

## Regulatory Announcement

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|-----------------|--------------------------------|
| <b>Company</b>  | <a href="#">Futuragene PLC</a> |
| <b>TIDM</b>     | FGN                            |
| <b>Headline</b> | Final Results                  |
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20 June 2008

FuturaGene PLC  
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### **FUTURAGENE PLC ("FuturaGene" or "the Company")**

#### **Final results for the year ended 31 December 2007**

FuturaGene, which develops environmentally friendly solutions that enable plants to grow in hostile conditions, improve crop yields and enhance processability and digestibility, today reports final results for the year ended 31 December 2007.

#### Highlights

- Operating loss £1.64 million (2006: £4.69 million)
- Retained loss for year £1.52 million (2006: £3.84 million)
- Loss per ordinary share 3.6p (2006: 10.2p)
- Cash at period end of £2.1 million (2006: £3.6 million)
- Successful completion of first year commercial eucalyptus field trials with Suzano in Brazil
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- Completion of Development and Evaluation deal with Forage Genetics Inc.
- Collaboration Agreement with the Research Institute of Tropical Forestry, China
- Establishment of JV in China to develop sustainable biofuel in China
- No dividend is proposed

Mark Pritchard, Chairman, commented "This has been a year of sound operational progress, where important licensing deals have been struck. Significant validation of the CBD technology platform has been achieved through the data collected from field trials. We have also forged some important collaborations in China, which we hope will prove to be exciting projects in the future. However, the on-going litigation continues to impact on the Company and its share price".

The Company's Annual General Meeting will be held at 9.00 a.m. on 14 July 2008 at the offices of Fox Williams LLP, 10 Dominion Street, London EC2M 2EE.

ENDS

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Annual Report and Accounts

The Company has today published and posted to shareholders its Annual Report and Accounts for the year ended 31 December 2007 ("Annual Report").

For the information of investors and shareholders alike, copies of the Annual Report will be available for at least one month, free of charge, at the offices of the Company's Nominated Adviser, Evolution Securities, being 100 Wood Street, London EC2V 7AN. Electronic copies are available on the Company's website, [www.futuragene.com](http://www.futuragene.com).

## Notes to Editors

### FuturaGene

FuturaGene is committed to the research and development of environmentally friendly solutions to solve crop production problems.

FuturaGene has worldwide exclusive licences over patents on genes capable of improving yields for crops facing the impact of cold, high salt concentrations and drought, known as abiotic stresses. FuturaGene's portfolio of genes improves the ability of crops to withstand these pressures by enhancing the function of genes already natural to the plant, through over expression of these genes. The intellectual property of CBD Technologies, its wholly owned subsidiary, improves yields, processability and the sustainability of plants for the forestry, biofuels and agricultural sectors.

FuturaGene's businessmodel is to add value to this portfolio by taking gene discoveries as far down the development path as possible, and then bringing them to market via out-licensing partnerships with market leading participants. To maximise the economic potential of the Group and to shorten the time to commercialisation, the Group is working on extending its business model to the development of a modern technology based, market driven integrated operating platform.

### Chairman's Report

The year under review has been one of measured success for the Company. The integration of CBD Inc. into the FuturaGene Group was completed and during the year we have made significant progress toward future revenue generation, a milestone for any biotech company.

In August 2007, Stanley Hirsch was appointed Group CEO and you will find his review of our operations set out below.

It is very pleasing to note that there is significant and growing interest in the capabilities of our technology as evidenced by the out-licensing deals we have announced. It is equally pleasing that we are making substantive progress in taking our technologies from the laboratory to the field and that we are now building data, particularly in respect of the CBD genes, that truly demonstrates the efficacy of our gene portfolio.

However, it is a great shame that the real advances being made by the Company are being obscured by the on-going litigation with certain former managers and a small group of shareholders. The performance of the share price was particularly disappointing during the year and the downward trend has continued since the year end. The Directors believe that the legal actions filed against the Company have played a major role in this trend, in contradiction to the continued positive operational progress of the Company. The board continues to defend the interests of shareholders against these actions, which are costly in terms of both management distraction and money.

### Audit Opinion

The auditors have stated in their opinion that they are unable to form an opinion as to whether the group and parent company financial statements give a true and fair view of the state of the affairs as at 31 December 2007 and of the loss and cash flows for the year then ended. This is as a result of the on-

going legal claims and the consequential uncertainty over the ability of the company to continue as a going concern.

As set out in Notes 3 and 4, the directors believe that the claims against the company are without merit and remain optimistic of a positive resolution to the litigation. No provision for any liability that may result has been made in the financial statements.

Further, as set out in Note 1.2, the directors have prepared working capital projections for the period to 30 June 2009. The projections are subject to a number of potentially material variables including the impact of any settlement to the ongoing litigation and the associated legal costs, the timing and extent of future revenues, the ability to control levels of expenditure and the proceeds from any potential future fund raising.

Based upon these projections, the directors consider it appropriate to prepare the accounts on a going concern basis. However, the directors recognise there will remain material uncertainty over the group's cash flows which consequently cast significant doubt about the company's ability to continue as a going concern.

### Financial Results

Administrative expenses (after eliminating foreign exchange losses (2007: £79,000, 2006: £508,000) have increased from £957,000 to £1,559,000. As a pre-revenue business, our key performance indicators are centered around cost control which is monitored through budgetary control and management meetings. This increase in expenses, which is in line with expectations, is due to the acquisition of CBD which impacted on our cost base for the first time in 2007 following the completion of its acquisition in late 2006

The loss per share was 3.6p (2006: 10.2p).

The Group had cash reserves of £2,124,000 as at 31 December 2007 (2006: £3,630,000). As at 16 June 2008 the group's cash balance had fallen to £1,400,000. The board is actively considering its options in respect of the net additional funding required for the next stage of the group's development and continues to maintain a tight control over operational costs. No dividend payment is proposed. (See also note 1.2).

### Biofuels

In the first half of the current year we completed an additional out-licensing deal and established a joint venture in China to pursue opportunities in the biofuels sector (further details of which are set out in the Chief Executives' report) which further increases our optimism for the future. We will continue to diligently pursue our business plan with a renewed focus on fuel and fibre production and pursue key strategic partnerships to develop and market our technology worldwide.

### AGM

Enclosed with these accounts is a notice of our annual general meeting to be held on 14 July 2008. At the meeting the Company proposes to adopt new articles of association (the "New Articles") which will update the Company's current articles, primarily to take account of recent changes in English company law brought about by the Companies Act 2006. The principal changes introduced in the New Articles are procedures surrounding convening and voting at general meetings, conflicts of interest and electronic and website communications with shareholders.

The New Articles, showing all the proposed changes to the current articles, are available for inspection between 9.00 a.m. and 5.00 p.m. Monday to Friday at the Company's registered office, Ten Dominion Street, London EC2M 2EE.

As an early stage technology, the Company faces a number of business risks. During the year, the technology risks associated with the CBD technology have started to lessen as the data being generated from field trials indicates that use of these genes can generate significant yield gains. However the ongoing litigation mentioned above is a significant risk to the company due to the uncertainty it creates and the distracting effect on Company management.

Finally I would like to thank my fellow board members and all the employees for their continued efforts during the year, in what has been, and continue to be, trying and difficult circumstances. I am confident that during, 2008 we will continue to build on the achievements and progress of 2007.

Mark Pritchard  
Chairman

### **Chief Executive's Report**

The past year has been an important year for the company, in which we have both consolidated the operations of FuturaGene and its new wholly owned subsidiary, completed a number of transactions and laid the foundations for the future activity of the Group.

2007 was a watershed year in which fuel and food prices increased dramatically. Food and fuel have become even more tightly linked as agriculture has expanded from its classic role as a provider of food, feed and fibre to include an additional arm producing a raw material for a fuel source - agriculture is developing from being a huge user of hydrocarbons as fuel and fertilizer source to becoming the provider of the new "crude" for biofuel refineries. We have worked in this new milieu to position the company for its future growth. Through the biomass development work of our CBD subsidiary over the past seven years in the plantation forestry industry we believe that the Group is uniquely positioned for the development of enhanced crops for second generation bioethanol production (cellulose-to-ethanol), which will provide significant benefits with respect to food security and environmental sustainability.

The Group has worked actively to exploit the technology synergies which provided the rationale for merging the abiotic stress base from FuturaGene with the yield enhancement and processability traits from CBD technologies. In a world of increasing food and energy prices, we believe that the technology offered by the Group will become of critical importance in the next generation of agricultural development.

Highlights for 2007 included two important transactions:

- Development and Evaluation Agreement with Forage Genetics in the USA for the enhancement of alfalfa as a forage and biofuel crop with CBD genes. Alfalfa is a principal feedstock for dairy cows, but is also an important food source for horses, beef cattle and sheep. Alfalfa is the fourth biggest crop in the USA with approximately 23 million acres harvested for hay and alfalfa silage annually. Alfalfa hay production is estimated to generate more than \$7 billion per annum. Forage Genetics has a market share of about 60% of the branded alfalfa seed sold in the USA. Forage Genetics will develop the improved varieties and FuturaGene will receive a share of the trait premiums paid by growers for using these varieties.
- Collaboration Agreement with the Research Institute of Tropical Forestry (RITF) of the China Academy of Forestry for the development of growth enhanced eucalyptus for China. RITF, a satellite institute of the China Academy of Forestry, is the principal research institute for the eucalyptus industry in southern, sub-tropical China. It is a major provider of improved germplasm to this fast-growing industry, as well as being the provider of extension services. More

than 2 million hectares (c.5 million acres) of eucalyptus have been planted in the southern provinces of China over the last few years. RITF will develop improved eucalyptus clones for dissemination to the industry. FuturaGene and RITF will have co-commercialisation rights for these clones.

- Furthermore, at the end of this reporting period, we were in advanced negotiation with Targeted Growth, Inc. in the USA for the licensing of specific genes from our subsidiary, CBD Technologies for shortening rotation time and enhancing digestibility and processability of corn and soy. This agreement was subsequently executed and announced in April, 2008. This agreement will yield licensing and milestone payments and a share of trait premium from the use of the modified crops. Corn and soy are two of the largest crops in the United States and cover hundreds of millions of acres worldwide. These crops play a critical role in the food, feed and biofuel sectors worldwide.

On the R&D front, a significant shift in the Group's approach to R&D occurred during 2007. Up to this time, the Group had conducted most of its research activities under contract with universities. This model, whilst at first appearing to be attractive, has many shortcomings including the difficulty in controlling confidentiality, no accumulation of in-house expertise, disruption of projects as research students move on to other institutions and a significant difference in the deliverables needed for commercialisation of discoveries compared with academic deliverables. With the acquisition of CBD Technologies, the Group acquired its own research facility in Rechovoth, Israel. The Group has used this asset to enforce tighter controls on existing projects, to validate work done by outside groups and increasingly, to conduct its own work. In parallel, outside projects are being wound down and very stringent selective criteria will be applied on the initiation of any new projects conducted by third parties for the Group.

An intensive audit of the overall state of projects in the Group was conducted during 2007 and this culminated in a detailed presentation to the Scientific Advisory Panel of the Group in Chicago in October, 2007. Based on this review, it emerged that the Group should move rapidly on its biomass-based technologies, with a continued focus on eucalyptus and accelerating work in poplar. Poplar is a leading species indicated by the US Department of Energy as a cellulose source for non-food crop biofuel production. Thus, in the latter crop, our focus will be on developing high yield, short rotation (2-3 year growing period) poplar for the cellulose-to-ethanol industry. CBD has previously demonstrated an increase in growth of hundreds of percent in poplar through the introduction of its cell wall modifying technology into this species. The abiotic stress technologies (salt tolerance, drought tolerance etc.) were adjudged to be earlier stage and to require additional in-house development. Our consensus management view is that despite the time required, the value of these abiotic stress traits would be significantly enhanced by prototyping and field testing these traits in-house, prior to commercialising either by own-crop development in certain species or out-licensing for crops which are not in the strategic areas in which the Group is involved.

Highlights on the research front included:

- Successful completion of first year commercial field trials for growth enhanced eucalyptus with our partners, Suzano, in Brazil. Suzano also established a second field trial at an additional location to verify results of the first trial. Companhia Suzano de Papel e Celulose (Suzano) is the largest producer of paper for the Brazilian domestic market and the second largest producer of eucalyptus-based pulp in the world. FuturaGene has modified commercial eucalyptus clones bred by Suzano to enhance their growth properties. After an exclusive usage period by Suzano, Suzano and FuturaGene will jointly commercialise the enhanced clones in South America. There are approximately 5 million hectares (12.5 million acres) of commercial eucalyptus forest in South America today. Subsequent to this reporting period, second year results from the first trial and first year results have been obtained from the second trial, demonstrating the strong commercial potential of this technology.
- Completion of a modified eucalyptus field trial in Israel. Eucalyptus modified with genes for the enhancement of yield were tested for three years and weighed after harvest. Leading clones from this trial showed a growth improvement of more than 30% over un-modified controls.

Classic breeding techniques usually provide yield improvements of about 5% over a 7-10 year cycle. This result, combined with the results obtained with Brazilian trials, provides convincing evidence that the Group's yield enhancement technology works in commercial species, in the field.

- Completion of transformation work on growth enhanced eucalyptus clones for AA Alliance, our partners in Thailand and certain territories in South East Asia and transfer of these clones to Asia for field trialing, expected to start in Q3, 2008. AA Alliance is a leading pulp and paper producer in Thailand. It has ultra-modern mill facilities, which adhere to stringent environmental controls and are socially involved in neighbouring communities, including electricity supply. AA Alliance currently plants more than 60 million eucalyptus plantlets annually to supply its fibre requirements.
- Preliminary field analysis of our drought resistance genes in cotton in China demonstrated the potential of this technology. Whilst extremely promising, the expression of these genes needs to be optimised and developed beyond the scope of the project conducted by China Agriculture University for the Group, prior to strategic decisions on the appropriate commercialisation pathway for this technology.

To maximise the economic potential of the Group and to shorten the time to commercialisation, the Group is working on extending its business model to the development of a modern technology based, market driven integrated operating platform. As a first step, the company has made a clear commitment to the development of a sustainable biofuels business in China. To this end, the Group established a Hong Kong-based 50:50 joint venture, Hyacinth BioEnergy, with the JPI Group of Beijing a leading private investment and advisory company based in China, whose client base includes corporate, institutional and governmental clients and partners, including a number of Fortune 500 companies.

Hyacinth BioEnergy is developing a fully integrated feedstock to biofuel project in China. This project will be based on second generation cellulose-to-ethanol processing technology and will utilise non-food crops such as high yield, short rotation poplar and sweet sorghum as feedstocks. In the period subsequent to this reporting period, variety selection field trials have been initiated and a number of potential processing technology suppliers have been engaged in discussion. Hyacinth is currently negotiating land leases for approximately 7,000 hectares (17,500 acres).

In addition to our ongoing research and business development activities, we remain committed to strengthening our intellectual property portfolio, both by extension of current filings, through strategic licensing-in from commercial bodies and by strengthening and broadening our relationships with universities, which are ideal as discovery "engines".

I look forward to updating you on additional progress in future reports.

Stanley Hirsch,  
Group CEO  
20 June 2008

## CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2007

|  | 2007<br>£'000  | 2006<br>£' 000 |
|--|----------------|----------------|
| Revenue  | -              | -              |
| Administrative expenses before impairment                              | (1,638)        | (1,465)        |
| Impairment loss on intangible assets                                   | -              | (3,223)        |
| <b>Total administrative expenses</b>                                   | <b>(1,638)</b> | <b>(4,688)</b> |
| <b>Operating loss</b>  | <b>(1,638)</b> | <b>(4,688)</b> |
| Finance Income   | 122            | 178            |
| <b>Loss before tax</b>   | <b>(1,516)</b> | <b>(4,510)</b> |
| Income tax   | -              | 675            |
| <b>Loss for the year attributable to equity holders of the company</b> | <b>(1,516)</b> | <b>(3,835)</b> |
| <b>Loss per ordinary share - basic and diluted</b>                     | <b>(3.6p)</b>  | <b>(10.2p)</b> |

## BALANCE SHEETS

at 31 December 2007

|                           | Group         |                | Company        |                |
|---------------------------|---------------|----------------|----------------|----------------|
|                           | 2007<br>£'000 | 2006<br>£' 000 | 2007<br>£' 000 | 2006<br>£' 000 |
| <b>ASSETS</b>             |               |                |                |                |
| <b>Non-current assets</b> |               |                |                |                |
| Goodwill                  | -             | -              | -              | -              |
| Intangible assets         | -             | -              | -              | -              |

|                               |              |              |              |              |
|-------------------------------|--------------|--------------|--------------|--------------|
| Property, plant and equipment | 74           | 108          | -            | -            |
| Investment in subsidiaries    | -            | -            | 31           | 129          |
| Investment in joint venture   | -            | -            | -            | -            |
|                               | <u>74</u>    | <u>108</u>   | <u>31</u>    | <u>129</u>   |
| <b>Current assets</b>         |              |              |              |              |
| Trade and other receivables   | 97           | 157          | 63           | 2,011        |
| Cash and cash equivalents     | 2,124        | 3,630        | 1,956        | 1,506        |
|                               | <u>2,221</u> | <u>3,787</u> | <u>2,019</u> | <u>3,517</u> |
| <b>Total assets</b>           | <u>2,295</u> | <u>3,895</u> | <u>2,050</u> | <u>3,646</u> |
| <b>LIABILITIES</b>            |              |              |              |              |
| <b>Current liabilities</b>    |              |              |              |              |
| Trade and other payables      | (747)        | (865)        | (467)        | (616)        |
|                               | <u>1,474</u> | <u>2,922</u> | <u>1,552</u> | <u>2,901</u> |
| <b>Net current assets</b>     | <u>1,474</u> | <u>2,922</u> | <u>1,552</u> | <u>2,901</u> |
| <b>Net assets</b>             | <u>1,548</u> | <u>3,030</u> | <u>1,583</u> | <u>3,030</u> |
| <b>EQUITY</b>                 |              |              |              |              |
| Share Capital                 | 213          | 213          | 213          | 213          |
| Share premium account         | 18,810       | 18,810       | 18,810       | 18,810       |
| Shares to be issued           | 143          | 143          | 143          | 143          |
| Capital redemption reserve    | 2,415        | 2,415        | 2,415        | 2,415        |
| Retained loss                 | (20,033)     | (18,551)     | (19,998)     | (18,551)     |
| <b>Total equity</b>           | <u>1,548</u> | <u>3,030</u> | <u>1,583</u> | <u>3,030</u> |

### Cash Flow Statements

for the year ended 31 December 2007

Group

Company

|   | 2007<br>£' 000      | 2006<br>£' 000      | 2007<br>£' 000      | 2006<br>£' 000     |
|---|---------------------|---------------------|---------------------|--------------------|
| <b>Cash flows from operating activities</b>                 |                     |                     |                     |                    |
| Cash flows from operations                                  | (1,652)             | (794)               | 403                 | (66)               |
| Interest received   | 122                 | 178                 | 102                 | 88                 |
| Net cash (used in)/from operating activities                | <u>(1,530)</u>      | <u>(616)</u>        | <u>505</u>          | <u>22</u>          |
| <b>Cash from investing activities</b>                       |                     |                     |                     |                    |
| Purchase of property, plant and equipment                   | (2)                 | (25)                | -                   | -                  |
| Proceeds from sale of property, plant and equipment         | 22                  | 4                   | -                   | -                  |
| Acquisition of subsidiaries (net of cash balances acquired) | -                   | (355)               | -                   | (420)              |
| Investment in subsidiaries                                  | -                   | -                   | (50)                | (80)               |
| Loans granted to joint ventures                             | (26)                | -                   | (5)                 | -                  |
| Net cash flows used in investing activities                 | <u>(6)</u>          | <u>(376)</u>        | <u>(55)</u>         | <u>(500)</u>       |
| <b>Cash flows from financing activities</b>                 |                     |                     |                     |                    |
| Repayment of convertible loan                               | -                   | (200)               | -                   | (200)              |
| Net cash flow from financing activities                     | <u>-</u>            | <u>(200)</u>        | <u>-</u>            | <u>(200)</u>       |
| <b>Net (decrease)/increase in cash and cash equivalents</b> | <b>(1,536)</b>      | <b>(1192)</b>       | <b>450</b>          | <b>(678)</b>       |
| Cash and cash equivalents at beginning of the year          | 3,630               | 5,180               | 1,506               | 2184               |
| Effect of exchange rates on cash and cash equivalents       | (30)                | (358)               | -                   | -                  |
| <b>Cash and cash equivalents at end of year</b>             | <u><b>2,124</b></u> | <u><b>3,630</b></u> | <u><b>1,956</b></u> | <u><b>1506</b></u> |

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

|  | Group         |               | Company       |               |
|--|---------------|---------------|---------------|---------------|
|  | 2007<br>£'000 | 2006<br>£'000 | 2007<br>£'000 | 2006<br>£'000 |
| Loss before tax                                | (1,516)       | (4,510)       | (1,447)       | (3,659)       |
| Interest received                              | (122)         | (178)         | (102)         | (88)          |
| Depreciation of property plant and equipment   | 37            | 11            | -             | -             |
| Profit on sale of property plant and equipment | (21)          | -             | -             | -             |
| Impairment of intangible assets                | -             | 3,223         | -             | -             |
| Impairment of intercompany loans               | -             | -             | 959           | 2,709         |
| Impairment of investments                      | -             | -             | 148           | -             |
| Impairment of loan to joint venture            | 26            | -             | 5             | -             |
| Decrease in trade and other receivables        | 58            | 466           | 989           | 676           |

|   |                |              |            |             |
|---|----------------|--------------|------------|-------------|
| (increase)/decrease in trade and other payables | (114)          | 194          | (149)      | 296         |
| <b>Cash flows from operating activities</b>     | <b>(1,652)</b> | <b>(794)</b> | <b>403</b> | <b>(66)</b> |

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

### 1. ACCOUNTING POLICIES

#### 1.1 Basis of accounting

The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 December 2006 and 2007. Statutory accounts for 2006 have been delivered to the registrar of companies, and those for 2007 will be delivered in due course. The auditors have reported on those accounts. The audit report for 2006 was unqualified. The audit report for 2007 contains a disclaimer of view given by the financial statements. The audit reports for 2006 and 2007 did not include references to matters to which the auditors drew attention by way of emphasis without qualifying their reports and did not contain statements under section 237(2) or(3) of the Companies Act 1985.

The information has 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 1985 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 Going concern

During the year ended 31 December 2007, the group incurred a net loss of £1,516,000 and cash balances at 31 December 2007 had fallen to £2.124 million. Un-audited management accounts as at 18 June 2008 show cash balances have since fallen to £1,400,000.

As part of their considerations of going concern, the directors have prepared working capital projections for the period to 30 June 2009. The projections are subject to a number of potentially material variables including the impact of any settlement from the ongoing litigation and associated legal costs described in note 4, the timing and extent of future revenues, the ability to control levels of expenditure and the proceeds from potential future fund raising.

Based upon these projections, the directors consider it appropriate to prepare the accounts on a going concern basis. However, the directors recognise there will remain material uncertainty over the group's future cash flows which may cast significant doubt about the company's ability to continue as a going concern.

The financial statements do not include adjustments that would result if the company was unable to continue as a going concern.

#### 1.3 Basis of preparation and consolidation

The preparation of financial statement in conformity with IFRS and IFRIC as adopted by the EU 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 assumption and estimates are significant to the financial statements are disclosed in note 1.5.

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.

#### 1.4 Standards, amendments and interpretation

##### *(a) Standards, amendment and interpretations effective in 2007*

- IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements - Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the group or company's financial instruments, or the disclosures relating to taxation and trade and other payables.
- IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the group or company's financial statements.
- IFRIC 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the group or company's financial statements.

##### *(b) Standards, amendments and interpretations effective in 2007 but not relevant*

- Revised guidance on implementing IFRS 4, 'Insurance contracts'.
- IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies'.
- IFRIC 9, 'Re-assessment of embedded derivatives'.

We are still considering the effect of these standards

##### *(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group and company*

- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009).

- IFRS 8, 'Operating segments ' (effective from 1 January 2009).

*(d) Interpretations to existing standards that are not yet effective and not relevant for the group and company's operations*

- IFRIC 11, 'IFRS 2 - Group and treasury share transactions'.
- IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008).
- IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008).
- IFRIC 14, 'IAS 19'.

### 1.5 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. Areas comprising critical judgement that may significantly impact earnings and financial position are valuation of intangible assets, share based payments income taxes and litigation and contingent liabilities, all of which are discussed in the respective notes.

### 1.6 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, until it is repaid, the loan is translated at the closing rate and any exchange difference is reported in the borrower's income statement.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss.

#### 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 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

### 1.7 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.

### 1.8 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments

### 1.9 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 over its estimated useful life as follows:-

|                                  |              |
|----------------------------------|--------------|
| Computer hardware and software   | over 3 years |
| Furniture, fixtures and fittings | over 4 years |
| Motor Vehicles                   | over 4 years |

### 1.10 Investments

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

### 1.11 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.

### 1.12 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.

### 1.13 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

#### **1.14 Share based Compensation**

The Group operates equity settled share based transactions. 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, excluding the impact of any non-market vesting conditions.

#### **1.15 Leases**

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

#### **1.16 Trade and other payables**

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

#### **1.17 Current and deferred income tax**

The current income 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 establish 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.

#### **1.18 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.

#### **1.19 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.

#### **1.20 Financial risk management**

The Group centrally manages surplus funds and financial risks. The objective of which is to provide efficient cash and tax management and effective funding for the

Group. The Group's financial instruments comprise cash along with other receivables and trade creditors. It is and continues to be the Group's policy that no 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 operations through loans from parent companies. 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 through financing raised on share issues. 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 certain investment in foreign operations, whose net assets are exposed to foreign currency translation risk. These risks are regularly monitored by the board.

#### *Interest rate risk*

Interest expense reflects the cost of the Group's borrowings. 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. LOSS PER ORDINARY SHARE

The calculation of loss per ordinary share is based on:-

Basic and diluted EPS

|   | 2007       | 2006       |
|---|------------|------------|
| Loss for the year attributable to equity holders of the company         | £1,516,000 | £3,835,000 |
| Weighted average number of ordinary shares in issue throughout the year | 42,679,103 | 37,423,558 |
| Basic Loss per share  | (3.6p)     | (10.2p)    |

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.

## 3. CONTINGENT CONSIDERATION

The company has an obligation to issue up to a total of 28,850,000 (2006 29,850,000) ordinary shares under the terms of acquisition agreements:-

1. In respect of FuturaGene Inc:-

- 6,000,000 when FuturaGene Inc. has been granted an exclusive license 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 submitted by those universities with which FuturaGene Inc 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 license any element of the FuturaGene Inc. intellectual property, and
- c. 10,000,000 consideration shares payable on receipt of an additional "qualified offer" from a third party to license any element of the FuturaGene Inc. intellectual property.

In the event that the company receives an offer to sell the entire issued share capital 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) above shall become due.

The term discovery referred to in (a) above means a patentable invention that has been reduced to practice and which consists of an independent, non-obvious gene sequence that affects plant stress reduction. The "qualified offer" referred to in (b) and (c) above means an offer to license FuturaGene's intellectual property rights originating from an unaffiliated third party with demonstrable financial ability as determined by the Chairman and non-executive members of the board and on terms acceptable to them. These definitions were included in the acquisition agreement in the interests of the generality of shareholders to ensure that significant numbers of deferred shares are issued only for genuinely new technology and in respect of licence offers of significant value. (see also note 21 below "Contingent Liability")

2. In respect of CBD:-

Under the terms of the CBD Acquisition Agreement, a further 3,850,000 ordinary shares were issuable if certain conditions and revenue targets were met by CBD which in turn were dependent upon the achievement of milestones defined in a customer contract. Milestones in respect of 1,100,000 of these shares have not been met.

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 has been excluded from the fair value of the respective acquisitions.

#### 4. CONTINGENT LIABILITY

The claim for wrongful dismissal of Bruno Ruggiero originally filed in February 2006 in the US Courts of Indiana remains in litigation.

In addition to the claim for wrongful dismissal, Mr Ruggiero and other founder members of the company filed a claim in January 2007 in the US Courts of Delaware and Indiana against the company and its directors. The claims allege, inter alia, that the qualifying conditions for the issue of deferred shares in connection with the merger

of Futuragene Inc with Overnet Data plc on 19 May 2004 (see note 20 (1) ) were met in full and shares should have been issued. The claims further allege that, had the shares been issued, majority ownership would have reverted to Mr Ruggiero and the other founder members pursuing the claim.

The company filed a claim in November 2007 in the US courts of Indiana against Mr Ruggiero and the founder members for, inter-alia, conspiracy to destroy the company's business, misuse of confidential proprietary information and breach of contract. Mr Ruggiero and the other founder members subsequently filed a counter-claim in February 2008 for breach of fiduciary duty.

In view of the damaging impact the continuing litigation is having on the company and the distracting affect upon the Company's management, efforts have continued during 2007 to reach a negotiated settlement. An outline settlement was discussed during the early part of 2008, although these discussions were subsequently terminated. Subsequent to these discussions, Mr Ruggiero and the other founder members have instigated further litigation (in Indiana) to enforce the outline settlement. This claim is currently being considered by the courts and a preliminary judgement is expected on 2 July 2008, although this may be subject to appeals procedures.

In the opinion of the directors, the claims made by Mr Ruggiero and the other founder members are without merit. With regards to the issue of deferred shares, whilst expressions of interest and intent have been received, no qualifying offers as defined in the original merger agreement have been received or approved and no related income generated or promised.

All aspects of litigation remain under discovery in the United States. Whilst the directors of the company remain optimistic of a positive resolution of the litigation, the ongoing and protracted nature of the litigation means that it is not possible to determine the ultimate outcome or the possible financial effect. No provision for any liability that may result has been made in the financial statements.

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