Fusion Antibodies Limited

Annual report

for the year ended 31 March 2010

Registered Number NI 39740

Fusion Antibodies Limited

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for the year ended 31 March 2010

Contents

Fusion Antibodies Limited

Directors and advisers

Directors
Professor Sir John Cadogan CBE FRS (Chairman)
Professor Jim Johnston
Mr David Moore
Dr Alan Mawson
Dr John Maynard
Dr Simon Douglas
Mr Colin Walsh
Dr Nigel Courtenay Luck

Secretary
Tuglaw Secretarial Limited

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Registered Auditors
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Fusion Antibodies Limited

Directors' report for the year ended 31 March 2010

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2010

The directors report has been prepared in accordance with the small companies regime of the Companies Act 2006 and the Financial Reporting Standard for Small Entities (effective April 2008) (FRSSE)

Principal activities
The principal activities of the Company are the research development and manufacture of recombinant proteins and antibodies particularly in the areas of cancer and infectious disease as well as the research and development of processes to be used in the pharmaceutical and life science fields

Review of business and future developments
The research has made good progress and the directors are satisfied with the development of the anticancer therapeutic pipeline to date In particular significant progress has been made on the lead drug Fsn0503h a human antibody directed against Cathepsin S The drug has been shown to be active on its own as a mono therapy in slowing tumour growth in in vivo models Additionally it has been shown to work synergistically in combination with mainstream anti cancer drugs this combination data showing significant tumour growth reduction These promising results have given the Directors the confidence that this drug could be taken forward to the clinic Additionally it has attracted the attention of several potential collaboration partners Further research will continue on this drug and also on a second drug from within the pipeline which is also showing clear potential

The service continues to develop it techniques and the revenue from the contract service business is in line with expectations

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

The key business risks and uncertainties affecting the Company are considered to relate to the early stage development of the business the availability and terms of investment capital the ability to receive regulatory approvals and the uncertainty over the success of clinical trials

Results and dividends
The Company incurred losses of £960 226 in the year compared to losses of £1 319 918 in 2009 The loss arose as a consequence of the Company investing significantly in human resources research costs legal and professional and travel costs to facilitate the planned future expansion and continued research of the Company

The directors do not recommend payment of a dividend No dividend was paid in the prior year

Research and development
During the year the company charged research and development costs of £1 076 192 (2009 £1 146 627) to the profit and loss account

Going concern
The accounts have been prepared on the going concern basis which is dependent on the company securing additional funds by entering into a commercial agreement and raising further finance Further information is disclosed in note 1 to the financial statements

Fusion Antibodies Limited

Directors' report for the year ended 31 March 2010 (continued)

Directors
The directors who held office for the year and up to the date of signing the financial statements are given below

Professor Sir John Cadogan CBE FRS (Chairman)
Professor Jim Johnston
Mr David Moore
Dr Alan Mawson
Dr John Maynard
Dr Simon Douglas
Mr Colin Walsh
Dr Nigel Courtenay Luck

Post balance sheet events
A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement The Finance (No 2) Act 2010 included legislation to reduce the main rate of corporation tax from 28% to 27% and the small entity rate from 21% to 20% from April 2011 Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014 The changes had not been substantively enacted at the balance sheet date and therefore are not included in these financial statements

On 9 December 2010 the Company issued 35 008 ordinary shares of £1 each for cash consideration before issue expenses of £350 080

Statement of directors responsibilities in respect of the Annual Report and the financial statements
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period

In preparing those financial statements the directors are required to

- select suitable accounting policies and then apply them consistently and
- make judgements and estimates that are reasonable and prudent

The directors confirm that they have complied with the above requirements in preparing the financial statements

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Statement of disclosure of information to auditors
So far as each of the directors in office at the date of approval of these financial statements are aware

- there is no relevant audit information of which the Company s auditors are unaware and
- they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company s auditors are aware of that information

Directors' report for the year ended 31 March 2010 (continued)

Auditors
PricewaterhouseCoopers LLP have indicated their willingness to continue as auditors A resolution concerning their appointment will be proposed at the Annual General Meeting

Small Company
This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006

On behalf of the board

Dr Simon Douglas
Director

Independent Auditors' Report to the Members of Fusion Antibodies Limited

We have audited the financial statements of Fusion Antibodies Limited for the year ended 31 March 2010 which comprise the Profit and Loss Account the Balance Sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and the Financial Reporting Standard for Smaller Entities (Effective April 2008) (United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities)

Respective responsibilities of directors and auditors
As explained more fully in the Statement of Directors Responsibilities set out on page 3 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board s Ethical Standards for Auditors

This report including the opinions has been prepared for and only for the company s members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not in giving these opinions accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company s circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates made by the directors and the overall presentation of the financial statements

Opinion on financial statements
In our opinion the financial statements

give a true and fair view of the state of the company s affairs as at 31 March 2010 and of its loss for the year then ended

have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities and

have been prepared in accordance with the requirements of the Companies Act 2006

Emphasis of matter – going concern
In forming our opinion on the financial statements which is not qualified we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the basis of preparation The financial statements have been prepared on a going concern basis and the validity of this depends on the Company being able to secure its financial position This condition indicates the existence of a material uncertainty which may cast significant doubt about the Company s ability to continue as a going concern The financial statements do not include any adjustments that would result from a failure to secure such finance

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent Auditors' Report to the Members of Fusion Antibodies Limited (continued)

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if in our opinion

adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us or

the financial statements are not in agreement with the accounting records and returns or

certain disclosures of directors remuneration specified by law are not made or

we have not received all the information and explanations we require for our audit or

the directors were not entitled to prepare the financial statements and the Directors Report in accordance with the small companies regime

Simon Ormiston

Simon Ormiston
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
Date 23 December 2010

Fusion Antibodies Limited

Profit and loss account for the year ended 31 March 2010

	Note	2010 £	2009 £
Turnover		**436 947**	461 061
Cost of sales		**(196,306)**	(248 612)
Gross profit		**240 641**	212 449
Research and development expenditure		**(1 026 192)**	(1 146 623)
Administrative expenses		**(749,588)**	(816 507)
Other operating income		**521 243**	395 995
Operating loss		**(1 013 896)**	(1 354 686)
Interest receivable		**43**	19 848
Interest payable	4	**(1 471)**	(3 245)
Loss on ordinary activities before taxation	2	**(1 015,324)**	(1 338 083)
Tax credit on loss on ordinary activities	5	**55 098**	18 165
Loss for the financial year	13	**(960,226)**	(1 319 918)

The results for the year above are derived entirely from continuing operations

The Company has no recognised gains and losses other than the results above and therefore no separate statement of total recognised gains and losses has been presented

There is no material difference between the loss on ordinary activities before taxation and the loss for the financial year stated above and their historical cost equivalents

Fusion Antibodies Limited

Balance sheet as at 31 March 2010

	Note	2010 £	2009 £
Fixed assets			
Tangible assets	6	**253 827**	312 023
Current assets			
Debtors	7	**246 973**	380 618
Cash at bank and in hand		**318 496**	127 866
		565 469	508 484
Creditors amounts falling due within one year	8	**(280 646)**	(600 458)
Net current assets/(liabilities)		**284 823**	(91 974)
Total assets less current liabilities		**538 650**	220 049
Creditors amounts falling due after more than one year	9	**(3 919)**	(12 169)
Provisions for liabilities and charges	10	**(20 000)**	(20 000)
Net assets		**514 731**	187 880
Capital and reserves			
Called up share capital	11	**354 198**	266 039
Share premium account	13	**4 846,303**	3 647 385
Profit and loss account	13	**(4 685 770)**	(3 725 544)
Shareholders funds	14	**514 731**	187 880

The financial statements on pages 7 to 17 have been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006 and with the Financial Reporting Standard for Smaller Entities (effective April 2008) and were approved by the Board of Directors on 16th December 2010 and were signed on its behalf by

Dr Simon Douglas
Director

Notes to the financial statements for the year ended 31 March 2010

1 Principal accounting policies

These financial statements are prepared on the going concern basis under the historical cost convention and in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006 and with the Financial Reporting Standard for Smaller Entities (effective April 2008) The principal accounting policies are set out below

Basis of preparation – going concern
At 31 March 2010 the Company had cash of £318 496 (2009 £127 866) and an overdraft amounting to £8 624 (2009 £79 576) On 9 December 2010 the Company issued 35 008 ordinary shares for a cash consideration of £350 080

The directors estimate the cash at the date of approval of the financial statements is not sufficient to continue funding the Company s trading activities for a further twelve months from the date of that approval Accordingly the directors currently plan to secure additional funds by entering into a commercial agreement and by raising further finance which would enable the Company to continue its activities for the foreseeable future There is an uncertainty over the amount of funds that would be obtained and whether funding would be received within the expected timescale

However the directors are confident that the existing and future investment finance will secure the future of the Company for a period of twelve months from the date of approval of the financial statements and therefore believe that it is appropriate that these financial statements are prepared on the going concern basis This basis of preparation assumes that the Company will continue in operational existence for the foreseeable future the validity of which depends on the directors securing the financial position of the Company

If the Company was unable to continue in operational existence for the foreseeable future adjustments would have to be made to revise the balance sheet value of assets to their recoverable amounts to provide for further liabilities that might arise and to reclassify fixed assets as current assets

Cash flow statement
As the Company is a small company advantage has been taken of the exemption available under FRS 1 Cash flow statements from the necessity to present a cash flow statement

Turnover
Turnover represents the total invoice value excluding value added tax of goods supplied during the year Revenue is recognised upon shipment of products which is when title to the product is transferred to the customer

Government grants
Government grants are recognised in the profit and loss account (as other operating income) on a case by-case basis assessed by the level of expenditure incurred on the specific grant project when in the opinion of the directors the receipt of the grant is reasonably certain During the year the Company recognised £521 243 (2009 £395 995) in grant income

Research and development
Costs incurred in research and development are expensed to the profit and loss account as they arise

Patents
Patents acquired from external sources are expensed to the profit and loss account as they arise

Notes to the financial statements for the year ended 31 March 2010 (continued)

1 Principal accounting policies (continued)

Leases
Costs in respect of operating leases are charged on a straight line basis over the lease term Benefits such as lower rental payments in the first year of the lease received or receivable as incentives to take on operating leases are spread on a straight line basis over the period to the first break clause in the lease A provision is made for dilapidations at the start of a lease based on the directors best estimate of the costs to be incurred on cessation of the lease under the lease agreement An asset is recognised in leasehold improvements within fixed assets and a charge is made to the profit and loss account over the period to the first break clause in the lease

Foreign currencies
Transactions denominated in foreign currencies are translated into sterling at the actual rate of exchange effective at the date of the transaction Monetary assets and liabilities denominated in foreign currencies have been translated at rates prevailing at the balance sheet date Any difference arising from a change in exchange rates subsequent to the date of the transaction are taken as an exchange gain or loss to the profit and loss account in the year in which they arise and are included in operating expenses

Fixed assets
The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual values, over the expected useful economic lives of the assets concerned The principal annual rates and methods used for this purpose are

Leasehold improvements	10% straight line
Capitalised dilapidation provison	20% straight line
Plant and machinery	25% reducing balance
Fixtures and fittings and equipment	25% reducing balance

Deferred taxation
Full provision is made for deferred taxation in accordance with FRS 19 (Deferred tax) on all material timing differences Deferred tax assets are recognised to the extent that thev are recoverable Deferred tax assets and liabilities are not discounted

Share options
The Company has adopted the Financial Reporting Standard for Smaller Entities (FRSSE) and thereby has taken the exemption in FRS 20 Share based pavments not to apply fair value principles to share options granted to employees and directors of the Company However when options or shares are granted to non employees a charge reflecting the fair value of the services provided, to the extent that they are not paid in cash is made to the profit and loss account and credited back to reserves

Pension costs
The companv provides a defined contribution pension scheme the assets of which are held separately from those of the companv in an independently administered fund Contributions to this scheme are charged to the profit and loss account as they become payable

Notes to the financial statements for the year ended 31 March 2010 (continued)

2 Loss on ordinary activities before taxation

	2010 £	2009 £
Loss on ordinarv activities before taxation is stated after charging/(crediting)		
Depreciation of tangible assets	**69 736**	75 672
Loss/(profit) on foreign currencies	**17 977**	(26 450)
Audit services provided by the companv s auditors		
Fees payable for the audit	**12 000**	14 318
Operating lease charges – land and buildings	**74,250**	74 250
Grant income	**(521 243)**	(395 995)

3 Directors' emoluments

	2010 £	2009 £
Aggregate emoluments	**216,587**	215 176
Sums paid to third parties for directors services	**6 000**	79 876

At the year end no retirement benefits were accruing to directors under a defined contribution scheme (2009 none)

4 Interest payable and similar charges

	2010 £	2009 £
On bank loans and overdrafts	**100**	1 894
Other interest payable	**1,371**	1 351
	1 471	3,245

5 Tax (credit) on loss on ordinary activities

	2010 £	2009 £
United Kingdom research and development tax (credit) at 14 0 ⁄ (2009 14 67 ⁄)		
Current year	**(44,276)**	(27 842)
Adjustment in respect of prior vear	**(10 822)**	4 677
	(55 098)	(18 165)

No corporation tax liability arises on the results for the vear due to the loss incurred A tax credit of £55 098 (2009 £22 842) ha- arisen as a result of tax losses being surrendered in respect of research and development expenditure

Fusion Antibodies Limited

Notes to the financial statements for the year ended 31 March 2010 (continued)

6 Tangible fixed assets

	Leasehold improvements £	Plant and machinery £	Fixtures fittings equipment £	Total £
Cost				
At 1 April 2009	156 059	398 903	42 162	597 124
Disposals		(15 907)		(15 907)
Additions		13 086	577	13 663
At 31 March 2010	**156 059**	**396 082**	**42 739**	**594 880**
Depreciation				
At 1 April 2009	42 882	225 916	16 303	285 101
Disposals		(13 784)		(13 784)
Charge for the year	17 606	45 582	6 548	69 736
At 31 March 2010	**60 488**	**257 714**	**22 851**	**341 053**
Net book value at 31 March 2010	**95 571**	**138,368**	**19 888**	**253 827**
Net book value at 31 March 2009	113 177	172 987	25 859	312 023

7 Debtors

	2010 £	2009 £
Amounts falling due within one year		
Trade debtors	**99 447**	189 444
Grants receivable		83 305
VAT refundable	**36 971**	25 162
Research and development tax credit	**77 940**	74 051
Other debtors	**815**	1 447
Prepayments and accrued income	**31 800**	7,209
	246 973	380 618

Notes to the financial statements for the year ended 31 March 2010 (continued)

8 Creditors amounts falling due within one year

	2010 £	2009 £
Bank loan and overdraft	**8 624**	79 576
Trade creditors	**179 707**	334 144
Other taxation and social security	**12 775**	62 908
Other creditors	**18 494**	8 250
Accruals and deferred income	**61 046**	115 580
	280 646	600 458

HSBC hold a fixed charge over all present freehold and leasehold property and a first fixed charge over book and other debts chattels goodwill and uncalled capital both present and future At the balance sheet date the Company had £8 624 (2009 £79 576) indebtedness to HSBC

Invest Northern Ireland hold a fixed charge over all present freehold and leasehold property plant and machinery and chattels and a first fixed charge over book and other debts both present and future This security relates to any liability arising to Invest NI under a research and development grant made to the company for the period December 2008 to July 2010 At the balance sheet date the company had no liability to Invest NI in relation to this grant.

9 Creditors amounts falling due after one year

	2010 £	2009 £
Other creditors	**3 919**	12 169

Maturity of financial borrowings

	2010 £	2009 £
In one year or less or on demand	8 624	79 576

10 Provisions for liabilities and charges

	Dilapidations provision £
At 1 April 2009 and at 31 March 2010	**20 000**

During the year ended 31 March 2007 the Company entered into a lease agreement which requires a provision to be made for the expected costs of repairing the building at the end of the lease period The directors estimate that these costs could amount to £20 000 An asset has been recognised in leasehold improvements within fixed assets and a charge is made to the profit and loss account over the period to the first break clause in the lease This lease expires in September 2011

Notes to the financial statements for the year ended 31 March 2010 (continued)

11 Called up share capital

	2010 £	2009 £
Authorised		
8 000 000 (2009 8 000 000) £1 ordinary shares	**8 000 000**	8 000 000
Allotted called up and fully paid		
354 198 (2009 266 039) £1 ordinary shares	**354 198**	266 039

On 17 April 2009 the Company issued 41 930 ordinary shares of £1 each for cash consideration before issue expenses of £838 600

On 4 June 2009 the Company issued 24 248 ordinary shares of £1 each for cash consideration before issue expenses of £24 248

On 19 June 2009 the Company issued 500 ordinary shares of £1 each for cash consideration before issue expenses of £10 000

On 17 July 2009 the Company issued 2 000 ordinary shares of £1 each for cash consideration before issue expenses of £40 000

On 15 September 2009 the Company issued 1 200 ordinary shares of £1 each for cash consideration before issue costs of £24 000

On 28 September 2009 the Company issued 1 900 ordinary shares of £1 each for cash consideration before issue costs of £38 000

On 22 October 2009 the company issued 2 344 ordinary shares of £1 each for cash consideration before issue expenses of £46 880

On 31 March 2010 the company issued 14 037 ordinary shares of £1 each for cash consideration before issue expenses of £280 740

Notes to the financial statements for the year ended 31 March 2010 (continued)

12 Share options

Total share options existing over the Ordinary shares of £1 each in the Company are summarised below

Date granted	Exercise price	Period when exercisable (note 1)	Number of shares
24 November 2005	£4 15	Not after 24 November 2015	5 050
16 February 2006	£4 15	Not after 16 February 2016	1 450
31 August 2006	£4 15	Not after 31 August 2016	1 000
18 April 2007	£1 00	Not after 18 April 2017	5 000
6 February 2008	£6 00	Not after 6 February 2018	4 650
28 February 2008	£1 00	Not after 28 February 2018	4 000
8 September 2008	£1 00	Not after 8 September 2018	5 500
8 October 2009	£4 00	Not after 8 October 2019	16 650
8 October 2009	£1 00	Not after 8 October 2019	11 750
Total			**55 050**

Note 1 The share options may only be exercised on the Company meeting the criteria set out in the Rules of the Fusion Antibodies Limited 2005 Enterprise Management Incentive Scheme and where applicable the Unapproved Scheme

	Number of options
At 1 April 2009	26 800
Granted in the year	28 400
Lapse in the year	(150)
At 31 March 2010	55 050

Enterprise Management Incentive Scheme "EMI"
An EMI Scheme was established by resolution of the Directors on 24 November 2005 The right to exercise the option shall not vest until nine years and three hundred and sixty four days from the date of grant of the option except in the accordance of Rules 11 and 12 (demerger reconstruction winding up or take over of the Company) of the Fusion Antibodies Limited 2005 EMI scheme

13 Reserves

	Share premium account £	Profit and loss account £
At 1 April 2009	3 647 385	(3 725 544)
Loss for the financial year		(960,226)
Premium on shares issued during the year (net of issue costs of £15 391)	1 198 918	
At 31 March 2010	**4 846,303**	**4 685 770**

Notes to the financial statements for the year ended 31 March 2010 (continued)

14 Reconciliation of movements in shareholders' funds

	2010 £	2009 £
Opening shareholders funds	**187 880**	655 136
Loss for the financial year	**(960 226)**	(1 319 918)
Net proceeds from the issue of ordinary share capital	**1,287 077**	852 662
Closing shareholders funds	**514 731**	187 880

15 Financial and capital commitments

At 31 March 2010 the Company had annual commitments under non-cancellable operating leases as follows

	2010 Land and buildings £	2009 Land and buildings £
Expiring within two to five years	**82 500**	82 500

At 31 March 2010 there were no capital commitments contracted for but not provided for in the financial statements (2009 £nil)

16 Contingent assets

At 31 March 2010 the Company had performed research and development work totalling £533 764 against which matched funding of 50% has been claimed in government grants The receipt of £266 882 is contingent on the outcome of an external audit of the claims and has therefore not been recognised as income in these financial statements in accordance with the Company s accounting policy Since the year end, £266 882 has been received

17 Contingent Liabilities

During the year the Directors agreed to defer some of their remuneration until such time as the company has sufficient finances in place either through a partnership agreement to take its lead research compound through drug development or by securing investment or funding to proceed on its own As the company was not in such a position at the year end these amounts have not been accrued Accordingly the Company has a liability of £132 034 to directors and third parties for directors services contingent upon sufficient financing being put in place

18 Related party transactions

During the year the Company made sales of £1 288 (2009 £11 685) to Queens University Belfast (QUB) a University of which Jim Johnston (Director) is Professor of Immunology of which £1 171 (2009 £4 427) was outstanding In addition the Company purchased a range of services during the year from QUB totalling £97 134 (2009 £86 755) of which £20 151 (2009 £57 974) was outstanding at 31 March 2010

19 Ultimate controlling party

The Company does not have an ultimate controlling party

Notes to the financial statements for the year ended 31 March 2010 (continued)

20 Pension commitments and other post retirement benefits

Defined contribution scheme

The company operates a defined contribution pension scheme The assets of the scheme are held separately from those of the company in an independently administered fund The pension cost and charge represents contributions pavable by the company to the fund and amounted to £22 397 (2009 £7 917) At 31 March 2010 contributions amounting to £2 991 (2009 £3 496) were payable to the fund and were included in creditors

21 Post balance sheet events

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement The Finance (No 2) Act 2010 included legislation to reduce the main rate of corporation tax from 28% to 27% and the small entity rate from 21% to 20% from April 2011 Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014 The changes had not been substantively enacted at the balance sheet date and therefore are not included in these financial statements