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Innovative products for consumer health

FUTURA MEDICAL

Annual report and accounts 2007

Futura Medical plc ("Futura") develops innovative products for the consumer healthcare market

Our vision is to leverage our skills and expertise to bring to market some of the world's most innovative consumer healthcare products

The Company's strategy is to out-license manufacture and distribution to major pharmaceutical and healthcare groups

Futura is developing a portfolio of products in sexual healthcare and pain relief management and is evaluating further therapeutic opportunities as potential additions to its growing pipeline

Futura is based at The Surrey Research Park, Guildford, Surrey, and its shares trade on the AIM market of the London Stock Exchange

Highlights

- **Substantial progress across the Company as it moves closer to regulatory approval of its first condom product, CSD500**
- **CSD500 - Statistically significant clinical trial results reinforcing the product's commercial potential**
- **MED2002 - Global development, marketing and licensing agreement signed with SSL International plc for the Company's topically applied gel for erectile dysfunction**
- **TPR100 - Exclusivity agreement signed with GlaxoSmithKline Consumer Healthcare for the evaluation of Futura's topical formulations for pain relief and the negotiation of global distribution rights**
- **PET500 – Exciting new application of our DermaSys® technology for the treatment of premature ejaculation and Phase I study to commence shortly**
- **South East England Development Agency ("SEEDA") grant awarded of up to £200,000**
- **Funding raised of £1.00 million with further £1.00 million equity funding facility arranged**
- **Net loss of £2.25 million (2006: net loss of £1.78 million)**
- **Cash of £2 64 million at 31 December 2007 (2006. £3.78 million including medium term deposits)**

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Futura at a Glance

We currently have four main products in development for sexual healthcare and for pain relief management These are CSD500, FLD500, MED2002 and TPR100 We are also actively working on the next generation of product opportunities Of these our premature ejaculation treatment, PET500, is showing significant potential and is expected to enter into a clinical study shortly

Our licensing partnerships

Futura has signed a global distribution agreement with the world's largest branded condom manufacturer and distributor, SSL International plc (makers of the Durex® condom range), for CSD500 and FLD500 for the lifetime of their patents

Futura also signed a global development and licensing agreement with SSL International plc for MED2002, our topical treatment for erectile dysfunction

SSL International logo
MAKERS OF 'durex logo'

"CSD500 is a highly innovative solution that will improve the sexual well-being of millions of people We look forward to seeing this in the Durex® condom range "

Leigh Taylor,
Head of Innovation, SSL

GlaxoSmithKline and Futura are in a period of exclusive discussions to allow Futura to conduct a study to evaluate TPR100 and negotiations for the global distribution rights

DermaSys® - Our proprietary drug delivery technology

Futura has developed a highly efficient and proprietary trans-dermal delivery technology, DermaSys®, for the absorption of active molecules through the skin The DermaSys® technology was originally developed by Futura for use in our topical treatment for erectile dysfunction, MED2002

DermaSys® is a versatile technology in that it can be tailored to suit the specific active compound being used and the therapeutic indication Such targeted delivery offers an optimised profile in terms of dose, onset time and duration of effect, as well as an improved safety profile through lower systemic uptake and the reduced risk of side effects

Futura was awarded a grant for research and development from the South East England Development Agency ("SEEDA") to support the conduct of a specific project in relation to the development of a pipeline product that uses DermaSys®

To maximise the value of this intellectual property asset, Futura has been evaluating its use with a range of compounds and is undertaking further work on a treatment for premature ejaculation (PET500) In addition Futura is assessing the potential value of using DermaSys® with a range of other compounds

Product Pipeline

The principal activity of the Group is the research and development of medical devices and pharmaceutical drugs and their commercial exploitation with the main focus being on sexual healthcare

Devices

	Pre clinical	Early clinical	Late clinical	Design completion	Shelf life determination	Dossier submission	Dossier approval/ market launch
CSD500							

CSD500 is a condom that incorporates an erectogenic compound which comes into contact with the penis on application of the condom This is aimed at helping healthy men maintain a full erection during intercourse whilst wearing a condom

FLD500 

FLD500 is a sister product to CSD500 The active compound will be applied to the outside of the condom coming into direct contact with the vagina during sexual intercourse This is aimed at helping healthy women maintain natural lubrication during intercourse, reducing the risk of discomfort and condom failure

Drugs

	Product evaluation	Pre clinical	Phase I clinical	Phase II clinical	Phase III clinical	Dossier submission	Dossier approval/ market launch
MED2002							

MED2002 is a "rub-on" gel applied directly to the penis for the treatment of male erectile dysfunction

TPR100 

TPR100 is a product for the provision of topical pain relief

PET500 

PET500 will be an OTC treatment for premature ejaculation using anaesthetic compounds

Chairman's Statement

Futura Medical plc (the "Company") is pleased to announce its full year results for the year ended 31 December 2007 The year saw another period of substantial progress for the Company with advances across the portfolio

Our product closest to launch is our lead condom product CSD500 which is partnered with SSL International plc ("SSL") We remain confident of commercial success following our CSD500 user study, which reinforced the market potential of this product Of those who expressed a preference compared to using a normal condom, firmer erections were reported by both men and women, increased penile size by men and a longer lasting sexual experience by women This is supported by our intellectual property position with the continuing success of our patent applications We have also progressed with our second condom product, FLD500, which has been further refined to improve our intellectual property and reduce development risk

We are delighted to have strengthened our commercial relationship with SSL, through the signing in September of a global development, marketing and distribution agreement for MED2002, our topically applied gel for the treatment of erectile dysfunction We believe SSL, which now holds distribution rights to a total of three of our products and as owner of the innovative, global and market leading Durex® product range, is an excellent partner for MED2002 We expect MED2002 to become the world's first non-prescription treatment for erectile dysfunction

In our newer therapeutic area of pain relief, we have built a team of experts and advanced our pre-clinical and clinical studies for TPR100 and entered into exclusive discussions with GlaxoSmithKline Consumer Healthcare ("GSK") We are undertaking a study to evaluate the drug delivery from topical formulations developed by us We were also awarded a grant to support the conduct of a specific project in our development pipeline In addition, we progressed a further application of our DermaSys® technology with our premature ejaculation product, PET500, which we anticipate will commence clinical studies during 2008

On the financial side we completed a fund-raising in November with a further facility available to enable us to maintain the momentum of product development Nevertheless we continue to be fiscally prudent with a small core team of only 14 and a flexible network of consultants and advisers I would personally like to take this opportunity to thank this highly effective group of dedicated and hard working professionals who continue to drive the Company forward

Notwithstanding progress elsewhere, our key focus remains the attainment of regulatory approval for CSD500 which will herald the most exciting phase so far in the Company's evolution by placing the Company on track to becoming a revenue generating business with a recurring royalty income stream

Momentum continues into 2008 and we will keep our shareholders and other stakeholders informed of our progress as we look to the future with ever increasing confidence

Dr W D Potter
Executive Chairman

Directors' Report: Chief Executive's Review

The Directors present their report and the audited financial statements of Futura Medical plc for the year ended 31 December 2007

Overview

It has been another year of significant commercial and operational progress across our entire product portfolio We have continued to enhance our expertise in sexual healthcare and to develop our position in pain relief management We are poised to become revenue generating as a result of the imminently expected completion of the regulatory approval process and subsequent launch of our first commercial product CSD500

We have steadfastly worked towards the key milestone of achieving regulatory approval for CSD500 and we are pleased to report that we have coupled this with our continued progress across the product range

Product updates

CSD500 Condom safety device

	Pre clinical	Early clinical	Late clinical	Design completion	Shelf life determination	Dossier submission	Dossier approval/ market launch
CSD500	→						

CSD500 is a condom that incorporates an erectogenic compound which comes into contact with the penis on application of the condom This is aimed at helping healthy men maintain a full erection during intercourse whilst wearing a condom

Working closely with SSL, the manufacturer of Durex® condoms, we made considerable progress with CSD500, our condom product that helps healthy men maintain a full erection whilst wearing a condom Much of our effort during the year was directed at the successful completion of a clinical study comprising 108 couples, funded equally by SSL and Futura, the positive results from which were announced on 9 August 2007 Of those who expressed a preference a significant proportion of both men and women reported improvements in the firmness of the man's erection during intercourse when using CSD500, compared to using a normal condom, a result that was highly statistically significant Furthermore, of those who expressed a preference, a significant proportion of both men and women also felt that CSD500 increased the penis size and a significant proportion of women reported a longer lasting sexual experience with CSD500 The quality of the study results has reinforced our confidence that CSD500 has significant commercial potential The results have been submitted to the EU regulatory authorities and we patiently await the outcome of their review process

Prior to the commercial launch of CSD500, we have protected the product's unique intellectual property position with patents now granted, or proceeding to grant, in more than 30 countries throughout the world, including the principal consumer markets within Europe, the US and Canada Futura will receive royalty based payments from all future sales of the condom for the lifetime of the patents

SSL is currently carrying out the detailed preparatory work for CSD500's EU marketing launch, including the selection of the product's brand name within the Durex® portfolio and the product's logo and packaging We have been delighted by the commitment and enthusiasm shown for CSD500 from SSL, which provides further endorsement of the commercial potential of the product

Directors' Report: Chief Executive's Review

MED2002: Treatment for erectile dysfunction

	Product evaluation	Pre clinical	Phase I clinical	Phase II clinical	Phase III clinical	Dossier submission	Dossier approval/ market launch
MED2002							

MED2002 is a "rub-on" gel applied directly to the penis for the treatment of male erectile dysfunction

MED2002 is our topically applied gel for the treatment of men with erectile dysfunction This product was initially licensed to GSK but in May 2007 they returned the rights to Futura as current priorities within GSK meant they were unlikely to approve a marketing agreement within the near future Given the commercial potential of MED2002 we were confident of securing a new agreement on favourable commercial terms and were delighted to announce, on 17 September 2007, that a global development, marketing and distribution agreement had been signed with SSL

Under the terms of this agreement, Futura will receive an undisclosed royalty on MED2002's future sales along with milestone payments of up to £18 million, subject to regulatory approvals and the achievement of sales targets SSL and Futura will jointly manage the completion of the clinical development of MED2002, which is currently expected to cost up to £3 8 million, of which SSL will contribute 65% and Futura 35%

Once launched, MED2002 is expected to become the world's first non-prescription pharmaceutical treatment for men with erectile dysfunction, a condition that affects, to some degree, 50% of men aged 45 or over[1] This would be an important step forward as it is estimated that only 15% of men with erectile dysfunction seek treatment[2] due to the perceived embarrassment of having to consult a doctor to be prescribed one of the current treatments

A double blind placebo controlled pivotal study for over 200 men with erectile dysfunction is shortly to commence in Germany and Greece The study has been powered to give statistically significant efficacy data as well as safety data and the preliminary results are expected by the end of 2008

Note

[1] Massachusetts Male Ageing Study (MMAS), J Urol 1994 Jan, ISI (1) pp 54-61

[2] Prog Urol February 2003, Vol 13 part 1, pp 85-91

Directors' Report: Chief Executive's Review

FLD500: Female lubrication device

	Pre clinical	Early clinical	Late clinical	Design completion	Shelf life determination	Dossier submission	Dossier approval/ market launch
FLD500	⟶						

FLD500 is a sister product to CSD500 The active compound will be applied to the outside of the condom coming into direct contact with the vagina during sexual intercourse This is aimed at helping healthy women maintain natural lubrication during intercourse, reducing the risk of discomfort and condom failure

FLD500 is our condom product designed to improve natural female lubrication during sexual intercourse In FLD500 the active compound is on the outside of the condom and is used at a much lower dose level than in CSD500, where it is inside the condom We have previously reported positive clinical data from FLD500 and have since been working on achieving a commercially optimised shelf life for the product and refining the manufacturing process We have developed a new prototype of the product which will simplify the manufacturing process and so far in pilot stability studies this has shown a significantly improved shelf life In common with CSD500, FLD500 is licensed to SSL We are determining the marketing and regulatory strategy for the product with SSL prior to initializing formal stability studies

Our previously reported clinical data in healthy female volunteers showed that FLD500 was safe, well tolerated and had the potential to promote the vascular changes seen in women during clitoral stimulation and sexual arousal This data will form part of the regulatory submission for FLD500, although our experience with CSD500 has demonstrated how the value of further clinical work can reduce regulatory risk and support strong marketing claims

Once CSD500 and FLD500 gain regulatory approval, there is potential for a combination product embracing both CSD500 and FLD500 Such a product could improve natural lubrication for women and give men a firmer erection during protected sexual intercourse

Directors' Report: Chief Executive's Review

TPR100: Topical pain relief

	Product evaluation	Pre - clinical	Phase I clinical	Phase II clinical	Phase III clinical	Dossier submission	Dossier approval/ market launch
TPR100							

TPR100 is a product for the provision of topical pain relief

One of Futura's key proprietary assets is its highly efficient, trans-dermal delivery system, DermaSys®, which is used in the Group's sexual healthcare portfolio but which has the potential to have much broader utility across other therapeutic areas A particular application of DermaSys®, owing to its ability to provide rapid transfer of active ingredients through the skin, has shown significant potential in the provision of pain relief through our product TPR100 In April 2007, we entered into an exclusivity agreement with GSK, whilst we undertook a study to evaluate the drug delivery from topical TPR100 formulations developed by Futura Pending the outcome of Futura's study and the subsequent completion of commercial negotiations, GSK will have the opportunity to acquire global distribution rights

On 23 August 2007 we announced the appointment of Professor Robert Moore DSc to join our team of expert consultants in the therapeutic area of pain relief Professor Moore's extensive knowledge of pain relief, from both academic and commercial perspectives, is already proving to be of great value in the development of TPR100

PET500. Premature ejaculation treatment

	Product evaluation	Pre - clinical	Phase I clinical	Phase II clinical	Phase III clinical	Dossier submission	Dossier approval/ market launch
PET500							

PET500 will be an OTC treatment for premature ejaculation using anaesthetic compounds

We continue to make progress on our early stage portfolio, particularly with our potential treatment for premature ejaculation, PET500, which uses our DermaSys® delivery system and is now ready to enter into clinical studies We expect to start a Phase I study shortly to evaluate the product's characteristics

Directors' Report: Chief Executive's Review

Early stage product evaluation

We continue to evaluate the commercial and development potential of other product concepts using our DermaSys® technology and our medical device expertise For the time being, we do not intend to report on FSD500 or any other individual product which is at this evaluation stage, as our focus is on the more advanced stage products including the recent addition of PET500 to the clinical programme As our later stage products complete the regulatory process and move into their commercial phase we anticipate being able to introduce further exciting products into the development portfolio at the appropriate time

Outlook

We expect 2008 to be another exciting year for Futura with the initial focus being on gaining regulatory approval for the Durex® branded condom CSD500 and the subsequent launch programme by SSL In addition, we anticipate making significant progress across our product portfolio including completing the pivotal study for MED2002, the extended TPR100 optimisation programme, and the first trials on PET500

We were delighted by the support from both new and existing shareholders for the £1 00 million placing which we completed on 15 November 2007 and this included a further equity funding facility of up to £1 00 million which we can draw on should we so choose These funds enable us to maintain the momentum of product development at Futura

We will continue to keep our shareholders and other stakeholders informed of our strategy and progress and look forward to being able to discuss the launch of CSD500 in our next Annual Report

J H Barder
Chief Executive

Directors' Report: Financial Review

Synopsis

The Group finished the year with a comfortable cash position, costs remaining firmly under control, an expanded development portfolio and the prospect of recurring revenues moving closer

International Financial Reporting Standards

The Financial Review should be read in conjunction with the consolidated financial statements and the notes to the financial statements set out on pages 34 to 58

This is the first annual report for the Group presented under International Financial Reporting Standards as adopted by the European Union ("IFRS") The comparative figures have also been restated to reflect this There has been no significant impact on the Group in either the current year results or the restated historic results An explanation, including the impact of transition to IFRS, is included in the notes to the Group financial statements The financial statements of the Company continue to be prepared in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and are set out on pages 59 to 61

Revenue

Group revenue for the year ended 31 December 2007 was £15,000 (2006 £301) Grant income for the year ended 31 December 2007 was £96,172 (2006 £nil)

In accordance with our revenue accounting policy, the £150,000 already received from GSK in respect of the TPR100 exclusivity agreement has been included as deferred income within current liabilities on the balance sheet and will be recognised as revenue when the relevant conditions of the agreement are met

Losses

The Group continues to maintain a focus on tight control of all expenditure

The Group's loss after taxation for the year ended 31 December 2007 was £2 25 million (2006 £1 78 million) The Group's operating loss for the year ended 31 December 2007 was £2 62 million (2006 £2 11 million)

Loss per share for the year ended 31 December 2007 was 4 1 pence (2006 3 4 pence)

No dividends were paid and none are proposed by the Directors (2006 £nil)

Financial instruments

The financial instruments held by the Group are disclosed in note 13 of the Notes to the Consolidated Financial Statements on page 52

Directors' Report: Financial Review

Group research and development costs

The Group aims to achieve cost effective research and development and to bring products to market through licensing partners as soon as is practicable

Group research and development costs each year reflect the number of products being developed, the stage of development reached for each and the impact on their progress of external factors Such factors during the year ended 31 December 2007 included pending decisions of regulatory bodies and finalisation of joint development arrangements

Research and development ("R&D") costs of £1,508,269 have increased compared to the previous year, and to a level similar to that of 2005, largely due to the utilisation of external laboratory facilities and phase I development costs for TPR100

The table below shows the trend in our historic research and development costs and other administrative costs over the past five reporting periods

	Year ended 31 December 2007 IFRS £	Year ended 31 December 2006 IFRS £	Year ended 31 December 2005 UK GAAP £	Year ended 31 December 2004 UK GAAP £	11 months ended 31 December 2003 UK GAAP £
Research and development costs	**1,508,269**	**1,079,986**	**1,553,056**	**971,043**	**632,062**
Other administrative costs	**1,227,320**	**1,029,075**	**805,161**	**754,725**	**885,888**
Total operating costs	**2,735,589**	**2,109,061**	**2,358,217**	**1,725,768**	**1,517,950**
R&D ratio	**55%**	**51%**	**66%**	**56%**	**42%**

The figures for the years 2005 and prior, prepared under UK GAAP, have not been restated for the holiday pay accrual under IAS 19 as the figures are not materially different

The R&D ratio is the percentage of research and development costs relative to total operating expenses The Board is mindful to keep a sensible balance as reflected in this ratio Total research and development spend since formation of the business in 1997 totals £7 72 million (remaining at 55% of total operating costs as reported last year) During the year, the sole subsidiary Futura Medical Developments Limited continued to incur this research and development expenditure which has been accounted for as explained in accounting policy note 1 5 of the Notes to the Consolidated Financial Statements on page 40 and has been written off as incurred for all reporting periods prior to and including the year ended 31 December 2007

The Board considers that this overall total research and development spend relative to its pipeline of later stage products and emerging new products distinguishes the Group's lower funding requirements and risk profile from more typical businesses in the wider pharmaceutical industry The Group's strategy is to focus on medical devices and pharmaceutical drugs that offer the potential for a significant return on the costs of development As well as progressing its existing research and development programme, the Group continues to seek new opportunities for potential products to add to its portfolio

Directors' Report: Financial Review

Other administrative costs

Other administrative costs for the year ended 31 December 2007 were £1,227,320 (2006 £1,029,075) These comprise all other operating costs excluding those relating to product development and associated intellectual property The main constituents and their relative proportions were

	Year ended 31 December 2007	Year ended 31 December 2006
Wages and salaries	**53%**	**52%**
Legal and professional advisers	**22%**	**23%**
Office costs and staff expenses	**13%**	**14%**
Licensing negotiations	**12%**	**11%**
	100%	**100%**

The principal reasons for the increase in other administrative costs relate to commercial and negotiation costs in respect of the development and licensing of MED2002 and the expansion of our small core team with the addition of two new support staff These were recruited in 2007 to support increased activity levels as the Group moves towards revenue generation and seeks further product development opportunities internally and externally This completes the current expansion of the central administrative functions of the Group as the platform for the next phase of the growth strategy

Supplier payment policy

The Group's policy concerning the payment of its trade creditors is to pay on the basis of the agreed terms of payment established with each supplier, providing that all terms and conditions have been complied with and are in accordance with the Group's financial control procedures

The average credit period (expressed as creditor days) during the year ended 31 December 2007 was 18 days (2006 30 days) for the Group At the year end the Company had trade creditors totalling £2,697 (2006 £5,521) giving rise to the average credit period for the year ended 31 December 2007 of 9 days (2006 11 days)

Charitable and political contributions

No political donations were made during either year Charitable donations of £236 were made during the year (2006 £nil)

Taxation

A research and development tax credit of £208,717 (2006 £196,133) in respect of research and development expenditure incurred has been recognised in the financial statements The increase compared with the prior year reflects the increased research and development spend in the year

Directors' Report: Financial Review

Capital structure and funding

The Group remains funded primarily by equity capital This reflects the development status of its products, which is summarised in the Product Pipeline on page 3

Cash held by the Group at 31 December 2007 totalled £2 64 million This comprised cash and cash equivalents and medium term deposits with original maturities of more than three months, shown below at each period end

	31 December 2007 £m	31 December 2006 £m	31 December 2005 £m	31 December 2004 £m	31 December 2003 £m
Medium term deposits	-	1.04	-	-	-
Cash and cash equivalents	2.64	2.74	1.81	3.67	2.40
Total cash	2.64	3.78	1 81	3 67	2.40

The Group did not have any bank borrowings at 31 December 2007 (2006 £nil)

The Group was pleased to announce, on 27 July 2007, that it had been awarded an R&D grant of up to £200,000, from the South East England Development Agency (SEEDA), to support the conduct of a specific project that forms part of the overall development programme of a product that uses a particular application of the Group's DermaSys® technology This award followed a thorough review by SEEDA Of the grant income recognised in the income statement for the year of £96,172, the Group had received £80,662 by the year end

On 15 November 2007, the Group raised £1 00 million, net of costs, following a private placing at 48 56 pence (2006 net receipts from a private placing and the exercise of share options was £3 69 million) The funds raised are for working capital, including the support of the ongoing development of products within our existing pipeline and initial development of selected new opportunities generated by our research initiatives

This brings the total cash raised from share issues by the Group from formation of the business in 1997 until 31 December 2007 to £14 53 million, net of costs

In addition, as announced on 15 November 2007, there is a further equity funding facility in place of up to £1 00 million which, if used, would involve the issue of new ordinary shares at a price per share set at a 10 per cent discount to the average mid-price of the Company's shares during the five trading days prior to the agreement to issue the tranche of shares

Other significant sources of funding received for the Group from formation of the business until 31 December 2007 comprised research and development tax credits of £1 04 million, bank interest of £0 73 million and R&D grants of £0 16 million

A L Clayden
Finance Director

Directors' Report: Business Overview

Principal activity

The principal activity of the Group is the research and development of pharmaceutical drugs and medical devices and their commercial exploitation The Chairman's Statement on page 4, the Chief Executive's Review on pages 5 to 9 and the Financial Review on pages 10 to 13 set out in more detail the Group's activities during the year and anticipated future developments

Research and development activities

The main area of research and development continues to be in the field of innovative pharmaceutical drugs and medical devices for the consumer healthcare market with the main focus being on sexual health

Group strategy

The Group strategy is to focus on developing innovative products for the consumer healthcare market This strategy responds to the well publicised demographic change of an aging population, increasing prosperity, Government initiatives to increase self-medication, the natural desire for improved quality of life and the Directors' expectations that consumer healthcare spending will increase as a result The objective is to develop products such that each on its own has the potential to generate significant annual revenues in excess of our total Group annual operating costs

The Group pursues this strategy by selecting and developing products with regard to four elements

- Return on Investment we focus on consumer healthcare products that offer the potential for a significant return on the costs of development
- Over The Counter (OTC) our aim is to produce safe and effective OTC products made available to consumers on a general retail basis or through chemists without the need for a doctor's prescription
- Strong Intellectual Property the products are underpinned by our developing and retaining valuable intellectual property including know-how, patents and trademarks to protect their commercial position
- Licensing we aim to license our products during their development to established pharmaceutical and healthcare groups who offer the best potential commercial opportunities

Three of our products (CSD500, FLD500 and MED2002) involve the application of the same chemical active, in each case to the sexual health field The development of our proprietary delivery technology, DermaSys®, is enabling the expansion of our product pipeline to include new active molecules (reducing the dependence on one single active) PET500 and TPR100 represent the first applications of our DermaSys® technology to our next generation of products

Long lead times for product development characterise the pharmaceutical industry However, the Board seeks to drive the business through to revenue generation as soon as is practicable with due regard to regulatory standards and an appropriate commercial approach This is achieved through swift decision-making, highly capable staff and the involvement of excellent external expertise

Directors' Report: Business Overview

Group strategy (continued)

At the same time, the Directors remain committed to keeping regular or fixed costs restricted to an appropriate level through the continued and judicious use of outsourcing external consultants and professional advisers Clearly, the lower the Group's costs the earlier that revenue generation would lead to a key future financial milestone of monthly break-even and profitability

The consumer healthcare market and competitive environment

The Group develops products that address the consumer healthcare market The Group considers there to be two distinct categories within this market

The first category is the global OTC market with a market size of US$ 67 6 billion[1], representing all sales of non-prescription medicines The non-prescription drugs being developed by the Group are shown in the Product Pipeline on page 3 These comprise the sexual health products MED2002 and PET500, which could form a new category within the OTC market, and the pain relief product TPR100, which fits within the US$ 12 billion global analgesics market[2] and where the current market leader for topical analgesics has annual sales of US$ 260 million[2] Although there is no authoritative sexual health OTC market data, the prescription market for erectile dysfunction treatments alone was more than US$ 3 billion[3] in 2006

The second category is the global consumer medical devices market with a market size of US$ 220 billion[1] This market covers a wide range of products including hospital equipment and supplies The Directors estimate that the market for consumer medical devices is worth between US$ 17 billion and US$ 22 billion The consumer medical devices being developed by the Group are shown in the Product Pipeline on page 3 These comprise the two condom products CSD500 and FLD500, which fit within the $3 1 billion global condom market[4] and where our distribution partner SSL International plc, the makers of Durex®, are the global leader with a 35% market share[4]

These consumer healthcare markets are dominated by global pharmaceutical and consumer healthcare groups with established distribution networks Smaller research and development companies, such as Futura, seek to license out their innovative products to these larger players

Futura offers its licensing partners its ability to identify commercially attractive consumer healthcare product opportunities coupled with a lower cost, expertise and faster development model, backed by strong patent protection In return for this, Futura seeks significant royalties from future sales of these products through its partners and their established distribution networks

Note
[1]2003 calendar year Source S and P's 2004a Healthcare Products and Supplies Industry Surveys, Sept 2004
[2]2006 calendar year Source OTC Yearbook 2007 (MSP), Nicholas Hall & Company
[3]Futura estimate based on erectile dysfunction sales data from 2006 Annual Reports for Pfizer, Lilly Icos LLC and Bayer
[4]2006 calendar year Source "Condoms A Global Strategic Business Report", Jan 2007, Global Industry Analysts, Inc

Directors' Report: Business Overview

Key performance indicators

The Directors consider the successful achievement of development, licensing and commercialisation milestones and the number of products under development (beyond the evaluation stage) to be the major drivers of value creation for the Group These are measures of the progress of the business towards its revenue generation goal and are considered by the Board to be the key non-financial performance indicators used to determine achievement of Group strategy The Group's performance with regard to such milestones is discussed in the Directors' Report Chief Executive's Review on pages 5 to 9

The Directors consider Group cash and the absolute values of, and the ratio between, research and development costs and other administrative overhead costs as being the Group's key financial performance indicators The cost related indicators assist in monitoring financial control to reduce the hurdle to achieving the key future financial milestone of monthly break-even The monitoring of cash gives due consideration to anticipated future spend required to prioritise development opportunities and to plan the resources required to achieve the goals of the business The Directors' Report Financial Review on pages 10 to 13 considers these financial performance indicators

Principal risks and uncertainties

The development of pharmaceutical drugs and medical devices requires the necessary safety, stability and efficacy to be demonstrated in clinical programmes in order to meet the requirements of the appropriate regulatory bodies These may not be successful The Directors consider that the key risks of the Group are

Clinical development and regulatory risk

There can be no guarantee that any of the Group's products will be able to obtain or maintain the necessary regulatory approvals in any or all of the territories in respect of which applications for such approvals are made Where regulatory approvals are obtained, there can be no guarantee that the conditions attached to such approvals will not be considered too onerous by the Company or its distribution partners in order to market its products effectively

The Group seeks to reduce this risk by developing products using safe, well characterised active compounds with known risk profiles, through seeking advice from regulatory advisers and consultations with regulatory approval bodies and through working with experienced distribution partners

Commercial risk

There can be no guarantee that the Group will succeed in establishing and maintaining the necessary contractual relationships with licensing partners for its products under development

Even if the Group's products are successfully developed and approved by the appropriate regulatory bodies, they may not be successfully launched by the Group's licensing partners or enjoy commercial acceptance

The Group seeks to reduce this risk by selecting experienced licensing partners, maintaining and developing its relationship with these partners and seeking the development of new products of interest to these partners

Directors' Report: Business Overview

Funding risk

The Group continues to incur substantial operating expenses Until the Group generates positive net cash inflows from the successful development and commercialisation of its products it remains dependent upon additional funding through the injection of capital from share issues or from its licensing and development partners The Group may not be able to generate positive net cash inflows in the future or to attract such additional required funding at all, or on suitable terms In such circumstances the development programmes may be delayed or cancelled and the business operations cut back

The Group seeks to reduce this risk by keeping a tight control on expenditure, avoiding long term supplier contracts (other than clinical trials), prioritising development spend on products closest to potential revenue generation, maintaining a focused portfolio of products under development and keeping shareholders informed of progress

Treasury and financial risk

Treasury and financial risk management policy is concerned with financial instruments and management of interest rate risk and currency risk Financial risks are quantified in note 2 of the Notes to the Consolidated Financial Statements on page 46 and were not considered significant at the balance sheet date

Competition risk

The Group's current and future potential competitors include, amongst others, major multinational pharmaceutical and healthcare companies with substantially greater resources than those of the Group There can be no assurance that competitors will not succeed in developing systems and products that are more effective or economic than any of those developed by the Group, with its distribution partners, or which would render the Group's products obsolete or otherwise non-competitive

The Group seeks to reduce this risk by securing patent registration protection for its products, maintaining confidentiality arrangements regarding Group know-how and technology, monitoring technological developments and the selection of leading businesses in their respective fields as licensing partners capable of addressing significant competition, should it arise

Intellectual property risk

The commercial success of the Group and its ability to compete effectively with other companies depends, amongst other things, on its ability to obtain and maintain patents sufficiently broad in scope to provide protection for the Group's intellectual property rights against third parties and to exploit its pharmaceutical products The absence of any such patents may have a material adverse effect on the Group's ability to develop its business The Group seeks to reduce this risk by only developing products where legal advice indicates patent protection would be available, seeking patent protection for the Group's products, maintaining confidentiality agreements regarding Group know-how and technology and monitoring technological developments and the registration of patents by other parties

The commercial success of the Group also depends upon not infringing patents granted, now or in the future, to third parties who may have filed applications or who have obtained, or may obtain, patents relating to business processes which might inhibit the Group's ability to develop and exploit its own business

Directors' Report: Corporate Governance

Introduction

The Board is committed to maintaining appropriate standards of Corporate Governance Although not mandatory for AIM quoted companies, the Group accepts the principles of good Corporate Governance as embodied in the Combined Code

In assessing the appropriate standards of Corporate Governance, the Board continues to be mindful of the nature and size of the Group and has given due consideration to the Quoted Companies Alliance ("QCA") Guidelines (published in 2005)

There have been no changes to our Corporate Governance processes and our compliance with the Combined Code and QCA Guidelines following our annual review

Statement of compliance

The Group's practice and procedures comply with the QCA Guidelines in all respects except that the Audit Committee report is included within this Corporate Governance section rather than forming a separate report

As previously disclosed, the Board considers that given the size and nature of its activities it does not intend to comply with the Combined Code in respect of certain items listed below None of these items is required by the QCA Guidelines This is considered by the Board to be reasonable and does not compromise the overall principles of Corporate Governance which the Board strongly supports

- There will be no preclusion to the Chief Executive becoming Chairman although there is no current intention for this succession
- The Remuneration Committee, in deciding on remuneration at its annual review each January, takes into account the performance of the Group as a whole and the individual Directors However, the nature of this performance evaluation is not specified in the Annual Report
- Where the Board permits the Executive Directors to serve in roles with other companies as long as they do not compromise the individual's ability to perform his services to the Group, the earnings from such roles are not disclosed to the Board nor paid to the Group

The Board considers that the remuneration of Executive Directors does include a performance related element which is almost entirely based on the award of share options or other share-based incentives as recommended by the Remuneration Committee and details are set out in the Directors' Report Remuneration Report on pages 25 to 29

Directors' Report: Corporate Governance

Board of Directors

The Board of Directors has overall responsibility for the Group

The Board comprises an Executive Chairman, two independent Non-Executive Directors and three further Executive Directors The Chairman has share options in the Company and provides consulting services to the subsidiary, Futura Medical Developments Limited The two independent Non-Executive Directors do not have shareholdings or options in the Company and solely receive fees as Non-Executive Directors The Board continues to be satisfied that it has an appropriate mix of independence and experience in its Non-Executive Directors

The roles of Chairman and Chief Executive are and will remain separate and it is not permissible for the same individual to be appointed to both roles simultaneously The Company does not formally preclude a Chief Executive being appointed as Chairman upon resignation as a Chief Executive but there are no plans for this succession

The Chairman provides strategic and operational guidance bringing to bear extensive experience of the medical device and pharmaceutical industries He also oversees the duties performed by the Chief Executive and ensures that they are in line with Board expectations with a particular emphasis on monitoring product development The Chief Executive manages the day-to-day running and strategic direction of the Company in line with policy decisions given by the Board and shareholder expectations with particular emphasis on the commercial direction of the Company

The Board retains full control of the Group with day-to-day operational control delegated by the Board to the Executive Directors The full Board meets bi-monthly and on any other occasions it considers necessary During 2007, there were 10 Board meetings and 3 further sub-committee meetings as well as 2 meetings of each of the Audit Committee, Remuneration Committee and the Nominations Committee In respect of attendance of the Board meetings held, J D Freeman missed one meeting but they were otherwise fully attended by their constituent Directors, as were all committee and sub-committee meetings

The Board is responsible for approving interim and annual financial statements, formulating and monitoring Group strategy and approving financial plans and reviewing performance, as well as complying with legal, regulatory and corporate governance matters There is a schedule of matters reserved for the Board Board papers are circulated in advance of each Board meeting

Directors' Report: Corporate Governance

Dr William Duncan Potter, PhD
Executive Chairman

Dr Potter became Chairman in June 2001 He is a member of the Nominations Committee and an adviser to the Remuneration Committee He provides advice and expertise on product development matters bringing to bear his considerable experience He has spent 36 years in research and development including 28 years of bringing new products to market involving a wide range of medical devices He has extensive knowledge of worldwide regulatory procedures, intellectual property issues and licensing Dr Potter previously worked at SSL International plc, including 7 years as Group Scientific Affairs Director and at Smith & Nephew plc

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James Henry Barder
Chief Executive

Mr Barder joined the Company as Chief Executive in June 2001 He assists the Remuneration and the Nominations Committees (but is not a member of and does not vote on either) He has overall responsibility for all activities of the Group, is a principal contact for all shareholder and investor relations matters and leads licensing and distribution negotiations and new product development activities He first became involved with the Group as an investor in 1997 and has been a Director of the subsidiary since 1998 Prior to becoming Chief Executive, he was Managing Director of Aon Capital Markets Limited Mr Barder has predominantly worked in the field of insurance and finance including firms he founded and co-owned Mr Barder is also a Non-Executive Director of Lorega Limited and Creon Corporation plc

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Anthony Louis Clayden, BSc (Hons), FCA, MSI
Finance Director and Company Secretary

Mr Clayden joined the Company as Finance Director and Company Secretary in October 2001 He assists the Audit and the Nominations Committees (but is not a member of and does not vote on either) As well as managing financial and compliance matters, he has driven the governance and risk management initiatives and supports the corporate finance and investor relations activities Mr Clayden's previous Finance Director roles were with privately owned businesses involved in information technology, data storage services and solutions and in consulting and business services Previously he worked in corporate finance, mainly focused on technology and services businesses, at PricewaterhouseCoopers and KPMG He qualified as a Chartered Accountant with BDO Stoy Hayward LLP

David Bryn Davies, BSc (Hons), MBA
Product Development Director

Mr Davies has been a Director of the Company since September 2001 He is responsible for all product development programmes for the Group Prior to joining the Company, Mr Davies was Director of Project Management at Clintrials Research Limited He has 24 years of experience of pharmaceutical and healthcare product development, within pharmaceutical companies and global contract clinical research organisations Previous employers include, Porton Down, Glaxo Group Research, Wellcome Research Limited, Zambon Limited and PPD Pharmaco Limited Mr Davies is also company secretary of the registered charity Ordinary 2 Extraordinary Limited and is a trustee of The Gary Evans Charitable Trust

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Directors' Report: Corporate Governance

Jonathan David Freeman, BA (Hons), MBA
Senior Independent Non-Executive Director and Chairman of Remuneration Committee and Audit Committee

Mr Freeman joined the Board in July 2003 and was appointed Senior Independent Non-Executive Director in November 2003 As well as chairing the Audit and the Remuneration Committees, he is also a member of the Nominations Committee He provides guidance on City regulatory matters, corporate finance and investor relations He provides over 15 years of corporate finance experience with previous roles including, Partner at Gambit Corporate Finance, Director of Beeson Gregory and involvement in the creation of EASDAQ Mr Freeman is also an Executive Director of Creon Corporation plc and a Non-Executive Director of AIM quoted Cobra Capital Limited, Equity Pre-IPO Investments Limited and Syndicate Asset Management plc

Andrew Slater, BA (Hons)
Independent Non-Executive Director and Chairman of Nominations Committee

Mr Slater joined the Board in July 2003 As well as chairing the Nominations Committee, he is also a member of the Remuneration and the Audit Committees He provides insight into the marketing and consumer aspects of bringing new products to market He has over 30 years of worldwide marketing expertise gained mainly in healthcare and pharmaceuticals and was a Director of SSL International plc, having spent 17 years with London International Group plc Mr Slater's role included all aspects of the promotion and marketing of SSL International plc's products including family planning products and he was Managing Director of the Americas and Europe He is also a Non-Executive Director of Summit Medical Limited

Audit Committee

The Audit Committee comprises the Non-Executive Directors, J D Freeman and A Slater, and is chaired by J D Freeman as Senior Independent Non-Executive Director It meets as required and specifically to review the Interim Report and Annual Report and to consider the suitability and monitor the effectiveness of the internal control processes There were two Audit Committee meetings during 2007 The Audit Committee reviews the findings of the external auditors and reviews accounting policies and material accounting judgements

The independence of the auditors is considered by the Audit Committee The Audit Committee (with no Executive Director present) meets at least once per calendar year with the auditors to discuss their objectivity and independence, the Annual Report, any audit issues arising, internal control processes and any other appropriate matters As well as providing audit related services, the auditors provide taxation advice and undertake work in relation to the Interim Report The fees in respect of the non-audit services provided are approximately half the fees for the audit services Further, the overall fees paid to the auditors are not deemed to be of such significance to them as to impair their independence The Audit Committee considers that the objectivity and independence of the auditors is safeguarded

The current terms of reference of the Audit Committee are set out in the governance pages on the Group's website (www futuramedical co uk)

Directors' Report: Corporate Governance

Internal control

The Directors are responsible for establishing and maintaining the Group's system of internal control and for reviewing its effectiveness The system of internal control is designed to manage, rather than eliminate, the risk of failure to the achievement of business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss

The Audit Committee continues to monitor and review the effectiveness of the system of internal control and report to the Board when appropriate with recommendations The system of internal control has been reinforced in the year with the recruitment of a financial controller and the further segregation of duties

The annual review of internal control and financial reporting procedures did not highlight any issues warranting the introduction of an internal audit function It was again concluded, given the current size and transparency of the operations of the Group, that an internal audit function was still not required

The main features of the internal control system are outlined below

- A control environment exists through the close management of the business by the Executive Directors The Group has a defined organisational structure with delineated approval limits Controls are implemented and monitored by the Executive Directors

- The Board has a schedule of matters expressly reserved for its consideration and this schedule includes acquisitions and disposals, major capital projects, treasury and risk management policies and approval of budgets

- The Group utilises a detailed budgeting and forecasting system Detailed budgets are prepared annually by the Executive Directors before submission to the Board for approval Forecasts are updated at least quarterly to reflect changes in the business and are monitored by the Board including future cash flow projections Actual results are monitored against annual budgets in detail on a six monthly basis, with variances highlighted for the Board

- Financial risks are identified and evaluated for each major transaction for consideration by the Board and senior management

- Standard financial control procedures operate throughout the Group to ensure that the assets of the Group are safeguarded and that proper accounting records are maintained

- A risk review process is in operation whereby the Chief Executive and Finance Director present a report to the Board at least once each year on the key business risks

Directors' Report: Corporate Governance

Going concern

The financial statements have been prepared on a going concern basis as the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future

Directors' qualifying third party indemnity provisions

The Company has made qualifying third party indemnity provisions in favour of the Directors against liability in respect of proceedings brought by third parties and these remain in force at the date of this Directors' Report

Nominations Committee

The Nominations Committee comprises the two Non-Executive Directors and the Chairman and is chaired by A Slater, an independent Non-Executive Director The Nominations Committee monitors the requirements of the Group in respect of Board composition as the Group evolves and with regard to succession planning There were two Nominations Committee meetings during 2007 The terms of reference of the Nominations Committee are set out in the governance pages on the Group's website (www futuramedical co uk)

Employees

At 31 December 2007, the Group employees comprised two Non-Executive Directors, four Executive Directors and seven full-time and one part-time staff, all of whom are employed by the subsidiary

The Executive Directors keep staff informed of the progress and development of the Group regularly through formal and informal meetings and employee feedback is encouraged The Company has a policy of offering share options or other share-based incentives to all eligible employees with due consideration to the level of dilution to shareholders

The Group does not discriminate between employees and prospective employees on grounds of age, race, disability, religion or gender

The Board recognises its obligation towards its employees to provide a safe and healthy working environment The Group complies with health and safety legislation including conducting regular inspections and risk assessments

Environmental, social and community matters

As a result of the size and nature of our operations, the impact of the Group's operations on the local community and the environment is not considered to be significant Recycling of office supplies is undertaken where possible The Group operates in a highly regulated industry and clinical trials are conducted in compliance with regulatory requirements The Group will undertake a review during 2008 of corporate social responsibility matters with a view to updating its policy and identifying further improvements to its operations

Directors' Report: Corporate Governance

Relationship with shareholders

The Directors seek to build a mutual understanding of objectives between the Company and its shareholders The Group reports formally to shareholders in its Interim and Annual Reports setting out details of its activities In addition, the Group keeps shareholders informed of events and progress through the issue of regulatory news in accordance with the AIM rules of the London Stock Exchange The Chief Executive and Finance Director seek to meet with institutional shareholders following interim and final results The Group also maintains investor relations pages and other information regarding the business, its products and activities on its website (www futuramedical co uk)

Where possible the Annual Report is sent to shareholders at least 20 working days before the Annual General Meeting Directors are required to attend Annual General Meetings of the Company unless unable to do so for personal reasons or due to pressing commercial commitments Shareholders are given the opportunity to vote on each separate issue The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with by a show of hands

Directors' Report: Remuneration Report

Remuneration Committee: composition and terms of reference

The Group's Remuneration Committee during the year ended 31 December 2007 comprised the independent Non-Executive Directors, A Slater and J D Freeman, and was chaired by J D Freeman Dr W D Potter, as Executive Chairman, acted as an adviser to the Remuneration Committee because of his knowledge of the industry However, by virtue of his executive role, he was not considered to be independent and was excluded from voting

The purpose of the Remuneration Committee is to ensure that the Executive Directors and other employees are fairly rewarded for their individual contribution to the overall performance of the Company The Committee considers and recommends to the Board the remuneration of the Executive Directors and is kept informed of the remuneration packages of senior staff and invited to comment on these

The Board retains responsibility for overall remuneration policy The committee operates within agreed terms of reference which are published on the governance pages on the Group's website (www futuramedical co uk) There were two Remuneration Committee meetings during 2007 There were no changes to the terms of reference or to the composition of the Remuneration Committee during the year ended 31 December 2007

Policy on Executive Directors' remuneration

Executive remuneration packages are designed to attract and retain executives of the necessary skill and calibre to run the Company successfully but avoiding paying more than is necessary Direct benchmarking of remuneration is not possible given the specialised nature and size of the Company The Remuneration Committee recommends to the Board remuneration packages by reference to individual performance and uses the knowledge and experience of the Non-Executive Directors and the Executive Chairman and published surveys relating to AIM Directors, the pharmaceutical industry and market changes generally The Remuneration Committee has responsibility for recommending any long term incentive schemes

The full Board determines whether or not Executive Directors are permitted to serve in roles with other companies Such permission is only granted where a role is on a strictly limited basis, where there are no conflicts of interest or competing activities and providing there is not an adverse impact on the commitments required to the Group Earnings from such roles are not disclosed nor paid to the Group

There are four main elements of the remuneration package for Executive Directors and senior staff

(i) Basic salaries and benefits in kind

Basic salaries are recommended to the Board by the Remuneration Committee, taking into account the performance of the individual and the rates for similar positions in comparable companies Benefits in kind comprising death in service insurance, permanent health insurance and private medical insurance are available to all staff and Executive Directors (excluding the Chairman) Salary alternatives are available instead of the benefits in kind Benefits in kind are not pensionable

Directors' Report: Remuneration Report

(ii) Share options and other share-based incentives

The Company operates approved and unapproved share option schemes for the Executive Directors and other employees to motivate those individuals through equity participation in the Company Unapproved options are occasionally granted to key consultants Exercise of options under the schemes is subject to specified exercise periods and compliance with the AIM rules of the London Stock Exchange

The schemes are overseen by the Remuneration Committee which recommends to the Board all grants of share options based on the Committee's assessment of personal performance and specifying the terms under which eligible individuals may be invited to participate

The Combined Code refers to the requirement for the performance-related elements of remuneration to form a significant proportion of the total remuneration package of Executive Directors and should be designed to align their interests with those of shareholders In the development phase of the Group and during the early stages of revenue generation, the Remuneration Committee currently considers that the best alignment of these interests is through continued use of incentives for performance through the award of share options or other share-based arrangements

On 7 December 2007 details were announced of the implementation of a long term incentive scheme, The Futura Medical plc Phantom Share Plan No share awards have yet been made and the actual quantum of the awards receivable by the Executive Directors will depend on the Company achieving set milestones and the share price at the time relative to targets set in advance As a guide, if all the approved milestones are achieved at the share price targets over the next 60 months and if the Company exercised its discretion to settle the award in equity then the additional shares issued in after tax settlement would be equivalent to approximately 1 45% of the current share capital

(iii) Bonus scheme

The Company has an established discretionary bonus scheme for staff The Remuneration Committee considers that cash bonuses for Directors will remain restricted until the Company has achieved break even and only one such bonus has been paid to date

(iv) Pension contributions

The Group pays a defined contribution to the pension scheme of Executive Directors (except the Chairman) and other employees The individual pension schemes are private and their assets are held separately from those of the Group

Salaries and benefits were reviewed in January 2008 to cover the year from 1 February 2008 to 31 January 2009 Future reviews will continue to be undertaken on an annual basis each January to enable the Group's performance over the preceding financial year and the strategy for the forthcoming year to be considered

Directors' Report: Remuneration Report

Service contracts

All Executive Directors except the Chairman are employed under service contracts requiring six months notice by either party All Non-Executive Directors and the Chairman receive payments under appointment letters which are terminable by three months notice from either party In addition, the Chairman has a consulting contract through Stapleford Scientific Services Limited with the subsidiary company, Futura Medical Developments Limited, requiring one month's notice by either party

All Directors are also directors of the subsidiary company, Futura Medical Developments Limited

Policy on Non-Executive Directors' remuneration

The Non-Executive Directors and the Chairman each receive a fee for their services as a director, which is approved by the Board, mindful of the time commitment and responsibilities of their roles and of current market rates for comparable organisations and appointments Non-Executive Directors and the Chairman are reimbursed for travelling and other minor expenses incurred

The Chairman has received options and is eligible to receive further grants of options or other share-based incentives in the future in accordance with Group policy Since this has been the basis of his original appointment and he is not considered independent by the Board, it is not the intention to seek shareholder approval specifically for any future grants of options to the Chairman nor to require any shares acquired by virtue of the exercise of those options to be held by the Chairman for at least one year after leaving the Board

However, to maintain independence the independent Non-Executive Directors do not participate in any incentive or share option arrangements

The emoluments of the Directors, who represent the key management personnel, each year were as follows

	Year ended 31 December 2007				Year ended 31 December 2006
	Salary and Directors' Fees	**Benefits in Kind**	**Pension**	**Total**	Total
	£	**£**	**£**	**£**	£
Executive Directors					
W D Potter	**25,821**	-	-	**25,821**	23,746
J H Barder	**158,167**	**4,294**	**14,717**	**177,178**	176,981
D B Davies	**131,750**	**3,048**	**12,075**	**146,873**	145,436
A L Clayden	**110,854**	**2,287**	**11,085**	**124,226**	123,481
Non-Executive Directors					
A Slater	**22,854**	-	-	**22,854**	21,154
J D Freeman	**22,854**	-	-	**22,854**	21,154
	472,300	**9,629**	**37,877**	**519,806**	511,952

The above fees and emoluments exclude reimbursed expenditure incurred in the conduct of Group business

Directors' Report: Remuneration Report

In addition to the above emoluments, W D Potter provides consulting services to Futura Medical Developments Limited, the wholly owned subsidiary, through his consulting company Stapleford Scientific Services Limited These comprised consultancy fees of £76,000 plus reimbursed expenditure of £3,668 (2006 consultancy fees of £76,000 plus reimbursed expenditure of £3,479)

Directors' interests in shares

	31 December 2007		31 December 2006	
	Beneficial Interests	**Non-beneficial Interests**	Beneficial Interests	Non-beneficial Interests
W D Potter	**81,098**	**-**	81,098	-
J H Barder	**303,712**	**416,500**	303,712	416,500
A L Clayden	**270,305**	**-**	270,305	-
D B Davies	**407,572**	**-**	408,275	-
Totals	**1,062,687**	**416,500**	1,063,390	416,500

Other than as shown in the table, no Director had any interest in the shares of the Company or in the subsidiary company, Futura Medical Developments Limited, at 31 December 2007

Directors' interests in share options

The Board uses share options to align Directors and employees interests with those of shareholders in order to provide incentives and reward them based on improvements in Company performance

The number of share options held by the Directors at 31 December 2007 are summarised below

	31 December 2007	31 December 2006
W D Potter	**50,000**	50,000
J H Barder	**100,000**	100,000
A L Clayden	**100,000**	275,000
D B Davies	**100,000**	250,000
Totals	**350,000**	675,000

The share options under the Futura Medical plc Unapproved Share Option Scheme (formerly the Futura Medical plc Pre-IPO Share Option Scheme) of the Directors who served during the year are set out below

	Grant Date	**Number Awarded**	**Exercise Price/Share**	**Earliest Exercise Date**	**Expiry Date**
W D Potter	22 March 2005	50,000	76p	1 April 2007	31 March 2009

Directors' Report: Remuneration Report

Directors' interests in share options (continued)

The share options of the Directors under the Futura Medical plc Enterprise Management Incentive Scheme are set out below

	Grant Date	Number Awarded	Exercise Price/Share	Earliest Exercise Date	Expiry Date
J H Barder	22 March 2005	100,000	76p	1 April 2007	31 March 2009
D B Davies	22 March 2005	100,000	76p	1 April 2007	31 March 2009
A L Clayden	22 March 2005	100,000	76p	1 April 2007	31 March 2009
Total		300,000			

All options were granted with an exercise price at or above market value on the date of grant The two independent Non-Executive Directors do not receive share options in order to maintain their independence under the Combined Code

The main vesting condition of the options is that the Directors remain employed with the Group as at the date of exercise

On 31 July 2007 325,000 options lapsed unexercised which had been granted on 8 July 2003

Directors' interests in long term incentive scheme

Assuming that each milestone is met, at the target share price and before the next target date ends, and if the awards were to be equity settled then the number of shares that could be awarded before tax to each of the four executive directors would be

	2008	2009	2010	2011	2012
W D Potter	**62,500**	**93,750**	**93,750**	**93,750**	**31,250**
J H Barder	**62,500**	**93,750**	**93,750**	**93,750**	**31,250**
A L Clayden	**62,500**	**93,750**	**93,750**	**93,750**	**31,250**
D B Davies	**62,500**	**93,750**	**93,750**	**93,750**	**31,250**
Total	**250,000**	**375,000**	**375,000**	**375,000**	**125,000**

J D Freeman
Chairman of the Remuneration Committee

Directors' Report: Statement of Responsibilities

Adequacy of information supplied to auditors

Each Director has taken all reasonable steps to make himself aware of any information needed by the Company's auditors for the purpose of their audit and to establish that the auditors are aware of that information The Directors are not aware of any relevant audit information of which the auditors are unaware

Directors' responsibility statement

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985

The Directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985 The Directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market The Directors have chosen to continue to prepare financial statements for the Company in accordance with UK Generally Accepted Accounting Practice

Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions The maintenance and integrity of the Company's website is the responsibility of the Directors The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein

Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements' In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS A fair presentation also requires the Directors to

- consistently select and apply appropriate accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

Directors' Report: Statement of Responsibilities

Parent company financial statements

Company law requires the Directors to prepare financial statements for each financial year which 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 these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business,
- make judgements and estimates that are reasonable and prudent, and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements

By order of the Board

A L Clayden
Secretary
12 March 2008

Independent Auditor's Report

To the shareholders of Futura Medical plc

We have audited the Group and parent company financial statements (the "financial statements") of Futura Medical plc for the year ended 31 December 2007, which comprise Consolidated Income Statement, Consolidated Statement of Changes in Equity, Consolidated Balance Sheet, Consolidated Cash Flow Statement and Parent Company Balance Sheet plus related notes to the financial statements These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and group financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union and for preparing the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Directors' Report Statement of Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with those financial statements We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements This other information comprises only the Company Overview, Highlights, Futura at a Glance, Product Pipeline, Chairman's Statement and the Directors' Report We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability

Independent Auditor's Report

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its loss for the year then ended,
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2007,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

BDO STOY HAYWARD LLP
Chartered Accountants
and Registered Auditors
Reading
12 March 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	Year ended 31 December 2007 £	Year ended 31 December 2006 £
Revenue	1 3	**15,000**	301
Grant income	4	**96,172**	
Research and development costs		**(1,508,269)**	(1,079,986
Administrative costs		**(1,227,320)**	(1,029,075
Operating loss	5	**(2,624,417)**	(2,108,760
Finance income	8	**161,291**	136,114
Loss before tax		**(2,463,126)**	(1,972,646
Taxation	9	**208,717**	196,133
Loss for the year attributable to equity holders of the parent company	19	**(2,254,409)**	(1,776,513
Basic and diluted loss per share (pence)	10	**(4.1p)**	(3 4p

All amounts relate to continuing activities

The notes on pages 38 to 58 form part of these consolidated financial statements

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Notes	Share capital £	Share premium reserve £	Other reserve £	Retained losses £	Total equity £
At 1 January 2006		97,877	8,560,987	1,152,165	(7,832,392)	1,978,637
Loss for the year	19	-	-	-	(1,776,513)	(1,776,513)
Share-based payment		-	-	-	43,374	43,374
Shares issued during the year	17	12,730	3,836,420	-	-	3,849,150
Cost of share issues	19	-	(146,132)	-	-	(146,132)
At 1 January 2007		110,607	12,251,275	1,152,165	(9,565,531)	3,948,516
Loss for the year	19	-	-	-	(2,254,409)	(2,254,409)
Share-based payment		-	-	-	64,651	64,651
Shares issued during the year	17	4,631	1,111,869	-	-	1,116,500
Cost of share issues	19	-	(101,768)	-	-	(101,768)
At 31 December 2007		**115,238**	**13,261,376**	**1,152,165**	**(11,755,289)**	**2,773,490**

The loss for the year represents the total recognised income and expense for the year

The notes on pages 38 to 58 form part of these consolidated financial statements

Consolidated Balance Sheet

As at 31 December 2007

	Notes	As at 31 December 2007 £	As at 31 December 2006 £
Assets			
Non-current assets			
Plant and equipment	11	**35,415**	20,109
Total non-current assets		**35,415**	20,109
Current assets			
Inventories	12	**23,344**	32,648
Trade and other receivables	14	**183,283**	1,196,024
Income tax asset	9	**208,717**	195,034
Cash and cash equivalents	15	**2,637,892**	2,740,767
Total current assets		**3,053,236**	4,164,473
Liabilities			
Current liabilities			
Trade and other payables	16	**(315,161)**	(236,066)
Total liabilities		**(315,161)**	(236,066)
Total net assets		**2,773,490**	3,948,516
Capital and reserves attributable to equity holders of the parent company			
Share capital	17	**115,238**	110,607
Share premium reserve	19	**13,261,376**	12,251,275
Other reserve	19	**1,152,165**	1,152,165
Retained losses	19	**(11,755,289)**	(9,565,531)
Total equity		**2,773,490**	3,948,516

These consolidated financial statements were approved and authorised for issue by the Board on 12 March 2008 The notes on pages 38 to 58 form part of these consolidated financial statements

J H Barder
Director

On behalf of the Board of Futura Medical plc

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	Year ended 31 December 2007 £	Year ended 31 December 2006 £
Cash flows from operating activities			
Loss before tax		**(2,463,126)**	(1,972,646)
Adjustments for			
Depreciation	11	**15,194**	10,630
Finance income	8	**(161,291)**	(136,114)
Loss on sale of plant and equipment	5	**-**	6
Share-based payment charge	18	**64,651**	43,374
Cash flows from operating activities before changes in working capital		**(2,544,572)**	(2,054,750)
Decrease/(increase) in inventories	12	**9,304**	(692)
Increase in trade and other receivables - excluding medium term deposits	14	**(21,147)**	(76,067)
Increase/(decrease) in trade and other payables	16	**79,095**	(2,616)
Cash used in operations		**(2,477,320)**	(2,134,125)
Income tax received		**195,034**	282,636
Net cash used in operating activities		**(2,282,286)**	(1,851,489)
Cash flows from investing activities			
Purchase of plant and equipment	11	**(30,500)**	(5,418)
Sale of plant and equipment		**-**	44
Disposal/(acquisition) of medium term deposits	14	**1,039,031**	(1,039,031)
Interest received		**156,148**	124,730
Cash generated by/(absorbed in) investing activities		**1,164,679**	(919,675)
Cash flows from financing activities			
Issue of ordinary shares	17	**1,016,500**	3,849,150
Expenses paid in connection with share issues	19	**(1,768)**	(146,132)
Cash generated by financing activities		**1,014,732**	3,703,018
(Decrease)/increase in cash and cash equivalents	15	**(102,875)**	931,854
Cash and cash equivalents at beginning of year	15	**2,740,767**	1,808,913
Cash and cash equivalents at end of year	15	**2,637,892**	2,740,767

The notes on pages 38 to 58 form part of these consolidated financial statements

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

1. Accounting policies

1.1 Basis of preparation

The Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") for the first time, having previously been prepared in accordance with UK Generally Accepted Accounting Practice ("UK GAAP") The disclosures required by IFRS 1 'First-time Adoption of International Financial Reporting Standards' concerning the transition from UK GAAP to IFRS are given in note 23

The preparation of the consolidated financial statements in accordance with IFRS resulted in changes to the accounting policies compared with the most recent Group financial statements prepared under UK GAAP The accounting policies are set out below, have been applied to all periods presented in these Group financial statements and are in accordance with IFRS, as adopted by the European Union, and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that were applicable for the year ended 31 December 2007

The Group has elected to make use of the exemptions available in IFRS 1 as follows

- IFRS 2 'Share-based Payment' has been applied to all grants of employee options after 7 November 2002 that were unvested at 1 January 2006
- IFRS 3 'Business Combinations' has not been applied retrospectively to business combinations that occurred before 1 January 2006 which were accounted for using the merger method of accounting under UK GAAP

The Group has made estimates under IFRS as at 1 January 2006, the date of transition, which are consistent with those estimates made at the same date under UK GAAP and there is no objective evidence that those estimates were in error

The following new standards, amendments to standards and interpretations have been issued, are not effective for the financial year ending 31 December 2007 and have not been adopted early as the Directors do not expect these standards and interpretations to be relevant to the Group and will have no effect on the financial statements

- IFRS 8 'Operating Segments' effective 1 January 2009
- IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions' effective 1 January 2008
- IFRIC 13 'Customer Loyalty Programmes' effective 1 January 2009
- IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' effective 1 January 2008
- IAS 23 'Borrowing Costs (revised)' effective 1 January 2009

Accounting policies (continued)

1.2 Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business, so as to obtain benefits from its activities, it is classified as a subsidiary The consolidated financial information presents the results of the Company and its sole subsidiary Futura Medical Developments Limited ("FMDL") as if they formed a single entity ("the Group") Intra group transactions and balances are eliminated in preparing the financial statements

1.3 Revenue

Revenue comprises the fair value received or receivable for exclusivity arrangements, consultancy fees, milestone income and royalties, net of value added tax

The accounting policies for the principal revenue streams of the Group are as follows

(i) Exclusivity arrangements and similar agreements are recognised as revenue in the accounting period in which the related services, or required activities, are performed or specified conditions are fulfilled in accordance with the terms of completion of the specific transaction

(ii) Consultancy fees are recognised as revenue in the year in which the revenue becomes receivable

(iii) Royalty income relating to the sale by a licensee of licensed product is recognised on an accruals basis in accordance with the substance of the relevant agreement and based on the receipt from the licensee of the relevant information to enable calculation of the royalty due

(iv) Non-refundable milestone income is recognised on achieving the milestones If any milestone income is creditable against royalty payments then it is deferred and released to the income statement over the period in which the royalties would otherwise be receivable

1.4 Leased assets

Leases, which contain terms whereby the Group does not assume substantially all the risks and rewards incidental to ownership of the leased item are classified as operating leases Operating lease rentals are charged to the income statement on a straight line basis over the lease term The Group does not hold any assets under finance leases

Accounting policies (continued)

1.5 Intangible assets

Research and development

Certain Group products are in the research phase and others are in the development phase Expenditure incurred on the development of internally generated products is capitalised if it can be demonstrated that

- it is technically feasible to develop the product for it to be sold,
- adequate resources are available to complete the development,
- there is an intention to complete and sell the product,
- the Group is able to sell the product,
- sale of the product will generate future economic benefits, and
- expenditure on the project can be measured reliably

Capitalised development costs are amortised over the periods in which the Group expects to benefit from selling the products developed The amortisation expense is included in research and development costs recognised in the income statement The useful life and the value of the capitalised development cost are assessed for impairment at least annually The value is written down immediately if impairment has occurred and the unimpaired cost amortised over the reduced useful life The Directors consider that the criteria to capitalise development expenditure are not met for a product prior to receiving regulatory approval for sale in at least one country

Development expenditure, not satisfying the above criteria, and expenditure on the research phase of internal projects are included in research and development costs recognised in the income statement as incurred

Patents and trademarks

The costs incurred in establishing patents and trademarks are either expensed or capitalised in accordance with the corresponding treatment of the development expenditure for the product to which they relate

1.6 Plant and equipment

Plant and equipment is initially recognised at cost, and subsequently at cost less accumulated depreciation and any accumulated impairment losses Cost includes expenditure that is directly attributable to the acquisition of the items Depreciation is charged to the income statement at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over their estimated useful lives

The assets' residual values and useful lives are determined by the Directors and reviewed and adjusted if appropriate at each balance sheet date

Accounting policies (continued)

1.7 Impairment of non-financial assets

Assets that are subject to depreciation are reviewed for impairment on a half yearly basis and when events or circumstances suggest that the carrying amount may not be recoverable For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units) An impairment loss is recognised immediately in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount

Recoverable amount is the higher of fair value, less costs to sell, and value in use In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods A reversal of an impairment loss is recognised immediately in the income statement

1.8 Inventories

Inventories are materials and supplies to be consumed in the course of research and development and are initially recognised at cost, and subsequently at the lower of cost and net realisable value Cost includes materials, related contract manufacturing costs and other direct costs Cost is calculated using the first-in first-out method Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal

A provision is recognised immediately in the income statement in respect of obsolete, slow-moving or defective items where appropriate

Accounting policies (continued)

1.9 Financial instruments

Financial assets

The Group classifies its financial assets in the category of loans and receivables They are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method

The Group's loans and receivables comprise 'trade and other receivables' (notes 1 10 and 14) and 'cash and cash equivalents' (notes 1 11 and 15)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired

Financial liabilities

The Group's financial liabilities comprise trade and other payables (notes 1 12 and 16) recognised initially at fair value and subsequently at amortised cost using the effective interest rate method

1.10 Trade and other receivables

Trade and other receivables are financial assets and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an estimate made for impairment based on a review of all past due amounts at the year end A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due If an impairment loss is required the carrying amount of the trade or other receivable is reduced through the use of an allowance account and the amount of the loss recognised immediately in the income statement in administrative costs

Included in trade and other receivables are medium term deposits, comprising sterling fixed rate deposits, with original maturities of more than three months

1.11 Cash and cash equivalents

Cash and cash equivalents are financial assets and comprise cash in hand and sterling fixed rate deposits with original maturities of three months or less which are held by the Group so as to be available to meet short-term cash commitments

1 12 Trade and other payables

Trade and other payables are financial liabilities and are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method

1.13 Government grants

Government grants are recognised at fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions Government grants relating to costs defrayed are accrued and recognised in the income statement over the period required to match them with the costs that they reimburse

Accounting policies (continued)

1.14 Taxation

Income tax is recognised or provided at amounts expected to be recovered or to be paid using the tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date Research and development tax credits are recognised on an accruals basis and are included as an income tax credit under current assets

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability on the balance sheet differs from its tax base, except for differences arising on

- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit, and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profits will be available against which the difference can be utilised

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered) Deferred tax balances are not discounted

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either

- the same taxable group company, or
- different group entities which intend to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, on each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered

1 15 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement in the period in which they arise

Accounting policies (continued)

1.16 Employee benefits

(i) Defined contribution plans

The Group provides retirement benefits to all employees and Executive Directors (except the Chairman) who wish to participate in defined contribution pension schemes The assets of these schemes are held separately from those of the Group in independently administered funds Contributions made by the Group are charged to the income statement in the period in which they become payable

(ii) Accrued holiday pay

Provision is made at each balance sheet date for holidays accrued but not taken at the salary of the relevant employee at that date The expected cost of compensated short term absence (i e holidays) is charged to the income statement on an accruals basis

(iii) Share-based payment transactions

The Group operates an equity-settled, share-based compensation plan Where share options are awarded to employees, and others providing similar services, on or after 7 November 2002, the fair value of the options at the date of grant is charged to the income statement over the vesting period Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest Market vesting conditions are factored into the fair value of the options granted As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied The cumulative charge is not adjusted for failure to achieve a market vesting condition If the terms and conditions of options are modified before they vest, the change in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period

The proceeds received when options are exercised, net of any directly attributable transaction costs, are credited to share capital (nominal value) and the remaining balance to share premium account

1.17 National insurance on share options

All employee option holders enter into a HM Revenue & Customs joint election to transfer the employers' national insurance contribution potential liability to the employee, therefore no asset or liability arises

1.18 Finance income

Interest income is recognised on a time-proportion basis using the effective interest rate method

1 19 Critical accounting estimates and judgements

Critical accounting estimates, assumptions and judgements are continually evaluated by management based on available information and experience As the use of estimates is inherent in financial reporting, actual results could differ from these estimates

Accounting policies (continued)

1 19 Critical accounting estimates and judgements (continued)

Judgements

(i) Revenue recognition

The fee received in respect of the TPR100 exclusivity agreement has not been recognised as revenue but is shown as deferred income as the relevant conditions of the agreement had not all been met at the relevant balance sheet date

(ii) Intangible asset recognition

The Directors consider that the criteria to capitalise development expenditure are not met for a product prior to receiving regulatory approval for sale in at least one country

(iii) Deferred tax recognition

The Directors consider that, given the current stage of development of the business, deferred tax assets should not be recognised before the Group is generating significant revenue

Estimates and assumptions

(iv) Useful lives of plant and equipment

Plant and equipment is amortised or depreciated over its useful life Useful lives are based on the Directors' estimates of the periods over which the assets will be used in developing revenue generating products and the estimates are reviewed annually for continued appropriateness The estimated useful lives are between 2 and 5 years for computer equipment and between 3 and 10 years for furniture and fittings Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated income statement in specific periods

(v) Fair value of financial instruments

The Group determines the fair value of financial instruments using valuation techniques which can be significantly affected by the assumptions used, including interest and discount rates and estimates of future cash flows

(vi) Inventories

The Group reviews the net realisable value of its inventories on a half yearly basis to provide assurance that recorded inventories are stated at the lower of cost or net realisable value Factors that could impact realisable value include the timing and success of future technological innovations in relation to product research and development, competitor and Government actions, supplier prices and economic trends

(vii) Share-based payments

The Group operates an equity-settled, share-based compensation plan Employee and similar services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of grant

Accounting policies (continued)

1.20 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle that obligation Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material

2. Financial risk management

2.1 Financial risk factors

The Group's activities expose it to a variety of financial risks market risk (including foreign exchange risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk

It is Group policy not to enter into speculative positions using complex financial instruments The Group's primary treasury objective is to minimise exposure to potential capital losses whilst at the same time securing favourable market rates of interest on Group cash deposits using money market deposits with banks Cash balances used to settle the liabilities from operating activities are also maintained in current accounts which earn interest at variable rates

(i) Market risk

Foreign exchange risk

The Group primarily enters into supplier contracts which are to be settled in sterling However, some contracts involve other major world currencies including the US Dollar and the Euro Where large supplier contracts of more than £100,000 total value are to be settled in foreign currencies consideration is given to settling the sums to be paid through conversion of sterling deposits to the appropriate foreign currency holdings at the outset of the contract to minimise the risk of adverse currency fluctuations

For contracts with smaller values the foreign currency risk is not considered sufficient to require the establishment of foreign currency bank accounts unless specific circumstances are identified which warrant this

At 31 December 2007 the Group had trade payables denominated in US dollars of £6,611 If the US dollar exchange rate at 31 December 2007 had weakened/strengthened against the UK pound by 5% the post-tax loss for the year and net assets would have been £156 lower/£524 higher

At 31 December 2006 the Group had trade payables denominated in US dollars of £17,373 If the US dollar exchange rate at 31 December 2006 had weakened/strengthened against the UK pound by 5% the post-tax loss for the year and net assets would have been £1,913 lower/£1,140 lower

2 Financial risk management (continued)

Cash flow interest rate risk and fair value interest rate risk

The Group's interest rate risk arises from medium term and short term money market deposits Deposits which earn variable rates of interest expose the Group to cash flow interest rate risk Deposits at fixed rates expose the Group to fair value interest rate risk

The Group analyses its interest rate exposure on a dynamic basis The impact in the year ended 2007, of a defined interest rate shift of a 1% higher/lower rate of interest earned per annum applied to the term deposits over the period of the deposit, on the post-tax loss for the year and net assets would have been £25,534 lower/higher (2006 £22,880 lower/higher)

(ii) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions as well as credit exposure in relation to outstanding receivables Group policy is to spread deposits over at least two institutions with investment grade A2 or better (Moody's credit rating) and deposits are made in sterling only The Group does not expect any losses from non-performance by these institutions

(iii) Liquidity risk

Liquidity risk arises from the Group's management of working capital It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow

The Group had trade and other payables at the balance sheet date of £315,161 (2006 £236,066) as disclosed in note 16 on page 53

2.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders of the Company and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital

2.3 Fair value estimation

The Group uses amortised cost, using the effective interest rate method, to determine subsequent fair value after initial recognition, for its financial instruments

3 Segment reporting

The Group is organised and operates as one business segment, being the development of pharmaceutical drugs and medical devices and their commercial exploitation The main area of research and development continues to be in the field of innovative products for the consumer healthcare market with the main focus being on sexual health

3 Segment reporting (continued)

The Group manages any overseas research and development from the UK, the primary business segment Segment revenue is based on the geographical location of the Group's customers which at this stage is solely the UK Since there is currently only one business segment and one geographical segment, no separate segment reporting has been prepared

4. Government grants

	Year ended 31 December 2007 £	Year ended 31 December 2006 £
SEEDA R&D grant income recognised in income statement	**96,172**	-
SEEDA R&D grant accrued income (note 14)	**15,510**	-

There were no unfulfilled conditions attaching to the government grant income that has been recognised

5 Operating loss

Operating loss is stated after charging	Year ended 31 December 2007 £	Year ended 31 December 2006 £
Depreciation of plant and equipment	**15,194**	10,630
Loss on sale of fixed assets	**-**	6
Inventories consumed in research and development	**12,121**	12,256
Realised exchange losses	**2,774**	153
Wages and salaries (note 6)	**1,050,056**	909,561
Operating lease costs (note 21)	**75,132**	70,752

The fees of the Group's auditor, BDO Stoy Hayward LLP, for services provided are analysed below

Audit services	Year ended 31 December 2007 £	Year ended 31 December 2006 £
Parent company	**25,800**	30,160
Subsidiary	**6,050**	5,720
Tax services		
Parent company	**850**	1,200
Subsidiary	**4,250**	4,150
Other services		
Parent company – interim review	**6,000**	4,000
Parent company – IFRS conversion review	**6,500**	-
Subsidiary	**1,350**	500
Total fees	**50,800**	45,730

6. Wages and salaries

The average monthly number of persons (including all Directors) employed by the Group during the year was 14 (by category R&D 5, administration 9), (2006 by category R&D 5, administration 7) and their aggregate emoluments were

	Year ended 31 December 2007	Year ended 31 December 2006
	£	£
Wages and salaries	**799,892**	710,008
Social security costs	**94,427**	84,888
Other pension and insurance benefits costs	**87,031**	69,902
Total cash settled emoluments	**981,350**	864,798
Accrued holiday pay	**4,055**	1,389
Share-based payment remuneration charge (note 18)	**64,651**	43,374
Total emoluments	**1,050,056**	909,561

All employees of the Group are employed by Futura Medical Developments Limited

7. Directors' emoluments

	Year ended 31 December 2007	Year ended 31 December 2006
	£	£
Aggregate emoluments	**481,929**	477,529
Company pension contributions	**37,877**	34,423

Emoluments disclosed above include the following amounts in respect of the highest paid Director

	Year ended 31 December 2007	Year ended 31 December 2006
	£	£
Aggregate emoluments	**162,461**	163,256
Company pension contributions	**14,717**	13,725

During the year, three Directors (2006 three Directors) participated in a private money purchase (defined contribution) pension scheme

8. Finance income

	Year ended 31 December 2007	Year ended 31 December 2006
	£	£
Interest receivable on medium term deposits	**41,757**	15,721
Interest receivable on bank deposits	**119,534**	120,393
	161,291	136,114

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

9. Taxation

Current tax

	Year ended 31 December 2007 £	Year ended 31 December 2006 £
UK corporation tax credit on loss for the year	**208,717**	195,033
Adjustment for under-provision in prior year	**-**	1,100
Total income tax expense	**208,717**	196,133

The tax assessed for the year is different from the standard rate of corporation tax in the UK The differences are explained below

	Year ended 31 December 2007 £	Year ended 31 December 2006 £
Loss on ordinary activities before tax	**2,463,126**	1,972,646
Loss on ordinary activities at the average standard rate of corporation tax in the UK of 19 75% (31 December 2006 19%)	**486,467**	374,803
Expenses not deductible for tax purposes	**(1,075)**	(2,634)
Difference between depreciation and capital allowances	**(3,001)**	(2,264)
Other short-term timing differences	**(13,195)**	(8,626)
Unutilised tax losses	**(319,591)**	(400,704)
Schedule 23 deduction for share options	**3,061**	176,501
Additional relief attaching to tax credit claims	**56,051**	57,957
Adjustment for under-provision in prior year	**-**	1,100
Total tax credit for the year	**208,717**	196,133

The Group has tax losses of approximately £8,932,703 (2006 £7,289,771) available for offset against future taxable profits

Deferred tax

Deferred tax assets amounting to £1,996,394 (2006 £1,404,565) have not been recognised on the basis that their future economic benefit is not certain Assuming a prevailing tax rate of 22% (2006 19%) when the timing differences reverse, the unrecognised deferred tax asset comprises

	Year ended 31 December 2007 £	Year ended 31 December 2006 £
Depreciation in excess of capital allowances	**5,401**	1,575
Other short term timing differences	**25,798**	20,774
Unutilised tax losses	**1,965,195**	1,382,216
	1,996,394	1,404,565

10 Loss per share

The calculation of the loss per share is based on a loss of £2,254,409 (2006 loss of £1,776,513) and on a weighted average number of shares in issue of 55,603,121 (2006 52,299,053)

The loss attributable to equity holders of the parent company for the purpose of calculating the diluted loss per share is identical to that used for calculating the basic loss per share The exercise of share options, details of which are disclosed in note 18, or the issue of shares under the long term incentive scheme, would have the effect of reducing the loss per share and is therefore anti-dilutive under the terms of IAS 33 'Earnings per Share'

11. Plant and equipment

Cost	Computer equipment £	Furniture and fittings £	Total £
At 1 January 2007	33,796	45,037	78,833
Reclassifications	(50)	(25)	(75)
Additions	22,468	8,032	30,500
At 31 December 2007	**56,214**	**53,044**	**109,258**
Depreciation			
At 1 January 2007	20,573	38,151	58,724
Reclassifications	(50)	(25)	(75)
Charge for year	10,248	4,946	15,194
At 31 December 2007	**30,771**	**43,072**	**73,843**
Net book value			
At 31 December 2007	**25,443**	**9,972**	**35,415**
At 31 December 2006	13,223	6,886	20,109

Cost	Computer equipment £	Furniture and fittings £	Total £
At 1 January 2006	31,192	42,353	73,545
Additions	2,604	2,814	5,418
Disposals	-	(130)	(130)
At 31 December 2006	**33,796**	**45,037**	**78,833**
Depreciation			
At 1 January 2006	13,275	34,900	48,175
Charge for year	7,298	3,332	10,630
Disposals	-	(81)	(81)
At 31 December 2006	**20,573**	**38,151**	**58,724**
Net book value			
At 31 December 2006	**13,223**	**6,886**	**20,109**
At 31 December 2005	17,917	7,453	25,370

All fixed assets of the Group are held in Futura Medical Developments Limited

12 Inventories

	31 December 2007 £	31 December 2006 £
Raw materials and consumables	**23,344**	32,648

13. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below

Assets as per balance sheet	31 December 2007	31 December 2006
Loans and receivables	**£**	£
Trade and other receivables	**183,283**	1,196,024
Cash and cash equivalents	**2,637,892**	2,740,767
Total loans and receivables	**2,821,175**	3,936,791

Liabilities as per balance sheet	31 December 2007	31 December 2006
	£	£
Total trade and other payables	**315,161**	236,066

14. Trade and other receivables

	31 December 2007	31 December 2006
Amounts receivable within one year	**£**	£
Trade receivables	**81,967**	-
Other receivables	**31,764**	34,819
Medium term deposits	**-**	1,039,031
Prepayments and accrued income	**69,552**	122,174
	183,283	1,196,024

Trade receivables that are under three months past due are not considered impaired

As of 31 December 2007, trade receivables of £49,492 were past due but not impaired (2006 £nil) These relate to a single independent established healthcare group for whom there is no history of default The ageing analysis of the past due trade receivables is

	31 December 2007	31 December 2006
	£	£
Under three months past due	**49,492**	-

The other classes within trade and other receivables do not contain impaired assets The Group does not hold any collateral as security and the maximum exposure to credit risk at the reporting date is the fair value of each class of receivable

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

15. Cash and cash equivalents

	31 December 2007	31 December 2006
	£	£
Cash in hand	**263,183**	80,767
Sterling fixed rate deposits of up to three months maturity	**2,374,709**	2,660,000
	2,637,892	2,740,767

16. Trade and other payables

	31 December 2007	31 December 2006
	£	£
Trade payables	**99,243**	123,070
Social security and other taxes	**38,147**	36,685
Accrued expenses	**27,771**	76,311
Deferred income	**150,000**	-
	315,161	236,066

17 Share capital

Authorised	**31 December 2007**	31 December 2006	**31 December 2007**	31 December 2006
	No.	No	**£**	£
Ordinary shares of 0 2 pence each	**500,000,000**	500,000,000	**1,000,000**	1,000,000

Allotted, called up and fully paid	**31 December 2007**	31 December 2006	**31 December 2007**	31 December 2006
	No	No	**£**	£
Ordinary shares of 0 2 pence each	**57,618,840**	55,303,601	**115,238**	110,607

The number of issued ordinary shares as at 1st January 2006 was 48,938,601

During the year ended 31 December 2006 the Company issued shares of 0 2 pence each as follows

Month	**Reason for issue**	**Gross consideration**	**Shares issued**
		£	**No.**
January 2006	Exercise of share options	165,500	350,000
February 2006	Exercise of share options	200,400	380,000
July 2006	Private placing at 78 pence per share	2,652,000	3,400,000
July 2006	Exercise of share options	831,250	2,235,000
		3,849,150	6,365,000

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

17. Share capital (continued)

During the year ended 31 December 2007, the Company issued shares of 0 2 pence each as follows

Month	Reason for issue	Gross consideration £	Shares issued No.
January 2007	Exercise of share options	16,500	50,000
November 2007	Private placing at 48 56 pence per share	1,000,000	2,059,308
November 2007	Placing arrangement fee	100,000	205,931
		1,116,500	2,315,239

The arrangement fee, in connection with the placing which took place on 15 November 2007, was not settled in cash but by the issue of 205,931 shares at the placing price of 48 56 pence per share

The further equity funding facility would if called upon by the Company involve the issue of new ordinary shares at a price per share set at a 10 per cent discount to the average mid-price of the Company's shares during the five trading days prior to the agreement to issue the tranche of shares The call option may only be exercised in respect of multiples of £0 50 million and in respect of a maximum aggregate amount of £1 00 million and may be exercised at any time prior to 20 May 2009

18. Share options

At 31 December 2007, the number of ordinary shares of 0 2 pence each subject to options granted under the Group's Approved and Unapproved Share Option Schemes were

Exercise Period	Exercise price per share p	At 1 January 2007 No.	Grants during year No.	Options expired No	Options exercised No	At 31 December 2007 No.
1 August 2004 - 31 January 2007	33	165,000	-	115,000	50,000	-
1 August 2004 - 31 January 2007	50	10,000	-	10,000	-	-
1 August 2005 - 31 July 2007	70	410,000	-	410,000	-	-
1 October 2006 - 30 September 2008	70	150,000	-	-	-	**150,000**
1 April 2007 - 31 March 2009	76	425,000	-	-	-	**425,000**
1 February 2008 - 31 January 2013	74 50	350,000	-	-	-	**350,000**
1 February 2009 - 31 January 2014	56 25	-	350,000	-	-	**350,000**
		1,510,000	350,000	535,000	50,000	**1,275,000**

The options outstanding at 31 December 2007 represent 2 2% of the issued share capital as at that date (2006 2 7%) and the weighted average remaining life of the options was 42 months (2006 38 months), with a weighted average remaining exercise price of 69 46p (2006 66 24p)

The options exercised during the year would otherwise have expired on 31 January 2007 In respect of the options exercised during the year, the weighted average share price at the date of exercise was 64p

18. Share options (continued)

On 9 July 2007, 350,000 options over new ordinary shares were granted to employees (not Directors) and a consultant

The Group's share option scheme rules apply to 1,175,000 of the options outstanding at 31 December 2007 and include a rule regarding forfeiture of the unexercised options by a director or employee upon the cessation of their employment (except in specific circumstances)

There were no market conditions within the terms of the grant of the options

The Black-Scholes-Merton formula is the option pricing model applied to the grants of all options made on or after 7 November 2002 in respect of calculating the fair value of the options

Inputs to option pricing model	**31 December 2007**	31 December 2006
Grant date	**9 July 2007**	8 July 2006
Number of shares under option	**350,000**	350,000
Share price at date of grant	**55 30p**	75 00p
Option exercise price	**56 25p**	74 50p
Expected life of options – based on previous exercise history	**3 years**	3 years
Expected volatility – based on 30 day annualised history	**39.23%**	25 70%
Dividend yield – no dividends assumed	**0%**	0%
Risk free rate – yield on treasury stock at date of grant	**5.76% p.a.**	4 75% p a

Outputs generated from option pricing model	**31 December 2007**	31 December 2006
Fair value per share under option	**18p**	18p
Total expected charge over the vesting period	**£63,000**	£63,000

Recognised in the income statement for the year	**31 December 2007**	31 December 2006
The share-based remuneration charge (note 6) comprises		
Share-based payments	**£64,651**	£43,374

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

19 Reserves

	Share premium reserve £	Other reserve £	Retained losses £
At 1 January 2006	8,560,987	1,152,165	(7,832,392)
Retained loss for the year	-	-	(1,776,513)
Share-based payment	-	-	43,374
Shares issued during the year	3,836,420	-	-
Cost of share issues	(146,132)	-	-
At 1 January 2007	12,251,275	1,152,165	(9,565,531)
Retained loss for the year	-	-	(2,254,409)
Share-based payment	-	-	64,651
Shares issued during the year	1,111,869	-	-
Cost of share issues	(101,768)	-	-
At 31 December 2007	**13,261,376**	**1,152,165**	**(11,755,289)**

The share premium reserve represents amounts subscribed for share capital in excess of nominal value less the related costs of share issues

The other reserve represents the reserve arising on the acquisition of Futura Medical Developments Limited on 6 June 2001 via a share for share exchange accounted for as a group reconstruction using merger accounting under UK GAAP

Retained losses represent cumulative net losses recognised in the consolidated income statement

20. Pension costs

The pension charge represents contributions payable by the Group to independently administered funds which during the year ended 31 December 2007 amounted to £67,258 (2006 £55,273) Pension contributions payable but not yet paid at 31 December 2007 totalled £nil in respect of pension contribution entitlements where employees had not yet provided details of the funds to which the contributions should be made (2006 £2,125) In addition, pension contributions payable one month in arrears at 31 December 2007 totalled £2,258 (2006 £2,027) All unpaid contributions are included in accrued expenses at the relevant balance sheet date

21. Commitments

At 31 December 2007 the Group had operating lease commitments in respect of property leases cancellable on one month's notice of £6,014 (2006 £5,896)

22. Related party transactions

Related parties, as defined by IAS 24 'Related Party Disclosures', are the wholly owned subsidiary company, Futura Medical Developments Limited, and the Board Transactions between the Company and the subsidiary company have been eliminated on consolidation and are not disclosed in this note

22 Related party transactions (continued)

W D Potter, a Director of the Company, provides consulting services to the wholly owned subsidiary, Futura Medical Developments Limited, through Stapleford Scientific Services Limited Of the total fees and expenses, excluding VAT, invoiced during the year of £79,668 (2006 £79,479), the amount outstanding at 31 December 2007 including VAT was £7,651 (2006 £7,680)

Key management compensation

The Directors' represent the key management personnel Details of their compensation and share options are given in note 7 and within the Directors' Report Remuneration Report on pages 27 to 29

23. Explanation of transition to IFRS

This is the first year that the Group has presented its full consolidated financial information under IFRS The transition to IFRS has had no impact on the Group cash flow statement, other than on the layout The requirements of Financial Reporting Standard 20 'Share-based Payment' were applied for the first time for the year ended 31 December 2006 (on the same basis as apply under IFRS 2 'Share-based Payment') The last financial statements under UK GAAP were for the year ended 31 December 2006 and the date of full transition to IFRS was therefore 1 January 2006 The following disclosures are required in the year of transition

Reconciliation of Group equity at 1 January 2006 (date of transition to IFRS)

	Note	UK GAAP	IFRS Restatement	IFRS
		£	£	£
Plant and equipment		25,370	-	25,370
Inventories		31,956	-	31,956
Trade and other receivables		69,543	-	69,543
Income tax asset		281,536	-	281,536
Cash and cash equivalents		1,808,913	-	1,808,913
Total assets		2,217,318	-	2,217,318
Trade and other payables	(i)	(237,147)	(1,534)	(238,681)
Total net assets		**1,980,171**	**(1,534)**	**1,978,637**
Share capital		97,877	-	97,877
Share premium reserve		8,560,987	-	8,560,987
Other reserve		1,152,165	-	1,152,165
Retained losses	(ii)	(7,830,858)	(1,534)	(7,832,392)
Total equity		**1,980,171**	**(1,534)**	**1,978,637**

Note (i). Holiday pay provision

IAS 19 'Employee Benefits' requires the creation of an accrued holiday pay provision This was not required under UK GAAP

Note (ii). Retained losses

The impact of (i) is a charge to retained earnings of £1,534 at the date of transition

23. Explanation of transition to IFRS (continued)

Reconciliation of Group equity at 31 December 2006

	Note	UK GAAP	IFRS Restatement	IFRS
		£	£	£
Plant and equipment		20,109	-	20,109
Inventories		32,648	-	32,648
Trade and other receivables	(i)	156,993	1,039,031	1,196,024
Income tax asset		195,034	-	195,034
Cash and cash equivalents		3,779,798	(1,039,031)	2,740,767
Total assets		4,184,582	-	4,184,582
Trade and other payables	(ii)	(233,143)	(2,923)	(236,066)
Total net assets		**3,951,439**	**(2,923)**	**3,948,516**
Share capital		110,607	-	110,607
Share premium reserve		12,251,275	-	12,251,275
Other reserve		1,152,165	-	1,152,165
Retained losses	(iii)	(9,562,608)	(2,923)	(9,565,531)
Total equity		**3,951,439**	**(2,923)**	**3,948,516**

Note (i): Trade and other receivables

IFRS 7 'Financial Instruments Disclosures' requires reclassification of medium term deposits

Note (ii): Holiday pay provision

IAS 19 'Employee Benefits' requires the creation of an accrued holiday pay provision This was not required under UK GAAP

Note (iii)· Retained losses

The impact of (i) is a charge to retained earnings (ii) of £2,923 at 31 December 2006

Reconciliation of consolidated income statement for year ended 31 December 2006

	Note	UK GAAP	IFRS Restatement	IFRS
		£	£	£
Revenue		301	-	301
Research and development costs	(i)	(1,077,312)	(2,674)	(1,079,986)
Administrative costs	(i)	(1,030,360)	1,285	(1,029,075)
Operating loss		(2,107,371)	(1,389)	(2,108,760)
Finance income		136,114	-	136,114
Loss before tax		(1,971,257)	(1,389)	(1,972,646)
Taxation		196,133	-	196,133
Loss for the year attributable to equity holders of the company		**(1,775,124)**	**(1,389)**	**(1,776,513)**

Note (i). Holiday pay provision

IAS 19 'Employee Benefits' requires the creation of an accrued holiday pay provision This was not required under UK GAAP

Parent Company Balance Sheet

For the year ended 31 December 2007

	Notes	As at 31 December 2007 £	As at 31 December 2006 £
Fixed assets			
Investment	3	**230,557**	60,724
Current assets			
Debtors – due within one year	4	**30,838**	28,168
Debtors – due after more than one year	4	**10,667,214**	8,455,808
Total debtors		**10,698,052**	8,483,976
Cash at bank and in hand		**2,419,323**	3,717,204
		13,117,375	12,201,180
Creditors: amounts falling due within one year	5	**(5,697)**	(6,221)
Net current assets		**13,111,678**	12,194,959
Total net assets		**13,342,235**	12,255,683
Capital and reserves			
Called up share capital	6	**115,238**	110,607
Share premium account	7	**13,261,376**	12,251,275
Profit and loss account	7	**(34,379)**	(106,199)
Equity shareholders' funds		**13,342,235**	12,255,683

These financial statements were approved and authorised for issue by the Board on 12 March 2008

The notes on pages 60 to 61 form part of these parent company financial statements

J H Barder
Director

On behalf of the Board of Futura Medical plc

Notes to the Parent Company Financial Statements

For the year ended 31 December 2007

1. Accounting policies

The parent company financial statements have been prepared under the historical cost convention and in accordance with UK GAAP

Share-based employee remuneration

The Company has no employees, however the Company does issue shares to satisfy share awards made by its subsidiary company The Company has applied Financial Reporting Standard 20 'Share-based Payment' to all share options which were granted to employees of the subsidiary and which had not vested at 1 January 2006 The Company's investment in the subsidiary is increased by the capital contribution equivalent to the fair value of the share-based payment charge incurred by the subsidiary

Taxation

Current tax, including UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that the recognition of deferred tax assets is limited to the extent that the Company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences Deferred tax balances are not discounted

2. Profit attributable to shareholders

As permitted by Section 230 of the Companies Act 1985 no separate Company profit and loss account has been included in these financial statements The Company made a profit after tax of £7,169 for the year ended 31 December 2007 (2006 profit after tax £17,875) The total fees of the Company's and Group's auditor, BDO Stoy Hayward LLP, for services provided are analysed in note 5 to the consolidated financial statements on page 48

3. Investment

The investment represents 100% of the issued ordinary shares in the subsidiary undertaking Futura Medical Developments Limited, a company incorporated in England and Wales, and is stated at cost plus capital contribution to the subsidiary in respect of share-based payment charge less any provision for impairment The results of the subsidiary company are included in the consolidated financial statements on pages 34 to 58

	31 December 2007	31 December 2006
	£	£
Cost	**230,557**	60,724

4. Debtors

	31 December 2007	31 December 2006
	£	£
Amounts receivable within one year prepayments	**30,838**	28,168
Amounts receivable after more than one year		
Amounts owed by subsidiary	**10,667,214**	8,455,808

Notes to the Parent Company Financial Statements

For the year ended 31 December 2007

5. Creditors. amounts falling due within one year

	31 December 2007 £	31 December 2006 £
Trade creditors	**2,697**	5,521
Accruals and deferred income	**3,000**	700
	5,697	6,221

6. Share capital

Authorised	**31 December 2007 No.**	31 December 2006 No	**31 December 2007 £**	31 December 2006 £
Ordinary shares of 0 2 pence each	**500,000,000**	500,000,000	**1,000,000**	1,000,000

Allotted, called up and fully paid	**31 December 2007 No.**	31 December 2006 No	**31 December 2007 £**	31 December 2006 £
Ordinary shares of 0 2 pence each	**57,618,840**	55,303,601	**115,238**	110,607

Details of shares issued by the Company in the period are given in note 17 to the consolidated financial statements and details of share options outstanding are given in note 18 to the consolidated financial statements

7. Reserves

	Share premium account £	**Profit and loss account £**
At 1 January 2006	8,560,987	(167,448)
Retained profit for the year	-	17,875
Share-based payment	-	43,374
Shares issued during the year	3,836,420	-
Cost of share issues	(146,132)	-
At 1 January 2007	12,251,275	(106,199)
Retained profit for the year	-	7,169
Share-based payment	-	64,651
Shares issued during the year	1,111,869	-
Cost of share issues	(101,768)	-
At 31 December 2007	**13,261,376**	**(34,379)**

8. Related party transactions

Details are given in note 22 to the consolidated financial statements on page 56

Company Information

Company number

4206001

Directors

Dr William D Potter, Executive Chairman
James H Barder, Chief Executive
Anthony L Clayden, Finance Director
David B Davies, Product Development Director
Jonathan D Freeman, Non-Executive Director
Andrew Slater, Non-Executive Director

Audit committee

Jonathan D Freeman
Andrew Slater

Remuneration committee

Jonathan D Freeman
Andrew Slater
Dr William D Potter
(adviser to committee)

Nominations committee

Dr William D Potter
Jonathan D Freeman
Andrew Slater

Secretary and registered office

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