



FUTURA

MEDICAL PLC

ANNUAL REPORT
2003

Contents

2	Highlights
3	Chairman and Chief Executive Joint Review
6	Financial Review
7	Directors
8	Directors' Report
11	Remuneration Report
14	Corporate Governance
16	Independent Auditor's Report
17	Consolidated Profit and Loss Account
18	Balance Sheets
19	Consolidated Cash Flow Statement
20	Notes to the Consolidated Cash Flow Statement
21	Notes to the Financial Statements

Directors

Dr W D Potter	D B Davies
J H Barder	J D Freeman
A L Clayden	A Slater

Secretary and registered office

A L Clayden, Futura Medical plc, Surrey Technology Centre, 40 Occam Road, Guildford, Surrey, GU2 7YG

Company Number

04206001

Auditors

BDO Stoy Hayward LLP, Kings Wharf, 20-30 Kings Road, Reading, Berkshire, RG1 3EX

Nominated adviser and broker

Williams de Broë plc, 6 Broadgate, London, EC2M 2RP

Registrars

Capita Registrars, The Registry, Beckenham, Kent, BR3 4TU

Solicitors

Memery Crystal, 31 Southampton Row, London, WC1B 5HT

Futura Medical plc is a pharmaceutical products and medical device group that develops innovative products for the sexual healthcare market

Highlights

- **Futura introduced to the AiM market of the London Stock Exchange after successful fund raising**
- **Pre-tax loss of £1.46 million for 11 month period to 31 December 2003 (12 months ended 31 January 2003: £1.23 million loss)**
- **Cash balances of £2.4 million at 31 December 2003 (£1.5 million at 31 January 2003)**
- **DTI grant awarded to offset development of FLD500**
- **Phase II study for MED2001 completed. Change in regulatory strategy to potential first ethical over-the-counter treatment of erectile dysfunction**
- **Discussions regarding distribution rights for MED2001 at an advanced stage**
- **Worldwide distribution deal with SSL International plc for CSD500 extended to cover Japan**
- **SSL International plc global option for FLD500**

Chairman and Chief Executive Joint Review

Our decision to align Futura Medical plc's financial year with the calendar year means our last trading period is only 11 months. However, significant progress has been made in this shorter financial period.

Product Development

MED2001 – Eroxon™

Treatment for erectile dysfunction

In our 2003 Interim Report we reported on the completion of the 67 patient Phase II double-blind, placebo controlled, escalating-dose ranging study. The primary purpose of this study was to assess safety on a dose-escalating basis and we were pleased to say that MED2001 was well tolerated. The systemic adverse events seen in some patients were pharmacologically predictable, dose-dependent and consisted mainly of mild, transient headaches. Local tolerability was also good.

Overall good efficacy was seen for MED2001 but we also saw an unexpectedly high placebo response. This compromised our ability to demonstrate a statistically significant improvement over placebo in this study. Nevertheless, subsequent analyses have identified several factors, which we believe contributed to the high placebo response and these are being taken into account as we design the protocol for the Phase III trial.

Apart from the statistical data we gained from the Phase II study we also received extremely valuable 'user' feedback. One of the main consequences of this feedback has been the design of a customised, single-unit dose container and applicator for MED2001. The container will allow direct application of the cream to the glans by the patient or their partner without the complication of product transference to their hands and fingers. Penile massage is an important part of sexual foreplay and this new device will enable the partner to become more involved without coming directly into contact with the cream. The directors believe this container will provide significant benefits for the patients and improve the safety of the product, thereby making it more acceptable to the regulatory authorities.

Following the completion of our Phase II study a robust regulatory review took place with external independent experts. In light of this review we have recently modified our regulatory strategy to seek to licence MED2001 as a pharmacy line ("P-line") product rather than a Prescription only Medicine ("POM") within the EU. We believe this will differentiate MED2001 from all other ethical treatments for erectile dysfunction ("ED") and potentially have significant commercial advantages for us.

Currently, as few as one in five men with symptoms of ED will seek treatment from their General Practitioner. The remaining four out of five sufferers represent a market opportunity. We believe that MED2001, as potentially the first ethical 'over the counter' ("OTC") treatment within the EU, will help to address the embarrassment problem faced by many ED sufferers when seeking treatment. It would also have the added advantage of removing the issues facing many governments over the state funding of what is considered by some to be a 'lifestyle' medication.

It is estimated that five to ten percent of all ED sufferers take treatment for angina, which means they are not allowed to use any of the existing PDE5 inhibitors, such as Viagra™ or Cialis™. This represents a significant subset of patients with an unmet clinical need. Futura do not underestimate the clinical and medical challenges that will need to be overcome in developing a safe and efficacious treatment for this patient group. Nevertheless, a cardiac safety study was started in December 2003 at St John's Hospital in Brussels to assess safety of MED2001 in patients suffering from chronic angina. The trial is ongoing with initial results expected in May 2004.

Our patent applications for MED2001 continue to be granted with some 22 territories already having proceeded to grant. Moreover an additional patent, covering MED2001, was submitted in October as a direct result of our Phase II study which, if it proceeds to grant, will further strengthen our patent position.

Significant commercial discussions and due diligence have taken place over the past six months. The directors believe that these discussions have confirmed the attractive commercial opportunities for an OTC status in certain territories. However a safety concern has been raised during technical collaborations with potential licensing partners. We intend to advise patients through product labelling that MED2001 should not be used with any of the PDE5 inhibitors. However, the OTC status would make the product more widely available, with consequent increased risk of misuse if patients chose to ignore this advice. These safety issues do not occur for MED2001 when used alone.

In order to maximise the chances of an OTC regulatory status and maximise commercial licensing opportunities, we are investigating an adjustment to the formulation of MED2001. This is aimed at improving the localisation of the physiological effect whilst minimising systemic levels of GTN, thereby decreasing the risk of interaction with drugs such as PDE5 inhibitors. We do not expect this to adversely impact any of our existing clinical work although we do not intend to commence our Phase III trials until this adjustment is complete.

As part of finalising our regulatory and commercial strategy, we believe that this timely change will help to maximise the commercial opportunities for MED2001 and enable the successful conclusion of distribution negotiations.

CSD500 – Zanifil™

Condom safety device

We are aware of increasing governmental concern over the spread of sexually transmitted infections, particularly amongst young people. The Health Protection Agency announced on 25 November 2003 that an estimated 49,500 people were living with HIV in Britain in 2002, an increase of 20 per cent on the previous year. The announcement went on to highlight that more than one third of these people do not know they are infected and therefore represent a substantial risk to further spread of infection through unprotected sex.

Chairman and Chief Executive Joint Review (*continued*)

The World Health Organisation announced on the same day that the annual worldwide death toll from Aids has reached three million. This is a stark reminder of the importance of safe sex practices such as protected intercourse through use of a condom. We believe that these statistics demonstrate the market potential for CSD500, which acts to improve the safety of the condom through reduced slippage and breakage and thereby overcomes one of the criticisms of the latex condom.

Early in 2003 we signed a global distribution agreement (excluding Japan) with the world's largest branded condom manufacturer and distributor, SSL International plc (makers of Durex™ condom range) for the lifetime of the relevant patents. We are delighted to have signed a distribution agreement with such a powerful brand, which we expect to generate significant revenue for the Company once CSD500 is licensed.

An enormous amount of work has taken place over the past eleven months to complete stability in order for SSL International to proceed to manufacturing scale up and submission of the EU dossier of CSD500 on schedule in 2004. Although the formulated gel, Zanifil™, is stable we have encountered some loss of Glyceryl Trinitrate ("GTN") active in the finished product (i.e. a condom, condom lubricant, Zanifil™ incorporated within the condom teat and packaging). Significant progress has already been achieved in understanding and correcting the reasons for this loss in activity. Further development work and stability studies are continuing on schedule for a 2004 submission.

Our regulatory strategy for CSD500 remains the same, with the priority being for an EU dossier submission and with other non-EU territories, including the USA, to follow later.

During February 2004, SSL International exercised the option under the agreement signed between us in early 2003 to extend the territorial scope of the agreement to include Japan.

FLD 500

Female lubrication device

The first stage in the clinical development of the product will be to demonstrate physiological effects in healthy females with an active dose that is safe and well tolerated. This is described as a phase I proof of concept study.

As mentioned in our 2003 Interim Report, a protocol for the proof of concept study at the Porterbrook Clinic had been submitted to the South Sheffield ethics committee. I am pleased to say that approval was subsequently granted and the first subject was enrolled into the study during December. Current timelines expect completion of this study by June 2004.

In the meantime formulation work continues in parallel with the Porterbrook study in order to proceed with a pivotal home-use clinical trial later in 2004.

The agreement with SSL International also contains an option for them to extend the global distribution agreement to include FLD500.

Financing Activities

We have raised over £2.5 million gross during 2003 through share issues and a Government Grant.

In early December we were awarded a Research Project Grant under the new Grant for Research and Development Scheme of the Department of Trade & Industry.

The grant will provide up to £75,000 for the initial stages of research and development of the FLD500 product. Futura's grant submission was assessed according to level of innovation, technical risk, the strength of the management team and the overall business proposition. We were pleased to receive this independent endorsement of our technology and will continue to seek alternative sources of funding to offset development costs.

Our overall loss after tax for the period ended 31 December 2003 was £1.4 million. The loss was in line with our expectations and our costs continue to be in line with our internal budgets. Cash at the end of December was in excess of £2.4 million.

Board Changes

Prior to our Introduction to the Alternative Investment Market ("AiM") in July, both Richard Drury and Amanda Staveley resigned from the Board due to their other business commitments and conscious of the increasing workload from Futura once quoted on AiM. In their place we welcomed both Jonathan Freeman, a former director of Beeson Gregory with over 10 years experience in corporate finance, and Andrew Slater, a former main board director of SSL International plc with over 20 years of international healthcare marketing experience.

Both in preparation for Admission to AiM and since, we have maintained a continued emphasis on good Corporate Governance. Considerable attention and effort has been made to ensure that we achieve appropriate practice, mindful of our size and complexity, to safeguard the interests of our shareholders as a newly quoted company.

Recent Transactions

Futura's principal assets are our intellectual property rights and we will take all appropriate steps to protect these and prevent, resolve or prosecute any possible infringements thereon. In November 2003 we became aware of a possible infringement by CST Medical Limited ("CST"), the manufacturers and distributors of Vielle™ (a medical stimulator device, used for the treatment of female sexual dysfunction).

Chairman and Chief Executive Joint Review (*continued*)

Following discussions between the parties an agreement was entered into on 13 January 2004. In settlement of this matter, CST will transfer certain intellectual property to Futura. Futura will also receive 10 per cent of the issued share capital of CST as at 13 January 2004 (prior to any subsequent dilution due to fund raising by CST) and a royalty in respect of sales of the Vielle™ stimulator up to 31 December 2008.

Future Opportunities

As we emphasised in our 2003 Interim Report, the mandate from our shareholders has always been to seek to develop and licence MED2001 and CSD500. One of the reasons to float Futura on AiM was to increase the public profile of Futura in order to identify potential product distributors and also new development opportunities. As both CSD500 and MED2001 progress to a more advanced stage of their development we emphasise our interest in identifying and developing other pharmaceutical drugs and devices. They should be related to sexual health and well-being and should be able to commercially justify their development costs.

Once more, we both would like to extend our thanks for all the hard work not only by the staff of Futura but also our small army of expert consultants and advisors for which we are extremely grateful.

Dr W D Potter, Chairman

J H Barder, Chief Executive

Financial Review

The Financial Review should be read in conjunction with the financial statements and the notes to the financial statements set out on pages 17 to 28.

Profit and Loss Account

The Group retained loss for the 11 month period to 31 December 2003 was £1.4 million (year ended 31 January 2003: £1.1 million). The Group operating loss for the 11 month period to 31 December 2003 was £1.5 million (year ended 31 January 2003: £1.3 million) and the operating loss of the sole subsidiary, Futura Medical Developments Limited, for the 11 month period was £1.1 million (year ended 31 January 2003: £1.3 million).

Group Research and Development costs

The Group continues to focus on balancing the most cost effective and ethical research and development against the commercial applications of such research and development and time to bring products to market.

Research and development costs for the 11 month period were £626,746 (year ended 31 January 2003: £810,754). The main focus of this expenditure was in relation to the development of CSD500 and MED2001.

AiM admission costs

On 22 July 2003, the Company was introduced to the Alternative Investment Market of the London Stock Exchange. The main purposes of this were to raise the Company's profile, increase its ability to raise finance and provide a means of incentivising its key staff. The costs attributable to Admission to AiM were £351,299.

Taxation

A research and development tax credit of £100,771 (31 January 2003: £152,175, including £23,878 relating to a prior year) in respect of research and development expenditure incurred during the 11 month period is recognised in the financial statements.

Capital structure and funding

At 31 December 2003, the Group had shareholders' funds of £2.4 million (31 January 2003: £1.5 million) including cash balances of £2.4 million (31 January 2003: £1.5 million). The Group did not have any bank borrowings at 31 December 2003 (31 January 2003: £nil).

The Group is principally funded by equity capital. However, it does continue to receive research and development tax credits under the inland revenue scheme and during the period also received the initial tranche of £15,000 from a total award of £75,000 under the research grant from the DTI.

During the 11 month period to 31 December 2003, the Group's cash inflows included net proceeds from the issue of shares of £2,250,013 (year ended 31 January 2003: £533,278), research and development tax credit receipts of £128,297 (year ended 31 January 2003: £153,876) and the first tranche of the research grant from the DTI of £15,000 (year ended 31 January 2003: £nil).

Treasury policy and financial risk management

The Group's focus is on the research and development of medical drugs and devices. Accordingly, the Group's risks include, inter alia, factors related to product testing, regulatory approval, product liability, patents and proprietary rights, manufacturing, marketing, distribution, international sales, and competitive products.

Treasury policy is set by the Board. The Group follows a risk averse policy in respect of treasury management. 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 and foreign exchange.

The Group's cash held in bank current and deposit accounts is exposed to the risk of fluctuating base rates. The Group uses money market deposits with banks to hold its cash reserves based on advice it receives from bankers and other advisers.

Supplier contracts which are to be settled in foreign currencies are provided for through conversion of sterling deposits to the appropriate foreign currency at the outset of a contract to minimise the risk of adverse currency fluctuations. Forward and option contracts are not used.

During the 11 month period to 31 December 2003, the Group was exposed to the US Dollar as a consequence of the Mexico Phase II trial and US regulatory advice received. In the forthcoming year, the Group is expected to be exposed to foreign currency as a consequence of the planned development work for MED2001. The Group intends to fix its exposure to foreign currency by purchasing amounts of foreign currency to meet its future predicted needs at the outset of each such contract.

A L Clayden, Finance Director

Directors

Dr William Duncan Potter, PhD
Non-Executive Chairman (57)

Dr Potter became Chairman in June 2001. He has spent 33 years in research and development including 25 years bringing new products to market involving a wide range of medical devices. He has extensive knowledge of world-wide regulatory procedures, intellectual property issues and licensing. Dr Potter worked at London International Group (1985-2000) including 7 years as Group Scientific Affairs Director. Previously he has worked at Smith & Nephew plc (1972-1984).

James Henry Barder
Chief Executive (44)

Mr Barder joined the Company as Chief Executive in June 2001. He first became involved with the Group as a Business Angel 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 (1977-2001) including firms he founded and co-owned. Mr Barder joined the board of the Loss Recovery Group Ltd as a non-executive Director in March 2003.

Anthony Louis Clayden, BSc (Hons), ACA, MSI
Finance Director and Company Secretary (36)

Mr Clayden joined the Company as Finance Director and Company Secretary in October 2001. Before joining the Company, his prior Finance Director roles were with information technology and services companies Redstor Limited (2000-2001) and advantage @ the edge Limited (1999-2000). Previously, he worked in corporate finance, mainly focused on technology and services businesses, at PricewaterhouseCoopers (1997-1999) and KPMG (1994-1996). He qualified as a Chartered Accountant with BDO Stoy Hayward (1991-1994).

David Bryn Davies, BSc (Hons), MBA
Product Development Director, (41)

Mr Davies has been a Director of the Company since September 2001. Prior to joining the Company, Mr Davies was Director of Project Management at Clintrials Research Ltd (1998-2001). He has 20 years experience of pharmaceutical and healthcare product development, within pharmaceutical companies and global contract clinical research organisations. Previous employers also include Porton Down, Glaxo Group Research, Wellcome Research Ltd, Zambon Limited and PPD Pharmaco Ltd.

Jonathan David Freeman BA (Hons), MBA
Senior Independent Non-Executive Director, (38) 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. He provides over ten years of corporate finance experience including as a partner at Gambit Corporate Finance (2002-2003), as a Director of Beeson Gregory (1997-2002) and involvement in the creation of EASDAQ (1993-1997).

Andrew Slater, BA (Hons)
Independent Non-Executive Director and Member of Remuneration Committee, (56)

Mr Slater joined the Board in July 2003. He has over 30 years worldwide marketing expertise mainly in pharmaceuticals and was a Director of SSL International plc (1999-2003) having spent 17 years with London International Group plc (1982-1999). Mr Slater's experience includes all aspects of the promotion and marketing of SSL International plc's products including family planning products and he was the Managing Director of both the Americas and Europe.

Directors' Report

The Directors present their report and the audited financial statements for the 11 month period ended 31 December 2003.

Principal activities

The principal activity of the group is the research and development of pharmaceutical products and medical devices and their commercial exploitation. The Chairman and Chief Executive Joint Review on pages 3 to 5 and Financial Review on page 6 report in more detail on the Group's activities during the year and anticipated future developments.

Research and development activities

The main area of research and development continues to be in the field of medical products for sexual health and sexual well-being.

Business review and future developments

On 19 June 2003, the Company entered into a Subscription and Call Option Agreement with Long Fleet Systems Inc (the "Agreement"). In accordance with the Agreement, the Company raised £1,700,000 before expenses through a private placing on 22 July 2003.

On 22 July 2003, Futura Medical plc became quoted by way of an Introduction to AiM of the London Stock Exchange. Exceptional costs were incurred of £351,299 in respect of being admitted to trading on AiM and these are included with administrative expenses contributing to the operating loss.

On 28 November 2003, the Company raised a further £800,000 before expenses through the exercise of the first call option under the terms of the Agreement. In addition, warrants over 250,000 Ordinary Shares were issued on 22 July 2003 and on 28 November 2003 in accordance with the Agreement.

The exercise of the second call option under the Agreement is set out in "Post balance sheet events" below. The third call option of £800,000 under the Agreement can be exercised at the Company's sole option in July 2004.

The accounting reference dates for the Company and the subsidiary Futura Medical Developments Limited were changed to 31 December during the period.

During the period, the subsidiary Futura Medical Developments Limited has continued to incur research and development expenditure which has been written off as incurred.

As well as continuing its existing research and development program, the Group plans to identify and find new opportunities for potential products to add to its portfolio.

Post balance sheet events

On 13 January 2004, the Company entered into an agreement with CST Medical Limited ("CST"), a private company that specialises in developing products to address female sexual dysfunction. The agreement was in settlement of an intellectual property dispute. Under the agreement, CST will transfer certain intellectual property to the subsidiary Futura Medical Developments Limited. In addition, Futura Medical Developments Limited will receive 10 per cent of the issued share capital of CST as at 13 January 2004 (prior to any subsequent dilution due to fund raising by CST) and will receive a royalty in respect of sales of the Vielle™ stimulator between 1 January 2004 and 31 December 2008.

On 2 February 2004, the directors approved the exercise of the second call option and the allotment of 1,125,175 new Ordinary Shares at a price of 71.10 pence per share, the issue of warrants to subscribe for a total of 250,000 Ordinary Shares at an exercise price of 71.10 pence per share and payment of the related commission of £20,000 pursuant to the Share Subscription and Call Option Agreement between the Company and Long Fleet Systems Inc dated 19th June 2003. The exercise terms have been varied slightly enabling settlement in several tranches during February 2004 as detailed in note 24.

Results and Dividends

The results of the Group for the period are set out on pages 17 to 28 and show a loss after tax for the period of £1,360,363 (year ended 31 January 2003: £1,085,081).

No dividends are paid or proposed (year ended 31 January 2003: £Nil).

Directors

The Directors of the Company during the period were:

Dr W D Potter
J H Barder
A L Clayden
D B Davies

J D Freeman (Appointed 14/07/2003)
A Slater (Appointed 14/07/2003)
R Drury (Resigned 08/07/2003)
A L Staveley (Resigned 07/05/2003)

Directors' Report (*continued*)

Directors' interests

The Directors who held office at the end of the financial period had the following interests in the shares of the Company:

	Ordinary shares of 0.2 pence each			
	31 December 2003		1 February 2003	
	Beneficial interests	Other interests	Beneficial interests	Other interests
J H Barder	236,997	314,500	236,997	314,500
D B Davies	15,152	–	15,152	–

Other than shown in the table above, no Director had any interest in the shares of the Company or any other Group companies at 31 December 2003.

The share options held by the directors at 31 December 2003 are set out below:

	Number of share options granted	
	At 31 December 2003	At 1 February 2003
J H Barder	250,000	250,000
D B Davies	1,150,000	1,000,000
A L Clayden	675,000	500,000
W D Potter	375,000	375,000

There were no other options granted to the directors during the period and none of the share options held by the directors have been exercised or have lapsed.

Employees

The Group comprises 5 staff and 3 Non-Executive Directors.

In this context the Executive Directors keep staff informed of the progress and development of the Group regularly through formal and informal meetings and employee feedback is encouraged. The Company has a policy of offering share options to all eligible employees, subject to availability under the option plan rules and with due consideration to the level of dilution of shareholders.

The Group does not discriminate between employees and prospective employees on grounds of race, religion or gender. Every effort is made to provide the same opportunities to disabled persons as to others.

Supplier payment policy

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

The average credit period (expressed as creditor days) during the period was 26 days (31 January 2003: 55 days) for the Group. At the period end the Company had no creditors giving rise to the average credit period of nil days (31 January 2003: nil days).

Substantial shareholdings

At 18 February 2004, the issued share capital of the company was 46,295,943 ordinary shares of 0.2 pence each and the following shareholders were listed in the shareholder register as holding 3% or more of the Company's share capital:

	Number of ordinary shares	Percentage of issued ordinary share capital
Morstan Nominees Limited Sec Account	4,814,674	10.40
Medinvest Holdings Limited	4,053,030	8.75
Christopher John Crabtree	3,828,030	8.27
HSBC Global Custody Nominee (UK) Limited 741820 Account	2,148,689	4.64
Willbro Nominees Limited	1,484,949	3.21
R C Greig Nominees Limited	1,424,759	3.08

Charitable and political contributions

No donations were made during the period (year ended 31 January 2003: £nil).

Directors' Report (*continued*)

Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the accounts comply with the Companies Act 1985. In addition the directors are responsible for ensuring that the annual report includes information required by the listing rules of the Alternative Investment Market. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Auditors

On 31 December 2003, BDO Stoy Hayward, the company's auditors, transferred its business to BDO Stoy Hayward LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. Accordingly BDO Stoy Hayward resigned as auditors on that date and the directors appointed BDO Stoy Hayward LLP as its successor. A resolution to reappoint BDO Stoy Hayward LLP as auditors will be proposed at the next annual general meeting.

By order of the Board

A L Clayden, Secretary

20 February 2004

Remuneration Report

Composition and Terms of Reference

The Group's Remuneration Committee comprises the independent non-executive Directors, A Slater and J D Freeman, and is chaired by J D Freeman. Dr W D Potter, as non-executive chairman, is an adviser to the Remuneration Committee because of his knowledge of the Industry. However, by virtue of his consulting services to the sole subsidiary he is not independent and is excluded from voting.

The purpose of the Remuneration Committee is to ensure that the Executive Directors and other Senior Executives are fairly rewarded for their individual contribution to the overall performance of the Company.

The Board retains responsibility for overall remuneration policy. The Remuneration Committee operates within agreed terms of reference.

Policy on Executive Director remuneration

Executive remuneration packages are designed to attract and retain executives of the necessary skill and calibre to run the Company successfully but avoiding paying more than is necessary. Direct benchmarking of remuneration is not possible given the specialised nature and size of the Company. The Remuneration Committee uses the knowledge and experience of the non-executive Directors and published surveys relating to AiM directors and market changes generally.

There are four main elements of the remuneration package for executive Directors and senior employees.

(i) Basic salaries and benefits in kind

Basic salaries are determined by the Remuneration Committee, taking into account the performance of the individual and the rates for similar positions in comparable companies. Benefits in kind include car allowance (no Company cars are provided), death in service insurance, permanent health insurance and private medical insurance. Salary alternatives are provided for all benefits in kind. Car allowance and benefits in kind are not pensionable.

(ii) Share option schemes

The Company operates approved and unapproved share option schemes for the Chairman, executive Directors, employees and consultants to motivate those individuals through equity participation in the Company. Exercise of options under the schemes is subject to specified exercise periods.

The schemes are overseen by the Remuneration Committee which determines the terms under which eligible individuals may be invited to participate.

(iii) Bonus Scheme

Currently, the Company does not operate a bonus scheme.

(iv) Pensions

The Group pays a defined contribution to the pension scheme of executive Directors and employees or offers a cash alternative. The individual pension schemes are private and their assets are held separately from those of the Group.

Salaries were reviewed in January 2004 to cover the period from 1 February 2004 to 31 January 2005. Future reviews will continue to be on an annual basis in the month following the Company's financial year to enable the Group's performance to be considered.

Service contracts

All executive Directors are employed under service contracts requiring six months' notice by either party.

All non-executive Directors receive payments under appointment letters which are terminable by three month's notice from either party.

All Directors are Directors of the subsidiary.

Policy on non-executive Directors remuneration

The non-executive Directors each receive a fee for their services, which is approved by the Board, mindful of current market rates for comparable organisations and appointments. Non-executive Directors receive travelling expenses and other minor reimbursements of costs incurred. The independent non-executive Directors (which excludes the Chairman) do not participate in any incentive arrangements.

Remuneration Report (*continued*)

Directors' remuneration

The emoluments of the individual Directors for the 11 months were as follows:

	11 months ended 31 December 2003					Year ended 31 January 2003			
	Salary or Fees £	Benefits in Kind £	Aggregate emoluments £	Pension £	Total £	Aggregate emoluments £	Pension £	Total £	
Executive Directors									
J H Barder	113,552	3,132	116,684	10,347	127,031	119,116	10,500	129,616	
D B Davies	93,843	2,354	96,197	8,376	104,573	98,206	8,500	106,706	
A L Clayden	86,265	–	–	–	86,265	64,200	–	64,200	
Non-Executive Directors									
W D Potter	14,703	–	–	–	14,703	10,500	–	10,500	
A Slater	9,000	–	–	–	9,000	–	–	–	
J D Freeman	8,469	–	–	–	8,469	–	–	–	
R Drury	5,644	–	–	–	5,644	10,500	–	10,500	
A L Staveley	2,687	–	–	–	2,687	10,000	–	10,000	

The salary includes a car allowance for J H Barder and D B Davies for the 11 month period of £10,083 (year ended 31 January 2003: £11,000). In the prior year, A L Clayden was employed on a part-time basis throughout the year moving to a full time basis from 1 May 2003.

The above fees and emoluments do not include reimbursed expenditure.

Directors interests in share options

The Board uses share options to align employees interests with shareholders in order to incentivise and reward employees relative to improvements in Company performance.

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

	Grant Date	Awarded Number	Exercise Price/Share	Earliest Exercise Date	Expiry Date
J H Barder	5 March 2002	250,000	53p	1 August 2004	31 January 2006
D B Davies	5 March 2002	1,000,000	33p	1 August 2004	31 January 2006
	8 July 2003	150,000	70p	1 August 2005	31 July 2007
A L Clayden	5 March 2002	500,000	33p	1 August 2004	31 January 2006
	8 July 2003	175,000	70p	1 August 2005	31 July 2007

The Share Options under the Futura Medical plc Pre-IPO Share Option Scheme of the non-executive Directors who served during the period are set out below:

	Grant Date	Awarded Number	Exercise Price/Share	Earliest Exercise Date	Expiry Date
W D Potter	21 March 2002	250,000	33p	1 August 2004	31 January 2006
	21 March 2002	125,000	53p	1 August 2004	31 January 2006
R Drury	21 March 2002	100,000	33p	1 August 2004	31 January 2006
A L Staveley	21 March 2002	100,000	33p	1 August 2004	31 January 2006

All options have been granted with an exercise price at or above market value. There has been only one grant of options to Directors during the year being that under the Futura Medical plc Enterprise Management Incentive Scheme on 8 July 2003 which was conditional on becoming quoted on AiM. The two new non-executive Directors appointed prior to flotation on AiM will not receive share options in order to maintain their independence under the Combined Code.

As part of the process of flotation on AiM on 22 July 2003, the earliest exercise date for options granted in March 2002 under both schemes was deferred from 1 February 2004 to 1 August 2004 but the expiry date remained at 31 January 2006.

There were no other options granted to Directors and none of the Directors options have been exercised or have lapsed.

Remuneration Report (*continued*)

Directors' interests

The Directors who held office at the end of the financial period had the following interests in the shares of the Company:

	Ordinary shares of 0.2 pence each			
	31 December 2003		1 February 2003	
	Beneficial Interests	Other interests	Beneficial interests	Other interests
J H Barder	236,997	314,500	236,997	314,500
D B Davies	15,152	–	15,152	–

Other than shown in the table above, no Director had any interest in the shares of the Company or any other Group companies at 31 December 2003.

On behalf of the board

J D Freeman, Chairman of the Remuneration Committee

20 February 2004

Corporate Governance

Introduction

The Board is committed to maintaining high standards of corporate governance. The Group accepts the principles of good corporate governance as embodied in the Combined Code and applies them taking into account the size of the Group. The following sections explain how these principles of good governance as set out in Section 1 of the Combined Code are applied in practice.

Statement of application of the Principles of Good Governance and compliance with the Code of Best Practice

Since the Introduction to AiM on 22 July 2003, the Directors have sought to make any necessary changes to ensure that the Company complies with the Provisions of the Code of Best Practice, as set out in Section 1 of the Combined Code.

The Board has made the following change on 4 September 2003 to increase its compliance with the Combined Code:

- a schedule of matters reserved for the Board was adopted, formalising the existing practice.

On 4 November 2003, the following changes were also made:

- a formal procedure was adopted enabling directors to take independent professional advice, if necessary, at the Company's expense in the furtherance of their duties as directors of the Company.
- the rules regarding the position of Company Secretary and the availability for access by Directors was agreed.
- roles and responsibilities in respect of the training of directors as officers of the Company were defined and agreed, led by the senior independent non-executive Director.
- a review of internal controls included for the first time a full risk review including all aspects of the Group (strategic, operational, financial and compliance) and this will be maintained throughout each year and considered and reviewed annually by the Board.

The Board considers that given the size and nature of its activities it does not intend to comply with the Combined Code in respect of the following items and this is not unreasonable and does not compromise the overall principles of Corporate Governance which the Board strongly supports:

- the Group and Board are too small for a separate nominations committee but this matter will be reviewed annually. In the absence of a nominations committee all appointments to the Board must be made at Board Meetings where all non-executive Directors are present, a non-executive is appointed Chairman of the meeting and the senior independent non-executive Director has the casting vote in appointment decisions.
- the remuneration of executive Directors does not yet include a performance related element. It is considered inappropriate by the Board to provide bonuses related to the results of the Company in its development phase and prior to achieving revenue and profitability. Instead, the interests of Directors are aligned with that of shareholders by the provision of share options. This matter will be kept under review by the Remuneration Committee.
- the Remuneration Committee includes the Chairman who is not independent by virtue of consulting services provided to the subsidiary. However, he is an adviser to the Committee and is precluded from voting.
- the Board considers the Group too small for an internal audit function but will keep the need for one under review as part of the annual risk review.
- the Audit Committee comprises only 2 non-executive Directors but this is considered sufficient by the Board given the nature, size and complexity of the Group.

Board of Directors

The Board of Directors has overall responsibility for the Group. The composition and biographies are set out on page 7.

The Board currently comprises a non-executive Chairman, two independent non-executive Directors and three executive Directors. The non-executive Chairman provides consulting services to the subsidiary, Futura Medical Developments Limited, and has share options in the Company. The two other non-executive Directors do not have shareholdings or options in the Company and solely receive fees as non-executive Directors. Accordingly, the Board is satisfied that it has an appropriate mix of independence and experience in its non-executive Directors.

The Board retains full control of the Group. The full Board meets bimonthly and is responsible for formulating and monitoring Group strategy, as well as complying with legal, regulatory and corporate governance matters. There is a schedule of matters reserved for the Board which was adopted on 4 September 2003.

Board papers are circulated in advance of each Board meeting. Operational control is delegated by the Board to the executive Directors.

Corporate Governance (*continued*)

Remuneration of Directors

Prior to joining AiM on 22 July 2003, the Company was already in compliance with many aspects of the Combined Code in respect of Directors remuneration.

Currently, Directors interests are aligned with those of shareholders through share options. However, there is no performance-related element to Directors remuneration. It is anticipated that such an element will be introduced related to future profitability of the Group. The Remuneration Committee comprises all non-executive Directors. It is recognised that the Chairman is not fully independent, but his knowledge and experience is considered valuable to the remuneration committee and this is balanced out by two independent executive Directors and it is chaired by the senior independent non-executive Director.

As an unquoted Company, the detailed disclosure of Directors remuneration was not previously disclosed in the financial statements to the same level as is included in these financial statements.

Further detail is set out in the Remuneration Report on pages 11 to 13.

Investor relations

The Directors seek to build a mutual understanding of objectives between the Company and its shareholders by meetings with investors and analysts. The Company also maintains investor relations pages on its website (www.futuramedical.co.uk) to increase the amount of information available to investors.

There will be an opportunity at the Annual General Meeting for individual shareholders to question the Chairman and the Senior Independent non-executive Director, who chairs the remuneration and audit committees, and the executive Directors. The notice of the meeting together with any related papers will be sent to shareholders at least 20 working days before the meeting. Shareholders are given the opportunity to vote on each separate issue. The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with by a show of hands.

Financial reporting and internal control

The Company has disclosed any reasons for non compliance with the Combined Code provisions on internal control by establishing the procedures necessary to implement guidance issued by the Internal Control working party of the Institute of Chartered Accountants in England and Wales issued in September 1999 (the Turnbull Committee report).

In addition, the company has voluntarily disclosed compliance with the provisions of the combined code.

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

The Board has reviewed the effectiveness of the system of internal control and continues to monitor its performance. In addition, the first formal risk review was undertaken and reviewed by the Board on 4 November 2003. This review is now part of the overall control system operated by the Company.

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 and forecasts are prepared by the executive Directors before submission to the Board for approval. Forecasts are prepared at least quarterly. Actual results are monitored against budget and forecast, with variances highlighted for the Board.
- Financial risks are identified and evaluated for each major transaction for consideration by the Board and senior management.
- Standard financial control procedures operate throughout the Group to ensure that the assets of the Group are safeguarded and that proper accounting records are maintained.
- An on-going risk management process has been implemented which identifies the key business risk facing each business unit, including an annual report to the Board on the results of this process. Risks are monitored on a regular basis.

Independent Auditor's Report

To the shareholders of Futura Medical plc

We have audited the financial statements of Futura Medical plc for the 11 months ended 31 December 2003 on pages 17 to 28 which have been prepared under the accounting policies set out on pages 21 and 22.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the Highlights, the Chairman and Chief Executive Joint Review, the Financial Review, the Corporate Governance Statement, the Remuneration Report and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's and the group's affairs as at 31 December 2003 and of the loss of the group for the 11 month period then ended and the financial statements have been properly prepared in accordance with the Companies Act 1985.

BDO STOY HAYWARD LLP

*Chartered Accountants
and Registered Auditors*
Reading

20 February 2004

Consolidated Profit and Loss Account
For the 11 months ended 31 December 2003

	Notes	11 months ended 31 December 2003 £	Year ended 31 January 2003 £
Research and development costs		(626,746)	(810,754)
AiM admission costs		(351,299)	–
Other administrative costs		(530,238)	(485,322)
Administrative expenses		(1,508,283)	(1,296,076)
Operating loss	2	(1,508,283)	(1,296,076)
Other interest receivable and similar income	5	47,733	59,534
Interest payable and similar charges	6	(584)	(714)
Loss on ordinary activities before taxation		(1,461,134)	(1,237,256)
Tax on loss on ordinary activities	7	100,771	152,175
Loss on ordinary activities after taxation and retained loss for the period	20	(1,360,363)	(1,085,081)
Basic and diluted loss per share	8	(3.2p)	(2.7p)

All amounts relate to continuing activities.

There were no recognised gains and losses in the period, or in the prior periods, other than those passing through the profit and loss account above and therefore no separate statement of total recognised gains and losses has been presented.

The notes on pages 21 to 28 form part of these financial statements

Balance Sheets
At 31 December 2003

	Notes	Group		Company	
		31 December 2003 £	31 January 2003 £	31 December 2003 £	31 January 2003 £
Fixed Assets					
Tangible assets	9	21,901	32,228	–	–
Investments	10	–	–	60,724	60,724
		21,901	32,228	60,724	60,724
Current Assets					
Stock	11	17,279	–	–	–
Debtors – due within one year	12	148,192	223,151	10,760	21,062
Debtors – due after more than one year	12	–	–	3,277,983	2,186,409
		165,471	223,151	3,288,743	2,207,471
Cash at bank and in hand		2,401,708	1,511,319	2,352,712	1,510,514
		2,567,179	1,734,470	5,641,455	3,717,985
Creditors: amounts falling due within one year	13	(180,044)	(234,896)	(16,150)	(4,586)
Net current assets		2,387,135	1,499,574	5,625,305	3,713,399
Total assets less current liabilities		2,409,036	1,531,802	5,686,029	3,774,123
Provision for liabilities and charges	15	–	(12,416)	–	(12,416)
Net assets		2,409,036	1,519,386	5,686,029	3,761,707
Capital and reserves					
Called up share capital	16	90,517	83,194	90,517	83,194
Share premium account	21	5,864,117	3,621,427	5,864,117	3,621,427
Other reserves	19	1,152,165	1,152,165	–	–
Profit and loss account	20	(4,697,763)	(3,337,400)	(268,605)	57,086
Equity shareholders' funds	22	2,409,036	1,519,386	5,686,029	3,761,707

The financial statements on pages 17 to 28 were approved by the Board on 20 February 2004 and were signed on its behalf by

J H Barder, Director

The notes on pages 21 to 28 form part of these financial statements

Consolidated Cash Flow Statement
For the 11 months ended 31 December 2003

	Notes	11 months ended 31 December 2003 £	11 months ended 31 December 2003 £	Year ended 31 January 2003 £	Year ended 31 January 2003 £
Net cash outflow from operating activities	1		(1,533,281)		(1,265,974)
Returns on investments and servicing of finance					
Interest received		48,157		50,888	
Interest paid		(584)		(714)	
Net cash inflow from returns on Investments and servicing of finance			47,573		50,174
Corporation Tax					
Research and development tax credit received		128,297		153,876	
Capital expenditure			128,297		153,876
Payments to acquire tangible fixed assets		(2,213)		(2,776)	
Net cash outflow from capital expenditure			(2,213)		(2,776)
Net cash outflow before use of liquid resources and financing			(1,359,624)		(1,064,700)
Management of liquid resources					
(Increase)/decrease in short term deposits			(841,025)		483,411
Financing					
Issue of ordinary shares		2,500,000		617,500	
Expenses paid in connection with share issues		(249,987)		(84,222)	
Net cash inflow from financing			2,250,013		533,278
Increase/(Decrease) in net cash	2		49,364		(48,011)

The notes on page 20 form part of this cash flow statement.

Notes to the Consolidated Cash Flow Statement
For the 11 months ended 31 December 2003

1 Reconciliation of operating loss to net cash outflow from operating activities

	11 months ended 31 December 2003	Year ended 31 January 2003
	£	£
Operating loss	(1,508,283)	(1,296,076)
Depreciation	12,540	13,575
Loss on sale of fixed assets	–	259
Increase in stocks	(17,279)	–
Decrease/(Increase) in debtors	34,593	(28,822)
(Decrease)/Increase in creditors	(54,852)	45,090
	<u>(1,533,281)</u>	<u>(1,265,974)</u>

2 Analysis of net cash

	At 1 February 2003	Cash flow	At 31 December 2003
	£	£	£
Cash at bank and in hand	5,424	49,364	54,788
Other liquid resources	1,505,895	841,025	2,346,920
	<u>1,511,319</u>	<u>890,389</u>	<u>2,401,708</u>

3 Reconciliation of net cash flow to movement in net funds

	11 months ended 31 December 2003	Year ended 31 January 2003
	£	£
Increase/(decrease) in cash in the period	49,364	(48,011)
Cash inflow/(outflow) from changes in liquid resources	841,025	(483,411)
	<u>890,389</u>	<u>(531,422)</u>
Movement in net funds in the period		
Net funds at start of period	1,511,319	2,042,741
Net funds at end of period	<u>2,401,708</u>	<u>1,511,319</u>

Notes to the Financial Statements

For the 11 months ended 31 December 2003

1 Accounting policies

1.1 Basis of preparation

The financial statements have been prepared under the historical cost accounting rules and in accordance with applicable UK accounting Standards. The following principle accounting policies have been applied.

In preparing these financial statements the Company has for the first time held stock and received government grants and accounting policies are set out below in relation to these items.

1.2 Basis of consolidation

The consolidated financial statements include the results of the Company and its subsidiary, Futura Medical Developments Limited, for the 11 month period ended 31 December 2003. The financial statements of all group companies are co-terminous.

Under the provisions of Financial Reporting Standard 6, Acquisitions and Mergers, these consolidated accounts are prepared using merger accounting.

The consolidated profit and loss account includes the results of the subsidiary for the period and the subsidiary's reserves have been credited to Group reserves. All intra-group sales and profit are eliminated on consolidation.

As permitted by Section 230 of the Companies Act 1985, the holding Company's profit and loss account has not been included in these financial statements. The Company made a loss after tax of £325,691 for the 11 month period (year ended 31 January 2003: profit after tax of £49,856).

1.3 Financial instruments

In relation to the disclosures made in note 14:

- the group does not hold or issue derivative financial instruments for trading purposes;
- forward exchange contracts and hedging contracts are not used to fix the exchange rate of committed or anticipated foreign currency transactions.

1.4 Research and development

Research and development expenditure is charged to the profit and loss account in the period in which it is incurred.

1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Plant and machinery	25% Straight line
Fixtures, fittings & equipment	25% Straight line

1.6 Deferred taxation

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

1.7 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

1.8 Pension costs

The Group operates a defined contribution pension scheme for all members of staff who wish to participate. Company contributions to personal pension schemes are charged to the profit and loss account in the period in which they become payable.

1.9 Leased assets

Operating lease rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

Notes to the Financial Statements For the 11 months ended 31 December 2003

1 Accounting policies (continued)

1.10 Share based employee remuneration

When shares and share options are granted to employees a charge is made to the group profit and loss account and a reserve created in capital and reserves to record the fair value of the awards in accordance with UITF Abstract 17 "Employee Share Schemes". No charge has been made to date as the exercise price of all share options granted has been equal to the company's share price at the date of award. Prior to becoming quoted on AiM, the company's share price was considered to be the price of the placing preceding the particular grant of options.

1.11 National insurance on share options

Where possible, all employee option holders enter into an Inland Revenue joint election to transfer the employers' national insurance contribution potential liability to the employee. To the extent that such an election has not been entered into and where the share price at the balance sheet date is greater than the exercise price on options granted after 19 May 2000, provision for any Employers National Insurance contribution has been made based on the prevailing rate of National Insurance. However, under the terms of all option rules any liability which may arise is recoverable from each option holder and a corresponding debtor is also included.

1.12 Stocks

Stocks are stated at the lower of cost and net realisable value using the FIFO method. Cost includes all direct expenditure in bringing the stock to its current location and condition.

1.13 Government Grants

Government grants relating to research and development expenditure are credited to the profit and loss account as the related expenditure is incurred.

1.14 Liquid resources

For the purpose of the cash flow statement liquid resources are defined as short term money market deposits and notice accounts.

2 Operating loss

	11 months ended 31 December 2003	Year ended 31 January 2003
	£	£
Operating loss is stated after charging:		
Depreciation of tangible assets	12,540	13,575
Loss on sale of fixed assets	-	259
Hire of other assets - operating leases	64,462	70,722
Auditors' remuneration		
- Audit services	19,000	8,536
- Tax services	4,100	3,619
	<u> </u>	<u> </u>

The audit services relating to the Company for 11 months ended 31 December 2003 amount to £14,000 (31 January 2003: £3,000)

3 Wages and salaries

The average monthly number of persons employed by the group during the year which include Directors, and their aggregate emoluments are shown below:

	11 months ended 31 December 2003	Year ended 31 January 2003
	No.	No.
Management and administration	8	8
	<u> </u>	<u> </u>
The costs incurred in respect of those employed were:		
	£	£
Wages and salaries	399,772	380,437
Social security costs	47,475	40,540
Other pension costs	24,773	22,560
	<u> </u>	<u> </u>
	<u>472,020</u>	<u>443,537</u>

Notes to the Financial Statements
For the 11 months ended 31 December 2003

4 Directors' emoluments

	11 months ended 31 December 2003	Year ended 31 January 2003
	£	£
Directors		
Aggregate emoluments	338,065	312,572
Compensation for loss of office	-	30,000
Company pension contributions	18,723	19,000
	<u> </u>	<u> </u>

Emoluments disclosed above include the following amounts paid to the highest Director:

	11 months ended 31 December 2003	Year ended 31 January 2003
	£	£
Aggregate emoluments	116,153	117,656
	<u> </u>	<u> </u>
Company pension contributions to money purchase scheme	10,347	10,500
	<u> </u>	<u> </u>

During the 11 month period, one Director (year ended 31 January 2003: one Director) participated in a private money purchase pension scheme and one Director (year ended 31 January 2003: one Director) accrued a sum to be allocated to a private money purchase scheme once it has been established.

5 Other interest receivable and similar income

	11 months ended 31 December 2003	Year ended 31 January 2003
	£	£
Bank interest receivable	47,733	59,534
	<u> </u>	<u> </u>

6 Interest payable and similar charges

	11 months ended 31 December 2003	Year ended 31 January 2003
	£	£
Bank interest and similar charges	584	714
	<u> </u>	<u> </u>

7 Taxation

	11 months ended 31 December 2003	Year ended 31 January 2003
	£	£
<i>Current tax</i>		
UK corporation tax on loss for the period	(100,771)	(128,297)
Underprovision in prior year	-	(23,878)
	<u> </u>	<u> </u>
Taxation on loss on ordinary activities	(100,771)	(152,175)
	<u> </u>	<u> </u>

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

Notes to the Financial Statements
For the 11 months ended 31 December 2003

7 Taxation (continued)

	11 months ended 31 December 2003 £	Year ended 31 January 2003 £
Loss on ordinary activities before tax	(1,461,134)	(1,237,256)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 19% (31 January 2003 - 20%)	(277,615)	(247,451)
Expenses not deductible for tax purposes	68,432	206
Difference between depreciation and capital allowances	1,547	1,580
Unutilised tax losses	147,804	138,751
Additional relief attaching to R&D tax claim	(40,939)	(21,383)
Underprovision in current year	-	(23,878)
Current tax charge for the period	(100,771)	(152,175)

The Group has tax losses of approximately £3,300,000 (31 January 2003: £2,500,000) available for offset against future taxable profits.

Deferred tax assets amounting to £630,162 (31 January 2003: £480,811) have not been recognised on the basis that their future economic benefit is not certain. The deferred tax asset comprises:

	11 months ended 31 December 2003 £	Year ended 31 January 2003 £
Accelerated capital allowances	(1,658)	(3,204)
Other short term timing differences	2,835	2,834
Unutilised tax losses	628,985	481,181
	630,162	480,811

8 Loss per ordinary share

Basic loss per share has been calculated in accordance with FRS14. Basic loss per share has been calculated by dividing the loss on ordinary activities after taxation by the weighted average number of ordinary shares in issue during the period.

The weighted average number of equity shares in issue was 42,907,701 (year ended 31 January 2003: 40,730,808 shares) and the loss for the period was £1,360,363 (year ended 31 January 2003: £1,085,081). The effect of all potential ordinary shares is antidilutive.

9 Tangible fixed assets

	Plant and machinery £	Fixtures fittings, and equipment £	Total £
Cost			
At 1 February 2003	23,103	32,360	55,463
Additions	1,660	553	2,213
At 31 December 2003	24,763	32,913	57,676
Depreciation			
At 1 February 2003	9,787	13,448	23,235
Charge for period	5,112	7,428	12,540
At 31 December 2003	14,899	20,876	35,775
Net book value			
At 31 December 2003	9,864	12,037	21,901
At 31 January 2003	13,316	18,912	32,228

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

Notes to the Financial Statements
For the 11 months ended 31 December 2003

10 Fixed asset investments

Company	Shares in subsidiary undertakings £
Cost and net book value at 1 February 2003	60,724
Additions	—
Cost and net book value at 31 December 2003	<u>60,724</u>

Interests in group undertakings

Subsidiary undertaking	Description of shares held	Proportion of nominal value of issued shares held and voting rights
Futura Medical Developments Limited	Ordinary £1 shares	100%

The above company is incorporated in England and Wales, and is included in the consolidated accounts. Futura Medical Developments Limited undertakes research, development, production and sale of pharmaceutical products.

11 Stock

	Group		Company	
	31 December 2003 £	31 January 2003 £	31 December 2003 £	31 January 2003 £
Raw materials and consumables	17,279	—	—	—

12 Debtors

	Group		Company	
	31 December 2003 £	31 January 2003 £	31 December 2003 £	31 January 2003 £
Amounts receivable within one year:				
Corporation tax repayable	100,771	128,297	—	—
Other debtors	15,295	55,114	—	12,416
Prepayments and accrued income	32,126	39,740	10,760	8,646
	<u>148,192</u>	<u>223,151</u>	<u>10,760</u>	<u>21,062</u>
Amounts receivable after more than one year:				
Amounts owed by subsidiary	—	—	3,277,983	2,186,409

13 Creditors: amounts falling due within one year

	Group		Company	
	31 December 2003 £	31 January 2003 £	31 December 2003 £	31 January 2003 £
Trade creditors	67,525	145,638	—	—
Taxation and social security	19,349	13,311	—	—
Accruals and deferred income	87,333	75,947	16,150	4,586
Government Grant	5,837	—	—	—
	<u>180,044</u>	<u>234,896</u>	<u>16,150</u>	<u>4,586</u>

Notes to the Financial Statements For the 11 months ended 31 December 2003

14 Financial Instruments

The group holds or issues financial instruments to finance its operations and to manage the interest rate risks arising from its operations and from its sources of finance. Trade creditors are the only other financial instrument that arises directly from the group's operations. The group has no trade debtors as at 31 December 2003.

In the 11 month period the group's financial instruments comprised financial assets, held in sterling and in US dollars. Details of which are as follows:

Financial assets

The group's financial assets at 31 December 2003 were cash at bank and in hand, made up as follows:

	31 December 2003
Currency	£
Sterling	2,387,967
US Dollar	13,741
	<u> </u>

The group's financial assets comprise money held in bank current accounts, which are instant access, and sterling cash deposits on the money market at monthly rates.

Interest rates and currency of financial assets

Fixed rate financial assets of £2,346,920 were held in sterling cash deposits at the year end. The weighted average period sterling cash deposits at the period end are held is for 45 days, with a weighted average interest rate of 3.564% per annum. Deposits are held with Leopold Joseph and Royal Bank of Scotland. In addition, cash of £54,788, including £13,741 held in a US dollar account, was held on current account at Leopold Joseph, earning nominal amounts of interest.

This money is used to provide the necessary finance for the group's operations.

Currency exposures

The group enters into various contracts with suppliers, which are paid in US dollars. To mitigate the risk of any exposure to foreign currency fluctuations, once a price for a contract has been decided, funds are transferred to the US Dollar bank account immediately, and so are translated at the exchange rate at the date of agreement. The group will therefore not be exposed to the risks of changing exchange rates, but they will also not benefit from any exchange rate gains.

There were no foreign exchange creditors at 31 December 2003.

Financial liabilities

The group does not have any financial liabilities at 31 December 2003.

15 Provision for liabilities and charges

	Group	Company
	31 December	31 December
	2003	2003
	£	£
National Insurance on share options		
At 1 February 2003	12,416	12,416
Reversal of provision	(12,416)	(12,416)
	<u> </u>	<u> </u>
At 31 December 2003	-	-
	<u> </u>	<u> </u>

Notes to the Financial Statements For the 11 months ended 31 December 2003

16 Share capital

	Authorised			
	December 31 2003 No	January 31 2003 No	December 31 2003 £	January 31 2003 £
Ordinary shares of 0.2 pence each	500,000,000	500,000,000	1,000,000	1,000,000
	<u>500,000,000</u>	<u>500,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
	Allotted, called up and fully paid			
	December 31 2003 No	January 31 2003 No	December 31 2003 £	January 31 2003 £
Ordinary shares of 0.2 pence each	45,258,426	41,597,000	90,517	83,194
	<u>45,258,426</u>	<u>41,597,000</u>	<u>90,517</u>	<u>83,194</u>

On 22 July 2003, the company issued 2,428,571 ordinary shares of 0.2 pence each for the gross consideration of £1,700,000 and, on 27 November 2003, the company issued 1,232,855 ordinary shares of 0.2 pence each for the gross consideration of £800,000.

17 Share options

At 31 December 2003, the number of ordinary shares subject to options granted under the Share Option Schemes were:

	No of share options granted	Exercise price	Exercise period
5 March 2002	1,750,000	£0.33	1 Aug 2004 - 31 Jan 2006
21 March 2002	1,640,000	£0.53	1 Feb 2004 - 31 Jan 2006
29 July 2002	130,000	£0.50	1 Feb 2004 - 31 Jan 2006
6 August 2002	250,000	£0.50	1 Feb 2004 - 31 Jan 2006
8 July 2003	360,000	£0.70	1 Aug 2005 - 31 Jul 2007

Subsequent to 31 December 2003 the option for 250,000 ordinary shares granted on 6 August 2002 has been waived by C Kemp, a former director of the company.

18 Warrants over shares

Under the Warrant Instruments dated 14 July 2003 and 28 November 2003 there are warrants outstanding over the ordinary shares of 0.2 pence each of the Company as follows:

Date of Issue	Number of shares	Exercise price per share	Expiry Date
22 July 2003	250,000	63 pence	22 July 2004
28 November 2003	250,000	64.89 pence	29 November 2004

Furthermore, the company has entered into an arrangement with a counterparty giving the company the option to require that party to subscribe to £800,000 of shares ("subscription shares") during the months of February and July 2004 with the price per share equal to 90% of the average middle market price of the company's share price for the 5 days prior to the company exercising its option. When the company exercises this call option, the counterparty will receive warrants to subscribe to a further 250,000 shares during the subsequent 12 months at the same price it was required to pay for the subscription shares. On 2 February 2004 the company exercised one of these call options as set out in Note 24.

19 Other Reserves

Other reserves represents the reserve arising on the acquisition of Futura Medical Developments Limited on 6 June 2001 via a share for share exchange accounted for as a Group reconstruction using merger accounting.

20 Profit and loss account

	Group £	Company £
Profit and loss account brought forward	(3,337,400)	57,086
Loss for the period	(1,360,363)	(325,691)
Profit and loss account carried forward	<u>(4,697,763)</u>	<u>(268,605)</u>

Notes to the Financial Statements For the 11 months ended 31 December 2003

21 Share premium

	Group & Company £
At 1 February 2003	3,621,427
Premium on shares issued during the period	2,492,677
Less: share issue costs	(249,987)
	<hr/>
At 31 December 2003	5,864,117
	<hr/> <hr/>

22 Reconciliation of movements in shareholders' funds

	Group 31 December 2003	Group 31 January 2003	Company 31 December 2003 £	Company 31 January 2003 £
(Loss)/profit for the financial period	(1,360,363)	(1,085,081)	(325,691)	49,856
Net proceeds from issue of shares	2,250,013	605,685	2,250,013	605,685
	<hr/>	<hr/>	<hr/>	<hr/>
Net addition/(reduction) to shareholders' funds	889,650	(479,396)	1,924,322	655,541
Opening shareholders' funds	1,519,386	1,998,782	3,761,707	3,106,166
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	2,409,036	1,519,386	5,686,029	3,761,707
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

23 Related party transactions

During the 11 month period the Company lent Futura Medical Developments Limited, its wholly owned subsidiary, a further £1,091,574 (year ended 31 January 2003: £1,055,790). At the balance sheet date the amount owed by Futura Medical Developments Limited amounted to £3,277,983 (31 January 2003: £2,186,409).

Dr W D Potter, a Director of the Company, provides consulting services to Futura Medical Developments Limited through Stapleford Scientific Services Limited. Of the total fees and expenses invoiced by Stapleford Scientific Services Limited of £42,019 (31 January 2003: £38,197), the amount outstanding at 31 December 2003 to Stapleford Scientific Services Limited was £4,057 (31 January 2003: £4,777).

J D Freeman, a Director of the Company, was a partner in Gambit Corporate Finance and they initially billed the Group for his Directors fees and expenses totalling £5,030. Prior to his becoming a Director of the Company, Gambit Corporate Finance entered into a consulting contract with the company and received fees and expenses relating to the Company being admitted to trading on AiM totalling £26,159. There was no amount outstanding at 31 December 2003 to Gambit Corporate Finance (31 January 2003: £nil).

R D Drury, a former Director of the Company, who resigned during the period on 8 July 2003, provides consulting services to Futura Medical Developments Limited through Swan Lane Limited. Of the total fees and expenses invoiced of £12,840 (31 January 2003: £nil) up to the point of his resignation, there was no amount outstanding at 31 December 2003 (31 January 2003: £Nil).

24 Post balance sheet events

On 13 January 2004, the Company entered into an agreement with CST Medical Limited ("CST"), a private company that specialises in developing products to address female sexual dysfunction. The agreement was in settlement of an intellectual property dispute. Under the agreement, CST will transfer certain intellectual property to the subsidiary Futura Medical Developments Limited. In addition, Futura Medical Developments Limited will receive 10 per cent of the issued share capital of CST as at 13 January 2004 (prior to any subsequent dilution due to fund raising by CST) and will receive a royalty in respect of sales of the Vielle™ stimulator between 1 January 2004 and 31 December 2008.

On 2 February 2004, The directors approved the exercise of the Second Call Option and the allotment of 1,125,175 new Ordinary Shares at a price of 71.10 pence per share, the issue of warrants to subscribe for a total of 250,000 Ordinary Shares at an exercise price of 71.10 pence per share and payment of the related commission of £20,000 pursuant to the Share Subscription and Call Option Agreement between the Company and Long Fleet Systems Inc dated 19th June 2003. The exercise terms have been varied slightly enabling settlement in several tranches during February 2004.

Applications had been received through Long Fleet Systems Inc to subscribe at a total consideration of £800,000 for 1,125,175 Ordinary Shares in the Company. A further 87,658 shares remain to be issued in accordance with the second call option. Upon completion of all tranches, warrants will be issued over 250,000 ordinary shares exercisable at any time over the next 12 months at an exercise price of 71.10 pence per ordinary share in accordance with the subscription agreement with Long Fleet Systems Inc.

Futura Medical plc
Surrey Technology Centre 40 Occam Road The Surrey Research Park Guildford Surrey GU2 7YG
Tel: 01483 685670 Fax: 01483 685671
mail@futuramedical.co.uk www.futuramedical.co.uk