



Innovative products for consumer health

FUTURA MEDICAL

Annual report and accounts **2006**

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

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

Futura is developing a portfolio of products in sexual healthcare and pain relief management and is evaluating further therapeutic opportunities as potential additions to the growing pipeline. The Company’s strategy is to out-license manufacture and distribution to major pharmaceutical and healthcare groups.

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

Our business strategy is centered on selecting and developing products with regard to four elements:

- **Return on Investment:** we focus on consumer healthcare products that offer the potential for a significant return on the costs of development.
- **Over The Counter (OTC):** our aim is to produce safe and effective OTC products which are available to consumers on a general retail basis or through chemists without the need for a doctor’s prescription.
- **Strong Intellectual Property:** we develop and retain commercially valuable intellectual property including know-how, patents and trademarks.
- **Licensing:** we aim to license our products during their development to established distributors who offer the best potential commercial opportunities.

Highlights



- Significant progress across our growing product and IP portfolio
- CSD500 – launch preparation underway by Durex® maker SSL International plc ahead of regulatory approval for our condom product to help healthy men maintain a firm erection
- MED2002 – partnering negotiations re-started following the return of development rights for our topical gel for erectile dysfunction
- DermaSys® – launch of brand name for the Group’s unique, topical drug delivery technology
- TPR100 – exclusivity agreement signed with GlaxoSmithKline Consumer Healthcare for the negotiation of global distribution rights for our new pain relief product
- Net loss of £1.77 million (2005: net loss of £1.94 million)
- Net cash at 31 December 2006 of £3.78 million (2005: £1.81 million)

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Futura at a glance

We have currently four main products in development for sexual health and for pain relief. These are CSD500, FLD500, MED2002 and TPR100. We are also actively working on the next generation of product opportunities.

Our partnerships

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



“We believe CSD500 could become an exciting addition and innovative product within the Durex® range that will help to improve the sex lives of our customers.”

Chris Bunniss,
Group Marketing and Innovations Director, SSL.

GlaxoSmithKline and Futura Medical have entered a period of exclusive discussions and negotiations for the global distribution rights for TPR100 concluding no later than 31 March 2008.

dermasys® - Our proprietary drug delivery technology

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

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

To maximise the value of this asset, Futura has been evaluating its use with a range of compounds and is conducting further trial work and market research on a treatment for premature ejaculation (PET500) and for female sexual dysfunction (FSD500). In addition, Futura is assessing the use of DermaSys® with a range of other compounds.

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



Product Pipeline

Devices

	Pre clinical	Early clinical	Late clinical	Design completion	Shelf life determination	Dossier submission	Dossier approval / Market launch
CSD500 CSD500 is a condom that incorporates an erectogenic compound which comes into contact with the penis on application of the condom. This is aimed at helping healthy men maintain a full erection during intercourse whilst wearing a condom in order to reduce the risk of condom slippage. Status: EU regulatory process.							
FLD500 FLD500 is a sister product to CSD500. The active compound will be applied to the outside of a condom coming into direct contact with the vagina during sexual intercourse. This is aimed at helping healthy women maintain natural lubrication during intercourse, reducing the risk of discomfort and condom failure. Status: Scale-up trials.							

Drugs

	Product evaluation	Pre clinical	Phase I clinical	Phase II clinical	Phase III clinical	Dossier approval / Market launch	
MED2002 MED2002 is a "rub-on" gel applied directly to the penis for the treatment of male erectile dysfunction (ED). Status: Ongoing clinical trial programme.							
TPR100 TPR100 is a product for the provision of topical pain relief. Status: Study to evaluate drug delivery from topical formulations.							
PET500 PET500 will be an OTC treatment for premature ejaculation using anaesthetic compounds. Status: Market research and early formulation work.							
FSD500 FSD500 will be an OTC treatment for female sexual dysfunction. Status: Early evaluation.							

Chairman's and Chief Executive's joint review

Dr William Potter and James Barder



We are pleased to announce Futura's results for the year ended 31 December 2006, a period of significant progress for the Group. It was a period during which our product development portfolio advanced and our corporate strategy evolved with the broadening of our involvement in the OTC market to include the new therapeutic area of pain relief. We have also sought to leverage our drug delivery technology by launching a distinct brand, DermaSys®, which we believe has significant commercial potential.

The current financial year promises to be a highly significant year for Futura, not least because we expect EU regulatory approval of our first product in the fourth quarter, putting the Group firmly on track to becoming a business with a recurring royalty income stream.

CSD500 **Condom safety device**

We have made tremendous progress with our condom product CSD500 with our partner SSL International plc, the manufacturer of Durex® condoms, who continue to prepare for the EU marketing launch in anticipation of regulatory approval being received later this year. The launch of CSD500, a product that helps healthy men maintain a full erection during intercourse whilst wearing a condom, will mark a major milestone for Futura. As we move closer to product launch, we expect to be able to provide further details including the brand name of the product within the Durex® portfolio.

Futura continues to protect future revenue streams by aggressively patenting new developments. To protect CSD500's revenues, Futura has secured patent protection, or is proceeding to obtain patent protection, in 30 consumer markets, including the principal territories within Europe as well as the USA and Canada. Patent applications are on-going in 8 other territories.

Progress continues on CSD500's sister product, FLD500, and we look forward to providing further information in due course.

MED2002 **Treatment for erectile dysfunction**

In July 2006, we announced a development agreement for MED2002 with GlaxoSmithKline Consumer Healthcare (GSK) with a view to GSK developing and marketing the product as the world's first OTC treatment for men with erectile dysfunction. Post the period end, in May 2007, we announced that GSK had returned the rights to the product to Futura owing to current priorities within GSK which meant that they were unlikely in the near future to approve a marketing agreement for the product.

Whilst GSK's decision was disappointing we have been encouraged by the level of interest from other potential licensees. Progress in the development of MED2002 has been significant and we remain confident in our ability to secure new commercial arrangements on favourable terms for the final stage of development and marketing of the product. We look forward to updating shareholders in due course on the progress in negotiations with other potential licensees.

Evaluation work on PET500, our product for the treatment of premature ejaculation, is progressing and we expect to be in a position to update shareholders on progress later in the year.

DermaSys® **Drug delivery technology**

At the half year stage, we highlighted that the Group was carrying out a strategic review to determine the best way of leveraging its intellectual property assets, know-how and commercial expertise. This review focused in part on the versatile and proprietary drug delivery technology that the Group has developed for the rapid and localised delivery of drugs through the skin. We had originally developed this technology for MED2002 but have since been assessing the technology against a wide range of generic drugs where improved topical delivery might bring commercial opportunities.

This assessment reinforces our belief that the technology has a range of applications in addition to MED2002. To increase the awareness and visibility of this technology and its technical and commercial potential we branded it DermaSys® and launched its brand name in February 2007.

DermaSys® can be adapted to suit specific compounds and the therapeutic indication being targeted with the result that an optimised delivery profile can be achieved in terms of dose, onset time and duration of effect. We intend to continue to leverage the DermaSys® asset in opportunities - developed in-house or through licensing arrangements - that offer clear commercial potential. We believe that our DermaSys® technology, combined with our commercial knowledge of routes to market, offers partnership opportunities with other technology companies to co-develop products.



TPR100
Topical pain relief

Our assessment work on DermaSys® identified significant opportunities to improve the effectiveness of topical pain relief products. As announced in September 2006, we were able to show, through in vitro human skin permeation studies, improved drug delivery rates in excess of eight times higher than the world's current market leading non-prescription topical analgesic. These studies were carried out by a world-renowned expert, Professor Mike Roberts at the University of Queensland, Australia.

We recently announced an exclusivity agreement with GSK for the negotiation of global distribution rights for the provision of pain relief using our DermaSys® technology. As part of the agreement, GSK has paid an upfront fee which will provide sufficient funding to cover the costs of the initial clinical work.

Topical pain relief marks a new therapeutic area for Futura, expanding our initial focus on sexual healthcare into a broader involvement with the consumer healthcare market. The worldwide market for pain relief is estimated at US\$ 50 billion for 2005 and is expected to increase to US\$ 75 billion by 2010¹. The global market for OTC sales of topical analgesics is estimated at US\$ 2.6 billion².

This evolution of our business model, based on the common theme of our DermaSys® drug delivery technology, will be continued into other therapeutic areas if we are satisfied with the potential commercial returns and overall fit with our strategy.

Whilst being very interested in new opportunities, we are determined to adhere to our principle of using lower-risk chemical actives, where there is a history of safe use in humans, rather than looking at new chemical entities, which carry a significantly increased risk profile.

Finance

The Group reported a net loss after tax in the year ended 31 December 2006 of £1.8 million (year ended 31 December 2005 as restated: £1.9 million). The Group raised £3.7 million net of costs during the year ended 31 December 2006 following a placing of shares

in July 2006 and various exercises of options throughout the year. This provided us with a cash balance at 31 December 2006 of £3.8 million (year ended 31 December 2005: £1.8 million).

Outlook

As the Group moves towards revenue generation, we have updated the style and content of our website and Annual Report to reflect our increasing confidence and to appeal to a wider consumer audience as well as to our shareholders. We will continue to develop our communication with our audiences to keep our shareholders and other stakeholders informed of our strategy and progress.

The outlook remains positive for the remainder of the year: interest from potential partners for MED2002 is encouraging, our portfolio of product opportunities is broadening and we are on track to achieve the major milestone of regulatory approval for our most advanced product, CSD500, putting us firmly on course to becoming a business with a recurring royalty income stream.



Dr W D Potter
Executive Chairman



J H Barder
Chief Executive

Note

¹ *Pain Therapeutics – Drugs, Markets and Companies, October 2005*

² *DB6 2007 database (MSP), Nicholas Hall & Company*

Financial review

Anthony Clayden



The Group finished the year with a healthy cash position, costs firmly under control and the prospects for revenue moving closer.

The Financial Review should be read in conjunction with the financial statements and the notes to the financial statements set out on pages 26 to 43.

Turnover

The Group's turnover for the year to 31 December 2006 was £301 (year ended 31 December 2005: £1,660). This represents residual revenue from the settlement of an intellectual property dispute in 2004 and no further revenue is expected from that source.

Losses

The Group's accumulated loss for the year ended 31 December 2006 was £1.8 million (year ended 31 December 2005 as restated: £1.9 million). The Group's operating loss for the year ended 31 December 2006 was £2.1 million (year ended 31 December 2005 as restated: £2.4 million) and the operating loss of the sole subsidiary, Futura Medical Developments Limited, for the year ended 31 December 2006 was £2.0 million (year ended 31 December 2005 as restated: £2.2 million).

Loss per share for the year ended 31 December 2006 was 3.4 pence (year ended 31 December 2005 as restated: 4.0 pence).

All the restated amounts for the year ended 31 December 2005 relate solely to the first time adoption of FRS20 as explained in note 1.3 to the financial statements on page 31.

Group research and development costs

The Group aims to achieve cost effective research and development and to bring products to market as soon as practicable.

Group research and development costs vary year to year. This reflects both the stage of development reached for the various products under development and the impact of external factors. Such factors during the year ended 31 December 2006 included pending decisions of regulatory bodies and finalisation of joint development arrangements.

The table below shows the trend in our historic research and development costs and other administrative costs over the past five reporting periods (as restated for the first time adoption of FRS20 as explained in note 1.3 to the financial statements on page 31):

	Year ended 31 December 2006	Year ended 31 December 2005 As restated	Year ended 31 December 2004 As restated	11 months ended 31 December 2003 As restated	Year ended 31 January 2003
	£	£	£	£	£
Research and development costs	1,077,312	1,553,056	971,043	632,062	810,754
Other administrative costs	1,030,360	805,161	754,725	885,888	485,322
Total operating expenses	2,107,672	2,358,217	1,725,768	1,517,950	1,296,076
R&D ratio	51%	66%	56%	42%	63%



The R&D ratio is the percentage of research and development costs relative to total operating expenses for each period. The Board is mindful to keep a sensible balance as reflected in this R&D ratio. Clearly, higher research and development spend would increase this R&D ratio. Conversely, a reduction in the Group's research and development expenditure, such as through cost efficiencies, would decrease this ratio.

Total research and development spend since original formation of the business in 1997 totals £6.2 million (55% of total operating costs). During the year, the sole subsidiary Futura Medical Developments Limited has continued to incur this research and development expenditure which has been written off as incurred.

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

Research and development costs for the year ended 31 December 2006 fell compared with the year ended 31 December 2005. This was mainly as a result of reduced spend on MED2002 development whilst commercialisation arrangements were negotiated. In addition, the cost of CSD500 development has fallen to approximately half the level of 2005 following regulatory submission in November 2005. These reductions are partially offset by increased costs of new product development in the areas of pain relief and premature ejaculation.

Other administrative costs

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

Other administrative costs for the year ended 31 December 2006 were £1,030,360 (year ended 31 December 2005 as restated: £805,161). These comprise all other operating costs excluding those relating to product development and associated intellectual property. The main constituents of other administrative costs and their relative proportions were:

	Year ended 31 December 2006	Year ended 31 December 2005
Wages and salaries	52%	55%
Legal and professional advisers	23%	28%
Office costs and staff expenses	14%	13%
Licensing negotiations	11%	4%
	100%	100%

The Group has expanded its internal team to support increased activity levels as it moves towards revenue generation and seeks further product development opportunities internally and externally. The principal reasons for the increase in other administrative costs relate to wages and salaries, related increases in staff expenses, and license negotiation costs (legal and advisory) in respect of the development and licensing of MED2002.

Although wages and salaries within other administrative costs fell as a proportion, the overall increase includes the impact of new marketing and support staff recruited in 2005 and 2006. Two additional support staff have been recruited in April 2007. This completes the current expansion of the central administrative functions of the Group as the platform for the next phase of the Group's growth strategy.

Financial review

Continued

Taxation

A research and development tax credit of £196,133 (31 December 2005: £286,973) in respect of research and development expenditure incurred has been recognised in the financial statements. The reduction compared with the prior year reflects the fluctuating research and development spending year to year.

Capital structure and funding

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

The Group did not have any bank borrowings at 31 December 2006 (31 December 2005: £nil). The net cash outflow from operating activities during the year ended 31 December 2006 was £2.1 million (year ended 31 December 2005: £2.3 million).

In July 2006, the Group raised £3.3 million net of costs following a private placing at 78 pence and exercise of share options by directors and staff. Exercise of options in January and February 2006, chiefly by former directors, raised a further £0.4 million net of costs for the Group (for the year ended 31 December 2005 the total receipts from the exercise of share options was £0.1 million). This brings the total cash raised by the Group from formation of the business in 1997 until 31 December 2006 to £13.5 million net of costs.

Other significant sources of funding for the Group comprise research and development tax credits from formation of the business in 1997 until 31 December 2006 of £1.0 million (of which it has received £0.8 million) and bank interest received of £0.6 million.

Cash held by the Group is shown below at each period end:

	31 December 2006 £m	31 December 2005 £m	31 December 2004 £m	31 December 2003 £m	31 January 2003 £m
Cash at bank and in hand	3.8	1.8	3.7	2.4	1.5



A L Clayden
Finance Director



**Dr William Duncan Potter, PhD
Executive Chairman (60)**

Dr Potter became Chairman in June 2001. He is a member of the Nominations Committee and an adviser to the Remuneration Committee. He provides advice and expertise on product development matters bringing to bear his considerable experience. He has spent 35 years in research and development including 27 years of bringing new products to market involving a wide range of medical devices. He has extensive knowledge of worldwide regulatory procedures, intellectual property issues and licensing. Dr Potter previously worked at London International Group plc, including 7 years as Group Scientific Affairs Director, and at Smith & Nephew plc.



**James Henry Barder
Chief Executive (47)**

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



**Anthony Louis Clayden, BSc (Hons), FCA, MSI
Finance Director and Company Secretary (40)**

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



**David Bryn Davies, BSc (Hons), MBA
Product Development Director (44)**

Mr Davies has been a Director of the Company since September 2001. He is responsible for all product development programmes for the Group. Prior to joining the Company, Mr Davies was Director of Project Management at Clintrials Research Limited. He has 23 years of 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 Limited, Zambon Limited and PPD Pharmaco Limited. Mr Davies is company secretary of the charity Ordinary 2 Extraordinary Limited and a trustee of the Gary Evans charitable trust.



**Jonathan David Freeman, BA (Hons), MBA
Senior Independent Non-Executive
Director and Chairman of Remuneration
Committee and Audit Committee (42)**

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



**Andrew Slater, BA (Hons)
Independent Non-Executive Director and
Chairman of Nominations Committee (59)**

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

Directors' Report

The Directors present their report and the audited financial statements of Futura Medical plc for the year ended 31 December 2006.

Principal activities

The principal activity of the Group is the research and development of pharmaceutical drugs and medical devices and their commercial exploitation. The Chairman's and Chief Executive's Joint Review on pages 4 to 5 and Financial Review on pages 6 to 8 set out in more detail the Group's activities during the year and anticipated future developments.

Research and development activities

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

The Product Pipeline on page 3 sets out the Group's products and their development status at the date of this Annual Report. Of the six products listed, TPR100 marks the first departure from the sexual health markets and is a topical pain relief product.

Business review

Group strategy

Group strategy continues 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 one on its own has the potential to generate significant annual revenues in excess of our total Group annual operating costs.

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

- Return on Investment: we focus on consumer healthcare products that offer the potential for a significant return on the costs of development.
- Over The Counter: our aim is to produce safe and effective OTC products which are available to consumers on a General Sales List basis or through chemists without the need for a doctor's prescription.
- Strong Intellectual Property: we retain our commercially valuable intellectual property including know-how, patents and trademarks.
- Licensing: we aim to license our products during their development to established distributors who offer the best potential commercial opportunities.

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

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

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

The Consumer Healthcare market

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

The first category is the global OTC market with a market size of US\$ 67.6 billion³. This market information includes all sales of non-prescription medicines.

The non-prescription drugs being developed by the Group are shown in the Product Pipeline on page 3. These comprise the sexual health products (MED2002, PET500, and FSD500) which could form a new category within the OTC market and the pain relief product (TPR100) which fits within the US\$ 12.0 billion global analgesics market³ and where the current market leader for topical analgesics has annual sales of US\$ 260 million³. Although there is no quoted sexual health OTC market data, the prescription market for erectile dysfunction treatments alone was over US\$ 2.7 billion⁴ in 2005.

The second category is the global consumer medical devices market with a market size of US\$ 220 billion⁵. This market covers a wide range of products including hospital equipment and supplies. The Directors estimate that the market for consumer medical devices is worth between US\$ 17 billion and US\$ 22 billion.

The consumer medical devices being developed by the Group are shown in the Product Pipeline on page 3. These comprise the two condom products (CSD500 and FLD500), which fit within the US\$3.1 billion global condom market⁶ and where our distribution partner SSL International plc, the makers of Durex®, are the global leader with a 35% market share⁶.

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

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

Review of the performance of the business and future developments

The Chairman's and Chief Executive's Joint Review on pages 4 to 5 and the Financial Review on pages 6 to 8 report on the Group's performance during the year ended 31 December 2006, its position at that date and its likely future development. Information that fulfils the requirements of the Business Review is included in the Chairman's and Chief Executive's Joint Review on pages 4 to 5 and the Financial Review on pages 6 to 8, which are incorporated in this report by reference.

Future developments are expected to include progress of products as they move through the various phases of the product pipeline. The details of these are often commercially sensitive or subject to confidentiality arrangements with distribution partners. Subject to such restrictions, which are necessary to secure competitive advantage, the Board will continue to keep shareholders informed of the key aspects and milestones.

Key performance indicators

The Directors consider the successful achievement of development, licensing and commercialisation milestones and the number of products under development (beyond the evaluation stage) to be the major drivers of value creation for the Group. These are measures of the progress of the business towards its revenue generation goal and are considered by the Board to be the key non-financial performance indicators used to determine achievement of Group strategy. The Group's performance with regard to such milestones is discussed in the Chairman's and Chief Executive's Joint Review on pages 4 to 5.

Note

³ For calendar year 2006. Source: OTC Yearbook 2007 (MSP), Nicholas Hall & Company

⁴ Futura estimate based on erectile dysfunction sales data from 2005 Annual Reports for Pfizer, Lilly Icos LLC and Bayer (Bayer Healthcare)

⁵ 2003 calendar year. Source: Standard and Poor's 2004a Healthcare: Products and Supplies. Industry Surveys, September 2004

⁶ 2006 calendar year. Source: "Condoms: A Global Strategic Business Report", January 2007, Global Industry Analysts, Inc

Key performance indicators (continued)

The Directors consider Group cash and the absolute values of and the ratio between research and development costs and other administrative overhead costs as the Group's key financial performance indicators. The cost-related indicators assist in monitoring financial control to reduce the hurdle to achieving the key future financial milestone of monthly break-even (once revenues commence). The monitoring of cash gives due consideration to anticipated future spend to prioritise development opportunities and plan the resources required to achieve the goals of the business. The Financial Review on pages 6 to 8 considers these financial performance indicators.

Principal risk 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 set out below.

Clinical development and regulatory risk

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

The Group seeks to reduce this risk by developing products using safe, well-characterised active compounds with known risk profiles, through seeking advice from regulatory advisors and consultations with regulatory approval bodies, and through working with experienced distribution 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 capital from share issues or from its licensing and development partners. The Group may not be able to generate positive net cash inflows in the future or to attract such additional required funding at all or on suitable terms. In such circumstances the development programmes may be delayed or cancelled and the business operations cut back.

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

Commercialisation risk

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

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

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

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 is 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.

Competition risk (continued)

The Group seeks to reduce this risk by securing patent protection for its products, maintaining confidentiality arrangements regarding Group know how and technology, monitoring technological developments and registration of patents, and 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 depends, amongst other things, on its ability to obtain and maintain patents sufficiently broad in scope to provide protection for the Group's intellectual property rights against third parties and to exploit its pharmaceutical products. The lack of any such patents may have a material adverse effect on the Group's ability to develop its business.

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

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 arrangements regarding Group know how and technology, and monitoring technological developments and the registration of patents by other parties.

Results and dividends

The results of the Group for the year are set out on pages 26 to 43 and show a loss after tax of £1,775,124 (year ended 31 December 2005 as restated: £1,936,117). No dividends were paid and none are proposed by the Directors (year ended 31 December 2005: £nil).

Directors and their interests

The Directors of the Company during the year were:

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

Summary biographical details of the Directors of the Company are shown on page 9.

The Directors who held office at the end of the financial year had the following beneficial interests and other interests as trustees in the shares of the Company:

	Ordinary shares of 0.2 pence each			
	31 December 2006		1 January 2006	
	Beneficial interests	Other interests	Beneficial interests	Other interests
W D Potter	81,098	-	-	-
J H Barder	303,712	416,500	236,997	416,500
A L Clayden	270,305	-	-	-
D B Davies	407,572	-	15,152	-
Totals	1,062,687	416,500	252,149	416,500

Other than as shown in the table above, no Director had any interest in the shares of the Company or in the subsidiary company, Futura Medical Developments Limited, at 31 December 2006. The increase in the Directors' interests in shares of the Company reflects the exercise of share options in July 2006.

Directors' Report

Continued

Directors and their interests (continued)

The share options held by the Directors at 31 December 2006 are set out below:

	Number of options over shares	
	At 31 December 2006	At 1 January 2006
W D Potter	50,000	425,000
J H Barder	100,000	350,000
A L Clayden	275,000	775,000
D B Davies	250,000	1,250,000
	675,000	2,800,000

Further details of the share options held by Directors are included in the Remuneration Report on pages 17 to 20 and of the total share options outstanding in note 15 on page 40 and 41. The reduction in options held by the Directors followed the exercise of 2,125,000 options in July 2006.

Directors' qualifying third party indemnity provisions

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

Employees

At 31 December 2006, the Group employees comprised two Non-Executive Directors, four Executive Directors and five full-time and one part-time staff, all of whom are employed by the subsidiary.

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

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

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 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.

Treasury and financial risk management policy

The Group's funding risk is considered by the Board to be the principal financial risk of the Group and is set out in the Funding risk section of the Business Review above.

Treasury and financial risk management policy is concerned with financial instruments and management of interest rate risk and currency risk. These risks were not considered to be significant at the balance sheet date.

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 a variable rate.

Treasury and financial risk management policy (continued)

In respect of foreign exchange exposure, the Group primarily enters into supplier contracts which are to be settled in sterling. However, some contracts involve other major world currencies including the US Dollar and the Euro. Where large supplier contracts of more than £100,000 total value are to be settled in foreign currencies, it is Group policy for the sums to be paid through conversion of sterling deposits to the appropriate foreign currency holdings at the outset of the contract to minimise the risk of adverse currency fluctuations. For contracts with smaller values the foreign currency risk is not considered sufficient to require the establishment of foreign currency bank accounts unless specific circumstances are identified which warrant this. Forward and option contracts are not used.

During the year ended 31 December 2006, costs in respect of supplier contracts settled in foreign currencies represented 3.6% of total administrative expenses (year ended 31 December 2005: 0.3%). The US Dollar account was closed in August 2005.

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 year ended 31 December 2006 was 30 days (year ended 31 December 2005: 20 days) for the Group. At the year end the Company had trade creditors totalling £5,521 (31 December 2005: £6,571) giving rise to the average credit period for the year ended 31 December 2006 of 11 days (year ended 31 December 2005: 8 days).

Charitable and political contributions

No political or charitable donations were made during the year (year ended 31 December 2005: £nil).

Substantial shareholdings

At 30 April 2007, the issued share capital of the Company was 55,353,601 ordinary shares of 0.2 pence each. The following were listed in the shareholder register as holding 3 per cent or more of the Company's share capital (identified by Fund Manager or Beneficial Owner):

	Number of ordinary shares	Percentage of issued ordinary share capital
Allianz Cornhill Insurance plc	4,138,835	7.48%
Medinvest Holdings Limited	3,978,000	7.19%
Christopher John Crabtree	3,398,030	6.14%
WT Lamb Investments Limited	3,050,000	5.51%
R C Greig Nominees	2,869,350	5.18%
Gartmore UK and Irish Smaller Companies Fund	1,862,915	3.37%
Pershing Keen Nominees PSL981 Account	1,681,199	3.04%

Adequacy of information supplied to auditors

All the Directors have taken all reasonable steps to make themselves aware of any information needed by the Company's auditors for the purpose of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Directors' Report

Continued

Directors' responsibilities (continued)

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the consolidated profit or loss of the Group for that year. 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 financial statements 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 AIM. 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

A resolution to reappoint the auditors, BDO Stoy Hayward LLP, and to authorise the Directors to fix their remuneration will be proposed at the next Annual General Meeting.

By order of the Board

A L Clayden

Secretary
29 May 2007

Remuneration Report

Composition and Terms of Reference

The Group's Remuneration Committee during the year ended 31 December 2006 comprised the independent Non-Executive Directors, A Slater and J D Freeman, and was chaired by J D Freeman. Dr W D Potter, as Executive Chairman, acted as an adviser to the Remuneration Committee because of his knowledge of the industry. However, by virtue of his executive role he was not considered to be independent and was excluded from voting.

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

The Board retains responsibility for overall remuneration policy. The Remuneration Committee operates within agreed terms of reference which are published on the Group's website. There were no changes to the terms of reference or to the composition of the Remuneration Committee during the year ended 31 December 2006.

Policy on Executive Directors' remuneration

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

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

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

(i) Basic salaries and benefits in kind

Basic salaries are recommended to the Board by the Remuneration Committee, taking into account the performance of the individual and the rates for similar positions in comparable companies. A car allowance is provided to certain Directors and senior staff (no company cars are provided). Benefits in kind comprising death in service insurance, permanent health insurance and private medical insurance are available to all staff and Executive Directors (excluding the Chairman). Salary alternatives are available instead of the benefits in kind. Car allowance and benefits in kind are not pensionable.

(ii) Share option schemes

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

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

Remuneration Report

Continued

(ii) Share option schemes (continued)

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

(iii) Bonus scheme

The Company has an established discretionary bonus scheme for staff. In addition, the Executive Directors other than the Chairman were awarded a bonus during the year related to the achievement of a key milestone event. However, the Remuneration Committee considers that cash bonuses for Directors will remain restricted until the Company has achieved break-even.

(iv) Pensions

The Group pays a defined contribution to the pension scheme of Executive Directors (except the Chairman) 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 and benefits were reviewed in January 2007 to cover the year from 1 February 2007 to 31 January 2008. Future reviews will continue to be 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. In addition, the Chairman has a consulting contract through Stapleford Scientific Services Limited with the subsidiary requiring one month's notice by either party.

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

Policy on Non-Executive Directors' remuneration

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

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

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

Directors' remuneration

The emoluments of the individual Directors for the year were as follows:

	Salary and Directors' Fees £	Year ended 31 December 2006			Year ended 31 December 2005	
		Bonus £	Benefits in Kind £	Pension £	Total £	Total £
Executive Directors						
W D Potter	23,746	–	–	–	23,746	22,500
J H Barder	148,250	10,750	4,256	13,725	176,981	155,986
D B Davies	122,875	8,750	2,623	11,188	145,436	127,997
A L Clayden	103,979	8,750	1,242	9,510	123,481	107,148
Non-Executive Directors						
A Slater	21,154	–	–	–	21,154	20,008
J D Freeman	21,154	–	–	–	21,154	20,008
	441,158	28,250	8,121	34,423	511,952	453,647

In addition to the above emoluments, W D Potter provides consulting services to Futura Medical Developments Limited, the wholly owned subsidiary, through his consulting company Stapleford Scientific Services Limited. These comprised consultancy fees of £76,000 plus reimbursed expenditure of £3,479 (year ended 31 December 2005: consultancy fees of £58,000 plus reimbursed expenditure of £2,416).

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

Directors' interests in share options

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

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

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

Remuneration Report

Continued

Directors' interests in share options (continued)

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

	Grant Date	Awarded Number	Exercise Price/Share	Earliest Exercise Date	Expiry Date
J H Barder	22 March 2005	100,000	76p	1 April 2007	31 March 2009
D B Davies	8 July 2003	150,000	70p	1 August 2005	31 July 2007
	22 March 2005	100,000	76p	1 April 2007	31 March 2009
A L Clayden	8 July 2003	175,000	70p	1 August 2005	31 July 2007
	22 March 2005	100,000	76p	1 April 2007	31 March 2009
Total		625,000			

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

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

In July 2006, the Directors exercised 2,125,000 options which would have expired on 31 January 2007. The table below shows the notional gains on exercise of these options. The price payable for the exercise of the options and the related tax and national insurance liabilities was settled by the Directors selling 1,313,759 shares. With the minor exception of D B Davies selling sufficient shares to realise a modest cash profit of approximately £30,000, the Directors realised their actual gain by retaining 811,241 shares in the Company.

	Market Price/Share	Exercise Price/Share	Share options exercised No	Notional gain on exercise £	Shares retained after exercise of options No
J H Barder	78p	53p	250,000	62,500	66,715
D B Davies	78p	33p	1,000,000	450,000	393,123
A L Clayden	78p	33p	500,000	225,000	270,305
W D Potter	78p	53p	125,000	31,250	15,505
W D Potter	78p	33p	250,000	112,500	65,593
Total			2,125,000	881,250	811,241

There were no further options granted to Directors during the year. None of the Directors options have lapsed during the year ended 31 December 2006.

The Directors' holdings of shares are shown in the Directors' Report on pages 13 to 14.

J D Freeman

Chairman of the Remuneration Committee

Corporate Governance

Introduction

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

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

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

Statement of compliance

At the start of 2006, the Combined Code had already been considered and formalised where appropriate in the procedures of the Group.

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

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

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

The Board considers that the remuneration of Executive Directors does include a performance-related element which is almost entirely based on the award of share options as recommended by the Remuneration Committee and details are set out in the Remuneration Report on pages 17 to 20.

Board of Directors

The Board of Directors has overall responsibility for the Group. The composition and biographies are set out on page 9.

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

Board of Directors (continued)

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

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

The Board retains full control of the Group with day-to-day operational control delegated by the Board to the Executive Directors. The full Board meets bi-monthly and on any other occasions it considers necessary. During 2006, the Board had 10 Board meetings and 6 further sub-committee meetings as well as the meetings of the Audit Committee (3), Remuneration Committee (2) and Nominations Committee (2). In respect of attendance, of the 10 Board meetings held, D B Davies missed one meeting but they were otherwise fully attended as were all committee and sub-committee meetings by their constituent Directors.

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

Audit Committee

The Audit Committee comprises the Non-Executive Directors, J D Freeman and A Slater, and is chaired by J D Freeman as Senior Independent Non-Executive Director. It meets as required and specifically to review the Interim Report and Annual Report and to consider the suitability and monitor the effectiveness of the internal control processes. There were three Audit Committee meetings during 2006. 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 (without any Executive Director present) meets at least once per calendar year with the auditors to discuss their objectivity and independence, the Annual Report, audit issues arising (if any), internal control processes and any other appropriate matters. As well as providing audit related services, the auditors provide taxation advice and undertake work in relation to the Interim Report. The fees in respect of the non-audit services provided are less than half the fees for the audit services. Further, the overall fees paid to the auditors are not deemed to be of such significance to them as to impair their independence. The Audit Committee considers that the objectivity and independence of the auditors is safeguarded.

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

Internal control

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

Internal control (continued)

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. There have been no significant changes to the system of internal control throughout the year.

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

The main features of the internal control system are outlined below:

- A control environment exists through the close management of the business by the Executive Directors. The Group has a defined organisational structure with delineated approval limits. Controls are implemented and monitored by the Executive Directors.
- The Board has a schedule of matters expressly reserved for its consideration and this schedule includes acquisitions and disposals, major capital projects, treasury and risk management policies and approval of budgets.
- The Group utilises a detailed budgeting and forecasting system. Detailed budgets are prepared annually by the Executive Directors before submission to the Board for approval. Forecasts are regularly updated at least quarterly to reflect changes in the business and are monitored by the Board including future cash flow projections. Actual results are monitored against annual budgets in detail on a six monthly basis, with variances highlighted for the Board.
- Financial risks are identified and evaluated for each major transaction for consideration by the Board and senior management.
- Standard financial control procedures operate throughout the Group to ensure that the assets of the Group are safeguarded and that proper accounting records are maintained.
- A risk review process is in operation whereby the Chief Executive and Finance Director present a report to the Board each year on the key business risks.

International Financial Reporting Standards (“IFRS”)

IFRS will apply to AIM quoted companies for financial years commencing on or after 1 January 2007. Therefore, Futura Medical plc will be required to apply IFRS to its Interim Report for the six months ending 30 June 2007 and the Annual Report and financial statements for the year ending 31 December 2007 with comparative financial information restated under IFRS.

A high level review of the likely impact of IFRS implementation on the Group was undertaken during 2006. In addition, technical training commenced and more recently new IFRS expertise has been introduced into the Group.

The transition program will commence after the publication of this Annual Report. More information regarding the impact of the transition to IFRS will be included in the Interim Report for the six months ending 30 June 2007.

Going concern

The Directors have a reasonable expectation that the Group and the Company will continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group's financial statements.

Nominations Committee

A Nominations Committee comprises the two Non-Executive Directors and the Chairman and is chaired by A Slater, an Independent Non-Executive Director. The Nominations Committee monitors the requirements of the Group in respect of Board composition as the Group evolves and with regard to succession planning. There were two Nominations Committee meetings during 2006. There are no matters outstanding to date. The terms of reference of the Nominations Committee are set out in the governance pages on the Group's website (www.futuramedical.co.uk).

Remuneration Committee

The details of the Remuneration Committee are not included here as their activities are set out in the Remuneration Report on pages 17 to 20. There were two Remuneration Committee meetings during 2006. The terms of reference of the Remuneration Committee are set out in the governance pages on the Group's website (www.futuramedical.co.uk).

Relationship with shareholders

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

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

A L Clayden

Secretary

Independent Auditor's Report

To the shareholders of Futura Medical plc

We have audited the consolidated and parent company financial statements (the "financial statements") of Futura Medical plc for the year ended 31 December 2006, which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the consolidated and parent company Balance Sheets, the Consolidated Cash Flow Statement and the related Notes to the Financial Statements. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland).

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Company Overview, Highlights, Futura at a Glance, Product Pipeline, Chairman's and Chief Executive's 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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 31 December 2006 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2006;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

BDO STOY HAYWARD LLP

Chartered Accountants
and Registered Auditors
Reading

29 May 2007

Consolidated Profit and Loss Account

For the year ended 31 December 2006

	Notes	Year ended 31 December 2006 £	Year ended 31 December 2005 As restated £
Turnover		301	1,660
Research and development costs		(1,077,312)	(1,553,056)
Other administrative costs		(1,030,360)	(805,161)
Administrative expenses		(2,107,672)	(2,358,217)
Operating loss	2	(2,107,371)	(2,356,557)
Interest receivable	5	136,114	133,467
Loss on ordinary activities before taxation		(1,971,257)	(2,223,090)
Tax on loss on ordinary activities	6	196,133	286,973
Loss on ordinary activities after taxation and retained loss for the year	16	(1,775,124)	(1,936,117)
Basic and diluted loss per share (pence)	7	(3.4p)	(4.0p)

All amounts relate to continuing activities.

The notes on pages 31 to 43 form part of these financial statements.

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 December 2006

	Notes	Year ended 31 December 2006 £	Year ended 31 December 2005 As restated £
Loss for the year		(1,775,124)	(1,936,117)
Prior period adjustments			
– Share-based payment	1.3	(61,808)	
Total gains and losses recognised since last financial statements		(1,836,932)	

The notes on pages 31 to 43 form part of these financial statements.

Balance Sheets

At 31 December 2006

	Notes	Group		Company	
		31 December 2006 £	31 December 2005 £	31 December 2006 £	31 December 2005 As restated £
Fixed assets					
Tangible assets	8	20,109	25,370	–	–
Investments	9	–	–	60,724	60,724
		20,109	25,370	60,724	60,724
Current assets					
Stock	10	32,648	31,956	–	–
Debtors – due within one year	11	352,027	351,079	28,168	17,203
Debtors – due after more than one year	11	–	–	8,455,808	6,716,404
Total debtors		352,027	351,079	8,483,976	6,733,607
Cash at bank and in hand		3,779,798	1,808,913	3,717,204	1,732,998
		4,164,473	2,191,948	12,201,180	8,466,605
Creditors: amounts falling due within one year	12	(233,143)	(237,147)	(6,221)	(35,913)
Net current assets		3,931,330	1,954,801	12,194,959	8,430,692
Total net assets		3,951,439	1,980,171	12,255,683	8,491,416
Capital and reserves					
Called up share capital	14	110,607	97,877	110,607	97,877
Share premium account	16	12,251,275	8,560,987	12,251,275	8,560,987
Other reserves	16	1,152,165	1,152,165	–	–
Profit and loss account	16	(9,562,608)	(7,830,858)	(106,199)	(167,448)
Equity shareholders' funds	17	3,951,439	1,980,171	12,255,683	8,491,416

The financial statements on pages 26 to 43 were approved and authorised for issue by the Board on 29 May 2007 and were signed on its behalf by

J H Barder

Director

The notes on pages 31 to 43 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Notes	Year ended 31 December 2006 £	Year ended 31 December 2006 £	Year ended 31 December 2005 As restated £	Year ended 31 December 2005 As restated £
Net cash outflow from operating activities	A		(2,133,455)		(2,292,863)
Returns on investments and servicing of finance					
Interest received		124,730		139,306	
Net cash inflow from returns on investments and servicing of finance			124,730		139,306
Corporation tax					
Research and development tax credit received		282,636		167,858	
			282,636		167,858
Capital expenditure					
Payments to acquire tangible fixed assets		(6,088)		(13,835)	
Proceeds on disposal of fixed assets		44		–	
Net cash outflow from capital expenditure			(6,044)		(13,835)
Net cash outflow before use of liquid resources and financing			(1,732,133)		(1,999,534)
Management of liquid resources					
(Increase)/decrease in short term deposits			(1,979,031)		1,787,913
Financing					
Issue of ordinary shares		3,849,150		135,800	
Expenses paid in connection with share issues		(146,132)		–	
Net cash inflow from financing			3,703,018		135,800
Decrease in cash	B		(8,146)		(75,821)

The notes on page 30 form part of this cash flow statement.

Notes to the Consolidated Cash Flow Statement

For the year ended 31 December 2006

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

	Year ended 31 December 2006 £	Year ended 31 December 2005 As restated £
Operating loss	(2,107,371)	(2,356,557)
Depreciation	10,630	13,203
Loss on sale of fixed assets	6	–
Share-based payment charge	43,374	31,973
Increase in stocks	(692)	(17,144)
(Increase)/decrease in debtors	(76,067)	20,408
(Decrease)/increase in creditors	(3,335)	15,254
Net cash outflow from operating activities	(2,133,455)	(2,292,863)

B Analysis of net funds

	At 1 January 2006 £	Cash flow £	At 31 December 2006 £
Cash at bank and in hand	88,913	(8,146)	80,767
Other liquid resources	1,720,000	1,979,031	3,699,031
	1,808,913	1,970,885	3,779,798

C Reconciliation of net cash flow to movement in net funds

	Year ended 31 December 2006 £	Year ended 31 December 2005 £
Decrease in cash in the year	(8,146)	(75,821)
Cash inflow/(outflow) from changes in liquid resources	1,979,031	(1,787,913)
Movement in net funds in the year	1,970,885	(1,863,734)
Net funds at start of year	1,808,913	3,672,647
Net funds at end of year	3,779,798	1,808,913

Notes to the Financial Statements

For the year ended 31 December 2006

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.

1.2 Basis of consolidation

The consolidated financial statements include the results of the Company and its subsidiary, Futura Medical Developments Limited, for the year ended 31 December 2006.

Under the provisions of Financial Reporting Standard 6 (Acquisitions and Mergers) these consolidated financial statements are prepared using merger accounting.

The investment is recorded in the Company's balance sheet at the nominal value of the shares issued together with the fair value of any additional consideration paid.

In the consolidated financial statements, merged subsidiary undertakings are treated as if they had always been a member of the Group. The results of such a subsidiary are included for the whole period in the year it joins the Group. The corresponding figures for the previous year include its results for that period, the assets and liabilities at the previous balance sheet date and the shares issued by the Company as consideration as if they had always been in issue. Any difference between the nominal value of the shares acquired by the Company and those issued by the Company to acquire them is taken to reserves.

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 holding Company made a profit after tax of £17,875 for the year (year ended 31 December 2005: loss after tax of £14,170).

1.3 Change in accounting policy

The Group has applied the requirements of Financial Reporting Standard 20 (Share-based Payment) which it has adopted for the first time with effect from 1 January 2006 as its application is obligatory for accounting periods commencing on or after that date. In accordance with the transitional provisions, Financial Reporting Standard 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2006.

The Group issues equity-settled share-based payments, i.e. share options, to certain Directors, employees and consultants. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant using an appropriate valuation model.

The fair value determined at the grant date of the equity-settled share-based payments is expensed to the profit and loss account on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. At each balance sheet date the cumulative charge in respect of each option plan is adjusted to reflect expected and actual levels of options vesting. Prior to the adoption of Financial Reporting Standard 20, equity-settled share-based payments were not expensed to the profit and loss account.

The effect of this is to increase costs for the year ended 31 December 2006 by £43,374. The prior year comparatives have been restated resulting in an increase in cost for the year ended 31 December 2005 of £31,973. The cumulative effect on the Group's opening reserves at 1 January 2005 is a charge of £29,835 and a corresponding credit of £29,835 resulting in £nil net change. This has resulted in an increase in loss per ordinary share for the year ended 31 December 2006 of 0.08 pence per share (year ended 31 December 2005: increase of 0.07 pence per share). The cumulative effect on the Company's opening reserves at 1 January 2005 is a credit of £29,835 and a corresponding increase in the amounts owed by the subsidiary.

Notes to the Financial Statements

Continued

1 Accounting policies (continued)

1.4 Turnover

Turnover comprises royalty fees and the sale of rights to future royalty fees and excludes value added tax.

Royalty fees that are receivable are recognised as turnover in the year to which they relate. Sales of the rights to future royalty fees are recognised as turnover on the date on which they become receivable.

1.5 Research and development

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

1.6 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 and equipment	25% Straight line

1.7 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 Group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. Deferred tax balances are not discounted.

1.8 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 the profit and loss account.

1.9 Pension costs

The Group provides retirement benefits to all employees and Executive Directors (except the Chairman) who wish to participate by 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 profit and loss account in the year in which they become payable.

1.10 Leased assets

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

1.11 Share-based payments

Where share options are awarded to employees and others providing similar services on or after 7 November 2002, the fair value of the options at the date of grant is expensed to the profit and loss account over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also expensed to the profit and loss account over the remaining vesting period. Where equity instruments are granted to persons other than employees and others providing similar services, the profit and loss account is charged with the fair value of goods and services received.

1 Accounting policies (continued)

1.12 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.

1.13 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.

1.14 Government grants

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

1.15 Liquid resources

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

2 Operating loss

	Year ended 31 December 2006 £	Year ended 31 December 2005 £
Operating loss is stated after charging:		
Depreciation of tangible assets	10,630	13,203
Loss on sale of fixed assets	6	–
Hire of other assets – operating leases	70,752	70,752
Auditors' remuneration		
– Audit services	23,660	23,120
– Tax services	13,017	10,700
– Other services	5,720	10,000

The audit fee for Futura Medical plc and its sole subsidiary, Futura Medical Developments Limited, is £29,380 (for the year ended 31 December 2005, the actual total fee charged was £28,250). The audit fee relating to the audit of the Company is £23,660 (for the year ended 31 December 2005, the actual fee relating to the Company was £23,120).

Included in other services is the audit fee apportioned to Futura Medical Developments Limited of £5,720 (for the year ended 31 December 2005 the actual fee apportioned was £5,500).

The agreed corporation tax compliance fee for Futura Medical Developments Limited, is £4,150 (for the year ended 31 December 2005, the actual corporation tax compliance fee charged by the auditors was £4,025).

The loss before tax is £1,971,257 (for the year ended 31 December 2005 as restated: £2,223,090) and total net assets are £3,951,439 (as at 31 December 2005: £1,980,171) and they are both derived from one class of business and one geographical market.

Operating leases are cancellable on one month's notice.

Notes to the Financial Statements

Continued

3 Wages and salaries

The average monthly number of persons (including all Directors) employed by the Group during the year and their aggregate emoluments are shown below:

	Year ended 31 December 2006 No.	Year ended 31 December 2005 No.
Management and administration	12	11

The costs incurred in respect of those employed were:

	Year ended 31 December 2006 £	Year ended 31 December 2005 As restated £
Wages and salaries	710,008	615,557
Social security costs	84,888	76,363
Other pension and insurance benefits costs	69,902	47,841
Total cash settled emoluments	864,798	739,761
Share-based remuneration charge	43,374	31,973
	908,172	771,734

4 Directors' emoluments

	Year ended 31 December 2006 £	Year ended 31 December 2005 £
Directors		
Aggregate emoluments	477,529	432,789
Company pension contributions	34,223	20,858

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

	Year ended 31 December 2006 £	Year ended 31 December 2005 £
Aggregate emoluments	163,255	143,148
Company pension contributions to money purchase scheme	13,725	12,838

During the year, three Directors (year ended 31 December 2005: two Directors) participated in a private money purchase pension scheme.

In July 2006, the Directors exercised 2,125,000 options which would have expired on 31 January 2007. The aggregate notional gains on exercise of these options, based on a market price of 78 pence per share at exercise, was £881,250 (year ended 31 December 2005: £nil). Following settlement of all liabilities arising as a result of the exercise, the Directors retained in aggregate 811,241 new shares and cash of £32,200.

5 Interest receivable

	Year ended 31 December 2006 £	Year ended 31 December 2005 £
Bank interest receivable	136,114	133,467

6 Taxation

	Year ended 31 December 2006 £	Year ended 31 December 2005 As restated £
<i>Current tax</i>		
UK corporation tax on loss for the year	(195,033)	(281,536)
Under-provision in prior year	(1,100)	(5,437)
Tax credit on loss on ordinary activities	(196,133)	(286,973)

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

	Year ended 31 December 2006 £	Year ended 31 December 2005 As restated £
Loss on ordinary activities before tax	(1,971,257)	(2,223,090)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 19% (31 December 2005: 19%)	(374,539)	(422,387)
Expenses not deductible for tax purposes	2,370	1,751
Difference between depreciation and capital allowances	2,264	602
Other short-term timing differences	8,626	56
Unutilised tax losses	400,704	220,604
Schedule 23 deduction for share options	(176,501)	–
Additional relief attaching to tax credit claims	(57,957)	(82,162)
Under-provision in prior year	(1,100)	(5,437)
Current tax credit for the year	(196,133)	(286,973)

The Group has tax losses of approximately £7,289,771 (31 December 2005: £5,152,600) available for offset against future taxable profits.

Notes to the Financial Statements

Continued

6 Taxation (continued)

Deferred tax assets amounting to £1,404,565 (31 December 2005 as restated: £996,020) have not been recognised on the basis that their future economic benefit is not certain. Assuming a prevailing tax rate of 19% when the timing differences reverse, the deferred tax asset comprises:

	Year ended 31 December 2006	Year ended 31 December 2005 As restated
	£	£
Accelerated capital allowances	1,575	(1,202)
Other short term timing differences	20,774	18,223
Unutilised tax losses	1,382,216	978,999
	1,404,565	996,020

7 Loss per share

Basic loss per share has been calculated in accordance with FRS22. Basic loss per share has been calculated by dividing the loss on continuing ordinary activities after taxation by the weighted average number of ordinary shares in issue during the year. The weighted average number of ordinary shares in issue was 52,299,053 (year ended 31 December 2005: 48,686,327 shares) and the loss for the year was £1,775,124 (year ended 31 December 2005 as restated: £1,936,117). The effect of all potential ordinary shares is antidilutive.

8 Tangible fixed assets

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

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

9 Fixed asset investments

Shares in
subsidiary
undertaking
£

Company

Cost and net book value at 1 January 2006 and 31 December 2006

60,724

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 financial statements. Futura Medical Developments Limited undertakes research, development, production and sale of pharmaceutical products.

10 Stock

	Group		Company	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005
	£	£	£	£
Raw materials and consumables	32,648	31,956	–	–

There is no material difference between the replacement cost of stock and the amounts stated above.

11 Debtors

	Group		Company	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005
	£	£	£	As restated £
Amounts receivable within one year:				
Trade debtors	1,939	–	–	–
Corporation tax repayable	195,034	281,536	–	–
Other debtors	32,880	27,847	–	–
Prepayments and accrued income	122,174	41,696	28,168	17,203
	352,027	351,079	28,168	17,203
Amounts receivable after more than one year:				
Amounts owed by subsidiary	–	–	8,455,808	6,716,404

Notes to the Financial Statements

Continued

12 Creditors: amounts falling due within one year

	Group		Company	
	31 December 2006 £	31 December 2005 £	31 December 2006 £	31 December 2005 £
Trade creditors	123,070	114,586	5,521	6,571
Taxation and social security	36,685	30,780	–	–
Accruals and deferred income	73,388	91,781	700	29,342
	233,143	237,147	6,221	35,913

13 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. The Directors' Report on pages 10 to 16 sets out the Group's treasury and financial risk management policy. Trade creditors and trade debtors are the only other financial instruments that arise directly from the Group's operations.

In the year, the Group's financial instruments comprised financial assets details of which are as follows:

Financial assets

The Group's financial assets were cash at bank and in hand, made up as follows:

	31 December 2006 £	31 December 2005 £
Currency		
Sterling	3,779,798	1,808,913

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 at 31 December 2006 of £3,699,031 (31 December 2005: £1,720,000) were held in sterling cash deposits. For these sterling cash deposits held at 31 December 2006, the weighted average period to maturity was 97 days (31 December 2005: 34 days) and the weighted average interest rate was 5.12% per annum (31 December 2005: 4.51% per annum). Deposits are held with Butterfield Private Bank and Anglo Irish Bank. In addition, cash of £80,767 (31 December 2005: £88,913) was held on current accounts at Butterfield Private Bank, also earning interest.

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

13 Financial instruments (continued)

Currency exposures

The Group enters into some contracts with suppliers which are paid in US Dollars or Euros. To mitigate the risk of any exposure to foreign currency fluctuations where the supplier contract value is more than £100,000, once a price for a contract has been agreed, funds are transferred to the relevant foreign currency bank account established for the purpose, 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. For contracts with smaller values the foreign currency risk is not considered sufficient by the Group to require the establishment of foreign currency bank accounts unless specific circumstances are identified which warrant this. Forward and option contracts are not used.

Foreign exchange creditors at 31 December 2006 totalled £17,373 (31 December 2005: £nil).

14 Share capital

	31 December 2006		31 December 2005	
	No.	£	No.	£
Ordinary shares of 0.2 pence each	500,000,000	500,000,000		

	31 December 2006		31 December 2005	
	No.	£	No.	£
Ordinary shares of 0.2 pence each	55,303,601	48,938,601		97,877

During the year ending 31 December 2006, the Company issued ordinary shares of 0.2 pence each as follows:

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

Notes to the Financial Statements

Continued

15 Share options

At 31 December 2006, the number of ordinary shares of 0.2 pence each subject to options granted under the Group's Approved and Unapproved Share Option Schemes were:

Exercise period	Exercise price per share	At 1 January 2006 No.	Grants during year No.	Options exercised No.	At 31 December 2006 No.
1 August 2004 – 31 January 2007	33 pence	2,020,000	–	(1,855,000)	165,000
1 August 2004 – 31 January 2007	50 pence	120,000	–	(110,000)	10,000
1 August 2004 – 31 January 2007	53 pence	1,000,000	–	(1,000,000)	–
1 August 2005 – 31 July 2007	70 pence	410,000	–	–	410,000
1 October 2006 – 30 September 2008	70 pence	150,000	–	–	150,000
1 April 2007 – 31 March 2009	76 pence	425,000	–	–	425,000
1 February 2008 – 31 January 2013	74.5 pence	–	350,000	–	350,000
		4,125,000	350,000	(2,965,000)	1,510,000

At 31 December 2005, the number of ordinary shares of 0.2 pence each subject to options granted under the Group's Approved and Unapproved Share Option Schemes were:

Exercise period	Exercise price per share	At 1 January 2005 No.	Grants during year No.	Options exercised No.	At 31 December 2005 No.
1 August 2004 – 31 January 2007	33 pence	2,030,000	–	(10,000)	2,020,000
1 August 2004 – 31 January 2007	50 pence	120,000	–	–	120,000
1 August 2004 – 31 January 2007	53 pence	1,250,000	–	(250,000)	1,000,000
1 August 2005 – 31 July 2007	70 pence	410,000	–	–	410,000
1 October 2006 – 30 September 2008	70 pence	150,000	–	–	150,000
1 April 2007 – 31 March 2009	76 pence	–	425,000	–	425,000
		3,960,000	425,000	(260,000)	4,125,000

350,000 options were granted on 8 July 2006 solely to employees (year ending 31 December 2005: 350,000 options were granted to Directors and 75,000 options were granted to employees).

The options outstanding at 31 December 2006 represent 2.7% of the issued share capital at that date (At 31 December 2005: 8.4%).

Options exercised during the year would otherwise have expired on 31 January 2007. Of the remainder exercisable by 31 January 2007, 50,000 were exercised in January 2007 and 125,000 expired unexercised.

The Group's Approved Share Option Scheme rules apply to 1,235,000 of the options outstanding at 31 December 2006 and include a rule regarding forfeiture of the unexercised options by a director or employee upon the cessation of their employment (except in specific circumstances). In respect of employees and directors, the unapproved options have a similar rule regarding forfeiture upon cessation of employment.

Of the balance of 275,000 unapproved options at 31 December 2006, 50,000 were exercised in January 2007 and 125,000 expired unexercised on 31 January 2007 leaving 100,000 unexercised and unexpired at that date.

15 Share options (continued)

In respect of the options exercised during the year, the weighted average share price at the date of each exercise was:

Date of Exercise	Shares No.	Share price £
10 January 2006	250,000	0.64
12 January 2006	100,000	0.65
30 January 2006	255,000	0.66
26 January 2006	125,000	0.64
10 July 2006	2,235,000	0.75
	2,965,000	

The Black-Scholes-Merton formula is the option pricing model applied to the grants of all options on or after 7 November 2002 in respect of calculating the fair value of the options. Expected volatility has been determined by using the 30 day historical volatility for Futura Medical plc shares from 27 August 2003 (following introduction to AIM on 22 July 2003) until the date of grant of the particular tranche of share options.

There were no market conditions within the terms of the grant of the options. The main vesting conditions of the options for staff and Executive Directors (excluding the Chairman) was that they remain employed with the Group at the date of exercise.

For the grant of options during the year ended 31 December 2006, the following inputs have been used:

	Year ended 31 December 2006	Year ended 31 December 2005
Number of shares under options	350,000	425,000
Share price at grant	£0.75	£0.68
Option exercise price	£0.75	£0.76
Expected life of options	3 years	3.25 years
Expected volatility	25.7%	17.4%
Dividend yield	0%	0%
Risk free rate	4.75% p.a.	4.70% p.a.
Grant date	8 July 2006	22 March 2005
Fair value per share under option	£0.18	£0.10
Total expected charge over the vesting period	£63,000	£42,500

The share-based remuneration charge (note 3) comprises:

	Year ended 31 December 2006	Year ended 31 December 2005
Share-based payments	43,374	31,973

Notes to the Financial Statements

Continued

16 Reserves

	Share premium account £	Other reserves £	Profit and loss account £
Group			
At 1 January 2006	8,560,987	1,152,165	(7,830,858)
Retained loss for the year	–	–	(1,775,124)
Share-based payments	–	–	43,374
Shares issued during the year	3,836,420	–	–
Cost of share issues	(146,132)	–	–
At 31 December 2006	12,251,275	1,152,165	(9,562,608)
Company			
At 1 January 2006 as previously stated	8,560,987	–	(229,256)
Prior year adjustment (see note 1.3)	–	–	61,808
At 1 January 2006 (as restated)	8,560,987	–	(167,448)
Retained profit for the year	–	–	17,875
Share-based payments	–	–	43,374
Shares issued during the year	3,836,420	–	–
Cost of share issues	(146,132)	–	–
At 31 December 2006	12,251,275	–	(106,199)

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.

17 Reconciliation of movements in shareholders' funds

	Group		Company	
	31 December 2006 £	31 December 2005 As restated £	31 December 2006 £	31 December 2005 As restated £
Profit/(loss) for the financial year	(1,775,124)	(1,936,117)	17,875	(14,170)
Share-based payments	43,374	31,973	43,374	31,973
Net proceeds from issue of shares	3,703,018	135,800	3,703,018	135,800
Net addition/(reduction) to shareholders' funds	1,971,268	(1,768,344)	3,764,267	153,603
Opening shareholders' funds as previously stated	1,980,171	3,748,515	8,429,608	8,307,978
Prior year adjustment (see note 1.3)	–	–	61,808	29,835
Opening shareholders' funds as restated	1,980,171	3,748,515	8,491,416	8,337,813
Closing shareholders' funds	3,951,439	1,980,171	12,255,683	8,491,416

18 Pension costs

The pension charge represents contributions payable by the Group to independently administered funds and during the year amounted to £55,273 (year ended 31 December 2005: £35,647). Pension contributions payable but not yet paid at 31 December 2006 totalled £2,125 in respect of pension contribution entitlements where employees had not yet provided details of the funds to which the contributions should be made (31 December 2005: £1,250) and are included in accruals. In addition, pension contributions payable one month in arrears at 31 December 2006 totalled £2,027 (31 December 2005: £875).

19 Related party transactions

W D Potter, a Director of the Company, provides consulting services to Futura Medical Developments Limited, the wholly owned subsidiary, through Stapleford Scientific Services Limited. Of the total fees and expenses invoiced during the year by Stapleford Scientific Services Limited of £79,479 plus VAT (year ended 31 December 2005: £60,416 plus VAT), the amount outstanding at 31 December 2006 to Stapleford Scientific Services Limited was £7,680 (31 December 2005: £7,826).

During the year, an old computer originally purchased in 2001 and a desk originally purchased in 2004, both owned by Futura Medical Developments Limited, were offered to all staff and Directors at a residual value of £43 plus VAT and £1 respectively. A Director, D B Davies, acquired both of these items under the scheme.

Company Information

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04206001

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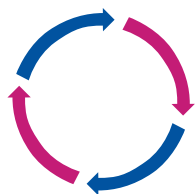
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