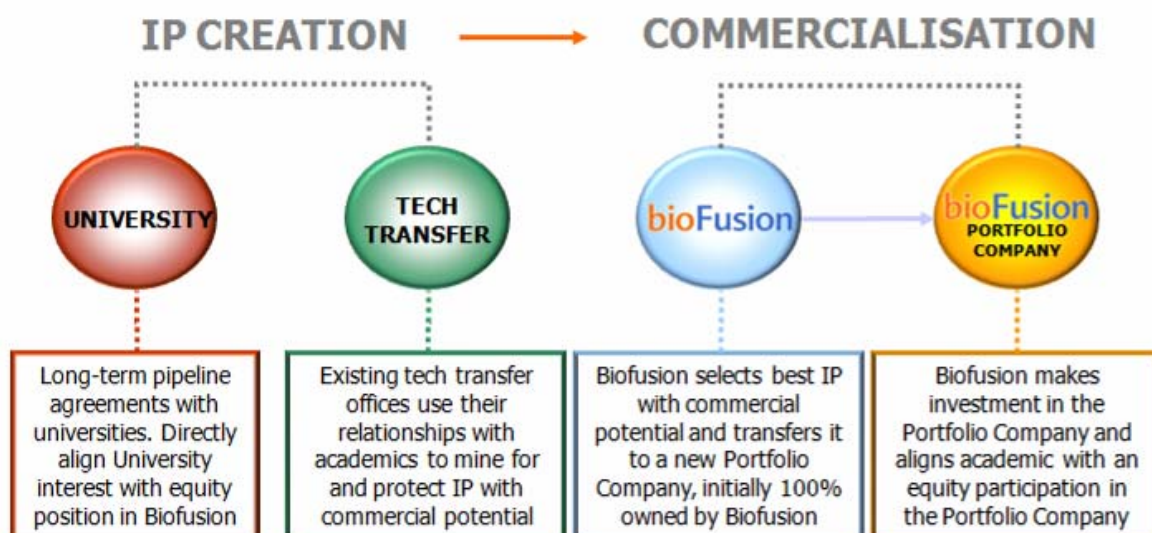
### Background to Biofusion

Biofusion works in partnership with leading universities to build businesses from their world class research.

Founded in 2005, Biofusion is listed on AIM and currently has agreements with two of the UK's leading universities – University of Sheffield and Cardiff University.

These agreements give Biofusion a 10 year exclusive 'first look option' over the right to set up a spin-out company from any university owned intellectual property (IP). In return for this exclusive option, Biofusion gives the University a significant shareholding in Biofusion (Cardiff own a 30% shareholding which was worth £15.9m when the agreement was signed) as well as creating an £8m ring fenced investment fund specifically for investing in Cardiff University spin-out companies. In addition Biofusion pays the University to support the cost of running the University's technology transfer team, RACD (Research and Commercial Division), who help identify and mine the IP emanating from the academics in the university.

This approach lets the University focus on its strength, which is the creation of brilliant IP from world class blue sky research, and lets us focus on turning that research into a world class business:

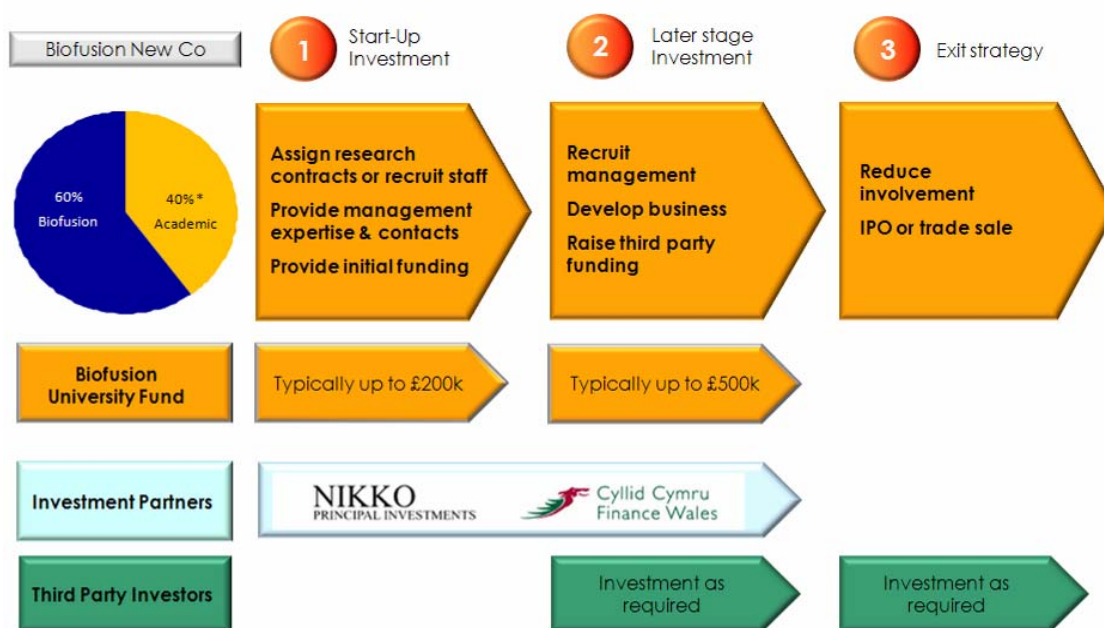


All through the process we work with both the academic inventor and the university tech transfer team to develop a robust business and investment plan that all parties

agree to. At the end of this process, the plan is presented to the Biofusion investment committee for approval and only if successful is a new spin-out created.

Biofusion's policy is to reward the academic inventor with a significant shareholding in the new start-up company, generally 40%. However the academic is never expected to be the entrepreneur or driver of the business. In most cases the academic stays within the university and the main commercial drive of the business is left to Biofusion and the company's management team.

The typical funding path of a new spin-out to exit is as follows:



The agreement with Cardiff was completed in February 2007 and we have to date invested just under £1m in five existing Cardiff spin-out companies ( Medaphor, Cardiff Protides, Cardiff Biologicals, Abcellute and Q-Chip) and invested £0.5m in our first new spin-out company, Demasq.

We have an excellent relationship with Finance Wales, who have co- invested £425k in three of the spin-outs with us and in September 2007 signed an investment MOU to show them all spin-out investment opportunities that emanate from Cardiff University.

Our policy is to work closely with RACD to identify any IP that could be turned into a successful business and create value for the company and its shareholders (of which the largest shareholder is Cardiff University). This partnership is working extremely

well in practise as it enables us to get close to the academic at the start of the commercialisation process and quickly identify areas of potential concern.

The Biofusion board consists of nine non-executive directors who have broad experience in both the life science sectors and non-life science sectors.

The Biofusion executive team, who run the company on an operational basis have all been involved in a number of small company start-ups and taken them through to exit by either IPO or trade sale. Our specialist experiences combine finance, sales and marketing and science and we are supported by a team of commercial managers in each university who liaise directly with the existing technology transfer teams, to identify the IP with the most commercial potential and then create the new spin-out company.

This process is supported, as appropriate, by a network of specialist consultants who help provide market research or specific business sector experience.

Biofusion currently has shareholdings in 23 spin-out companies and aims to create a minimum of three to four new companies a year from the Cardiff pipeline. Any IP that is not used by Biofusion to create a new spin-out company is returned to Cardiff University to license.