

Innovative solutions for global agricultural needs.™



Report & Accounts for Year Ended 31st December 2005



Chairman's report	2
Directors' report	5
Report of the independent auditors to the members of FuturaGene Plc	7
Consolidated profit & loss account	8
Consolidated balance sheet	9
Company balance sheet	10
Consolidated cash flow statement	11
Reconciliation's of movements in shareholders' funds	12
Notes	13
Notice of Annual General Meeting	23

Chairman's report



Introduction

The past year has been a challenging one for FuturaGene, but one that has seen the Company make important progress. After a management restructuring late last year we have re-evaluated our business strategy and refocused our efforts to establish ourselves as a leading source of value added genetic material to the agri-bio industry.

Financial Results

Overall the loss for the year was £1.2 million (2004: £1.055m) representing a loss per share of 3.6p (2004: 4.8p). The share placings that took place in February and June 2005 has meant that the Company's financial position remains secure with cash balances as at 31st December 2005 being in excess of £5m.

The current burn rate, which includes the costs of small teams in the UK, US and China (for part of the year), patent costs and associated legal costs, scientific fees and consultancy remains modest in view of our breadth of operation and nature of our business.

Business Model and Core Activities

The business model of developing relationships with major universities and research centres worldwide in order to acquire high quality intellectual property continues to be the focus of the business. We now have agreements with six major universities in the US, Europe and China and are actively looking to increase this network. We believe that the combination of high quality research resource and a low cost corporate base remains compelling.

The core activity of the Company continues to be the acquisition, development and commercialisation of intellectual property in the field of agricultural biotechnology. During the year we have made progress in expanding our IP portfolio by in-licensing new technologies such as Kidari, rice micro-RNA and mir397 a and b.

A miRNA is thought to regulate the expression of other genes. The work performed in rice has identified over 13 new miRNAs and it has been predicted that these miRNAs may target over 46 individual genes and play a role in diverse physiological processes.



The mir397 a and b, have shown to improve abiotic stress, especially salt stress, by targeting specific genes, and may also play a role in freezing tolerance. These new technologies, especially mir397 a and b, are the result of research conducted by a member of our scientific advisory board. In addition to these, we are also evaluating more than 20 new discoveries as a consequence of our master license agreements with various academic institutions in China.

In the course of the recent business evaluation process it was decided to increase the R&D focus on our existing IP portfolio in order to provide greater specificity of data at the applied research level. By necessity this will result in a lower commitment to fund more basic research.

Licensing Opportunities

Commercialisation of biocrops is a long, complicated and expensive process. Moving from initial discovery and identification of gene traits in model plant systems, to producing commercial seeds, involves extensive and expensive testing, beyond the resources or commercial rationale of our company. It is for this reason that the optimum route to market is seen to be in partnership with existing established companies in the sector.

The FuturaGene business model for value creation is to add value to its technology portfolio by taking gene discoveries as far as we can down the development path. We intend to seek out partners for the final stages of commercialisation and to help us through the regulatory process.



Indeed we have attracted interest from major agricultural-biotech companies from around the world for specific applications of our technology and these discussions are on-going. In addition to our core technology, there is also considerable interest in other aspects of our company such as our IP acquisition model, and our ability to perform contract research at our partner institutions in China, as well as in the U.S.

The Market for Agricultural Biotechnology

The adoption of bio-engineering technology by global agriculture continues apace. More than 20 countries, including India, China, Iran and South Africa now accept biotech crops. Even within Europe, Spain, Portugal, Germany, France and the Czech Republic have recently started limited biotech crop trials.

Over 1 billion acres of bio-engineered crops have been planted to date and annual growth rates of new areas being planted remain in double digits.

Significantly, the rise in the deployment of bio-engineered crops has been accompanied by a marked worldwide reduction in the use of pesticides, with a measurable environmental benefit.



As a whole, the industry remains confident that the growth in the adoption of biotech crops will be sustained for the foreseeable future. Indeed as the new input and output traits (such as those FuturaGene are currently working on) are commercially developed the global market should expand still further particularly when the combination or stacking of such traits starts to meet the multiple needs of consumers and producers.

With much attention now being focussed on biofuels as a potential major source of renewable energy, global agriculture could be entering a new phase of sustained demand. We believe that genetic engineering has an extremely important role to play in more efficient, more economic biomass production.

China

Our presence in China is a significant strategic asset. Building on our relationship with China Agricultural University we have recently entered into a master licence agreement with Huazhong Agricultural University.

Huazhong Agricultural University is one of the national key universities and is home to both the National Key Laboratory of Crop Genetic Improvement and the National Centre of Crop Molecular Breeding. It is located in Wuhan City, the capital of Hubei Province. The research team at Huazhong featured prominently in the development of genetically modified rice that has already been approved for release in China, as well as the development of marker aided selection that is now being used to pyramid genes to improve disease and insect resistance in hybrid rice cultivars.

During the year we have also been working hard in order to set up a subsidiary in Beijing. We had already received a temporary business license to operate in China but a major step on our development path was achieved in January 2006 when FuturaGene Beijing was awarded an official 10-year business license.

The development of our core technology continues apace in China. We have succeeded in triple stacking a combination of our patented genes in prototype plants and have now over expressed various genes in cotton, maize, peanut, cucumber, poplar and turfgrass.

Human Health

Last year I reported the creation of a human health division to capitalise on the license we obtained from Purdue University for the plant protein Osmotin and at the half year I said that we were in the process of developing a research and commercialisation plan to bring Osmotin to market. This plan is now completed and we are currently in discussions with possible partners on how best to take this project forward to the next phase.



The Board

We have moved to strengthen the Board of the Company. Peter Toynton FCA joined the Board earlier this year as a non-executive and will specifically oversee the finance functions within the Company. Peter has considerable experience with small rapidly growing public companies having held the position of Group Finance Director of the media and communication company Tempus PLC.

I am also delighted to announce that Dr Mike Fromm has joined the board as a non-executive director. Mike is currently director of the Center for Biotechnology and professor of agronomy at the University of Nebraska Lincoln and prior to this had a successful career in the biotechnology industry at Monsanto, Mendel Biotechnology and Panakos. In his seven years as director of biotechnology and plant genomics at Monsanto (1990-97), Mike initiated the company's plant genomics program and headed the research team that developed genetically-modified "Roundup Ready" corn and "YieldGard" corn, the Bt corn resistant to corn borers.

Outlook

We remain optimistic both about the industry and the long term prospects for FuturaGene. We are excited about the range of possibilities across our unique technology portfolio which we continue to build and develop. We are also excited at the prospective of forging and sustaining new partnerships and alliances with other world renowned scientists and universities, and making use of the resulting intellectual property we acquire for the benefit of our shareholders through its commercialisation. We continue to see new opportunities for our intellectual property. So, for example, the rise in interest in biofuels and the concern about the ability to grow sufficient crops to fulfill demand at economic prices, is attractive for a business like ours which has the technology to enable crops to grow successfully in unwelcoming environments. We are fully evaluating the opportunities.

Our discussions with potential commercial partners continue on a number of fronts. We are pleased with the progress being made on this important element of value creation for the company and are confident that the Company will make good progress over the coming year.

M.A Pritchard
Chairman – London

26 June 2006



Kannan Grant, Mark Pritchard, Peter Toynton and David Malsbary.

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

Principal activities

The principal activity of the Group is the acquisition, development and commercialisation of intellectual property licensed from a number of universities and research institutes in the field of agricultural biotechnology.

Business review

A review of the Group's business during the financial period and its likely developments are given in the Chairman's report on page 2.

Group loss before tax for the financial period, prepared under accounting policies outlined on pages 13 to 22, was £1,224,000 (2004: £1,055,000).

Research and development

During the year the Group invested £165,000 (2004: £660,000) in research and development activities.

Proposed dividend

The directors do not recommend the payment of a dividend (2004: £nil).

Directors & director's interests

The directors who held office during the year were as follows:

Mark Pritchard
Bruno Ruggiero (resigned 18 January 2006)
Marta Zgagacz
David Malsbary
Kannan Grant
Peter Toynton (appointed 19 January 2006)

Details of Directors interests in shares are given in note 21 to the accounts.

Political & charitable contributions

The Group made no political or charitable contributions during the year.

Policy & practice on payment of creditors

The Group and Company policy, in relation to all of its suppliers, is to settle the terms of payment when agreeing the terms of the transactions and to abide by those terms. The Group and the Company do not follow any code or statement on payment policy. Creditor days at the end of the year were 66 days (2004: 38 days).

Corporate Governance

The Company is not required to comply with the Code of Best Practice as set out in section 1 of the Combined Code appended to the listing rules of the Financial Services Authority as it is listed on AIM. All relevant decisions being taken by the full Board.



Directors' Responsibilities

The directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice (UK GAAP). 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 profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Substantial Interests

The directors have been notified that at the date of this report the following have a substantial interest in the share capital of the Company.

	Holding %
J. Anderson (deceased)	5.30%
R. Bressan	3.35%
Chase Nominees Ltd	4.52%
Credit Agricole Cheuvreux	7.21%
DRKWS Nominees Limited	4.00%
Jim Nominees Ltd	12.82%
Monument Capital LLC	6.63%
Pershing Keen Nominees Limited	16.33%
M. Pritchard	6.30%
J Zhu	4.77%
D. Ristenpart	4.78%

Auditors

In accordance with Section 385 of the Companies Act 1985 a resolution reappointing Jeffrey's Henry LLP as auditors is to be proposed at the forthcoming General Meeting.

on behalf of the board

Peter Toynton
Director

26 June 2006



Report of the independent auditors

to the members of FuturaGene Plc

We have audited the financial statements on pages 8 to 22 of FuturaGene Plc for the year ended 31 December 2005. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken for no purpose other than to draw to the attention of the Company's members those matters which we are required to include in an auditor's report addressed to them. To the fullest extent permitted by law, we do not accept or assume responsibility to any party other than the Company and Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and Auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding the directors' remuneration and transactions with the Company is not disclosed.

We read the other information contained in the Annual Report, comprising only the directors' report and chairman's statement, and 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.

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 company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company and the Group as at 31 December 2005 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Jeffreys Henry LLP
Chartered Accountants
Registered Auditor

Finsgate
5-7 Cranwood Street
London EC1V 9EE

26 June 2006

Consolidated profit & loss account



for the year ended 31 December 2005

	<i>Note</i>	2005 £000	2004 £000
Turnover	2	–	37
Administration expenses		<u>(1,367)</u>	<u>(1,112)</u>
Operating loss		(1,367)	(1,075)
Interest receivable and similar income	5	<u>143</u>	<u>20</u>
Loss on ordinary activities before taxation	2-4	(1,224)	(1,055)
Taxation credit on loss on ordinary activities	6	<u>–</u>	<u>–</u>
Loss for the year for group		<u>(1,224)</u>	<u>(1,055)</u>
Loss per ordinary share – Basic	7	(3.6p)	(4.8p)
– Diluted		<u>(3.3p)</u>	<u>(4.1p)</u>

A note on historical gains or losses has not been included as part of the financial statements as the results as disclosed in the profit and loss account are prepared on an unmodified historical cost basis.

The results stated above for 2004 are derived from acquired operations. There were no acquisitions or disposals in the current year.

Consolidated statement of total recognised gains and losses

	2005 £000	2004 £000
Loss for the year for group	<u>(1,224)</u>	<u>(1,055)</u>
Exchange movements on overseas net assets	<u>324</u>	<u>37</u>
Total recognised loss in the year	<u>(900)</u>	<u>(1,018)</u>



Consolidated balance sheet

as at 31 December 2005

	<i>Note</i>	2005 £000	2005 £000	2004 £000	2004 £000
Fixed assets					
Intangible assets	8		7,060		7,442
Tangible assets	9		21		11
Current assets					
Debtors	11	10		85	
Cash at bank and in hand		5,180		1,020	
		<u>5,190</u>		<u>1,105</u>	
Creditors: amounts falling due within one year	12	(510)		(110)	
Net current assets			4,680		995
Total assets less current liabilities			11,761		8,448
Creditors: amounts falling due after more than one year	13		(200)		(200)
Net assets			11,561		8,248
Capital and reserves					
Called up share capital	14		176		163
Share premium account	15		15,720		11,520
Shares to be issued	15		1,140		1,140
Capital redemption reserve	15		2,415		2,415
Merger reserve	15		(844)		(844)
Profit and loss account	15		(7,046)		(6,146)
Equity shareholders' funds			11,561		8,248

These financial statements were approved by the Board of Directors and authorised for issue on 26 June 2006 and were signed on its behalf by:

Mark Pritchard
Director

Peter Toynton
Director

Company balance sheet



as at 31 December 2005

	<i>Note</i>	2005 £000	2005 £000	2004 £000	2004 £000
Fixed assets					
Investments	10		7,675		7,500
Current assets					
Debtors	11	3,915		1,187	
Cash at bank and in hand		2,184		744	
		<u>6,099</u>		<u>1,931</u>	
Creditors: amounts falling due within one year	12	<u>(320)</u>		<u>(12)</u>	
Net current assets			<u>5,779</u>		<u>1,919</u>
Total assets less current liabilities			<u>13,454</u>		<u>9,419</u>
Creditors: amounts falling due after more than one year including convertible debt	13		<u>(200)</u>		<u>(200)</u>
Net assets			<u>13,254</u>		<u>9,219</u>
Capital and reserves					
Called up share capital	14		176		163
Share premium account	15		15,720		11,520
Shares to be issued	15		1,140		1,140
Capital redemption reserve	15		2,415		2,415
Profit and loss account	15		<u>(6,197)</u>		<u>(6,019)</u>
			<u>13,254</u>		<u>9,219</u>

These financial statements were approved by the Board of Directors and authorised for issue on 26 June 2006 and were signed on its behalf by:

Mark Pritchard
Director

Peter Toynton
Director



Consolidated cash flow statement

for the year ended 31 December 2005

	<i>Note</i>	2005 £000	2004 £000
Cash flow statement			
Cash outflow from operating activities	<i>18</i>	(179)	(966)
Returns on investments and servicing of finance	<i>19</i>	143	20
Capital expenditure	<i>19</i>	(17)	(2)
Acquisitions	<i>19</i>	–	(260)
Cash outflow before financing		<u>(53)</u>	<u>(1,208)</u>
Financing	<i>19</i>	4,213	2,200
Increase in cash in the year	<i>20</i>	<u>4,160</u>	<u>992</u>
 Reconciliation of net cash flow to movement in net funds			
	<i>20</i>		
Increase in cash in the year		4,160	992
Loan received during the year		–	(175)
Movement in net funds in the year		<u>4,160</u>	<u>817</u>
Net funds at the start of the year		820	3
Net funds at the end of the year		<u>4,980</u>	<u>820</u>

Reconciliations of movements in shareholders' funds



for the year ended 31 December 2005

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Loss for the financial year	(1,224)	(1,055)	(178)	(57)
Shares to issue	–	1,140	–	1,140
Increase in share capital	4,213	8,105	4,213	8,105
Exchange movement on overseas net assets	324	37	–	–
Net Increase in shareholders' funds	3,313	8,227	4,035	9,188
Opening shareholders' funds	8,248	21	9,219	31
Closing shareholders' funds	11,561	8,248	13,254	9,219



forming part of the financial statements

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings up to 31 December 2005.

OverNet Data (UK) Limited has been accounted for using merger accounting principles. FuturaGene Inc and FuturaGene China have been accounted for using the acquisition method of accounting.

Goodwill arising on the acquisition of FuturaGene Plc represents the difference between the fair value of the consideration given over the fair value of the identifiable net assets acquired and is capitalised and amortised over its useful life of 20 years.

Assets and liabilities of overseas subsidiary undertaking are translated into sterling at rates of exchange ruling at the balance sheet date. The results and cashflows of the overseas subsidiary are translated into sterling using average rates of exchange. Exchange adjustments arising when the opening net assets and the loss for the year are taken directly to reserves and reported in the statement of total recognised gains and losses.

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account. The loss dealt with in the accounts of the parent company was £178,000 (2004: £56,691).

Turnover

Turnover represents the amounts invoiced for services and products provided (excluding value added tax).

Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives subject to the following periods:

Motor vehicle	–	3 years
Office Equipment	–	4 years

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.



2. Turnover

The turnover was derived from the Group's principal activity and was undertaken in the USA and China.

3. Loss on ordinary activities before taxation

	2005 £000	2004 £000
Loss on ordinary activities before taxation is stated after charging		
Auditors' remuneration:		
Group – audit	12	10
Company – audit	5	3
Non-audit remuneration	5	5
Depreciation and other amounts written off tangible fixed assets	7	4
Operating leases rentals	16	5
Research and development expenditure	165	660
Amortisation of consolidation goodwill	382	208
	<hr/>	<hr/>

4. Staff number and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, were as follows:

	Number of employees	
	2005	2004
Technical and administration	8	5
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	2005 £000	2004 £000
Wages and salaries	203	101
Social security costs	15	10
	<hr/>	<hr/>
	218	111
	<hr/>	<hr/>

5. Interest receivable and similar charges

	2005 £000	2004 £000
Bank interest	143	20
	<hr/>	<hr/>



6. Taxation

Analysis of charge in period

	2005 £000	2004 £000
UK and overseas corporation tax		
Current tax on income for the period	–	–
Total current tax	–	–
Tax on loss on ordinary activities	–	–

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2004: higher) than the standard rate of corporation tax in the UK 30% (2004: 30%). The differences are explained below.

	2005 £000	2004 £000
Current tax reconciliation		
Loss on ordinary activities before tax	(1,224)	(1055)
Current tax at 30% (2004: 30%)	(367)	(316)
Effects of:		
Depreciation and expenses not deductible for tax purposes	7	5
Increase in tax losses	360	311
Total current tax charge (see above)	–	–

At 31 December 2005 FuturaGene Inc had net operating losses to carry forward of £1,400,000 for federal income tax purposes which expire beginning in 2021. The deferred tax asset on these tax losses of £588,000 has not been recognised due to the uncertainty of recovery.

At 31 December 2005 FuturaGene Plc had excess management expenses to carry forward of £235,000. The deferred tax asset on these tax losses of £45,000 has not been recognised due to the uncertainty of recovery.

7. Loss per share

	2005 Pence	2004 Pence
Loss per ordinary share		
– Basic	(3.6)	(4.8)
– Diluted	(3.3)	(4.1)

Loss per ordinary share is based on the Group's loss for the financial year of £1,224,000 (2004: £1,055,000).

The weighted average number of shares used in the calculation are – basic 34,324,283 (2004: 21,829,146); diluted 37,464,283 (2004: 25,476,687).



8. Intangible assets

	Consolidation Goodwill £000
Group	
Costs	
Brought forward at 1 January 2005	7,650
Additions	–
At end of year	<u>7,650</u>
Amortisation	
Brought forward at 1 January 2005	208
Additions	382
At end of year	<u>590</u>
Net book value	
31 December 2005	<u>7,060</u>
31 December 2004	<u>7,442</u>

9. Tangible fixed assets

	Office Equipment £000	Motor Vehicles £000	Total £000
Group			
Cost			
At beginning of year	3	12	15
Additions	17	–	17
At end of year	<u>20</u>	<u>12</u>	<u>32</u>
Depreciation			
At beginning of year	1	3	4
Charge for year	3	4	7
At end of year	<u>4</u>	<u>7</u>	<u>11</u>
Net book value			
At 31 December 2005	<u>16</u>	<u>5</u>	<u>21</u>
At 31 December 2004	<u>2</u>	<u>9</u>	<u>11</u>



10. Fixed asset investments

	Shares in group undertaking £000
Company	
Cost	
At beginning of year	13,348
Additions	175
At end of year	<u>13,523</u>
Provisions	
At beginning of year	5,848
Impairment provisions	–
At end of year	<u>5,848</u>
Net book value	
At 31 December 2005	<u>7,675</u>
At 31 December 2004	<u>7,500</u>

The Company's subsidiary undertakings at the year end are a 100% interest in the ordinary shares of OverNet Data (UK) Limited, which was dormant in the year, FuturaGene Inc, a company registered in USA whose principal activity was acquisition, development and commercialisation of intellectual property licensed from a number of universities and research institutes in the field of agricultural bio-technology and FuturaGene Investment Consulting (Beijing) Company Limited, a company incorporated in China.

11. Debtors

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Other debtors	10	78	7	70
Amounts owed by subsidiary undertakings	–	–	3,908	1,117
Prepayments and accrued income	–	7	–	–
	<u>10</u>	<u>85</u>	<u>3,915</u>	<u>1,187</u>

The amount due from the subsidiary undertaking is interest free and is repayable on demand.



12. Creditors: amounts falling due within one year

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Trade creditors	30	–	–	–
Other creditors	262	–	262	–
Accruals and deferred income	218	110	58	12
	<u>510</u>	<u>110</u>	<u>320</u>	<u>12</u>

13. Creditors: amounts falling due after one year

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Convertible loan note	<u>200</u>	<u>200</u>	<u>200</u>	<u>200</u>

The convertible loan note carries no coupon and the loan note holder is not entitled to any interest from the Group. The convertible loan may be converted into ordinary shares on the basis of one ordinary share for each 10 pence of debt converted. The loan may be converted in whole or in part on more than one occasion by the company receiving written notice.

14. Called up share capital

	2005 £000	2004 £000
Authorised 400,000,000 ordinary shares of £0.005 each	<u>2,000</u>	<u>2,000</u>
Allotted, called up and fully paid Equity: 35,104,121/32,655,650 ordinary shares of £0.005 each	<u>176</u>	<u>163</u>

On 15 February 2005 the company undertook a placing of 970,000 ordinary shares of 0.5 pence each at 170 pence per share.

On 13 June 2005 the company issued 1,478,471 ordinary shares of 0.5 pence each at 180 pence.



15. Share premium, shares to be issued and reserves

	Shares to be issued £000	Share premium account £000	Capital redemption reserve £000	Merger reserve £000	Profit and loss account £000
Group					
At beginning of year	1,140	11,520	2,415	(844)	(6,146)
Exchange rate movement	–	–	–	–	324
Loss for the year	–	–	–	–	(1,224)
Premium on share issues	–	4,200	–	–	–
At end of year	1,140	15,720	2,415	(844)	(7,046)
		Shares to be issued £000	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000
Company					
At beginning of year		1,140	11,520	2,415	(6,019)
Loss for the year		–	–	–	(178)
Premium on share issues		–	4,200	–	–
At end of year		1,140	15,720	2,415	(6,197)

Placing expenses of £56,695 have been setoff against the share premium account in the year.

Deferred Consideration

Under the terms of the FuturaGene Inc acquisition agreement the company was required to allot issue or pay 3,000,000 ordinary shares or a sum of £1.14 million in cash. The determining factor as to whether this balance was payable in shares or cash shall be the determination by the United States Internal Revenue Service as to whether the exchange of shares in FuturaGene Inc for the shares in FuturaGene Plc qualifies as a tax-free reorganisation under the United States Internal Revenue Code 1986. Following the receipt of the confirmation from United States Internal Revenue Service the Company allotted 3,000,000 ordinary shares on 9 March 2006.

16. Commitments

The group and company had no capital commitments at the end of the year (2004: £ Nil).



17. Contingent Consideration

Under the terms of the FuturaGene Inc. Acquisition Agreement dated 14 June 2004 the Company has an obligation to issue;

- (a) 6,000,000 ordinary shares when FuturaGene Inc has been granted an exclusive licence over three new gene discoveries for which patent applications have been received by the United States Patent and Trademark Office in the names of and as submitted by those universities with which FuturaGene has licensing arrangements or other universities with which it is affiliated,
- (b) 10,000,000 consideration shares payable on receipt of a “qualified offer” from a third party, to licence any element of the FuturaGene intellectual property, and
- (c) 10,000,000 consideration shares payable on receipt of an additional “qualified offer” from a third party to licence any element of the FuturaGene intellectual property.

In the event that the company receives an offer to sell the entire issued share capital of FuturaGene or all the assets of FuturaGene and the value of such offer is in excess of the market value of the company on the date such offer is received, provided that such offer is on terms acceptable to the Chairman and non-executive members of the board of directors of the company then the payment of the 20,000,000 consideration shares under paragraphs (b) and (c) shall be come due.

The “qualified offer” referred to above means an offer to licence the FuturaGene’s intellectual property rights originating from an unaffiliated third party with demonstratable financial ability as determined by the Chairman and non-executive members of the board.

18. Reconciliation of operating loss to operating cash flows

	2005 £000	2004 £000
Operating loss	(1,367)	(1,075)
Depreciation and amortisation charges	389	212
Exchange rate adjustment on overseas assets	324	37
Decrease / (Increase) in debtors	75	(44)
Increase / (Decrease) in creditors	400	(96)
Net cash outflow from operating activities	<u>(179)</u>	<u>(966)</u>



19. Analysis of cash flows

	2005 £000	2005 £000	2004 £000	2004 £000
Returns on investment and servicing of finance				
Interest received		143		20
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(17)		2
Acquisitions				
Purchase of subsidiary undertaking	–		280	
Net cash acquired	–		(20)	
		–		260
Financing				
Issue of ordinary share capital	4,213		2,025	
New loans received	–		175	
		4,213		2,200

20. Analysis of net funds

	At beginning of year £000	Cash flow £000	Other non-cash changes £000	At end of year £000
Cash in hand and at bank	1,020	4,160	–	5,180
Debt due after one year	(200)	–	–	(200)
	820	4,160	–	4,980



21 Directors emoluments and interests

The directors who held office during the year are shown below along with their interests in the 0.5p (2004: 0.5p) ordinary shares of the company.

	Interest at end of period	Interest at start of period
Executive directors		
Bruno Ruggiero	–	1,736,471
Marta Zgagacz	473,583	473,583
Kannan Grant	–	–
Non-executive directors		
Mark Pritchard	2,000,099	2,000,099
David Malsbary	–	–
Directors emoluments and other benefits are as listed below.		
	2005	2004
	£000	£000
Directors' emoluments	170	52
Directors' fees	15	15
	<u>185</u>	<u>67</u>

22 Financial instruments

The Group's financial instruments comprise trade creditors, cash, long term creditors and equity shares.

The Company has taken advantage of the exemption under FRS13 to exclude short term debtors and short term creditors from the disclosure of financial assets and liabilities.

The Group has cash at bank. This is placed on short term deposit to maximise the group's liquid resources and no interest rate hedging is undertaken. During the year a weighted average of 3% was achieved.

The Group's principle financial liability was a long term convertible loan. No interest was payable on this convertible loan.

23 Control

FuturaGene plc is listed on the Alternative Investment Market of the London Stock Exchange. At the date of the Annual Report in the Directors opinion there is no controlling party.

24 Financial Commitments

The Group has annual obligations under a property lease of £16,000 which expires in two year's time.

25 Contingent Liabilities

The appointment of the Group Chief Executive, Bruno Ruggiero, was terminated on 18 January 2006. Mr Ruggiero has filed a claim of US\$ 280,000 for wrongful dismissal which is being contested by the Company.



Notice of annual general meeting

NOTICE IS HEREBY given that the Annual General Meeting of the Company will be held at the offices of Jeffreys Henry LLP, Finsgate, 5-7 Cranwood Street, London EC1V 9EE on 19th July 2006 at 9.00 am for the following purposes:

Ordinary Business

1. To receive and adopt the financial statements and the reports of the directors and auditors for the year ended 31 December 2005.
2. To re-appoint Jeffreys Henry LLP as auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the directors of the Company to determine their remuneration.
3. To authorise the directors generally and unconditionally to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Companies Act 1985 (the "Act")) up to a maximum nominal amount equal to the authorised but unissued share capital of the Company on the date of passing this resolution, provided that this authority shall expire at the conclusion of the next annual general meeting of the Company to be held after passing of this resolution unless previously renewed, varied or revoked by the Company in general meeting save that before such expiry the Company may make any offer or agreement which would or might require relevant securities of the Company to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired and such authority shall be in substitution for any authorities conferred upon the directors of the Company in accordance with the said section prior to the passing of this resolution, which authorities (to the extent they remain in force and unexercised) are hereby revoked.

Special Business

To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

4. THAT, subject to the passing of resolution 3 above, the directors be and they are hereby authorised pursuant to section 95 of the Act to allot equity securities (within the meaning of

section 94 of the Act) for cash pursuant to the authority conferred by the foregoing resolution as if sub-section (1) of section 89 of the Act did not apply to any such allotment provided that this power shall be limited to:

- (a) the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be but subject to such exclusions or other arrangements as the directors may deem necessary or desirable to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory) to the respective number of ordinary shares held by them; and
- (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £60,000 provided that these authorities unless previously renewed, varied or revoked by the Company in general meeting prior to the expiry date shall expire at the conclusion of the next annual general meeting of the Company to be held after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired. The authorities conferred by this resolution shall be in substitution for all existing powers conferred on the directions pursuant to the said section 95.

By order of the Board

26 June 2006

One Bridge Place
London SW1V 1QA

Notice of annual general meeting cont.



Notes:

1. A member of the Company may appoint one or more proxies to attend and, on a poll, to vote instead of the member. A proxy of a member need not also be a member.
2. The instrument appointing a proxy, and the power of attorney or another authority (if any) under which it is signed, or a notarially certified copy of that power or authority must be deposited with the Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.
3. A form of proxy is enclosed with this notice. Completion and return of a form of proxy will not preclude a member from attending and voting in person.
4. Any corporation which is a member of the Company may authorise a person (who need not be a member of the Company) to act as its representative to attend, speak and vote (on a show of hands or a poll) on its behalf.
5. As permitted by Regulation 41 of the Uncertified Securities Regulations 2001, only those holders of ordinary shares who are registered on the Company's share register not less than 48 hours before the time appointed for holding the meeting shall be entitled to attend the Annual General Meeting and to vote in respect of the number of ordinary shares registered in their names at that time. Changes to entries on the share register after such time shall be disregarded in determining the rights of any person to attend and/or vote at the Annual General Meeting.

