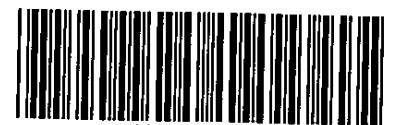


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Innovative products for consumer health

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**FUTURA MEDICAL plc**  
Annual report and accounts **2010**

## Futura Medical plc (“Futura”) develops innovative products for the consumer healthcare market.

The Company’s strategy is to develop innovative products and out-license their 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 pipeline

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

### **Our business strategy is centred on selecting and developing products based on five key criteria:**

- **Return on Investment:** we focus on consumer healthcare products that offer the potential for a significant return on the costs of development
- **Product Profile:** we focus on topically applied medicines, either stand-alone or in combination with a medical device. We only incorporate existing chemical entities into our products which gives our development activities a lower risk profile
- **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 out-license our products during their development to established pharmaceutical and healthcare groups which offer the best potential commercial opportunities

# Highlights

- CSD500 – CE mark approval expected shortly
- PET500 – Worldwide agreement signed with Ansell Limited in February 2011
- TPR100 – Development agreement signed with GlaxoSmithKline in June 2010
- TPR100-Rx – New prescription pain relief product opportunity identified
- Further in-house product opportunities under evaluation
- Reduced net loss of £1.09 million (2009 Net loss of £1.39 million)
- Cash resources of £0.82 million at 31 December 2010 (31 December 2009 £1.79 million), tax credit receivable £0.15 million at 31 December 2010 (31 December 2009 £0.12 million)
- £3.20 million (£3.07 million net of expenses) fundraising by way of a placing of 4,737,402 new ordinary shares at 67.50 pence per share in March 2011

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# Futura at a Glance

We have six products in our development pipeline for sexual healthcare and pain relief management CSD500, PET500, MED2002, TPR100, TPR100-Rx and RAD100. We are also working on the next generation of product opportunities.

## Our licensing partnerships

Futura has signed a global distribution agreement with the world's largest branded condom manufacturer and distributor, Reckitt Benckiser ("RB"), makers of the Durex® condom range, for CSD500 for the lifetime of its patents. CSD500 is a condom aimed at helping healthy men maintain a firmer erection during intercourse whilst wearing a condom.

Futura has also signed a global development and licensing agreement with RB for MED2002, our topical treatment for erectile dysfunction.

Futura signed a development agreement in June 2010 with GlaxoSmithKline plc ("GSK") for TPR100, our product for pain relief. Under the terms of the agreement GSK will fully fund and be responsible for all clinical and regulatory development. GSK will also make modest annual payments to Futura whilst development work proceeds. Subject to satisfactory clinical outcomes and regulatory approvals both parties expect to enter into a commercial distribution agreement in due course.

Futura signed an exclusive worldwide agreement in February 2011 with Ansell Limited ("Ansell") for the commercialisation of PET500 our product for enhanced sexual control.

## – Our proprietary drug delivery technology

Futura has developed a highly efficient and proprietary transdermal delivery technology, DermaSys®, for the absorption of active molecules through the skin. 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.

Whilst developing PET500, our product for enhanced sexual control, we also expanded the DermaSys® delivery technology platform and produced a new and unique delivery system, DermaSys® AquaFree, which does not contain any water. DermaSys® AquaFree enables drugs that are water sensitive (hydrolytically unstable or which have only limited hydrolytic stability) to be developed into potentially commercially attractive products with the additional benefit of rapid transdermal delivery.


To maximise the value of these intellectual property assets, we continue to evaluate their use with a range of 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 focus being on OTC products for sexual healthcare and pain relief management.


## Sexual healthcare

**Concept**  **Commercialisation**


**CSD500**    
 Next milestone Granting of the CE mark

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 firmer erection during intercourse whilst wearing a condom.

**PET500**  EU   
 Next milestone Pivotal clinical trial

 USA   
 Next milestone Agree launch plan


PET500 is a spray for men with premature ejaculation. It contains anaesthetic compounds which reduce sensitivity to help prolong sexual intercourse. Delivered by

**MED2002**    
 Next milestone Pivotal clinical trial


MED2002 is a topical gel applied directly to the penis for the treatment of male erectile dysfunction. It is expected to be the first OTC treatment for men with erectile dysfunction. Delivered by

## Pain relief management


**Concept**  **Commercialisation**

**TPR100**    
 Next milestone Ongoing development

TPR100 is a product for the provision of topical pain relief. Early clinical work has shown superiority in terms of skin penetration of the active compound compared with the market-leading product. Delivered by

**TPR100-Rx**    
 Next milestone Early stage clinical trial

TPR100-Rx will be a higher strength topical product available on prescription for the treatment of profound indications such as osteoarthritis and rheumatic pain. Delivered by

**RAD100**    
 Next milestone Early stage clinical trial

RAD100 will be a product which aims to provide rapid local anaesthesia prior to injection, vaccination or cannulation. Delivered by

# Chairman's and Chief Executive's Joint Review

In the year to 31 December 2010 we made significant progress towards our objective of becoming a profitable company with revenue streams from multiple products and a growing pipeline of new product opportunities. We now look forward to the launch of two revenue-generating products and we expect recurring royalty income to commence in 2011, marking a major milestone for the Company.

During the year we focused on advancing our two late-stage products, CSD500 and PET500, and on an earlier stage opportunity, TPR100. Major progress was made across all three products.

During the first half of the year commercial discussions focused on our pain relief franchise, specifically in securing a development partner for TPR100, a topically applied pain relief gel. On 30 June 2010, we signed a development agreement with GlaxoSmithKline Consumer Healthcare ("GSK") for TPR100, work on which is progressing as planned.

With CSD500, our innovative condom to help healthy men maintain a firm erection whilst wearing a condom, our effort was centred on working with our commercial partner, Reckitt Benckiser plc ("RB"), to achieve the award of the CE mark for the product ahead of its launch as a Durex® branded condom. We announced on 18 January 2011 that we were assisting RB to address minor points raised by the notified body ahead of CE mark approval. Since that date and in conjunction with RB we had a very positive meeting with the regulatory body where all outstanding points were reviewed, the conclusion of these discussions is that we are confident that the CE mark should be awarded within the first half of this year.

For PET500, our innovative spray for enhanced sexual control, the key objective in the year was to successfully conclude commercial discussions with potential distribution partners. Discussions progressed well during the latter part of the year, culminating in the announcement on 7 February 2011 of an exclusive worldwide agreement with Ansell Limited ("Ansell"), one of the world's leading sexual health companies and the second largest condom company worldwide.

We also progressed earlier stage opportunities in our pipeline, and added a new opportunity in TPR100-Rx, a higher strength topical pain relief product to treat profound indications such as osteoarthritis and rheumatic pain. The product's development name includes the letters 'Rx' as this is expected to be a prescription only medicine.

We have begun the current financial year in a very strong position with commercial relationships with three global businesses: Ansell, GSK and RB. The quality of these relationships is a reflection of the innovation and commercial potential of our products and, in the case of PET500 and TPR100, an endorsement of our proprietary drug delivery technology, DermaSys®.

Additionally, we announced today that we have raised £3.07 million (net of expenses) by way of a placing, the net proceeds of which strengthens our Group Statement of Financial Position. However, we continue to manage our financial resources carefully, we work only on projects where the commercial and clinical opportunities are compelling and we own the intellectual property rights to all our products, hence protecting and maximising the potential commercial and shareholder return.

## **Portfolio updates – Sexual healthcare**

### **CSD500: Condom safety device**

The updated regulatory dossier for CSD500 was submitted to the Notified Body for CE mark approval in the first half of 2010 and there have been subsequent discussions between the Notified Body and SSL International plc (“SSL”), our commercial partner. In July 2010, SSL announced that it was to be acquired by RB, a deal that completed in November 2010 and which we believe will be very positive for the Durex® brand and for CSD500. As disclosed above, Futura is currently assisting RB to address and close the minor points raised by the Notified Body and we expect the award of the CE mark before the end of June. It is not the practice of RB to comment publicly about its new products ahead of their launch but we look forward to the commercial launch of CSD500 as a Durex® branded condom.

CSD500 has already gained the majority of the requirements for CE marking including gaining a positive regulatory opinion, in November 2008, from the Competent Authority in the European Union (“EU”) with respect to the pharmaceutical aspects of the product, which confirmed that CSD500 is a Class III medical device with an ancillary medicinal substance.

As previously announced, Futura commissioned a user study involving 108 couples in which CSD500 met its endpoints of demonstrating the maintenance of a firmer erection in healthy men during intercourse whilst wearing a condom, increased penile size and a longer lasting sexual experience for women.

In addition to positive clinical data, the results of our market research reinforce the commercial potential of CSD500 with men and women who already use condoms as well as with men and women who do not currently use them. Market research, conducted by an internationally recognised research company, showed that 88% of existing condom users would be interested in purchasing CSD500 and that 49% of non-condom users would be interested in purchasing the product. The research also showed that 46% of men had experienced some loss of sensitivity when using a condom during sexual intercourse, which can lead to loss of erection. This is one reason why some men avoid condoms, thereby increasing the risks of unwanted pregnancies and contracting or spreading sexually transmitted infections (“STIs”).

STIs are a serious and growing problem. In the UK, a Government report from the Health Protection Agency<sup>1</sup>, published in August 2010, indicated that the number of new cases of STIs in the UK continues to rise and that over the past 10 years there has been a substantial increase in diagnoses of most STIs.

We have protected CSD500's unique intellectual property position throughout the world including the principal consumer markets within Europe, the USA and Canada through patents now granted or proceeding to grant in 35 countries and applications pending in a further two.

# Chairman's and Chief Executive's Joint Review (continued)

## **MED2002. Treatment for erectile dysfunction**

MED2002, our topical gel for the treatment of men with erectile dysfunction, is also licensed to RB and has the potential to become the world's first non-prescription pharmaceutical treatment for men with erectile dysfunction, a condition that affects, to some degree, as many as 52% of men aged 40 or over<sup>2</sup>

A simplified development plan has been outlined for MED2002, which shares the same active compound as CSD500, and it is expected that this product will be progressed by RB once CSD500 receives CE mark approval

## **PET500: Enhanced sexual control**

In February 2011 we signed an exclusive worldwide agreement with Ansell for the commercialisation of PET500, our innovative product for enhanced sexual control. PET500 is a topical spray that combines our DermaSys<sup>®</sup> AquaFree delivery system with a mild anaesthetic

Ansell is an ideal partner for this product, not least because it shares our belief that 'enhanced sexual control' is a more attractive marketing stance for the product than premature ejaculation. We believe that a clinically effective product to treat premature ejaculation, but which is marketed as a product to enhance sexual control, will provide a much wider potential market for the product and have greater acceptability from sufferers of premature ejaculation

Premature ejaculation is considered to be at least as prevalent as erectile dysfunction. Moreover, whilst erectile dysfunction tends to affect older men, premature ejaculation affects all ages. We believe that PET500, backed by the globally recognised marketing strength of Ansell, has the opportunity to be as commercially successful as we expect CSD500 to be

As with CSD500, we are unable to provide information on the launch and roll-out of PET500 as Ansell does not comment publicly about its new products ahead of their launch. However, no further clinical or regulatory work is required ahead of launch in certain key territories and we expect recurring royalty income from Ansell to commence during the current financial year

The branding of the product is currently being developed by Ansell, who will also be responsible for product manufacture and all regulatory work in jurisdictions where marketing authorisation is required. In territories where additional clinical work is required Futura will work closely with Ansell in the conducting of any studies

## **Portfolio updates – Pain relief management**

### **TPR100: Topical pain relief**

In June 2010, we signed a development agreement with GSK for TPR100, our topical pain relief product. Under the terms of the agreement GSK will fully fund and be responsible for all clinical and regulatory development. GSK will also make modest annual payments to Futura whilst development work proceeds. Subject to satisfactory clinical outcomes and regulatory approvals both parties expect to enter into a commercial distribution agreement in due course.

Since signing the development agreement, work on TPR100 by GSK has progressed as planned.

TPR100 leverages one of our key proprietary assets, DermaSys®, a highly efficient transdermal delivery system which facilitates rapid absorption of pharmacologically active compounds through the skin. In TPR100 we are using DermaSys® for the topical delivery of a non-steroidal anti-inflammatory drug (“NSAID”) for pain relief. Clinical tests carried out by Futura have shown that TPR100 achieves between 30 to 40 times higher bioavailability than those achieved by the market-leading product. TPR100’s speed of permeation brings potential benefits including the rapid onset of action of pain relief.

We have previously consulted with relevant regulatory authorities and believe the regulatory pathway for TPR100 in a number of key commercial territories is relatively straightforward as the active compound is well-characterised and has already been approved in both oral and topical form for the indication of pain relief.

### **TPR100-Rx: Higher strength topical pain relief for prescription based indications**

When we conducted the low dose *in vitro* and clinical permeation studies for TPR100 we also studied a significantly higher dose of the same NSAID. These studies gave positive results, showing an excellent dose-related response which creates the potential to treat more acute indications such as osteoarthritis and rheumatic pain. TPR100-Rx, with its targeted delivery through the skin, has the potential benefit of avoiding the systemic side-effects seen in the use of oral NSAIDs.

As this will be a prescription product, which is to an extent outside of our current area of expertise, we appointed external consultants to assist us to progress TPR100-Rx commercially, which we believe represents a substantial market opportunity.

We have received initial expressions of interest in TPR100-Rx from potential commercial partners but have decided to progress a Phase II study to generate further clinical data to enhance the value of the product.

# Chairman's and Chief Executive's Joint Review (continued)

## **RAD100: Rapid anaesthetic delivery**

RAD100 was conceived in a similar way to TPR100-Rx in that the success of a low dose of topical anaesthetic compound in PET500 prompted us to explore the potential of a higher dose to provide rapid topical anaesthesia prior to injection, vaccination or cannulation. Demand in this market is already well developed, but poorly served, with treatments taking at least 30 to 45 minutes to take effect. We believe that there is clear commercial potential for a product in which the speed of onset of skin desensitisation is significantly increased. In common with TPR100-Rx, RAD100 would be a prescription product.

In early *in vitro* work, previously reported, we have shown a 250% increase in the rate of permeation of a topical anaesthetic across the skin, using RAD100 and the DermaSys® AquaFree delivery system, when compared with an established product. This substantial increase in skin permeation is expected to equate to a more rapid onset of skin desensitisation compared to existing products.

## **People**

We continue to run a highly efficient business and benefit from considerable stability in our workforce. Staff numbers, including non-Executive Directors, were ten at the year end, unchanged since 31 December 2008. We would like to offer our sincere thanks to all of our staff, scientific advisers and commercial partners for their contribution to the development of the Company throughout the year.

## **Outlook**

The current year has started extremely well. We have signed a commercial deal with Ansell for PET500 and remain confident of receiving the CE mark for CSD500 in the near future. Both of these products are due to launch in the foreseeable future, with the potential of transforming Futura into a revenue generating company, beginning this financial year.

Our highly effective in-house research team has proposed a number of exciting new product opportunities, leveraging our DermaSys® delivery system in a number of diverse areas. Our intention is to add a further three products to our pipeline during the current year, broadening our range of target areas but continuing our focus on products with big potential to attract global commercial partners.

## **Dr W D Potter**

Executive Chairman

## **J H Barder**

Chief Executive

### Note

<sup>1</sup> Health Protection Report, Vol 4 No 34 London Health Protection Agency, Centre for Infections, August 2010

<sup>2</sup> Massachusetts Male Aging Study (MMAS), J Urol 1994 Jan, 151 (1) 54-61

# Directors' Report: Financial Review

The Group ended the year with costs firmly under control, a more advanced development portfolio and the prospect of recurring royalty revenues

## **International Financial Reporting Standards**

The Financial Review should be read in conjunction with the Group financial statements and the Notes to the Group Financial Statements set out on pages 30 to 53

The Annual Report and Accounts ("Annual Report") for the Group is presented under International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The financial statements of the Company are prepared in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and are set out on pages 54 to 57

## **Revenue**

Group revenue for the year ended 31 December 2010 was £125,000 (2009 £50,000). Grant income for the year ended 31 December 2010 was £nil (2009 £30,000)

## **Losses**

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

The Group's operating loss for the year ended 31 December 2010 was £1.34 million (2009 £1.53 million)

The Group's loss after taxation for the year ended 31 December 2010 was £1.09 million (2009 £1.39 million)

Loss per share for the year ended 31 December 2010 was 1.61 pence (2009 2.24 pence)

No dividends were paid and none are proposed by the Board of Directors ("the Board") (2009 £nil)

## **Financial instruments**

The financial instruments held by the Group are disclosed in note 13 of the Notes to the Group Financial Statements. The Group policy on exposure to financial risk is disclosed in note 2 of the Notes to the Group Financial Statements

## **Group research and development costs**

The Group aims to achieve cost effective research and development ("R&D") and to bring products to market through licensing partners as soon as is practicable

Group R&D 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

R&D costs of £760,637 (2009 £810,188) were lower compared to 2009, due to the scale down of activity pending receipt of marketing authorisation for CSD500

# Directors' Report: Financial Review (continued)

## Group research and development costs (continued)

The table below shows the trend in our R&D costs and other administrative costs over the past five years ended 31 December

	2010 £	2009 £	2008 £	2007 £	2006 £
R&D costs	760,637	810,188	1,390,616	1,508,269	1,079,986
Other administrative costs	700,399	796,186	1,007,964	1,227,320	1,029,075
Total operating costs	1,461,036	1,606,374	2,398,580	2,735,589	2,109,061
R&D ratio	52%	50%	58%	55%	51%

The R&D ratio is the percentage of R&D costs relative to total operating costs. The Board is mindful to keep a sensible balance as reflected in this ratio. Total R&D spend since formation of the business in 1997 totals £10.75 million (54.7% of total cumulative operating costs). During the year, the sole subsidiary, Futura Medical Developments Limited continued to incur this R&D expenditure which has been accounted for as explained in accounting policy note 1.7 of the Notes to the Group Financial Statements and has been written off as incurred for all reporting periods prior to and including the year ended 31 December 2010.

The Board considers that this overall total R&D 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 R&D programme, the Group continues to seek new opportunities for potential products to add to its portfolio.

## Other administrative costs

Other administrative costs for the year ended 31 December 2010 were £700,399 (2009: £796,186). These comprised 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 2010	Year ended 31 December 2009
Wages and salaries	63%	69%
Legal and professional advisers	22%	18%
Office costs and staff expenses	13%	12%
Licensing negotiations	2%	1%
	100%	100%

During 2010 the Board reacted to the continuing difficult economic conditions by reducing operating costs and achieved additional cost savings, as a result of the scale down of research activity pending receipt of marketing authorisation for CSD500.

## Supplier payment policy

The Group's policy concerning the payment of its trade payables 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.

**Supplier payment policy** (continued)

The average credit period for the Group (expressed as creditor days) during the year ended 31 December 2010 was 45 days (2009 33 days) At the year end the Company had trade creditors totalling £19,107 (2009 £29,542) giving rise to an average credit period for the year ended 31 December 2010 of 90 days (2009 34 days)

**Charitable and political contributions**

No political donations were made during either year Charitable donations of £162 were made during the year (2009 £190)

**Taxation**

A tax credit of £225,731 (2009 £119,289) in respect of R&D expenditure incurred has been recognised in the Group financial statements The increase compared to 2009 reflects a widening of the scope of qualifying indirect activities included in the level of R&D expenditure undertaken and includes prior period adjustments of £28,385, £27,366 and £23,600 in respect of the years 2007 to 2009 respectively

**Capital structure and funding**

The Group remains funded primarily by equity share 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 2010 totalled £0.82 million This comprised cash and cash equivalents and medium-term deposits with original maturities of more than three months, shown below at each year ended 31 December

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Medium-term deposits	-	-	-	-	1.04
Cash and cash equivalents	<b>0.82</b>	1.79	0.78	2.64	2.74
Total cash	<b>0.82</b>	1.79	0.78	2.64	3.78

The Group had no bank borrowings at 31 December 2010 (2009 £nil)

On 12 October 2010, the Group raised £66,800 following the issue of 160,000 shares at 41.75 pence per share under the employee share option scheme

On 11 March 2011, the Group raised £3.20 million (£3.07 million net of expenses) by way of a placing of 4,737,402 new ordinary shares at 67.50 pence per share The net proceeds raised are for general corporate and research and development purposes

Other significant sources of funding received for the Group from formation of the business until 31 December 2010 comprised R&D tax credits £1.59 million, bank interest £0.88 million and R&D grants £0.28 million

**D A Martin**

Secretary

# Directors' Report: Business Review

## Principal activity

The principal activity of the Group is the R&D of pharmaceutical drugs and medical devices and their commercial exploitation. The Chairman's and Chief Executive's Joint Review on pages 4 to 8 and the Directors' Report Financial Review on pages 9 to 11 set out in more detail the Group's activities during the year and anticipated future developments.

## Research and development activities

The main area of R&D continues to be in the field of innovative pharmaceutical drugs and medical devices for the consumer healthcare market with the focus being on sexual healthcare and pain relief management.

## 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 ageing 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 business strategy is centred on selecting and developing products based on five key criteria:

- **Return on Investment:** we focus on consumer healthcare products that offer the potential for a significant return on the costs of development.
- **Product Profile:** we focus on topically applied medicines, either stand-alone or in combination with a medical device. We only incorporate existing chemical entities into our products which gives our development activities a lower risk profile.
- **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 out-license our products during their development to established pharmaceutical and healthcare groups which offer the best potential commercial opportunities.

Two of our products (CSD500 and MED2002) involve the application of the same chemical active compound, in each case in the sexual healthcare field. The development of our proprietary transdermal delivery technology, DermaSys®, has enabled the expansion of our product pipeline to include new active compounds (reducing the dependence on one single active compound). PET500, TPR100, TPR100-Rx and RAD100 represent the next applications of our DermaSys® technology to our product pipeline.

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 external expertise.

At the same time, the Board remain committed to keeping regular or fixed costs restricted to an appropriate level through the continued and judicious use of 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 needs of the consumer healthcare market. The Group considers there to be two distinct categories within this market.

The first category is the global OTC market 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 healthcare products PET500 and MED2002 and the pain relief products TPR100, TPR100-Rx and RAD100 (this may be a prescription only product), which fit within the US\$2.6 billion global topical analgesics market<sup>1</sup> and where the market leader for topical analgesics has annual sales of US\$287 million<sup>1</sup>. As PET500 and MED2002 could form new categories within the OTC market, no published data is available on the OTC sexual healthcare market to substantiate market size estimates. The prescription market for erectile dysfunction treatments alone was estimated to be more than US\$3.8 billion<sup>2</sup> in 2008.

The second category is the global consumer medical devices market. The Directors estimate that the market for consumer medical devices is worth between US\$23 billion and US\$26 billion. The consumer medical device being developed by the Group is shown in the Product Pipeline on page 3, this is the condom product CSD500, which fits within the US\$3.3 billion global condom market<sup>3</sup> and where our distribution partner RB, the makers of Durex®, are the global leader with 35% of the branded condom market<sup>4</sup>.

These consumer healthcare markets are dominated by global pharmaceutical and consumer healthcare groups with established distribution networks. Smaller R&D companies, such as Futura, seek to out-license their innovative products to these larger entities.

Futura offers its licensing partners its ability to identify commercially attractive consumer healthcare product opportunities coupled with a lower cost, expert and fast 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.

### **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 Directors 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 Chairman's and Chief Executive's Joint Review on pages 4 to 8.

The Directors consider Group cash and the absolute values of, and the ratio between, R&D 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 a key future financial milestone of monthly break-even and profitability. 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 9 to 11 considers these financial performance indicators.

#### **Note**

<sup>1</sup> 2006 calendar year. Source: OTC Yearbook 2007 (MSP), Nicholas Hall & Company.

<sup>2</sup> Futura estimate based on erectile dysfunction product sales data from 2008 Annual Reports for Pfizer, Lilly and Bayer.

<sup>3</sup> 2006 calendar year. Source: "Condoms: A Global Strategic Business Report", Jan 2007, Global Industry Analysts, Inc.

<sup>4</sup> SSL International plc Annual Report and Accounts 2009.

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# Directors' Report: Business Review (continued)

## **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 Group or its distribution partners in order to be able 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, by seeking advice from regulatory advisers, consultations with regulatory approval bodies and by 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 the Group's 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.

### ***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 equity capital from share issues. 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 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, obtaining government grants (where applicable), maintaining a focused portfolio of products under development and keeping shareholders informed of progress.

As described in the Chairman's and Chief Executive's Joint Review on pages 4 to 8 and the Directors' Report Financial Review on pages 9 to 11 the current economic environment is challenging and the Group has reported an operating loss for the year. Whilst measures have been implemented to preserve cash and secure additional funding, these circumstances create uncertainty over future availability of funding.

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**Principal risks and uncertainties** (continued)

As explained in the Directors' Report Financial Review on page 11, equity funding of £66,800 was obtained in October 2010 following employee share option exercises and additional equity funding of £3.20 million (£3.07 million net of expenses) was obtained in March 2011.

As a result of this the Directors have a reasonable expectation that the Group and the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons the Directors continue to adopt the going concern basis in preparing the financial statements.

**Treasury and financial risk**

Treasury and financial risk management policy is concerned with financial instruments and management of interest rate risk and foreign exchange rate risk. Financial risks are quantified in note 2 of the Notes to the Group Financial Statements and were not considered significant at the Group Statement of Financial Position 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 agreements regarding Group know-how and technology, monitoring technological developments and by selecting 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 depend, 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 products.

# Directors' Report: Corporate Governance

## Introduction

The Board is committed to maintaining appropriate standards of corporate governance. Although not mandatory for companies trading on AIM, the Group accepts the principles of good corporate governance as embodied in The UK Corporate Governance Code ("the Code")

There have been no changes to our corporate governance processes and our compliance with the Code following our annual review

## Statement of compliance

The Board considers that given the size and nature of the Group's activities it does not intend to comply with the Code in respect of certain items listed below. This is considered by the Board to be reasonable and does not compromise the overall principles of corporate governance which the Board strongly supports

- The Remuneration Committee, in deciding on remuneration at its annual review each January, evaluates the performance of the Group as a whole and that of the individual Directors. The precise nature of this performance evaluation is not specified in the Annual Report (Code A 6.1)
- Where the Board permits Executive Directors to serve in roles with other companies, as long as they do not compromise the individual's ability to perform those services contracted to the Group, the earnings from such roles need not be disclosed to the Board nor paid to the Group (Code B 1.4)

The Board considers that the remuneration of Executive Directors should 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 22 to 26

## Board of Directors

The Board of Directors has overall responsibility for the Group

The Board comprises an Executive Chairman ("Chairman"), a Chief Executive, two independent Non-Executive Directors and two 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 share 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 intended to remain separate

### **Board of Directors** (continued)

The Chairman provides strategic and operational guidance bringing to bear his 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 Group.

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 2010, there were eight Board meetings, three meetings of the Remuneration Committee, two meetings of the Audit Committee and one meeting of the Nominations Committee. Apart from one Board meeting, which the Chairman was unable to attend, all meetings were fully attended by their constituent Directors.

The Board is responsible for approving interim and annual financial statements, formulating and monitoring Group strategy, 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.

Biographies of the Board members are set out below.

#### **Dr William Potter, PhD** **Executive Chairman**

Dr Potter became Chairman in June 2001. He is an adviser to the Nominations Committee and to the Remuneration Committee. He provides advice and expertise on product development matters bringing to bear his considerable experience gained over 30 years in R&D including 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 London International Group plc, including seven years as Group Scientific Affairs Director and at Smith & Nephew plc.

#### **James Barder** **Chief Executive**

Mr Barder joined the Company as Chief Executive in June 2001. He assists the Remuneration Committee and the Nominations Committee (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.

# Directors' Report: Corporate Governance (continued)

## **Derek Martin, BSc (Hons), ACA**

### **Finance Director and Company Secretary**

Mr Martin joined the Board in September 2008. He oversees the Group's finance function and also its compliance procedures. Mr Martin qualified as a Chartered Accountant in 1984 and has over 20 years of experience in a variety of senior accounting roles in a diverse range of industries including, retail software, telecoms and media. Previous roles include Links of London, a retail jeweller, and Entury Limited, a software development company.

## **David Davies, BSc (Hons), MBA**

### **Product Development Director**

Mr Davies joined the Board in 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 over 25 years of experience in 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 Chantable Trust.

## **Jonathan 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 Committee and the Remuneration Committee, he is also a member of the Nominations Committee. He provides guidance on City regulatory matters, corporate finance and investor relations. He has worked in the UK financial services sector for over 20 years with previous roles including Director of Beeson Gregory (now Evolution Securities), Director of a number of quoted investment companies and most recently, Group Chief Executive Officer of Syndicate Asset Management plc.

## **Lisa Arnold**

### **Independent Non-Executive Director and Chair of Nominations Committee**

Ms Arnold joined the Board in March 2008. As well as chairing the Nominations Committee, she is also a member of the Remuneration Committee and the Audit Committee. She has extensive experience of the investment and healthcare sectors. She worked in the investment banking industry from 1984 to 2001, holding senior positions including Sector Head of Pharmaceuticals and Healthcare at UBS and Commerzbank. Since 2001, Ms Arnold has worked in consultancy and Non-Executive roles predominantly in the pensions, healthcare and technology sectors. She is currently a Non-Executive Director of the UK's Medicines and Healthcare products Regulatory Agency ("MHRA"), where she also chairs the Risk & Audit Committee, and an adviser to the Allied Domecq Pension Funds and the Kraft UK Pension Fund (Trustees).

### **Audit Committee**

The Audit Committee comprises the Non-Executive Directors, J D Freeman and L Arnold, 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 2010. 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 independence and objectivity, the Annual Report, any audit issues arising, internal control processes, appointment and fee levels and any other appropriate matters. As well as providing audit related services, the auditors also provide taxation advice. The fees in respect of audit and tax services are disclosed in Note 5 of the Notes to the Group Financial Statements. Fees for non-audit services paid to the auditors are not deemed to be of such significance to them as to impair their independence and therefore the Audit Committee considers that the objectivity and independence of the auditors is safeguarded.

The terms of reference of the Audit Committee are set out in the Investors/Governance section on the Group's website at [www.futura-medical.com](http://www.futura-medical.com)

### **Internal control**

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

# Directors' Report: Corporate Governance (continued)

## **Internal control** (continued)

- Financial risks are identified and evaluated for each major transaction for consideration by the Board and senior management
- Standard financial control procedures are operated 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 each year on the key business risks

## **Going concern**

As disclosed in the Directors' Report Business Review on page 15 the Group financial statements have been prepared on the 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 Group 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 independent Non-Executive Directors and is chaired by L Arnold Dr W D Potter, as Chairman, is invited to attend and acts as an adviser to the Nominations Committee because of his knowledge of the industry, however, by virtue of his executive role, he is not considered to be independent and is excluded from voting

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 was one Nominations Committee meeting during 2010 The terms of reference of the Nominations Committee are set out in the Investors/Governance section on the Group's website at [www.futura-medical.com](http://www.futura-medical.com)

## **Employees**

At 31 December 2010, the Group's employees comprised two Non-Executive Directors, four Executive Directors and three full-time and one part-time member of 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 Group 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 the 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 undertakes regular reviews of corporate social responsibility matters with policy updates and implements improvements to its operations where identified. In 2010 the Group introduced an approved Childcare Voucher Scheme.

### **Relationship with shareholders**

The Directors seek to build a mutual understanding of objectives between the Company and its shareholders. The Company reports formally to shareholders in its Interim Report and Annual Report 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 for Companies ("AIM Rules") of the London Stock Exchange. The Chief Executive and Finance Director 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 at [www.futura-medical.com](http://www.futura-medical.com).

The Annual Report is made available to shareholders at least 20 working days before the Annual General Meeting ("AGM") along with notice of the AGM. Directors are required to attend the AGM, unless unable to do so for personal reasons or due to *pressing commercial commitments, and shareholders are given the opportunity to vote on each separate resolution proposed* at the AGM. The Company counts all proxy votes and will indicate the level of proxies lodged for each resolution, after it has first been dealt with by a show of hands.

**D A Martin**  
Secretary

# Directors' Report: Remuneration Report

## **Remuneration Committee. composition and terms of reference**

The Remuneration Committee comprises the independent Non-Executive Directors and is chaired by J D Freeman. Dr W D Potter, as Chairman, is invited to attend and acts as an adviser to the Remuneration Committee because of his knowledge of the industry. However, by virtue of his executive role, he is not considered to be independent and is 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 Group. 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. There were three Remuneration Committee meetings during 2010.

The Board retains responsibility for overall remuneration policy. The terms of reference of the Remuneration Committee are set out in the Investors/Governance section on the Group's website at [www.futura-medical.com](http://www.futura-medical.com).

## **Policy on Executive Directors' remuneration**

Executive remuneration packages are designed to attract and retain executives of the necessary skill and calibre to run the Group. Direct benchmarking of remuneration is difficult given the specialised nature and size of the Group. 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 Chairman, 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 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 to the Group.

There are four main elements of the remuneration package for Executive Directors and 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 cover 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 non-pensionable.

### **(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. Unapproved share options are occasionally granted to key consultants. Exercise of share options under the schemes is subject to specified exercise periods and compliance with the AIM Rules.

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

**Policy on Executive Directors' remuneration** (continued)

The 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 the 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 the continued use of incentives for performance through the award of share options or other share-based arrangements.

The Company operates a long-term incentive scheme. The quantum of any 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 the approved milestones are achieved at the share price targets over the next 48 months and if the Company exercised its discretion to settle the awards in equity then the additional shares issued in after tax settlement would be equivalent to approximately 3.26% of the issued share capital.

**(iii) Bonus scheme**

The Group has an established discretionary bonus scheme for staff. The Remuneration Committee considers that no cash bonuses for Executive Directors will be awarded until the Group has obtained marketing authorisation for CSD500.

**(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 2011 to cover the period from 1 February 2011 to 31 January 2012. 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.

**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. The service contracts of the Non-Executive Directors are made available for inspection at the AGM. 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.

# Directors' Report: Remuneration Report (continued)

## 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 incidental expenses incurred on Group business.

The Chairman has received share options and is eligible to receive further grants of share options or other share-based incentives in the future in accordance with Group policy. Since this was 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 share options to the Chairman nor to require any shares acquired by virtue of the exercise of those share 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, were as follows:

	Year ended 31 December 2010			Year ended 31 December 2009	
	Salary and Directors' Fees £	Benefits in Kind £	Pension £	Total £	Total £
<b>Executive Directors</b>					
W D Potter	30,000	-	-	30,000	29,833
J H Barder	174,005	4,828	24,818	203,651	200,416
D B Davies	127,307	3,544	41,194	172,045	171,111
D A Martin	97,383	3,243	9,950	110,576	109,411
<b>Non-Executive Directors</b>					
J D Freeman	26,500	-	-	26,500	26,354
L Arnold	26,500	-	-	26,500	26,354
<b>Totals</b>	<b>481,695</b>	<b>11,615</b>	<b>75,962</b>	<b>569,272</b>	<b>563,479</b>

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

In addition to the above emoluments, W D Potter provides consulting services to Futura Medical Developments Limited, the wholly owned subsidiary, through the consulting company Stapleford Scientific Services Limited. These services were provided for fees of £83,600 plus reimbursed expenditure of £2,717 (2009 fees £83,600 plus expenses £3,136).

**Directors' interests in shares**

	31 December 2010		31 December 2009	
	Beneficial Interests	Non-beneficial Interests	Beneficial Interests	Non-beneficial Interests
W D Potter	131,098	-	131,098	-
J H Barder	328,712	416,500	378,712	466,500
D B Davies	532,572	-	532,572	-
D A Martin	125,000	-	125,000	-
<b>Totals</b>	<b>1,117,382</b>	<b>416,500</b>	<b>1,167,382</b>	<b>466,500</b>

On 17 May 2010 100,000 ordinary shares held jointly by the children of J H Barder and formerly treated as consolidated within his and his wife's holdings, for the purposes of the AIM Rules, ceased to be treated as consolidated as his children attained the age of 18. 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 2010 or at 31 December 2009.

**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 Group performance.

The total number of share options held by the Directors at 31 December 2010 and the related share-based payment expense are set out below.

	31 December 2010		31 December 2009	
	Options Held	Share-based Payment Expense	Options Held	Share-based Payment Expense
W D Potter	200,000	7,701	100,000	1,859
J H Barder	450,000	17,162	200,000	3,718
D B Davies	400,000	15,405	200,000	3,718
D A Martin	500,000	12,595	400,000	12,582
<b>Totals</b>	<b>1,550,000</b>	<b>52,863</b>	<b>900,000</b>	<b>21,877</b>

# Directors' Report: Remuneration Report (continued)

## Directors' interests in share options (continued)

The share options of the Directors under the Futura Medical plc Enterprise Management Incentive Scheme (included in totals above) are set out below

	Grant Date	Number Awarded	Exercise Price/Share	Earliest Exercise Date	Expiry Date
D A Martin	9 July 2007	100,000	56 25p	1 February 2009	31 January 2014
D A Martin	20 June 2008	100,000	41 75p	1 February 2010	31 January 2015
D A Martin	23 July 2009	90,721	24 25p	1 August 2011	31 July 2016
J H Barder	23 July 2009	200,000	24 25p	1 August 2011	31 July 2016
J H Barder	6 July 2010	176,543	40 50p	1 August 2012	31 July 2017
D B Davies	23 July 2009	200,000	24 25p	1 August 2011	31 July 2016
D B Davies	6 July 2010	176,543	40 50p	1 August 2012	31 July 2017
Totals		1,043,807			

In addition, on 6 July 2010 the following options were granted under the Futura Medical plc Unapproved Share Option Scheme at 40 50p per share with an earliest exercise date of 1 August 2012 and an expiry date of 31 July 2017 D A Martin 100,000, J H Barder 73,457, D B Davies 23,457 and W D Potter 100,000 All share options were granted with an exercise price at or above market value on the date of grant The independent Non-Executive Directors do not receive share options in order to maintain their independence under the Code

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

## Directors' interests in long-term incentive scheme

Assuming that each remaining 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 the participating Executive Directors is

	2011	2012	2013	2014
W D Potter	253,346	103,346	103,346	103,346
J H Barder	253,346	103,346	103,346	103,346
D B Davies	253,346	103,346	103,346	103,346
D A Martin	203,346	103,346	103,346	103,346
Totals	963,384	413,384	413,384	413,384

The Directors consider that until a milestone has been met it is not appropriate to recognise any share-based remuneration charge in the Group Statement of Comprehensive Income in respect of the long-term incentive scheme

## 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 themselves aware of any information needed by the Group'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' responsibilities**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and have elected to prepare the Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice, ("UK GAAP")). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the total comprehensive profit or loss for the Group for that period.

The Directors are also required to prepare financial statements in accordance with the AIM Rules.

In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements,
- prepare a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 2006.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Website publication**

The Directors are responsible for ensuring that the Annual Report and the financial statements are made available on a website. Financial statements are published on the Company's website ([www.futura-medical.com](http://www.futura-medical.com)) 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.

By order of the Board



**D A Martin**

Secretary

11 March 2011

# Independent Auditor's Report

## **Independent auditor's report to the members of Futura Medical plc**

We have audited the financial statements of Futura Medical plc for the year ended 31 December 2010, which comprise Group Statement of Comprehensive Income, Group Statement of Changes in Equity, Group Statement of Financial Position, Group Statement of Cash Flows, Parent Company Balance Sheet and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of Directors and auditors**

As explained more fully in the Directors' Report Statement of Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2010 and of the Group's total comprehensive loss for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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**Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



**Simon Brooker** (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor

Reading

United Kingdom

11 March 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

# Group Statement of Comprehensive Income

For the year ended 31 December 2010

		<b>Year ended 31 December 2010</b>	Year ended 31 December 2009
	Notes	£	£
<b>Revenue</b>	1 5	<b>125,000</b>	50,000
Grant income	4	-	30,000
Research and development costs		<b>(760,637)</b>	(810,188)
Administrative costs		<b>(700,399)</b>	(796,186)
<b>Operating loss</b>	5	<b>(1,338,036)</b>	(1,526,374)
Finance income	8	<b>19,265</b>	14,398
<b>Loss before tax</b>		<b>(1,316,771)</b>	(1,511,976)
Taxation	9	<b>225,731</b>	119,289
<b>Total comprehensive loss for the year attributable to owners of the parent company</b>		<b>(1,091,040)</b>	(1,392,687)
Loss per share (pence)	10	<b>(1.61p)</b>	(2.24p)

All amounts relate to continuing activities

The notes on pages 34 to 53 form part of these Group financial statements

# Group Statement of Changes in Equity

For the year ended 31 December 2010

	Note	Share Capital £	Share Premium £	Merger Reserve £	Retained Losses £	Total Equity £
<b>At 1 January 2009</b>		115,238	13,261,376	1,152,165	(13,642,427)	886,352
Total comprehensive loss for the year		-	-	-	(1,392,687)	(1,392,687)
Share-based payment		-	-	-	44,144	44,144
Shares issued during the year	17	19,729	2,439,612	-	-	2,459,341
Costs of share issues		-	(144,341)	-	-	(144,341)
<b>At 1 January 2010</b>		134,967	15,556,647	1,152,165	(14,990,970)	1,852,809
Total comprehensive loss for the year		-	-	-	(1,091,040)	(1,091,040)
Share-based payment		-	-	-	71,976	71,976
Shares issued during the year	17	320	66,480	-	-	66,800
<b>At 31 December 2010</b>		<b>135,287</b>	<b>15,623,127</b>	<b>1,152,165</b>	<b>(16,010,034)</b>	<b>900,545</b>

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

Merger reserve represents the reserve arising on the acquisition of Futura Medical Developments Limited in 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 Group Statement of Comprehensive Income. The total comprehensive loss for the year represents the total recognised income and expense for the year

The notes on pages 34 to 53 form part of these Group financial statements

# Group Statement of Financial Position

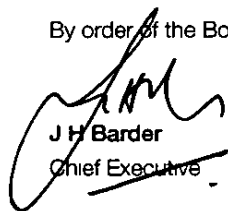
As at 31 December 2010

	Notes	As at 31 December 2010 £	As at 31 December 2009 £
<b>Assets</b>			
<b>Non-current assets</b>			
Plant and equipment	11	8,407	10,293
<b>Total non-current assets</b>		<b>8,407</b>	<b>10,293</b>
<b>Current assets</b>			
Inventories	12	9,378	10,825
Trade and other receivables	14	64,314	147,761
Taxation	9	146,380	119,289
Cash and cash equivalents	15	824,821	1,789,173
<b>Total current assets</b>		<b>1,044,893</b>	<b>2,067,048</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	16	(152,755)	(224,532)
<b>Total liabilities</b>		<b>(152,755)</b>	<b>(224,532)</b>
<b>Total net assets</b>		<b>900,545</b>	<b>1,852,809</b>
<b>Capital and reserves attributable to owners of the parent company</b>			
Share capital	17	135,287	134,967
Share premium		15,623,127	15,556,647
Merger reserve		1,152,165	1,152,165
Retained losses		(16,010,034)	(14,990,970)
<b>Total equity</b>		<b>900,545</b>	<b>1,852,809</b>

The Group financial statements were approved and authorised for issue by the Board on 11 March 2011

The notes on pages 34 to 53 form part of these Group financial statements

By order of the Board

  
**J H Barder**  
 Chief Executive

# Group Statement of Cash Flows

For the year ended 31 December 2010

		Year ended 31 December 2010	Year ended 31 December 2009
	Notes	£	£
<b>Cash flows from operating activities</b>			
Loss before tax		(1,316,771)	(1,511,976)
Adjustments for			
Depreciation	11	7,516	11,178
Finance income	8	(19,265)	(14,398)
Share-based payment charge	18	71,976	44,144
<b>Cash flows from operating activities before changes in working capital</b>		<b>(1,256,544)</b>	<b>(1,471,052)</b>
Decrease/(increase) in inventories	12	1,447	(390)
Decrease/(increase) in trade and other receivables	14	81,193	(84,904)
(Decrease)/increase in trade and other payables	16	(71,777)	72,157
<b>Cash used in operations</b>		<b>(1,245,681)</b>	<b>(1,484,189)</b>
Income tax received		198,640	165,526
<b>Net cash used in operating activities</b>		<b>(1,047,041)</b>	<b>(1,318,663)</b>
<b>Cash flows from investing activities</b>			
Purchase of plant and equipment	11	(5,630)	(978)
Interest received		21,519	11,561
<b>Cash generated by investing activities</b>		<b>15,889</b>	<b>10,583</b>
<b>Cash flows from financing activities</b>			
Issue of ordinary shares	17	66,800	2,459,341
Expenses paid in connection with share issues		-	(144,341)
<b>Cash generated by financing activities</b>		<b>66,800</b>	<b>2,315,000</b>
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(964,352)</b>	<b>1,006,920</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>1,789,173</b>	<b>782,253</b>
<b>Cash and cash equivalents at end of year</b>	15	<b>824,821</b>	<b>1,789,173</b>

The notes on pages 34 to 53 form part of these Group financial statements

# Notes to the Group Financial Statements

For the year ended 31 December 2010

## 1. Accounting policies

### 1.1 Basis of preparation

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union

The accounting policies set out below have been applied to all periods presented in these Group financial statements and are in accordance with IFRSs as adopted by the European Union, and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that were applicable for the year ended 31 December 2010

### 1.2 Going concern

The Group had cash balances of £0.82 million at 31 December 2010, and a net cash outflow of £0.96 million in the year. The Directors expect a net cash outflow in the period to 31 March 2012 and recognised that there would be a need for increased funding. As disclosed in note 22 the Group raised £3.20 million (£3.07 million net of expenses) by way of a placing of 4,737,402 new ordinary shares at 67.50 pence per share in March 2011 and the Directors have prepared a cash flow forecast which shows that the net placing proceeds provide sufficient working capital for the Group to meet its liabilities in the review period as they fall due.

The Group financial statements have been prepared on the going concern basis which assumes that the Group will continue in operational existence for the foreseeable future. The Group financial statements do not reflect any adjustments that would be required if they were to be prepared on a basis other than the going concern basis.

### 1.3 Accounting developments

The following new standards, amendments to standards or interpretations, effective for the first time from 1 January 2010, have not had a material effect on the Group financial statements:

- 'Improvements to IFRSs (2009)'
- IFRS 3 (Revised) 'Business Combinations'
- IAS 27 (Amendment) 'Consolidated and Separate Financial Statements'

The following new standards, amendments to standards or interpretations have been issued but are not effective for the year ended 31 December 2010 and have not been adopted early as the Directors do not expect them to have a material effect on the Group financial statements:

- 'Improvements to IFRSs (2010)'
- IAS 24 (Revised) 'Related Party Disclosures'

### 1.4 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 Group financial statements present the results of the Company and its sole subsidiary Futura Medical Developments Limited as if they formed a single entity ("the Group"). Intra-group transactions and balances are eliminated in preparing the Group financial statements.

## 1. Accounting policies (continued)

### 1.5 Revenue

Revenue comprises the fair value received or receivable for exclusivity arrangements, consultancy fees, milestone income or 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 accounting period in which the revenue becomes receivable
- (iii) Non-refundable milestone income is recognised as revenue in the accounting period in which the milestones are achieved. If any milestone income is creditable against royalty payments then it is deferred and released to the Group Statement of Comprehensive Income over the accounting periods in which the royalties would otherwise be receivable
- (iv) 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

### 1.6 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 Group Statement of Comprehensive Income on a straight-line basis over the lease term. The Group does not hold any assets under finance leases

### 1.7 Intangible assets

#### **Research and development ("R&D")**

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 out-license or 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 but not exceeding five years. The amortisation expense is included in R&D costs recognised in the Group Statement of Comprehensive Income. 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 that product receiving marketing authorisation for sale in at least one country

# Notes to the Group Financial Statements (continued)

## 1. Accounting policies (continued)

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are included in R&D costs recognised in the Group Statement of Comprehensive Income 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

### **1.8 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 Group Statement of Comprehensive Income 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 Group Statement of Financial Position date.

### **1.9 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 Group Statement of Comprehensive Income for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of fair value, less disposal costs, 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 Group Statement of Comprehensive Income.

### **1.10 Inventories**

Inventories are materials and supplies to be consumed in the course of R&D 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 Group Statement of Comprehensive Income in respect of obsolete, slow-moving or defective items, where appropriate.

## **1. Accounting policies (continued)**

### **1.11 Financial instruments**

#### ***Financial assets***

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

Trade and other receivables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest rate 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 Group Statement of Comprehensive Income in administrative costs.

Medium-term deposits, comprising sterling fixed rate deposits with original maturities of more than three months, are included in trade and other receivables.

Cash and cash equivalents are financial assets and comprise cash in hand and sterling fixed rate short-term 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.

The Group assesses at each Statement of Financial Position date whether there is objective evidence that a financial asset is impaired.

#### ***Financial liabilities***

The Group's financial liabilities comprise 'trade and other payables' recognised initially at fair value and subsequently at amortised cost using the effective interest rate method.

### **1.12 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 Group Statement of Comprehensive Income over the period required to match them with the costs which they reimburse.

### **1.13 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 Group Statement of Financial Position date. R&D tax credits are recognised on an accruals basis and are included as an income tax credit under current assets.

# Notes to the Group Financial Statements (continued)

## 1. Accounting policies (continued)

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability on the Group Statement of Financial Position date 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 which at the time of the transaction affects neither accounting profit 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 Group Statement of Financial Position 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

### 1.14 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 Group Statement of Comprehensive Income in the period in which they arise

### 1.15 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 Group Statement of Comprehensive Income in the period in which they become payable

#### (ii) Accrued holiday pay

Provision is made at each Group Statement of Financial Position 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 Group Statement of Comprehensive Income on an accruals basis

## 1. Accounting policies (continued)

### *(iii) Share-based payment transactions*

The Group operates an equity-settled share-based compensation plan. For all share options awarded to employees, and others providing similar services, the fair value of the share options at the date of grant is charged to the Group Statement of Comprehensive Income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each Group Statement of Financial Position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of share options that eventually vest. There are no market vesting conditions. If the terms and conditions of share options are modified before they vest, the change in the fair value of the share options, measured immediately before and after the modification, is also charged to the Group Statement of Comprehensive Income over the remaining vesting period.

The proceeds received when share options are exercised, net of any directly attributable transaction costs, are credited to share capital (nominal value) and the remaining balance to share premium. All employee share option holders enter into an HM Revenue & Customs joint election to transfer the employers' national insurance contribution potential liability to the employee, therefore no Group asset or liability arises.

### *(iv) Long-term incentive scheme*

The Group operates a long-term incentive scheme for the Executive Directors. The quantum of any awards receivable by the Executive Directors will depend on the Group achieving set milestones and the share price at the time relative to targets set in advance. The Group can exercise discretion in settling any award in equity or in cash.

## 1.16 Finance income

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

## 1.17 Critical accounting estimates and judgements

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

### **Judgements**

#### *(i) Revenue recognition*

The fees invoiced in respect of the TPR100 exclusivity agreement have been recognised as revenue on an accruals basis in the Group Statement of Comprehensive Income over the period of the agreement.

#### *(ii) Intangible asset recognition*

The Directors consider that the criteria to capitalise development expenditure are not met for a product prior to receiving marketing authorisation 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 recurring royalty revenue.

# Notes to the Group Financial Statements (continued)

## 1. Accounting policies (continued)

### 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 two and five years for computer equipment and between three and ten years for furniture and fittings. Changes to estimates can result in significant variations in the carrying value and amounts charged to the Group Statement of Comprehensive Income 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 R&D, competitor and Government actions, supplier prices and economic trends.

#### (vii) Share-based payments

The Group operates an equity-settled share-based compensation plan as detailed in note 18. Employee (and similar) services received and the corresponding increase in equity are measured by reference to the fair value of the equity instruments as at the date of grant.

## 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 rate 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 rate risk

The Group primarily enters into supplier contracts which are to be settled in sterling. However, some contracts involve other 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.

## 2. Financial risk management (continued)

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

At 31 December 2010 the Group had no trade payables denominated in a foreign currency (31 December 2009 £nil)

### Cash flow interest rate risk and fair value interest rate risk

The Group's interest rate risk arises from 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 2010, of a defined interest rate shift of a 1% higher 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 £12,501 lower/higher (2009 £9,931 lower/higher)

The impact in the year ended 2010, of a defined interest rate shift of a 1% 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 £12,281 higher/lower (2009 £9,107 higher/lower)

### (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 involves maintaining sufficient cash and cash equivalents and the monitoring of rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

The Group had trade and other payables at the Group Statement of Financial Position date of £152,755 (2009 £224,532) as disclosed in note 16, which mature within one year.

## 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 minimise 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.

# Notes to the Group Financial Statements (continued)

## 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 R&D continues to be in the field of innovative products for the consumer healthcare market with the focus being on sexual healthcare and pain relief management.

The Group manages any overseas R&D 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. Grant income

	Year ended 31 December 2010 £	Year ended 31 December 2009 £
SEEDA R&D grant income recognised in Group Statement of Comprehensive Income	-	30,000
SEEDA R&D grant accrued income	-	30,000

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

## 5. Operating loss

	Year ended 31 December 2010 £	Year ended 31 December 2009 £
<b>Operating loss is stated after charging</b>		
Depreciation of plant and equipment (note 11)	7,516	11,178
Inventories consumed/(added to) in R&D	1,447	(390)
Realised exchange losses/(gains)	39	(1,670)
Wages and salaries (note 6)	880,050	891,069
Operating lease costs (note 20)	59,217	66,345

## 5. Operating loss (continued)

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

	<b>Year ended 31 December 2010 £</b>	Year ended 31 December 2009 £
<b>Audit services</b>		
Parent company	<b>24,480</b>	24,000
Subsidiary	<b>3,570</b>	3,500
<b>Tax services</b>		
Parent company	<b>765</b>	750
Subsidiary	<b>3,315</b>	3,250
<b>Total fees</b>	<b>32,130</b>	31,500

## 6. Wages and salaries

The average monthly number of persons (including all Directors) employed by the Group during the year was 10 (by category R&D 4, administration 6) (2009 10, by category R&D 4, administration 6) and their aggregate emoluments were

	<b>Year ended 31 December 2010 £</b>	Year ended 31 December 2009 £
Wages and salaries	<b>641,433</b>	635,985
Social security costs	<b>72,198</b>	75,260
Other pension and insurance benefits costs	<b>113,930</b>	118,609
<b>Total cash-settled emoluments</b>	<b>827,561</b>	829,854
Accrued holiday pay	<b>(19,487)</b>	17,071
Share-based payment remuneration charge (note 18)	<b>71,976</b>	44,144
<b>Total emoluments</b>	<b>880,050</b>	891,069

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

# Notes to the Group Financial Statements (continued)

## 7. Directors' emoluments

	<b>Year ended 31 December 2010 £</b>	Year ended 31 December 2009 £
Aggregate emoluments	<b>493,310</b>	488,754
Company pension contributions	<b>75,962</b>	74,725

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

	<b>Year ended 31 December 2010 £</b>	Year ended 31 December 2009 £
Aggregate emoluments	<b>178,833</b>	175,702
Company pension contributions	<b>24,818</b>	24,714

During the year, three Directors (2009 three Directors) participated in a private money purchase defined contribution pension scheme

Emoluments for individual Directors are disclosed within the Directors' Report Remuneration Report on page 24

## 8. Finance income

	<b>Year ended 31 December 2010 £</b>	Year ended 31 December 2009 £
Interest receivable on fixed rate short-term deposits	<b>19,265</b>	14,398
	<b>19,265</b>	14,398

**9. Taxation**  
**Current tax**

	<b>Year ended 31 December 2010 £</b>	Year ended 31 December 2009 £
UK corporation tax credit on loss for the year	<b>146,380</b>	119,289
Adjustment for over-provision in prior years	<b>79,351</b>	-
<b>Taxation credit reported in the Group Statement of Comprehensive Income</b>	<b>225,731</b>	119,289

The tax assessed for the year is different from the standard rate of corporation tax in the UK

The differences are explained below

	<b>Year ended 31 December 2010 £</b>	Year ended 31 December 2009 £
Loss on ordinary activities before tax	<b>1,316,771</b>	1,511,976
Loss on ordinary activities at the average standard rate of corporation tax in the UK of 21% (2009 21%)	<b>276,522</b>	317,515
Expenses not deductible for tax purposes	<b>(128)</b>	(690)
Difference between depreciation and capital allowances	<b>(396)</b>	(2,141)
Other short-term timing differences	<b>(11,023)</b>	(13,081)
Unutilised tax losses	<b>(147,570)</b>	(203,947)
Schedule 23 deduction for share options	<b>5,996</b>	-
Additional relief attaching to R&D tax credit claims	<b>22,979</b>	21,633
Over-provision in prior years	<b>79,351</b>	-
<b>Taxation credit reported in the Group Statement of Comprehensive Income</b>	<b>225,731</b>	119,289

The Group has tax losses of £11,649,224 (2009 £11,274,288) available for offset against future taxable profits

# Notes to the Group Financial Statements (continued)

## 9. Taxation (continued)

### Deferred tax

Deferred tax assets amounting to £2,436,068 (2009 £2,211,953) have not been recognised on the basis that their future economic benefit is not certain. Assuming a prevailing tax rate of 20% (2009 20%) when the timing differences reverse, the unrecognised deferred tax asset comprises

	<b>Year ended 31 December 2010 £</b>	Year ended 31 December 2009 £
Depreciation in excess of capital allowances	<b>10,612</b>	10,235
Schedule 23 reclaim for share options	<b>93,451</b>	6,359
Other short-term timing differences	<b>2,160</b>	6,057
Unutilised tax losses	<b>2,329,845</b>	2,189,302
	<b>2,436,068</b>	2,211,953

## 10. Loss per share (pence)

The calculation of the loss per share is based on a loss of £1,091,040 (2009 loss of £1,392,687) and on a weighted average number of shares in issue of 67,563,969 (2009 62,219,312)

The loss attributable to equity holders of the Company for the purpose of calculating the fully 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

	<b>Computer Equipment £</b>	<b>Furniture and Fittings £</b>	<b>Total £</b>
<b>Cost</b>			
At 1 January 2010	58,517	53,044	111,561
Additions	5,630	–	5,630
Disposals	(13,483)	(898)	(14,381)
<b>At 31 December 2010</b>	<b>50,664</b>	<b>52,146</b>	<b>102,810</b>
<b>Depreciation</b>			
At 1 January 2010	51,208	50,060	101,268
Disposals	(13,483)	(898)	(14,381)
Charge for year	5,498	2,018	7,516
<b>At 31 December 2010</b>	<b>43,223</b>	<b>51,180</b>	<b>94,403</b>
<b>Net book value</b>			
<b>At 31 December 2010</b>	<b>7,441</b>	<b>966</b>	<b>8,407</b>
At 31 December 2009	7,309	2,984	10,293

**11. Plant and equipment** (continued)

	<b>Computer Equipment £</b>	<b>Furniture and Fittings £</b>	<b>Total £</b>
<b>Cost</b>			
At 1 January 2009	57,719	53,044	110,763
Additions	978	–	978
Disposals	(180)	–	(180)
<b>At 31 December 2009</b>	<b>58,517</b>	<b>53,044</b>	<b>111,561</b>
<b>Depreciation</b>			
At 1 January 2009	43,078	47,192	90,270
Disposals	(180)	–	(180)
Charge for year	8,310	2,868	11,178
<b>At 31 December 2009</b>	<b>51,208</b>	<b>50,060</b>	<b>101,268</b>
<b>Net book value</b>			
<b>At 31 December 2009</b>	<b>7,309</b>	<b>2,984</b>	<b>10,293</b>
At 31 December 2008	14,641	5,852	20,493

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

**12. Inventories**

	<b>31 December 2010 £</b>	31 December 2009 £
Raw materials and consumables	<b>9,378</b>	10,825

# Notes to the Group Financial Statements (continued)

## 13. Financial instruments by category

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

	<b>31 December 2010</b>	31 December 2009
	£	£
<b>Assets as per Group Statement of Financial Position</b>		
<b>Loans and receivables</b>		
Trade and other receivables (note 14)	<b>64,314</b>	147,761
Cash and cash equivalents (note 15)	<b>824,821</b>	1,789,173
<b>Total loans and receivables</b>	<b>889,135</b>	1,936,934
<hr/>		
	<b>31 December 2010</b>	31 December 2009
	£	£
<b>Liabilities as per Group Statement of Financial Position</b>		
<b>Total trade and other payables (note 16)</b>	<b>152,755</b>	224,532

## 14. Trade and other receivables

	<b>31 December 2010</b>	31 December 2009
	£	£
Amounts receivable within one year		
Trade receivables	-	57,500
Other receivables	<b>16,829</b>	9,559
Prepayments and accrued income	<b>47,485</b>	80,702
	<b>64,314</b>	147,761

Trade receivables that are under three months past due are not considered impaired. At 31 December 2009 there were no trade receivables past due but not impaired.

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 Group Statement of Financial Position date is the fair value of each class of receivable.

**15. Cash and cash equivalents**

	<b>31 December 2010</b>	31 December 2009
	£	£
Cash at bank and in hand	<b>51,215</b>	13,961
Sterling fixed rate short-term deposits of up to three months maturity	<b>773,606</b>	1,775,212
	<b>824,821</b>	1,789,173

**16. Trade and other payables**

	<b>31 December 2010</b>	31 December 2009
	£	£
Trade payables	<b>75,903</b>	83,486
Social security and other taxes	<b>24,097</b>	25,351
Accrued expenses and deferred income	<b>52,755</b>	115,695
	<b>152,755</b>	224,532

**17 Share capital**

	<b>31 December 2010</b>	31 December 2009	<b>Authorised 31 December 2010</b>	31 December 2009
	No.	No	£	£
Ordinary shares of 0.2 pence each	<b>500,000,000</b>	500,000,000	<b>1,000,000</b>	1,000,000

	<b>31 December 2010</b>	31 December 2009	<b>Allotted, called up and fully paid 31 December 2010</b>	31 December 2009
	No.	No	£	£
Ordinary shares of 0.2 pence each	<b>67,643,311</b>	67,483,311	<b>135,287</b>	134,967

The number of issued ordinary shares as at 1 January 2009 was 57,618,840

# Notes to the Group Financial Statements (continued)

## 17. Share capital (continued)

During the year ended 31 December 2009, the Company issued shares of 0.2 pence each as follows

Month	Reason for issue	Gross Consideration £	Shares Issued No.
March 2009	Placing at 20 pence per share	1,000,000	5,000,000
November 2009	Placing at 30 pence per share	1,459,341	4,864,471

The number of issued ordinary shares as at 1 January 2010 was 67,483,311

During the year ended 31 December 2010, the Company issued shares of 0.2 pence each as follows

Month	Reason for issue	Gross Consideration £	Shares Issued No.
October 2010	Share option exercise at 41.75 pence per share	66,800	160,000

## 18. Share options

At 31 December 2010, the numbers of ordinary shares of 0.2 pence each subject to share options granted under the Group's Approved and Unapproved Share Option Schemes were

Exercise Period	Exercise Price per Share p	At 1 January 2010 No.	Grants During Year No.	Options Exercised No.	At 31 December 2010 No.
1 February 2008 – 31 January 2013	74.50	200,000	–	–	200,000
1 February 2009 – 31 January 2014	56.25	300,000	–	–	300,000
1 February 2010 – 31 January 2015	41.75	290,000	–	(160,000)	130,000
1 August 2011 – 31 July 2016	24.25	965,000	–	–	965,000
1 August 2012 – 31 July 2017	40.50	–	840,000	–	840,000
		1,755,000	840,000	(160,000)	2,435,000

On 6 July 2010 share options over 840,000 new ordinary shares were granted to employees (including Directors)

## 18. Share options (continued)

On 12 October 2010 share options over 160,000 new ordinary shares were exercised by employees (excluding Directors). This generated additional funds of £66,800 for the Company.

The share options outstanding at 31 December 2010 represented 3.6% of the issued share capital as at that date (2009 2.6%) and would generate additional funds of £946,238 (2009 £672,838) if fully exercised. The weighted average remaining life of the share options was 63 months (2009 66 months), with a weighted average remaining exercise price of 38.86p (2009 38.34p).

The share options exercisable at 31 December 2010 totalled 630,000 (2009 500,000) with an average exercise price of 59.05p (2009 63.55p) and would generate additional funds of £372,025 (2009 £317,750) if fully exercised.

The Group's share option scheme rules apply to 2,260,000 of the share options outstanding at 31 December 2010 (31 December 2009 1,580,000) and include a rule regarding forfeiture of unexercised share options by a Director or employee upon the cessation of their employment (except in specific circumstances).

There were no market vesting conditions within the terms of the grant of the share options.

The Black-Scholes-Merton formula is the option pricing model applied to the grants of all share options made in respect of calculating the fair value of the share options.

	<b>31 December 2010</b>	31 December 2009
<b>Inputs to share option pricing model</b>		
Grant date	<b>6 July 2010</b>	23 July 2009
Number of shares under option	<b>840,000</b>	965,000
Share price as at date of grant	<b>40.50p</b>	24.25p
Option exercise price	<b>40.50p</b>	24.25p
Expected life of options – based on previous exercise history	<b>3 years</b>	3 years
Expected volatility – based on 30 day annualised history	<b>52.94%</b>	48.59%
Dividend yield – no dividends assumed	<b>0%</b>	0%
Risk-free rate – yield on treasury stock as at date of grant	<b>1.40% p.a.</b>	2.30% p.a.
<hr/>		
	<b>31 December 2010</b>	31 December 2009
<b>Outputs generated from share option pricing model</b>		
Fair value per share under option	<b>14.86p</b>	8.48p
Total expected charge over the vesting period	<b>£124,824</b>	£81,832
<hr/>		
	<b>31 December 2010</b>	31 December 2009
<b>Recognised in the Group Statement of Comprehensive Income</b>		
The share-based remuneration charge (note 6) comprises		
Share-based payments	<b>£71,976</b>	£44,144

# Notes to the Group Financial Statements (continued)

## 19. Pension costs

The pension charge represents contributions payable by the Group to independently administered funds which during the year ended 31 December 2010 amounted to £98,180 (2009 £107,052). Pension contributions payable one month in arrears at 31 December 2010 totalled £3,433 (2009 £3,433) and are included in accrued expenses at the relevant Group Statement of Financial Position date.

## 20. Commitments

At 31 December 2010 the Group had operating lease commitments in respect of property leases cancellable on one month's notice of £5,412 (2009 £5,307).

## 21. 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 wholly owned subsidiary company have been eliminated on consolidation and are not disclosed in this note.

Included within prepayments and accrued income is an amount of £247 in respect of a Cycle to Work Scheme loan to J H Barder, a Director of the Company. The loan of £742 was taken out in April 2010 and is repayable by twelve equal monthly instalments.

Included within prepayments and accrued income is an amount of £247 in respect of a Cycle to Work Scheme loan to D B Davies, a Director of the Company. The loan of £742 was taken out in April 2010 and is repayable by twelve equal monthly instalments.

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 £86,317 (2009 £86,736), the amount outstanding at 31 December 2010 including VAT was £8,186 (2009 £8,535), which has since been settled in cash. The amount invoiced during the year is considered to be a related party transaction disclosable under Rule 19 of the AIM Rules for Companies as it exceeds 0.25% in the relevant class tests.

### 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 22 to 26.

## **22. Events after statement of financial position date**

On 4 February 2011 the Group signed an exclusive worldwide agreement with Ansell Limited for the commercialisation of PET500, the Group's novel product for enhanced sexual control. Ansell has already developed the strategy for the launch of the product, which is expected to take place as soon as practicable. Under the terms of the agreement the Group will receive a significant royalty rate on sales and a modest upfront payment. The branding of the product will be developed by Ansell, which will also be responsible for the product's manufacture and for funding of all regulatory work.

As disclosed in the Directors' Report Financial Review on page 11, on 11 March 2011 the Group raised £3.20 million (£3.07 million net of expenses) by way of an underwritten placing of 4,737,402 new ordinary shares at 67.50 pence per share. The net proceeds raised are for general corporate and research and development purposes.

# Parent Company Balance Sheet

For the year ended 31 December 2010

Company no 4206001

	Notes	As at 31 December 2010 £	As at 31 December 2009 £
<b>Fixed assets</b>			
Investment	3	394,298	322,322
<b>Current assets</b>			
Debtors – due within one year	4	14,345	16,420
Debtors – due after more than one year	4	14,548,550	13,563,433
Total debtors		14,562,895	13,579,853
Cash at bank and in hand		783,686	1,776,096
<b>Total current assets</b>		<b>15,346,581</b>	15,355,949
<b>Creditors: amounts falling due within one year</b>	5	<b>(47,651)</b>	(52,342)
<b>Net current assets</b>		<b>15,298,930</b>	15,303,607
<b>Total net assets</b>		<b>15,693,228</b>	15,625,929
<b>Capital and reserves</b>			
Called up share capital	6	135,287	134,967
Share premium account	7	15,623,127	15,556,647
Profit and loss account	7	(65,186)	(65,685)
<b>Equity shareholders' funds</b>		<b>15,693,228</b>	15,625,929

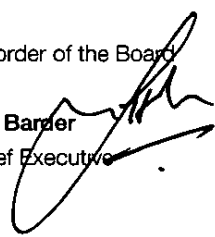
These financial statements were approved and authorised for issue by the Board on 11 March 2011

The notes on pages 55 to 57 form part of these parent company financial statements

By order of the Board

J H Barder

Chief Executive



# Notes to the Parent Company Financial Statements

For the year ended 31 December 2010

## 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 but does issue shares to satisfy share option awards made by its subsidiary company. The Company has applied Financial Reporting Standard 20 'Share-based Payment' to all share options granted to employees of the subsidiary. 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 substantively enacted by the balance sheet date.

A deferred tax asset in respect of unutilised tax losses amounting to £194,548 (2009 £123,071) has not been recognised on the basis that the future economic benefit is not certain. Assuming a prevailing tax rate of 20% (2009 20%) when the timing differences reverse, the unrecognised deferred tax asset is £38,909 (2009 £24,614).

## 2. Loss attributable to shareholders

As permitted by section 408 of the Companies Act 2006 no separate Company profit and loss account has been included in these financial statements. The Group loss for the year includes a loss after tax of £71,477 (2009 loss after tax £71,744) which is dealt with in the financial statements of the Company. The total fees of the Company's and Group's auditors, BDO LLP, for services provided are analysed in note 5 to the Group financial statements.

## 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 Group financial statements on pages 30 to 33.

	<b>31 December 2010</b>	31 December 2009
	£	£
Cost	<b>394,298</b>	322,322

# Notes to the Parent Company Financial Statements

(continued)

## 4. Debtors

	<b>31 December 2010</b>	31 December 2009
	£	£
Amounts receivable within one year prepayments	<b>14,345</b>	16,420
Amounts receivable after more than one year		
Amounts owed by subsidiary	<b>14,548,550</b>	13,563,433

## 5. Creditors: amounts falling due within one year

	<b>31 December 2010</b>	31 December 2009
	£	£
Trade creditors	<b>19,107</b>	29,542
Accruals and deferred income	<b>28,544</b>	22,800
	<b>47,651</b>	52,342

## 6. Called up share capital

	<b>31 December 2010</b>	31 December 2009	<b>Authorised 31 December 2010</b>	31 December 2009
	No.	No	£	£
Ordinary shares of 0.2 pence each	<b>500,000,000</b>	500,000,000	<b>1,000,000</b>	1,000,000

	<b>31 December 2010</b>	31 December 2009	<b>Allotted, called up and fully paid 31 December 2010</b>	31 December 2009
	No.	No	£	£
Ordinary shares of 0.2 pence each	<b>67,643,311</b>	67,483,311	<b>135,287</b>	134,967

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

## 7 Reserves

	<b>Share Premium Account £</b>	<b>Profit and Loss Account £</b>
At 1 January 2009	13,261,376	(38,085)
Retained loss for the year	–	(71,744)
Share-based payment	–	44,144
Shares issued during the year	2,439,612	–
Costs of share issues	(144,341)	–
At 1 January 2010	15,556,647	(65,685)
Retained loss for the year	–	(71,477)
Share-based payment	–	71,976
Shares issued during the year	66,480	–
<b>At 31 December 2010</b>	<b>15,623,127</b>	<b>(65,186)</b>

## 8 Related party transactions

Details are given in note 21 to the Group financial statements

## 9. Events after balance sheet date

Details are given in note 22 to the Group financial statements

# Company Information

## Company number

4206001

## Directors

Dr W D Potter	Executive Chairman
J H Barder	Chief Executive
D B Davies	Product Development Director
D A Martin	Finance Director
J D Freeman	Non-Executive Director
L Arnold	Non-Executive Director

## Audit committee

J D Freeman  
L Arnold

## Remuneration committee

J D Freeman  
L Arnold  
Dr W D Potter  
(adviser to committee)

## Nominations committee

J D Freeman  
L Arnold  
Dr W D Potter  
(adviser to committee)

## Secretary and registered office

D A Martin  
Futura Medical plc  
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Surrey  
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## Auditors

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