

Yielding the Future



Report & Accounts for Year Ended 31 December 2009



## Directors, Secretary and Advisers

### Directors

**Mark Pritchard** (Non-Executive Chairman)  
**Stanley Hirsch** (Chief Executive Officer)  
**Peter Toynton FCA** (Non-Executive)  
**Michael Fromm** (Non-Executive)  
**Gaetan Waucquez** (Non-Executive)  
**Ziv Shani** (R & D Director) – Appointed 2/7/09

### Company Secretary

**Peter Toynton**  
Ten Dominion Street  
London EC2M 2EE

### Nominated Adviser & Stock Broker

**Evolution Securities Limited**  
100 Wood Street  
London EC2V 7AN

### Registered Auditors

**Nexia Smith & Williamson**  
25 Moorgate  
London EC2R 6AY

### Solicitors

**Fox Williams LLP**  
Ten Dominion Street  
London EC2M 2EE

### Registrars

**Capita Registrars**  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield  
West Yorkshire HD8 0LA

### Company No.

04001406

### Registered Office

Ten Dominion Street  
London EC2M 2EE

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## Chairman's Report

I am delighted to report that 2009 was another year of excellent progress for FuturaGene. We have further consolidated our position as a leader in plant genetic research and development for the global forestry, biofuel, and agricultural markets.

While the global economic environment in 2009 remained difficult, one of the major challenges which the Group faced in the year was to secure the additional investment to ensure that we could continue to finance the Group through to recurrent revenues. With a significant change in investors risk appetite caused by the credit crunch, it was pleasing to note that in December 2009 we were able to raise £3m through the issue of 6 million new shares, to provide additional working capital for the Group. Warrants were also issued to placees which, if exercised, would raise an additional £3m for the Group. I am also encouraged that, whilst operating in a more difficult economic environment, we have continued to sustain our existing co-development and license agreements, and generate new business development opportunities. In an environment where development budgets are constrained and decision making has been slower than usual, it has been a real achievement to sustain the momentum of FuturaGene's progress and demonstrates the strength of the technology portfolio.

For some time we have been very aware of the potential of China as both a strategic market for engineered germplasm and as a potential source of new intellectual property for the Group. As far back as 2005, FuturaGene established a presence in China, knowing that if we were to be successful we would need to be patient and take a long term view. It is therefore satisfying to report that our strategy continues to bear fruit with three significant agreements being entered into during the year; an agreement with the Chinese Academy of Forestry to develop new enhanced poplar with increased yield, processability and abiotic stress characteristics for the Chinese domestic market; a licensing agreement with the leading Chinese seed producer, BioCentury Transgene Co. Ltd to provide cell wall modification and salt tolerance genes for development in cotton plants in China; and the expansion of our collaboration agreement with the Research Institute of Tropic Forestry to include potential genetic solutions to bacterial wilt.

It is also extremely satisfying to report an agreement with Bayer CropScience regarding drought tolerance technology in cotton.

To support our mission of becoming a leading supplier of modified genetic material to the agricultural and biofuel industries, it is vital that we continue to maintain an active and well funded R&D programme. As well as supporting the research activities of our license partners in both our strategic and non-strategic crops, we have during the year started to develop our own genetic solutions to problems in agriculture, particularly in the area of biotic stress. This research has the potential to develop into a major product area in the future.

Turning to the financial results, the loss per share was 4.7p (2008: 3.6p). As at 31 December 2009, the Group had cash reserves of £2.8m (2008: £0.6m). No dividend is being declared (2008: Nil).

The Company's development and commercialisation partner, Suzano, announced yesterday the terms of a recommended cash offer for the entire issued and to be issued share capital of the Company at 90 pence per ordinary share ("the Offer"). It is currently expected that the Offer will be implemented by means of a Scheme of Arrangement. There is a separate announcement with all the details regarding the Offer.

As ever, the Group's achievements would not be possible were it not for the hard work and dedication of its staff, and management and I would therefore like to extend my thanks to each of them for their contribution and commitment. I would also like to express my gratitude to our shareholders for their continued support.

**M.A. Pritchard**  
Chairman – London

14 May 2010



# Chief Executive's Report

## Business Overview

The past year saw FuturaGene make considerable progress in its aim to be a leading source of plant genetic solutions for the global forestry, biofuel and agriculture industries with the Group passing significant milestones towards the commercialisation of genes in its portfolio.

In May 2009, the International Institute of BioScience Research and Development LLC ("IIBRD") raised its stake in the Group to 9% by investing an additional £1.5 million. IIBRD is a subsidiary of a major forestry group and this investment also exercised pre-existing commercialisation options between the Group and IIBRD for the commercial use of genes developed by FuturaGene's subsidiary CBD Technologies.

The directors expect this to lead to the first commercial deployment of FuturaGene products for eucalyptus by a significant operator in a major plantation-forestry market and put FuturaGene on course to begin booking recurring revenues within the next two to three years.

Additional milestones achieved in the first half of 2009 included an extension of the Group's agreement with the Research Institute of Tropical Forestry (RITF) of the China Academy of Forestry (CAF), for the development of growth-enhanced eucalyptus. RITF is the principal research institute for the eucalyptus industry in southern, sub-tropical China and is a major provider of improved germplasm to this fast-growing industry. The eucalyptus estate in southern China has become plagued by a disease, bacterial wilt, which is killing large numbers of trees. The Group is developing a genetic approach which it believes will be effective against the disease and it extended the agreement with RITF to include this new approach. The Group also concluded a unique collaboration agreement with Dr. Steven H. Strauss of Oregon State University under which the Group provided Dr. Strauss with a proprietary eucalyptus clone and a highly efficient eucalyptus transformation protocol developed by the Group's scientists, to facilitate the efficient evaluation of genes for flowering control and other biosafety aspects of tree modification.

During the second half of the year, the Group signed an agreement with the Research Institute of Forestry (RIF) of the CAF in Beijing for the collaborative development of poplar with enhanced yield and stress characteristics for China. The Group's poplar work was further accelerated with a new collaboration with Dr. Richard Meilan of Purdue University in the United States. This collaboration was awarded matching funds from the Consortium for Plant Biotechnology Research, a federally funded body, following a highly competitive grant selection process. A major milestone for the Group was achieved in December, when the Group executed the first licensing agreement for its drought resistance technology with Bayer of Germany, for development and use in cotton. Bayer is the second largest cotton seed company in the world.

## Personnel

The management team was strengthened by the promotion of Dr. Ziv Shani to the position of Group Director of R&D and his appointment to the Board of FuturaGene Plc. Dr. Nissim Chen was appointed as Director of Business Development at CBD Technologies and in this role he provides business development services to the Group. The R&D staff in the company was also significantly reinforced by the appointment of two senior scientists to head the eucalyptus and abiotic stress groups.

## Strategic Crops

### Eucalyptus

Eucalyptus is the largest sustainable plantation forest species for the pulp and paper industry and represents a major market opportunity for FuturaGene. A second field trial of the Group's modified eucalyptus is underway with the Suzano forestry company in Brazil. The trial has produced strong initial results, which have verified results from earlier trials. With the acquisition of biosafety data, there has been a positive relaxation in the regulatory regimes surrounding the conduct of the trials, including permission for enhanced duration of trials, which allows better data accumulation. The authorities have now also allowed the planting of eucalyptus in the substantial exclusion zones that previously surrounded the trial sites.



# Chief Executive's Report

CONTINUED

FuturaGene and Suzano continue to collaborate on an R&D programme to introduce new genes and improved gene constructs into additional Suzano clones. This research is reinforcing the Group's position as a leader in commercial eucalyptus transformation.

## Poplar

FuturaGene's R&D group has successfully developed new transformation methods for the first clones of commercial poplar, which were imported from the USA. All aspects of the Group's technology, including yield, processability, salt tolerance and drought tolerance, will be introduced into poplar.

In addition to this in-house work, the Group is actively working under the Collaborative Development Agreement with the CAF to develop new and enhanced poplar for the Chinese domestic market and at Purdue University, as discussed above.

The Group is in the process of developing additional research and commercial partnerships for poplar in the USA in order to strengthen its global position in the crop, which will soon play an important role in the renewable energy market.

There is a growing demand for wood pellets made from poplar woodchip to co-fire coal-fired power stations in the USA and Europe. As poplar can be grown in renewable, sustainable plantations, it provides a carbon neutral source of combustible material for electricity generation. Woody biomass is an attractive alternative to fossil fuels as it produces fewer emissions, contributes to local economies, mitigates global climate change and can increase national energy security. The rapid growth rate of poplar in temperate climates makes it an excellent species for woody biomass production.

Poplar is also indicated by the US Department of Agriculture as a preferred source of raw material for second generation (cellulose-to-ethanol) liquid biofuel production.

## Research & Development Activities

The Group's licensees continue to report good progress in the work they are doing with FuturaGene's intellectual property.

### Forage Genetics Inc.

Forage Genetics is progressing well with development of alfalfa varieties incorporating the CBD genes to enhance digestibility, processability and to shorten crop rotation times. Initial modified plants were produced and introduced into preliminary field trials in 2009. Alfalfa is the fourth biggest crop in the United States and is principally used for animal feed. Alfalfa will also be tested as a second-generation biofuel crop.

### Targeted Growth Inc.

Targeted Growth (TGI) has progressed rapidly with corn transformations using the Group's licensed genes to enhance plant processability, digestibility and other agronomic properties. In May 2009, Targeted Growth initiated preliminary field trials with a number of modified corn lines. The trials are aimed at screening for corn lines showing positive traits to take forward in the development pathway.

The agreement was amended to reflect TGI's intention to focus on the enhancement of corn using the Group's technology, rather than begin trials on soybean. As a result, all rights for the soy technology were returned to the Group.



# Chief Executive's Report

CONTINUED

## Intellectual Property

FuturaGene continues to build its intellectual property portfolio both through filings based on in-house discoveries and through licensing relationships with universities and other organisations. Highlights for the year included the granting in Japan of two cell wall modification patents with broad claims – an unusual step for the Japanese patent office; the granting of a new salt tolerance patent in the USA and the granting of a drought tolerance patent in China.

## Current trading and outlook

The Group has had an active year with energies focused on building the business and raising profile in key markets. The business development pipeline is very active and the Board is confident that FuturaGene will continue to reinforce and develop the momentum it has built. In this context, extensive business development work continues in the strategic crop area, both with respect to eucalyptus and poplar. The Group is looking to expand its eucalyptus model to additional territories and is actively developing a development base for poplar in the USA, as well as exploring potential commercial opportunities for this crop. In addition, the Group expects that it will continue executing outlicensing agreements for technology in non-strategic crops.

**Stanley Hirsch**  
Group CEO

14 May 2010



# Directors' Report

The Directors present their annual report for FuturaGene Plc and the audited financial statements for the year ended 31 December 2009.

## Principal activity

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

## Results and dividends

The loss on ordinary activities attributable to shareholders after taxation amounted to £2,191,000 (2008: £1,561,000). The directors do not recommend payment of a dividend (2008: £nil).

## Review of business and future developments

A Business Review and details of future developments are incorporated in the Chairman's Report and Chief Executive's Report on pages 2 to 5.

## Research and development

Details of the Group's research and development activities are included in the Chief Executive's Report. During the year the group invested an estimated £845,000 (2008: £750,000) in research and development activities including internal resources which did not meet the criteria for capitalisation and were therefore written off to the income statement during the year as incurred.

## Directors

The directors who held office during the year are shown below.

### Executive directors

Stanley Hirsch  
Ziv Shani (appointed 2 July 2009)

### Non-executive directors

Mark Pritchard (Chairman)  
Peter Toynton  
Gaetan Waucquez  
Michael Fromm

## Employee involvement

The Directors recognise the importance of employee involvement established by good communications and working relationships. The decentralised nature of the Group's activities necessitates that the practical application of this policy is the responsibility of local management in a manner appropriate to their circumstances.

## Creditor payment policy

The Group policy in relation to all of its suppliers is to confirm terms of payment when agreeing the terms of the transaction and to abide by those terms. The Group does not follow any code or statement on payment policy. Trade creditor days at the end of the year were 88 days (2008: 69 days).



# Directors' Report

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## Financial risk management

The group's activities expose it to a variety of financial risks. Note 21 details the business and foreign currency risks facing the Group and the Group's strategy for mitigating them.

## Charitable and political donations

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

## Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Auditors and disclosure of information to auditors

Nexia Smith & Williamson were appointed as auditors during 2009.

A resolution authorising their re-appointment will be submitted to the shareholders at the next Annual General Meeting.

For each of the persons who were directors at the time this report was prepared, the following applies:

- So far as the directors are aware, there is no relevant information of which the Company's auditors are unaware; and
- The directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.



# Directors' Report

CONTINUED

## Corporate governance

As a company whose shares are traded on AIM, FuturaGene Plc is not required to issue a statement of compliance with the Combined Code (revised in June 2008) issued by the Financial Reporting Council. Nevertheless, as the Board wishes to enhance the transparency of the Company's activities, we provide below, details of the governance arrangements that the Company has in place. The information is not audited.

- The Company is headed by an effective Board, which leads and controls the Group.
- There is a clear division of responsibilities in running the Board and running the Group's business.
- The Board includes both executive and non-executive directors. Due to the size of the Group there is no formal procedure for the appointment of new directors.
- The Board receives and reviews financial and operating information sufficient and appropriate to being able to discharge its duties.
- Directors submit themselves for re-election every three years by rotation in accordance with the Articles of Association.
- The Board is available to discuss current events with its institutional and private shareholders and positively encourages attendance at the Annual General Meeting.
- The Board, through the Chairman's statement and the directors' report, present a clear and detailed account of the Company's position and prospects.
- The Board regularly reviews the systems of internal financial controls and considers their effectiveness at safeguarding shareholders' investments and the Group's assets.
- The Board appointed a Remuneration Committee during 2009 comprising Mark Pritchard (Chairman), Michael Fromm and Peter Toynton.
- Due to the size of the company, there is no audit committee.

By order of the board

**Peter Toynton**  
Company Secretary

14 May 2010



# Independent Auditors' Report

to the shareholders of FuturaGene Plc

We have audited the financial statements of FuturaGene plc for the year ended 31 December 2009 which comprise the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Financial Position, the Group and Parent Company Statements of Cash Flows, the Group and Parent Company Statements of Changes in Equity and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

## Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

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

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2009 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.



# Independent Auditors' Report

CONTINUED

## Opinion on other matter prescribed by the Companies Act 2006

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

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

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

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

### Michael Bishop

Senior Statutory Auditor  
for and on behalf of  
Nexia Smith & Williamson  
Statutory Auditor  
Chartered Accountants

25 Moorgate  
London EC2R 6AY

14 May 2010

The maintenance and integrity of the [www.futuragene.com](http://www.futuragene.com) web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the accounts since they were initially presented on the web site.



# Group Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2009

Continuing Operations	Notes	2009 £'000	2008 £' 000
Revenue	2	181	40
Administrative expenses	4	(2,373)	(1,577)
Share of losses of Joint Venture	14	–	(69)
Operating loss		(2,192)	(1,606)
Finance Income	8	1	45
Loss before tax		(2,191)	(1,561)
Taxation	9	–	–
<b>Loss for the year attributable to equity holders of the company</b>		<b>(2,191)</b>	<b>(1,561)</b>
<b>Other Comprehensive Income/(Expenses)</b>			
Exchange differences on translation of foreign subsidiaries		(1,607)	32
<b>Total comprehensive income for the period attributable to equity holders of the parent company</b>		<b>(3,798)</b>	<b>(1,529)</b>
<b>Loss per ordinary share – basic and diluted</b>	10	<b>(4.7p)</b>	<b>(3.6p)</b>

The company has elected to take the exemption in Section 408 of the Companies Act 2006 to not present the parent company income statement. The loss for the year ended 31 December 2009 dealt with in the financial statements of the parent company was £4,230,000 (2008: £1,293,000). The parent company made no gains or losses which would be reported in Other Comprehensive Income in the year ended 31 December 2009 (31 December 2008: Nil) and therefore the parent company has not published its individual statement of total comprehensive income.



# Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2009

	Share capital £'000	Shares to be issued £'000	Share premium account £'000	Capital redemption reserve £'000	Foreign exchange reserve £'000	Retained deficit £'000	Total equity £'000
<b>Group</b>							
<b>At 1 January 2008</b>	213	143	18,810	2,415	34	(20,067)	1,548
Loss for the year	–	–	–	–	–	(1,561)	(1,561)
Exchange rate movement	–	–	–	–	32	–	32
Shares issued	2	(143)	141	–	–	–	–
Equity settled share based payment expense credit	–	–	–	–	–	10	10
Minority interests share of net liabilities on acquisition of subsidiary	–	–	–	–	–	(69)	(69)
<b>At 1st January 2009</b>	215	–	18,951	2,415	66	(21,687)	(40)
Exchange rate movement	–	–	–	–	(1,607)	–	(1,607)
Loss for the year	–	–	–	–	–	(2,191)	(2,191)
Shares issued	66	–	6,317	–	–	–	6,383
Equity settled share based payment expense credit	–	–	–	–	–	9	9
<b>At 31 December 2009</b>	<b>281</b>	–	<b>25,268</b>	<b>2,415</b>	<b>(1,541)</b>	<b>(23,869)</b>	<b>2,554</b>
<b>Company</b>							
<b>At 1 January 2008</b>	213	143	18,810	2,415	–	(19,998)	1,583
Loss for the year	–	–	–	–	–	(1,293)	(1,293)
Shares issued	2	(143)	141	–	–	–	–
Equity settled share based payment expense credit	–	–	–	–	–	10	10
<b>At 1 January 2009</b>	215	–	18,951	2,415	–	(21,281)	300
Loss for the year	–	–	–	–	–	(4,230)	(4,230)
Shares issued	66	–	6,317	–	–	–	6,383
Equity settled share based payment expense credit	–	–	–	–	–	9	9
<b>At 31 December 2009</b>	<b>281</b>	–	<b>25,268</b>	<b>2,415</b>	–	<b>(25,502)</b>	<b>2,462</b>



# Statement of Financial Position

AT 31 DECEMBER 2009

	Notes	Group		Company	
		2009 £'000	2008 £'000	2009 £'000	2008 £'000
<b>Assets</b>					
<b>Non-current assets</b>					
Goodwill	11	-	-	-	-
Intangible assets	12	-	-	-	-
Property, plant and equipment	13	149	172	-	-
Investment in subsidiaries	14	-	-	-	38
		<b>149</b>	<b>172</b>	<b>-</b>	<b>38</b>
<b>Current assets</b>					
Receivables	15	450	198	227	3
Cash and cash equivalents		2,803	597	2,347	444
		<b>3,253</b>	<b>795</b>	<b>2,574</b>	<b>447</b>
<b>Total assets</b>		<b>3,402</b>	<b>967</b>	<b>2,574</b>	<b>485</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	16	(848)	(1,007)	(112)	(185)
<b>Net current assets/(liabilities)</b>		<b>2,405</b>	<b>(212)</b>	<b>2,462</b>	<b>262</b>
<b>Net assets/(liabilities)</b>		<b>2,554</b>	<b>(40)</b>	<b>2,462</b>	<b>300</b>
<b>Equity</b>					
Share capital	18	281	215	281	215
Share premium account		25,268	18,951	25,268	18,951
Capital redemption reserve	23	2,415	2,415	2,415	2,415
Retained deficit		(23,869)	(21,687)	(25,502)	(21,281)
Foreign exchange reserve	23	(1,541)	66	-	-
<b>Total equity</b>		<b>2,554</b>	<b>(40)</b>	<b>2,462</b>	<b>300</b>

The financial statements were approved by the Board of Directors on 14 May 2010 and were signed on its behalf by

**Mark Pritchard**  
Director

**Peter Toynton**  
Director



# Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	Group		Company	
		2009 £'000	2008 £'000	2009 £'000	2008 £'000
<b>Cash flows from operating activities</b>					
Cash flows from operations		(2,105)	(1,506)	(2,511)	(1,543)
Interest received		1	45	-	38
<b>Net cash (used in)/from operating activities</b>		<b>(2,104)</b>	<b>(1,461)</b>	<b>(2,511)</b>	<b>(1,505)</b>
<b>Cash from investing activities</b>					
Purchase of property, plant and equipment	13	(27)	(89)	-	-
Proceeds from sale of property, plant and equipment		6	30	-	-
Investment in subsidiaries		-	-	-	(7)
<b>Net cash flows from(used in) investing activities</b>		<b>(21)</b>	<b>(59)</b>	<b>-</b>	<b>(7)</b>
<b>Financing Activities</b>					
Proceeds on issue of shares		4,414	-	4,414	-
<b>Net cash generated from financing activities</b>		<b>4,414</b>	<b>-</b>	<b>4,414</b>	<b>-</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>2,289</b>	<b>(1,520)</b>	<b>1,903</b>	<b>(1,512)</b>
Cash and cash equivalents at beginning of the year		597	2,124	444	1,956
Exchange difference		(83)	(7)	-	-
<b>Cash and cash equivalents at end of year</b>		<b>2,803</b>	<b>597</b>	<b>2,347</b>	<b>444</b>

## Reconciliation of net loss to net cash used in operating activities

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Loss before tax	(2,191)	(1,561)	(4,230)	(1,293)
Interest received	(1)	(45)	-	(38)
Depreciation of property plant and equipment	31	27	-	-
Profit on sale of property plant and equipment	-	(28)	-	-
Impairment of Intercompany loans	-	-	1,513	1,867
Non-cash consideration for investments	-	-	(1,511)	-
Impairment of investments	-	-	1,549	-
(Increase)/decrease in trade and other receivables	(252)	(100)	(224)	(1,807)
increase/(decrease) in trade and other payables	(159)	191	(75)	(282)
Equity settled share based payment expense	467	10	467	10
<b>Cash flows from operating activities</b>	<b>(2,105)</b>	<b>(1,506)</b>	<b>(2,511)</b>	<b>(1,543)</b>



# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2009

## 1 Accounting policies

### 1.1 Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations endorsed by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS as adopted by the EU.

A summary of the more important Group accounting policies is given below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The company is incorporated and domiciled in the UK.

### 1.2 Basis of preparation and consolidation

The preparation of financial statement in conformity with IFRS required the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher amount of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 1.4.

The Group financial statements incorporate the financial statements of the Company and its subsidiaries (Group undertakings), together with the Group's share of the results, assets and liabilities of jointly controlled entities (joint ventures) using the equity method of accounting, where the investment is carried at cost plus post-acquisition changes in the Group's share of net assets of the joint venture, less any provision for impairment. A subsidiary is defined as an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. A joint venture is an entity established to engage in economic activity, which the Group jointly controls with its fellow venturers.

Losses in excess of the Group's interest in joint ventures are not recognised, except where the Group has made a commitment to make good those losses.

The results of subsidiaries and joint ventures acquired or disposed of during the year are included in the Group income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

These consolidated financial statements have been prepared under the historical cost convention.

### 1.3 New standards and interpretation

At the date of authorisation of these financial statements, the following Standards and Interpretations relevant to the Group which have not been applied in these financial statements were in issue but not yet effective:

Amendments to IFRS 3 "Business combinations" – effective 1 July 2009

Amendments to IAS 27 "Consolidated and separate financial statements" – effective 1 July 2009

Amendments to IAS 39 "Financial instruments – recognition and measurement" – effective 1 July 2009

Amendments to IFRS 1 "First time adoption of International Financial Reporting Standards" – effective 1 July 2009

IFRIC 17 "Distributions of non-cash assets to owners" – effective 1 July 2009

IFRIC 18 "Transfer of assets from customers" – effective 1 July 2009.

Amendment to IFRS 2 "Group cash-settled share-based payment transactions" – effective 1 January 2010

Improvements to International Financial Reporting Standards (issued April 2009) – effective 1 January 2010

The Directors anticipate that the adoption of these standards and interpretations will have no material impact on the financial statements in the period of initial application.



# Notes to the Financial Statements

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## 1.4 Critical accounting estimates and judgements

To be able to prepare accounts according to generally accepted accounting principles, management and the Board of directors must make estimates and assumptions that affect the asset and liability items and revenue and expense items recorded in the final accounts as well as other information, such as that provided on contingent liabilities. These estimates are based on historical experience and various other assumptions that management and the Board believe are reasonable under the circumstances, the results of which form the basis for making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

## 1.5 Foreign currency translation

### **Functional and presentation currency**

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Pounds Sterling which is the Company's functional and presentation currency.

### **Transactions and balances**

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

Unsettled inter-company loans made by one group member to another in a currency that is different from the borrower's functional currency will be recorded at the rate of exchange ruling at the date the loan is made. At each balance sheet date thereafter, until it is repaid, the loan will be translated at the closing rate and any exchange difference will be reported in the borrower's income statement.

### **Group Companies**

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency of the group as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised in reserves.

## 1.6 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on product development are capitalised as intangible assets when it is probable that the development will provide economic benefits, considering its commercial and technical feasibility, resources are available for the development and costs can be measured reliably. Other development expenditures are recognised as costs are incurred.



# Notes to the Financial Statements

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## 1.7 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker as required by IFRS 8 “Operating Segments”. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

The accounting policies of the reportable segments are consistent with the accounting policies of the group as a whole. Segment profit represents the profit earned by each segment without allocation of foreign exchange gains or losses, gains or losses on the disposal of available-for-sale investments, investment income, interest payable and tax. This is the measure of profit that is reported to the Board of Directors for the purpose of resource allocation and the assessment of segment performance.

When assessing segment performance and considering the allocation of resources, the Board of Directors review information about segment assets and liabilities. For this purpose, all assets and liabilities are allocated to reportable segments.

## 1.8 Property, plant and equipment

Property, plant and equipment is shown at cost less subsequent depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life as follows:

Office equipment	3-10 years
Motor vehicles	4 years

## 1.9 Investments

Investments in subsidiaries are stated at cost less any provision for impairment.

## 1.10 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. The carrying value of capitalised goodwill is reviewed if events or changes in circumstances indicate a potential impairment. Any impairment is charged to the income statement. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to entity sold.

## 1.11 Intangible assets

Patent costs and costs incurred in licensing Intellectual Property are recognised as an expense as incurred until future revenues can be reliably measured.

## 1.12 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstance indicate that the carrying value may not be recoverable. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which they are separately identifiable cash flows.



# Notes to the Financial Statements

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## 1.13 Share based Compensation

The Group operates equity settled share based transactions for employees. The fair value of the transactions received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted calculated using a binomial formula, excluding the impact of any non-market vesting conditions.

## 1.14 Leases

Operating lease rentals are charged to the Income statement on a straight line basis over the period of the lease.

## 1.15 Current and deferred income tax

The current incomes tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries in which the Company and subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and established provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for, if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax balances are not discounted.

## 1.16 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and short term bank deposits that are not restricted as to withdrawal or use, less overdrafts repayable on demand.

## 1.17 Trade and other payables

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

## 1.18 Other receivables

The group classifies its financial assets as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets. The group's loans and receivables comprise "other receivables" and cash and cash equivalents in the balance sheet.



# Notes to the Financial Statements

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## 1.19 Financial risk management

The Group centrally manages borrowings, investment or surplus funds and financial risks, including foreign exchange risks. The objective of holding financial investments is to provide efficient cash and tax management and effective funding for the Group. The Group's financial instruments comprise cash along with various items, such as trade creditors. It is and continues to be the Group's policy that no speculative trading in derivatives shall be undertaken. The main risks arising from the Group's financial instruments are liquidity risk and interest rate risk.

### Liquidity risk

The Group finances its subsidiary's operations by way of loans. The Group has continued with its policy of ensuring that there are sufficient funds to meet the expected funding requirements of the Group's operations and investment opportunities. The Group has continued to monitor its liquidity position through budgetary procedures and cash flow analysis.

### Foreign exchange risk

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The group has investment in foreign subsidiaries, whose net assets are exposed to foreign currency translation risk. These risks are regularly monitored by the board.

### Interest rate risk

Interest income arises from investment of cash and short-term deposits held by the Group. Interest rate risk is managed by monitoring market rates to ensure that optimal returns are achieved.

### Credit risk

The Group has no significant concentrations of credit risk.

## 2 Revenue

### Revenue recognition

The subsidiaries derive their revenue principally from the sale of time based patent sub licenses. Revenue is recognised evenly throughout the period of the license.

### Revenue from participation in research and development

Revenues from projects in which contracting work for periods over three months is performed are recognized based on the percentage of completion method, provided that the following conditions are met: collection of the revenues is expected, revenues and costs can be estimated reliably, and there is a reasonable likelihood that the project will be completed and that contractual obligations to customers will be met. Percentage of completion is determined by the ratio of actual direct costs incurred to total direct costs estimated to be incurred over the duration of the contract. The project computed percentage of completion (weighting the appropriate components) is applied to the total estimated project revenues and total project costs to determine the amount of revenues and costs to be recognized, on a cumulative basis. Changes in estimates for revenues, costs and profits are recognized in the period in which they are determinable using the cumulative catch-up method of accounting.

Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are identified in the amount of the estimated loss on the entire contract. Other participation in research and development (for periods less than three months) are recognized when the services are performed.

If uncertainties exist, revenue is recognized when the uncertainties are resolved.

Revenues from participation in research and development in the amount of £77,000 and £52,000, for the years ended 31 December 2009 and 2008, respectively, are included in the statement of comprehensive income, as a deduction from expenses.



# Notes to the Financial Statements

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## 3 Segment analysis

### Segment information

The Group operates only one business segment, relating to the acquisition, development and commercialisation of intellectual property. All revenue and costs are recorded in the profit and loss account under this segment.

### Secondary segmental analysis

The Group operates through wholly owned subsidiaries in USA, China and Israel. The need to establish separate companies in these areas is a factor of local practice and requirement to secure recognition and other benefits.

All revenue is external and there are no inter-segment sales. A single external customer accounted for £123,000 of external turnover, being more than 10% of the total.

### 2009

	Europe £'000	North America £'000	Asia Pacific £'000	Total £'000
External revenue	–	123	58	181
Operating profit/(loss)	(794)	1	(1,399)	(2,192)
Finance Income	1	–	–	1
Loss before and after tax	(793)	1	(1,399)	(2,191)
Capital expenditure on tangible assets	–	–	27	27
Depreciation (note 13)	–	–	31	31
Total assets	2,573	121	708	3,402
Total liabilities	(112)	(46)	(690)	(848)

### 2008

	Europe £'000	North America £'000	Asia Pacific £'000	Total £'000
External revenue	–	–	40	40
Operating loss	(19)	(492)	(1,095)	(1,606)
Finance Income	38	–	7	45
Profit(Loss) before and after tax	19	(492)	(1,088)	(1,561)
Capital expenditure on tangible assets	–	–	89	89
Depreciation (note 13)	–	4	23	27
Total assets	459	9	499	967
Total liabilities	(186)	(108)	(713)	(1,007)



# Notes to the Financial Statements

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4 Expenses by nature	2009 £'000	2008 £'000
Staff Costs	909	464
Share based payment expense	389	10
Depreciation on owned tangible assets	31	27
Profit on disposal of fixed assets	–	(28)
Operating lease rentals – property	100	97
Research and development expenditure (3rd party)	179	67
Impairment of loan to related party	–	94
Foreign exchange (profit)/loss	112	(87)
Legal fees	124	392
Patent costs	149	202
Consultancy Fees	78	–
Other	302	339
	<b>2,373</b>	<b>1,577</b>

## 5 Services provided by the group's auditor and network firms

The total remuneration of the group's auditor, Nexia Smith & Williamson, for services provided to the group is analysed below:

	2009 £'000	2008 £'000
Audit fees – Statutory audit (Group)	16	15
– Statutory audit (Company)	5	5
Other fees – Tax services	7	7

## 6 Staff costs

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

	Group		Number of employees		Company	
	2009	2008	2008	2009	2008	2008
Research and development	14	8	–	–	–	–
Finance, Administration and Board	10	10	–	–	–	–
	<b>24</b>	<b>18</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
The aggregate payroll costs of these persons were:						
Wages and salaries	885	451	–	–	–	–
Social security costs	24	13	–	–	–	–
Non-executive directors fees	82	77	82	77	82	77
Share based payment	389	10	9	10	9	10
	<b>1,380</b>	<b>551</b>	<b>91</b>	<b>87</b>	<b>91</b>	<b>87</b>

The company costs comprise only non-executive directors.



# Notes to the Financial Statements

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## 7 Directors' remuneration

The Company's policy is to set the remuneration of senior executives (including executive directors) at a level to attract and retain executives of appropriate ability, experience and integrity to manage the affairs of the company and for this to be reviewed annually.

Directors' emoluments (including non-executive directors) are as follows:

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Executive directors remuneration	583	224	–	–
Non-executive directors fees	82	77	82	77
Aggregate emoluments	665	301	82	77

### Remuneration of highest paid director

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Aggregate emoluments	583	214	–	–

For details on directors' related party transactions, please refer to note 22.

## 8 Finance income

	2009 £'000	2008 £'000
Bank interest receivable	1	45

## 9 Income tax

	2009 £'000	2008 £'000
Current tax on income for the period	–	–

The current tax charge for the period is different to the standard rate of corporation tax in the UK 28% (2008: 28.5%). The differences are explained below.

	2009 £'000	2008 £'000
Loss on ordinary activities before tax	2,191	1,561
Current tax at 28% (2008:28.5%)	(613)	(455)
Effects of:		
Depreciation and other timing differences	9	10
Non-deductible expenses	11	48
Increase in tax losses not recognised	593	397
Total tax charge (see above)	–	–

At 31 December 2009 the Group had net losses to carry forward of approximately £22 million (2008: £20 million). The deferred tax asset on these tax losses of £6.2 million (2008: £6.6 million) has not been recognised due to uncertainty of recovery.



# Notes to the Financial Statements

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## 10 Loss per ordinary share

The calculation of loss per ordinary share is based on:

### Basic and diluted EPS

	2009	2008
Loss for the year attributable to equity holders of the company	<b>£2,191,000</b>	£1,561,000
Weighted average number of ordinary shares in issue throughout the year	<b>47,739,034</b>	42,894,867
Basic Loss per share	<b>(4.7p)</b>	(3.6p)

Since the conversion of potential ordinary shares would decrease net basic loss per share, they are anti-dilutive. Accordingly, diluted loss per share is the same as basic loss per share.

## 11 Goodwill

Group	£'000
<b>Cost</b>	
At 1 January 2008, 31 December 2008 and 31 December 2009	8,422
<b>Aggregate impairment</b>	
At 1 January 2008, 31 December 2008 and 31 December 2009	(8,422)
<b>Net Book Amount</b>	
At 1 January 2008, 31 December 2008 and 31 December 2009	–

Goodwill carried represents the goodwill acquired on the acquisition of FuturaGene Inc. and residual excess cost over the fair values of the net assets acquired on the acquisitions of CBD Technologies Limited and Hyacinth Bio-Energy Limited.

The value in use calculations were based on projections of market size, current crop yields, projected yield improvements, estimated probability factors and discount rates considered appropriate to the risk involved. Due to the uncertainty of the projections, based upon the single primary segment, goodwill has been fully impaired.

## 12 Intangible assets

Group	Customer contract £'000	Intellectual property £'000	Total £'000
<b>Cost</b>			
At 1 January 2008, 31 December 2008 and 31 December 2009	1,500	750	2,250
<b>Aggregate impairment</b>			
At 1 January 2008, 31 December 2008 and 31 December 2009	(1,500)	(750)	(2,250)
<b>Net book amount</b>			
At 31 December 2008 and 31 December 2009	–	–	–

### Impairment tests for goodwill and intangible assets

In view of the uncertainty of timing of achievement, where relevant, of long-term milestones and both the timing and quantum of future cash flows together with the absence of comparable market or cost data, the carrying values in respect of acquisitions were unable to support calculations applied under IFRS and IAS rules and have therefore been written off to the consolidated income statement in the relevant periods. In practice little has changed since the dates of the acquisitions and the directors continue to believe that the acquisitions represented worthwhile opportunities.



# Notes to the Financial Statements

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## 13 Property, plant and equipment

	Office Equipment £'000	Motor Vehicles £'000	Total £'000
<b>Group 2009</b>			
<b>Cost</b>			
At 1 January 2009	208	40	248
Additions	27	–	27
Disposals	(6)	–	(6)
Exchange difference	(82)	(4)	(86)
At 31 December 2009	147	36	183
<b>Depreciation</b>			
At 1 January 2009	65	11	76
Charge for year	28	4	31
Disposals	(6)	–	(6)
Exchange difference	(68)	(1)	(67)
At 31 December 2009	19	15	34
<b>Net book amount at 31 December 2009</b>	<b>128</b>	<b>21</b>	<b>149</b>
<b>Group 2008</b>			
<b>Cost</b>			
At 1 January 2008	99	25	124
Additions	89	–	89
Disposals	(15)	–	(15)
Exchange difference	35	15	50
At 31 December 2008	208	40	248
<b>Depreciation</b>			
At 1 January 2008	39	11	50
Charge for year	27	–	27
Disposals	(12)	–	(12)
Exchange difference	11	–	11
At 31 December 2008	65	11	76
<b>Net book amount at 31 December 2008</b>	<b>143</b>	<b>29</b>	<b>172</b>

The company has no tangible fixed assets at 31 December 2009 (2008: £nil).



# Notes to the Financial Statements

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## 14 Investments in subsidiary undertakings

	Total £'000
<b>Cost</b>	
At 1 January 2008	16,250
Additions 2008	7*
At 1 January 2009	16,257
Additions 2009 (Note 20.1)	1,511
At 31 December 2009	<b>17,768</b>
<b>Provision for impairment</b>	
At 1 January 2008	16,219
Impairment 2008	
At 1 January 2009	16,219
Impairment 2009	1,549
Additions 2009	-
At 31 December 2009	<b>17,768</b>
<b>Net book value at 31 December 2009</b>	<b>-</b>
Net book value at 31 December 2008	38

\*adjustment to reconcile registered capital of FuturaGene Investment Consulting (Beijing) Company Limited

The investments in subsidiary undertakings held by the Parent company at 31 December 2009 were as follows:

	Registered	% holding
FuturaGene Inc.	USA	100
FuturaGene Investment Consulting (Beijing) Company Limited	China	100
CBD Technologies Inc	USA	100
CBD Technologies Limited (via CBD Inc.)	Israel	100
Hyacinth Bio-Energy Limited	Hong Kong	70
Hyacinth AgriDev ( Xinjiang) Co. Ltd	China	(owned 100% by Hyacinth Bio-Energy)

On 11 February 2009, the company acquired an additional 20% of Hyacinth Bio-Energy Limited at a cost of HK\$2,000. The increased shareholding was effected through a transfer of shares between shareholders.

In February 2010, the company acquired the remaining 30% of Hyacinth at a cost of US \$6,000, and the minority shareholders agreed to transfer their loans, which totalled \$166,733 (£102,922) to FuturaGene Plc. The amount of £102,922 is included in the accounts to 31 December 2009 under "Trade & Other Payables". In view of the acquisition of 100% of the share capital of Hyacinth soon after the accounting date, and the fact that this had been agreed to during 2009, but only formalised in 2010, 100% of the results of Hyacinth Bio-Energy Ltd (being a loss of £12,635) have been accounted for in the 2009 Group Statement of Comprehensive Income. Although this is not the correct treatment, the effect on the consolidated position is immaterial.

All subsidiaries operate in the company's principal activity.



# Notes to the Financial Statements

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## 15 Receivables

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
<b>Due within one year</b>				
Amounts owed by subsidiary undertakings	–	–	–	–
Other receivables	365	159	227	3
Prepayments	85	39	–	–
	<b>450</b>	<b>198</b>	<b>227</b>	<b>3</b>

The group and company have no trade receivables.

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

Amounts owed by subsidiary undertakings are stated net of provisions of £6,166,000 (2008: £4,653,000).

## 16 Trade and other payables

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
<b>Falling due within one year</b>				
Trade payables	105	64	–	–
Other payables	427	485	–	100
Accruals and deferred income	316	458	112	85
	<b>848</b>	<b>1,007</b>	<b>112</b>	<b>185</b>

Accruals, trade and other payables were the only financial liabilities as defined by IAS 39.

## 17 Commitments under operating leases

The Group leases various offices under non-cancellable operating lease arrangements. The leases have varying terms, escalation clauses and renewal rights. The lease expenditure charged to the income statement during the year is disclosed in note 4.

Outstanding commitments under these leases are as follows:

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Within one year	76	61	–	–
Between two and five years	206	87	–	–
	<b>282</b>	<b>148</b>	<b>–</b>	<b>–</b>



# Notes to the Financial Statements

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18 Called up equity share capital	2009 £'000	2008 £'000
<b>Authorised</b>		
400,000,000 ordinary shares of £0.005 each	<b>2,000</b>	2,000
<b>Allotted, called up and fully paid</b>		
56,222,239 (2008: 43,054,121) ordinary shares of £0.005 each	<b>281</b>	215

18.1 The movement on Share Capital in the year to 31 December 2009 is made up as follows:

	Ordinary shares of £0.005 each
Issued Share Capital at 1 January 2009	43,054,121
Placing on 5 May 2009 (see Note 18.2)	4,045,100
Issued to founder shareholders of FuturaGene Inc on 8 July 2009 (see Note 20.1)	2,323,018
Issued to Trust for CEO on 8 July 2009 (see Note 18.3)	800,000
Placing on 1 December 2009 (see Note below)	6,000,000
<b>Total issued Share Capital at 31 December 2009</b>	<b>56,222,239</b>

18.2 On 5 May 2009 it was announced that the Company would issue up to 4,400,170 new ordinary shares to International Institute of BioScience Research and Development LLC ("IIBRD"), raising £1,534,456. The initial number of shares issued was 4,045,100 and there was an anti-dilution protection granted to IIBRD, whereby it was agreed that, should the Company issue any further shares in the succeeding six months to the founder shareholders of FuturaGene Inc (see Note 21.1), or in connection with the acquisition of CBD (see Note 20.2), IIBRD would be issued with further shares. In view of the issue to the founder shareholders of FuturaGene Inc., it will now be necessary to issue a further 192,000 shares to IIBRD.

18.3 On 8 July 2009, it was announced that the board of the Company had agreed to award 800,000 new Ordinary Shares to the Company's CEO, Dr. Stanley Hirsch as part of his compensation plan. These shares were issued to a trust for the benefit of Dr. Hirsch at nominal value.

18.4 On 1 December 2009, it was announced that the Company had placed 6 million new Ordinary Shares with new institutional and private shareholders, raising gross proceeds of £3 million. On the same date, 6 million Warrants to subscribe for Ordinary Shares were issued to the Placees at an exercise price of 50p per share. These Warrants are exercisable, subject to certain exceptions, between 30 November 2010 and 14 December 2010.



# Notes to the Financial Statements

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## 19 Share based payments

The following options over ordinary shares of the company existed during the year:

Date granted	Number of share options	Weighted average exercise price	Maximum term
2006*	250,000	61p	3 years
2007*	200,000	30p	3 years
2008	250,000	11p	3 years
2009	120,000	35p	4 years

At 31 December 2009, all of the options granted in 2006, 2007 and 2008 were fully vested. The options granted in 2009 vest as follows:

2009	28,333
2010	24,999
2011	33,334
2012	33,334

\*The options granted in 2006 and 2007 were subject to shareholder approval which was not obtained until 11 August 2008. These options are therefore deemed granted in August 2008 and valued on this basis.

In addition to the 250,000 options granted in 2006 shown above, a further 550,000 options were granted in that year, and all these options expired during 2009 without being exercised.

The following options over ordinary shares were granted during the year and their value measured by use of a binomial pricing model using the inputs shown.

Grant Date	1 February 2009
Share price at date of grant	£0.27
Number of options	120,000
Expected expiry date	31 January 2013
Expected life of option (years)	4.0
Vesting period (years)	1.0 to 3.0
Vesting date	1 February 2010, 2011 & 2012
Exercise price	£0.35
Volatility (%)	61%
Risk free rate of return (% yield)	2.19%
Dividend yield (%)	0.00%

The volatility percentage has been calculated by reference to the Company's historic share price. The weighted average fair value of the options is 9.3 pence.

The group recognised total expenses of £9,000 related to the options in 2009 (2008: £10,000).

A reconciliation of share option based scheme movements for the years ended 31 December 2009 and 2008 is set out below:

	Weighted Average		Weighted Average	
	Number 2009	Exercise price 2009 Pence	Number 2008	Exercise price 2008 Pence
Outstanding at 1 January	700,000	34p	450,000	47p
Granted	120,000	35p	250,000	11p
Expired/forfeited	-	-	-	-
Exercised	-	-	-	-
Outstanding at 31 December	820,000	34p	700,000	34p
Exercisable at 31 December	728,333	34p	700,000	34p



# Notes to the Financial Statements

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## 20 Contingent consideration

At 31 December 2009, the company had an obligation to issue up to a total of approximately 2,750,000 (2008: 11.3 million) ordinary shares under the terms of acquisition agreements.

### 20.1 In respect of FuturaGene Inc.

At 31 December 2007, the company had an obligation to issue up to a total of 26 million shares pending achievement of milestones under the acquisition agreement.

Approximately 14.6 million of these shares were the subject of litigation between the Company and certain founder members. On 31 December 2008, the company announced that it had resolved all legal claims and that all parties had terminated all lawsuits against each other.

Whilst the specific terms of the settlement remain confidential, the company has not issued, nor will it issue in the future, any additional shares to the litigant founders. The company reached an out of court settlement with Mr.B.Ruggiero in respect of the wrongful dismissal case the cost of which is included in the Income Statement for the year to 31 December 2008. The Company has requested that a license to a discovery known as Osmotin be transferred back to Purdue Research Foundation ("PRF"). Osmotin was licensed by FuturaGene, Inc. from PRF in April, 2005. The Company does not deem Osmotin material for its business. The company considers this to be a satisfactory and equitable solution.

Of the remaining 11.4 million shares, approximately 2.8 million have been forfeited. On 8 July 2009, it was announced that agreement was reached with the remaining founder shareholders of FuturaGene Inc, who agreed to relinquish their rights to receive additional consideration shares pursuant to the Merger Agreement. In consideration of their respective agreements to release the Company from its obligations under the Merger Agreement, the Company agreed to issue a total of 2,158,018 new Ordinary Shares at nominal value, and these shares were issued on 8 July 2009. The fair value of these shares at 19 May 2004, being the original date of acquisition of Futuragene Inc. is £1,510,613 In addition, there was an issue of 165,000 new Ordinary Shares to the consultants who effected the settlement.

### 20.2 In respect of CBD:

Under the terms of the CBD Acquisition Agreement, a further 2.75 million (2008: 2.75 million) shares remain to be issued if certain conditions and revenue targets are met by CBD which in turn are dependent upon the achievement of milestones defined in a customer contract.

20.3 With regard to the future contingent consideration in respect of both FuturaGene Inc. and CBD, in view of the uncertainty over timing of achievement, where relevant, of long term milestones and both the timing and quantum of future cash flows, together with the absence of comparable market or cost data, such consideration was excluded from the fair values of the respective acquisitions.



# Notes to the Financial Statements

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## 21 Financial instruments

### Financial risk management

The Group's financial instruments comprise cash, receivables, and payables arising directly from the operations of the Group. The main risks arising from the Group's financial instruments are interest rate risk and foreign currency risk. The Group policies for managing each of the risks are summarised in note 1.

The carrying value of all the Group's and the Company's financial assets approximates fair value and they are classified as loans and receivables, being the total of cash and cash equivalents and other receivables.

The carrying value of all the Group's and the Company's financial liabilities approximates fair value and they are classified as trade and other payables.

### Foreign currency exposure

The Group's principal exposure to exchange rate fluctuations arises on the translation of overseas net assets and profits into Sterling for accounting purposes. Cash balances are held primarily in sterling and dollars and are used to defray expenditure incurred and to be incurred in these currencies. Exchange differences arise on conversion of the dollar balances into sterling for accounting purposes. The board continues to monitor the position.

At 31 December 2009 a strengthening or weakening of sterling against the dollar by 5% with all other variables held constant would respectively have reduced or increased reported cash balances and profit & loss account by approximately £6,000 (2008: £8,000).

### Interest rate risk

The Group's interest bearing assets comprise only cash and cash equivalents which earn interest at a variable rate.

At December 2009 a change of 1% in interest rates would increase/decrease interest received and cash balances by £1,000 (2008: £11,000).

### Credit risk

The group does not currently have any trade debtors. During the year the Group used only commercial banks and no credit limits were exceeded as no overdraft facilities are in place.

Therefore, the group's exposure to credit risk relates to the total of cash and cash equivalents, being £2,803,000 (2008: £597,000).

### Liquidity risk

The Group had no borrowings as at 31 December 2009 (2008: £Nil).

### Capital risk management

The group's objectives when managing capital (share capital plus reserves) are to safeguard the group's ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the group may issue new shares or sell assets to reduce debt.

During 2009, the group's strategy remained unchanged from 2008 whereby the group has no external borrowings and is financed through cash raised in previous share issues.



# Notes to the Financial Statements

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## 22 Related party transactions

On 8 July 2009, it was announced that the board of the Company had agreed to award 800,000 new Ordinary Shares to the Company's CEO, Dr. Stanley Hirsch as part of his compensation plan. These shares were issued to a trust for the benefit of Dr. Hirsch at nominal value.

During the year, the company paid fees of £30,000 (2008:£30,000) to Lomond Consultancy Limited in respect of services provided by Mark Pritchard, a director of the company.

Payments by the company to its subsidiaries during the year as working capital amounted to £1,513,000 (2008: £1,807,000).

Intercompany balances owing to FuturaGene plc at 31 December 2009 amounted to £6,166,000 (2008: £4,653,000).

All amounts outstanding have been fully impaired.

## 23 Reserves

The nature and purpose of each reserve in the Statement of Financial Position is as follows:

### (a) Capital Redemption Reserve

In accordance with s 733 of the Companies Act 2006, this reserve arose as a result of the purchase of its own shares by the company out of the company's profits.

### (b) Foreign Exchange Reserve

This reserve relates to the fact that the company has subsidiaries which report in currencies other than sterling, and the resulting fluctuation in exchange rates.

## 24 Contingent liabilities

Other than set out in Note 20, there are no contingent liabilities at 31 December 2009 (2008: Nil).

## 25 Litigation

No member of the Group was involved in any litigation at 31 December 2009 (2008: Nil).

## 26 Post balance sheet event

On 23 February 2010, the Company announced that it had received an approach regarding a possible offer for FuturaGene Plc from a third party. Since that date, discussions and due diligence have continued, and on 13 May 2010, an offer of 90p cash per share was announced.

## 27 Control

FuturaGene's shares are traded on the AIM Market of the London Stock Exchange. At the date of the Annual Report in the directors opinion there is no controlling party.



