

Innovative products for consumer health

FUTURA MEDICAL
Interim report **2007**

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

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

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

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

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

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

Highlights



- Substantial progress across the Company as it moves closer to the commercial launch of its lead product, CSD500
- CSD500 – Statistically significant trial results from the user study, reinforcing the product's commercial potential
- MED2002 – Global development and licensing agreements signed with SSL International plc for the Company's topically applied gel for erectile dysfunction
- TPR100 – Exclusivity agreement signed with GlaxoSmithKline Consumer Healthcare to negotiate for global rights
- South East England Development Agency ("SEEDA") grant awarded of up to £200k for product development
- Pre-tax loss of £1.2 million for the six months ended 30 June 2007 (six months ended 30 June 2006: pre-tax loss of £1.0 million – as restated)
- Cash of £2.7 million at 30 June 2007 (31 December 2006: £3.8 million)

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Futura at a glance

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

Our partnerships

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

Futura also recently signed a global development and licensing agreement with SSL International plc for MED2002, our topical treatment for erectile dysfunction.



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

Chris Bunniss,
Group Marketing and Innovations Director, SSL.

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

dermasys® - Our proprietary drug delivery technology

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

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

Futura was recently awarded a grant for research and development from the South East England Development Agency (SEEDA) to support the development of a pipeline product that uses DermaSys®.

To maximise the value of this asset, Futura has been evaluating its use with a range of compounds and is undertaking further work on a treatment for premature ejaculation (PET500). In addition, Futura is assessing the potential value of using DermaSys® with a range of other compounds.

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



Product Pipeline

Devices

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

Drugs

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

Interim statement



The six months to 30 June 2007 was another period of substantial progress at Futura. Momentum has continued post the period end and we expect to receive EU marketing approval in the next three months for our first product, CSD500, an innovative condom to help healthy men maintain a firm erection whilst wearing a condom. This heralds the most exciting phase so far in the Group's evolution by placing Futura on track to becoming a revenue generating business with a recurring royalty income stream. Positive trial results reported post the period end underline the significant commercial potential of the CSD500 condom, which will be marketed under the Durex® brand by our marketing and distribution partner SSL International plc (SSL). We are delighted to have strengthened our relationship with SSL through the recent signing of a global development, marketing and distribution agreement for MED2002, our topically applied gel for the treatment of erectile dysfunction. We believe SSL, which now holds distribution rights to a total of three of Futura's products, is an ideal partner for MED2002, which is expected to become the world's first non-prescription treatment for erectile dysfunction.

CSD500

Condom safety device

Working closely with SSL, the manufacturer of Durex® condoms, we made considerable progress with CSD500, our condom product that helps healthy men maintain a full erection whilst wearing a condom. Much of our effort during the period was in the successful completion of a user study comprising 108 couples, the positive results from which were announced on 9 August 2007. The study, which was equally funded by SSL and Futura, successfully met its primary endpoint of demonstrating a firmer erection. The study's secondary endpoints of increased penile size and a longer-lasting sexual experience also revealed positive, statistically significant data. The quality of the study results has reinforced our confidence that CSD500 has significant commercial potential.

Prior to the commercial launch of CSD500, we have protected the product's unique intellectual property position with patents now granted, or proceeding to grant, in 36 countries throughout the world including the principal consumer markets within Europe, the US and Canada. Futura will receive royalty based payments from all future sales of the condom.

SSL is currently carrying out the detailed preparatory work for CSD500's EU marketing launch, including the selection of the product's brand name within the Durex® portfolio and the product's logo and packaging. We have been delighted by the commitment and enthusiasm for CSD500 from SSL, which provides further endorsement of the commercial potential of the product.

MED2002

Treatment for erectile dysfunction

MED2002 is our topically applied gel for the treatment of men with erectile dysfunction. This product was initially licensed to GlaxoSmithKline Consumer Healthcare (GSK) but, during the period, GSK returned the rights to Futura owing to current priorities within GSK. Given the commercial potential of MED2002 we were confident of securing a new agreement on favourable commercial terms and were delighted to announce, on 17 September 2007, that a global development, marketing and distribution agreement had been signed with SSL.

Under the terms of this agreement, Futura will receive an undisclosed royalty on MED2002's future sales along with milestone payments of up to £18 million subject to regulatory approvals and the achievement of sales targets. SSL and Futura will jointly manage the completion of the clinical development of MED2002, which is currently expected to cost up to £3.65 million of which SSL will contribute 65 per cent and Futura 35 per cent.

Once launched, MED2002 is expected to become the world's first non-prescription pharmaceutical treatment for men with erectile dysfunction, a condition that

affects, to some degree, 50 per cent of men aged 45 or over¹. This would be an important step forward as it is estimated that only 15 per cent of men with erectile dysfunction seek treatment² due to the embarrassment of having to consult a doctor to be prescribed one of the current treatments.

Now that the commercial arrangements have been finalised, preparations are moving ahead rapidly, in conjunction with SSL, regarding the commencement of the pivotal study.

FLD500

Female lubrication device

FLD500 is our condom product designed to improve natural female lubrication during sexual intercourse. In common with CSD500, it is licensed to SSL and uses the same active compound. In FLD500 the active compound is on the outside of the condom and is used at a much lower dose level than in CSD500, where it is inside the condom. We have previously reported positive clinical data from FLD500 and have since been working on achieving a commercially acceptable shelf life for the product and optimising the manufacturing process. We have developed a new prototype of the product which is easier to manufacture and in tests to date has shown a significant improvement in shelf life. If these improvements are maintained we would expect to submit an initial dossier in the first half of 2008 as the first step to gaining EU regulatory approval.

Our previously reported clinical data in healthy female volunteers showed that FLD500 was safe, well tolerated and had the potential to promote the vascular changes seen in women during clitoral stimulation and sexual arousal. This data will form part of the regulatory submission for FLD500, although our experience with CSD500 has demonstrated how the value of further clinical work can reduce regulatory risk and support strong marketing claims.

In due course, but not before both CSD500 and FLD500 gain regulatory approval, there is the potential for a combination product embracing CSD500 and FLD500. Such a product could potentially improve natural lubrication for the female partner whilst ensuring the firmness and size of the male partner's erection whilst wearing a condom.

TPR100

Topical pain relief

One of Futura's key proprietary assets is its highly efficient, trans-dermal delivery system, DermaSys[®], which is used in the Group's sexual healthcare portfolio but which has the potential to have much broader utility across other therapeutic areas. DermaSys[®], owing to its ability to provide rapid transfer of active ingredients through the skin, has shown significant potential in the provision of pain relief through our product TPR100. In April 2007, we entered into an exclusivity agreement with GSK for the negotiation of global distribution rights for TPR100 to be agreed no later than 31 March 2008. As part of this exclusivity agreement we agreed to conduct a clinical study, which is ongoing.

PET500

Premature ejaculation treatment

We continue to make progress on our early stage portfolio, particularly with our potential treatment for premature ejaculation, PET500. The formulation of the product, which also uses our DermaSys[®] delivery system, is in the final stages of in vitro testing to optimise the product's delivery profile and aesthetic qualities.

People

In preparation for the Group becoming revenue generating we have made some additions to our infrastructure, specifically in adding personnel to our finance and

Note

¹ *Massachusetts Male Ageing Study (MMAS), J Urol 1994 Jan; ISI (1): pages 54-61*

² *Prog Urol February 2003, vol 13 part 1, pages 85-91*

Interim statement

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marketing functions. It is our intention to continue to run Futura on a prudent basis with a small core team of employees. Total staff numbers (including our non-executive directors) have increased from 12 to 14 during the period.

Finance

This is the first report by the Group presented under International Financial Reporting Standards, (IFRS).

The interim financial information has been prepared on the basis of the accounting policies that will be adopted in the annual report for the year ending 31 December 2007 in accordance with IFRS. The comparative figures have also been restated to reflect this. There has been no significant impact on either the current period results or the restated historic results. An explanation, including the impact of transition to IFRS, is included in the notes to the interim financial information.

In accordance with our revenue accounting policy, the £150,000 already received from GSK in respect of the TPR100 exclusivity agreement is recognised as deferred income in the balance sheet and will be recognised as revenue when the relevant conditions of the agreement are met.

Our retained loss for the six months ended 30 June 2007 was £1,119,444. Research and development costs of £707,433 have increased over the previous six months, largely due to the user study cost for CSD500. Overall the cumulative research and development spend since formation of the business has reduced slightly to 54% of total operating costs. Other administrative costs of £638,615 reflect an increase compared with the six months ended 31 December 2006 of £89,864 due to commercial and negotiation costs for MED2002 and the expansion of our core team.

We continue to maintain tight control over expenditure and cash including sterling fixed rate deposits at 30 June 2007 was £2.7 million. In accordance with IAS 7 'Cash Flow Statements', cash held on deposit for more than three

months which is not needed to meet short-term cash commitments has been recognised in the balance sheet as an investment.

Futura is aware of the attractiveness of raising funds without recourse to shareholders and we were therefore delighted to announce, on 27 July 2007, that we were awarded an R&D grant of up to £200,000 from the South East England Development Agency (SEEDA) to support the development of a pipeline product that uses the Group's DermaSys® delivery technology. The award of the grant followed a thorough review by SEEDA, the Regional Development Agency responsible for the sustainable economic development of the South East of England. The award of the grant is a significant endorsement of a pipeline product which met the award criterion of having the potential to achieve a technological advance in a new product or process.

Outlook

The positive trial results from the CSD500 user study have set the scene for the successful commercial launch of the product as a Durex® branded condom, once EU marketing approval has been received. We are now poised to become revenue generating with a recurring royalty income stream from the sales of the CSD500 condom, which will transform Futura. We will continue to keep our shareholders and other stakeholders informed of our progress and look forward to the future with increasing confidence.



Dr W D Potter
Chairman



J H Barder
Chief Executive

Consolidated Income Statement

	Note	Unaudited 6 months ended 30 June 2007 £	Unaudited 6 months ended 30 June 2006 As restated £	Unaudited year ended 31 December 2006 As restated £
Revenue		–	492	301
Grant income		21,885	–	–
Research and development costs		(707,433)	(591,934)	(1,079,986)
Administrative costs		(638,615)	(480,324)	(1,029,075)
Operating loss		(1,324,163)	(1,071,766)	(2,108,760)
Finance income		87,997	37,592	136,114
Loss before tax		(1,236,166)	(1,034,174)	(1,972,646)
Taxation		116,722	109,228	196,133
Loss for the period attributable to equity holders of the company		(1,119,444)	(924,946)	(1,776,513)
Basic and diluted loss per share (pence)	3	(2.0p)	(1.9p)	(3.4p)

All amounts relate to continuing activities.

There is no difference between the loss for the period and the total recognised income and expense for the period attributable to equity holders of the Company, therefore a separate statement of recognised income and expense has not been prepared.

Consolidated Balance Sheet

	Notes	Unaudited 30 June 2007 £	Unaudited 30 June 2006 As restated £	Unaudited 31 December 2006 As restated £
Assets				
Non-current assets				
Plant and equipment		30,821	24,989	20,109
Total non-current assets		30,821	24,989	20,109
Current assets				
Inventories		24,580	31,956	32,648
Trade and other receivables		304,443	64,448	156,993
Current tax asset		311,756	108,128	195,034
Investments	4	1,080,000	–	1,039,031
Cash and cash equivalents	5	1,579,849	1,448,665	2,740,767
Total current assets		3,300,628	1,653,197	4,164,473
Total assets		3,331,449	1,678,186	4,184,582
Liabilities				
Current liabilities				
Trade and other payables		(460,698)	(245,526)	(236,066)
Total liabilities		(460,698)	(245,526)	(236,066)
Total net assets		2,870,751	1,432,660	3,948,516
Capital and reserves attributable to equity holders of the company				
Share capital		110,707	99,337	110,607
Share premium reserve	6	12,267,675	8,925,420	12,251,275
Other reserve		1,152,165	1,152,165	1,152,165
Retained earnings	7	(10,659,796)	(8,744,262)	(9,565,531)
Total equity		2,870,751	1,432,660	3,948,516

Consolidated Cash Flow Statement

	Unaudited 6 months ended 30 June 2007 £	Unaudited 6 months ended 30 June 2006 As restated £	Unaudited year ended 31 December 2006 As restated £
Cash flows from operating activities			
Loss before tax	(1,236,166)	(1,034,174)	(1,972,646)
Adjustments for:			
Depreciation	6,705	5,195	10,630
Finance income	(87,997)	(37,592)	(136,114)
(Gain)/loss on sale of plant and equipment	–	(43)	6
Share-based payment charge	25,179	13,076	43,374
Operating loss before changes in working capital	(1,292,279)	(1,053,538)	(2,054,750)
Decrease/(increase) in inventories	8,068	–	(692)
(Increase)/decrease in trade and other receivables	(144,967)	805	(76,067)
Increase/(decrease) in trade and other payables	224,632	6,447	(1,946)
Cash used in operations	(1,204,546)	(1,046,286)	(2,133,455)
Income tax received	–	282,636	282,636
Net cash used in operating activities	(1,204,546)	(763,650)	(1,850,819)
Cash flows from investing activities			
Purchase of plant and equipment	(17,417)	(4,414)	(6,088)
Sale of plant and equipment	–	43	44
Net change in sterling fixed rate deposits	(40,969)	–	(1,039,031)
Interest received	85,514	41,880	124,730
Cash generated by/(used in) investing activities	27,128	37,509	(920,345)
Cash flows from financing activities			
Issue of ordinary shares	16,500	365,893	3,703,018
Cash generated by financing activities	16,500	365,893	3,703,018
(Decrease)/increase in cash and cash equivalents	(1,160,918)	(360,248)	931,854
Cash and cash equivalents at beginning of period	2,740,767	1,808,913	1,808,913
Cash and cash equivalents at end of period	1,579,849	1,448,665	2,740,767

Notes to the Interim Financial Information

1 Basis of preparation

The unaudited Interim Report was approved by the Board of Directors on 21 September 2007.

The financial information for the six months ended 30 June 2007 and for the six months ended 30 June 2006 is unaudited.

The financial information presented for the Group does not constitute "statutory accounts" within the meaning of Section 240 of the Companies Act 1985.

The information for the year ended 31 December 2006 has been extracted from the financial statements of the statutory accounts of Futura Medical plc which were prepared under UK Generally Accepted Accounting Principles ("UK GAAP") and have been delivered to the Registrar of Companies. The auditors have reported on those financial statements; their report was unqualified, did not include any references to which the auditors drew attention by way of emphasis without qualifying their report and did not contain any statements under either Section 237(2) or Section 237(3) of the Companies Act 1985. This audited information has been restated, as necessary, for the adoption of International Financial Reporting Standards (IFRS). The restatements have not been audited.

2 Basis of accounting

The financial information presented in this report has been prepared using accounting policies that will be used in the preparation of the financial statements for the year ending 31 December 2007. The policies are set out below. These policies are in accordance with International Financial Reporting Standards (IFRS) as endorsed for use in the European Union and International Financial Reporting Interpretations Committee (IFRIC) interpretations that are expected to be applicable for the year ending 31 December 2007. The disclosures required by IFRS 1 'First-time Adoption of International Financial Reporting Standards' concerning the transition from UK GAAP to IFRS are given in note 9.

The Group has elected to make use of the exemptions available in IFRS 1 as follows:

- IFRS 2 'Share-based Payment' has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2006.
- IFRS 3 'Business Combinations' has not been applied retrospectively to business combinations that occurred before 1 January 2006.
- IAS 32 'Financial Instruments: Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' is being applied from 1 January 2007.

The following new standards, amendments to standards and interpretations have been issued, are not effective for the financial year ending 31 December 2007 and have not been adopted early as the Directors do not expect these interpretations to be relevant to the Group:

- IFRS 8 'Operating Segments' effective for annual periods beginning on or after 1 January 2009.
- IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions' effective for annual periods beginning on or after 1 January 2008.
- IFRIC 13 'Customer Loyalty Programmes' effective for annual periods beginning on or after 1 July 2008.

2 Basis of accounting (continued)

- IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' effective for annual periods beginning on or after 1 January 2008.
- IAS 23 'Borrowing Costs' effective for annual periods beginning on or after 1 January 2008.

The interim financial information has been prepared on the historical cost basis or fair value as appropriate.

2.1 Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial information presents the results of the Company and its sole subsidiary Futura Medical Developments Limited as if they formed a single entity ("the Group"). Inter company transactions and balances between the Group companies are therefore eliminated in full.

2.2 Revenue

Revenue comprises the fair value received or receivable for exclusivity arrangements, royalties and milestone income, and the sale of rights to future royalties, net of value added tax.

The accounting policies for the principal revenue streams of the Group are as follows:

- (a) Exclusivity arrangements and related services are recognised as revenue in the accounting period in which the related services are rendered, or activities performed, by reference to completion of the specific transaction.
- (b) Royalty and milestone income comprise revenue generated from product out-licensing and research and development collaboration agreements. Where licensing agreements include non-refundable milestone income, revenue is recognised on achieving the milestones. If any milestone income is creditable against royalty payments then it is deferred and released to the income statement over the period in which the royalties would otherwise be receivable. Royalty income relating to the sale by a licensee of licensed product is recognised on an accruals basis in accordance with the substance of the relevant agreement and based on the receipt from the licensee of the relevant information to enable calculation of the royalty due.
- (c) Sales of the rights to future royalties are recognised as revenue on the date on which the revenue becomes receivable.

2.3 Leased assets

Operating lease rentals are charged to the income statement on a straight line basis over the lease term.

Notes to the Interim Financial Information

Continued

2 Basis of accounting (continued)

2.4 Intangible assets

Research and development

Certain Group products are in the research phase and others are in the development phase.

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- It is technically feasible to develop the product for it to be sold;
- Adequate resources are available to complete the development;
- There is an intention to complete and sell the product;
- The Group is able to sell the product;
- Sale of the product will generate future economic benefits; and
- Expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods in which the Group expects to benefit from selling the products developed. The amortisation expense is included within the cost of sales line in the income statement.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the income statement as incurred.

The useful life and value of the capitalised development cost is assessed for impairment at least annually. The value is written down immediately if impairment has occurred and the remaining cost is amortised over its reduced useful life.

The Directors consider that the criteria to capitalise development expenditure are not met for a product prior to receiving regulatory approval for sale in at least one country.

Patents and trademarks

Patents and trademarks are either expensed or capitalised in accordance with the corresponding treatment of the development expenditure for the product to which they relate.

2.5 Plant and equipment

Plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is charged to the income statement on all plant and equipment at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight line basis over their estimated useful lives, which is between 2 and 5 years for plant and equipment and between 3 and 10 years for furniture and fittings.

The assets' residual values and useful lives are determined by the Directors and reviewed and adjusted if appropriate at each balance sheet date in accordance with Group policy for impairment of assets (note 2.6).

2 Basis of accounting (continued)

2.6 Impairment of assets

Assets that have a finite useful life and are not yet in use and are not subject to amortisation or depreciation are tested annually for impairment.

Assets that are subject to amortisation are reviewed for impairment annually and when events or circumstances suggest that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2.7 Inventories

Inventories are materials and supplies to be consumed in the course of research and development and are stated at the lower of cost and net realisable value. Cost includes materials, related contract manufacturing costs and other direct costs. Cost is calculated using the first-in first-out method. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

2.8 Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method.

2.9 Investments

Cash held in sterling fixed rate deposits with original maturities of more than three months are treated as investments.

2.10 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank overdrafts and sterling fixed rate deposits with original maturities of three months or less which are held by the Group so as to be available to meet short term cash commitments.

2.11 Trade and other payables

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

Notes to the Interim Financial Information

Continued

2 Basis of accounting (continued)

2.12 Government grants

Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period required to match them with the costs that they are intended to compensate.

2.13 Taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs to its tax base, except for differences arising on:

- The initial recognition of goodwill;
- Goodwill for which amortisation is not tax deductible;
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- Investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- The same taxable group company; or
- Different group entities which intend to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, on each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Current tax is provided at amounts expected to be recovered or to be paid using the tax rates and tax laws that have been enacted or substantially enacted at the balance sheet date. When research and development tax credits are claimed they are recognised on an accruals basis and are included as a taxation credit.

2.14 Foreign currency translation

The financial statements for 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 information is presented in sterling, which is the Group's functional currency and presentation currency. All the Group's entities have the same functional currency and presentation currency.

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 period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2 Basis of accounting (continued)

2.15 Pension costs

The Group provides retirement benefits to all employees and Executive Directors (except the Chairman) who wish to participate by defined contribution pension schemes. The Group pays fixed contributions and has no legal or constructive obligations to pay further contributions. The assets of these schemes are held separately from those of the Group in independently administered funds. Contributions made by the Group are charged to the income statement in the period in which they become payable.

2.16 Share-based payments

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

If the terms and conditions of options are modified before they vest, the change in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the income statement is charged with the fair value of goods and services received.

2.17 National insurance on share options

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

2.18 Segment reporting

The Group is organised and operates as one business unit being pharmaceutical drugs and medical devices. The principal activity of the Group is the research and development of drugs and medical devices and their commercial exploitation. The main area of research and development continues to be in the field of innovative products for the consumer healthcare market with the main focus being on sexual health.

The Group operates in and manages any overseas research and development from the UK. Segment revenue is based on the geographical location of the Group's customers which at this stage is solely the UK. Since there is currently only one primary segment and one geographical segment, no separate segment reporting has been prepared.

2.19 Interest income

Interest income is recognised on a time-proportion basis using the effective interest rate method.

Notes to the Interim Financial Information

Continued

3 Loss per share

The loss attributable to shareholders and weighted average number of shares for the purpose of calculating the diluted loss per share are identical to those used for calculating the basic loss per share. This is because the exercise of share options would have the effect of reducing the loss per share and is therefore anti-dilutive under the terms of IAS 33 'Earnings per Share'.

The calculation of the loss per share is based on a loss of £1,119,444 (six months ended 30 June 2006: loss of £924,946 as restated; year ended 31 December 2006: loss of £1,776,513 as restated) and on a weighted average number of shares in issue of 55,343,656 (six months ended 30 June 2006: 49,556,032; year ended 31 December 2006: 52,299,053).

50,000 shares were issued in the period in relation to an exercise of share options for a gross consideration of £16,500 (six months ended 30 June 2006: 730,000 shares for a gross consideration of £365,900; year ended 31 December 2006: 6,365,000 shares for a gross consideration of £3,849,150).

4 Investments

	Unaudited 30 June 2007 £	Unaudited 30 June 2006 £	Unaudited 31 December 2006 £
Sterling fixed rate deposits of greater than three months maturity	1,080,000	–	1,039,031

5 Cash and cash equivalents

	Unaudited 30 June 2007 £	Unaudited 30 June 2006 £	Unaudited 31 December 2006 £
Cash in hand	18,363	122,726	80,767
Sterling fixed rate deposits of up to three months maturity	1,636,466	1,325,939	2,660,000
Bank overdrafts	(74,980)	–	–
Cash and cash equivalents	1,579,849	1,448,665	2,740,767

6 Share premium reserve

	Unaudited 30 June 2007 £	Unaudited 30 June 2006 £	Unaudited 31 December 2006 £
Opening share premium reserve	12,251,275	8,560,987	8,560,987
Premium on shares issued	16,400	364,433	3,690,288
Closing share premium reserve	12,267,675	8,925,420	12,251,275

7 Retained earnings

	Unaudited 30 June 2007	Unaudited 30 June 2006 As restated	Unaudited 31 December 2006 As restated
	£	£	£
Opening retained earnings	(9,565,531)	(7,832,392)	(7,832,392)
Retained loss for the period	(1,119,444)	(924,946)	(1,776,513)
Share-based payment	25,179	13,076	43,374
Closing retained earnings	(10,659,796)	(8,744,262)	(9,565,531)

8 Post balance sheet events

On 9 July 2007, 350,000 options over new ordinary shares were granted to employees (not Directors) and a consultant. On 31 July 2007, 410,000 options over new ordinary shares granted to Directors, employees and a consultant expired unexercised. Following these changes, there were 1,275,000 options over new ordinary shares outstanding.

On 27 July 2007, it was announced that the Group had been awarded a grant for research and development of up to £200,000 from the South East England Development Agency ("SEEDA") to support the development of a pipeline product that uses the Group's novel DermaSys® trans-dermal technology. Under the terms of the SEEDA grant, contributions to development costs are receivable with effect from 26 April 2007. Accordingly, grant income of £21,885 has been recognised in the income statement in the period and a corresponding amount included in trade and other receivables at 30 June 2007 in respect of the accrued grant receivable.

On 17 September 2007 our subsidiary, Futura Medical Developments Limited ("FMDL"), signed a global development, marketing and distribution agreement with LRC Products Limited, a subsidiary of SSL International plc (together "SSL") for worldwide rights to MED2002. Under the terms of the agreement an undisclosed royalty will be paid to FMDL with milestone payments of up to £18 million, subject to regulatory approval and sales targets being achieved. SSL and FMDL will jointly manage the completion of the clinical development programme of MED2002 currently expected to cost up to £3.65 million, with SSL contributing 65% of the costs which would result in SSL paying £2.37 million and FMDL paying £1.28 million over the period of the development programme.

Notes to the Interim Financial Information

Continued

9 Explanation of transition to IFRS

This is the first year that the Group will present its full financial information under IFRS. The requirements of Financial Reporting Standard 20 'Share-based Payment' were applied for the first time for the year ended 31 December 2006. The last financial statements under UK GAAP were for the year ended 31 December 2006 and the date of full transition to IFRS was therefore 1 January 2006. The following disclosures are required in the year of transition.

Reconciliation of Group equity at 1 January 2006 (date of transition to IFRS)

	Note	Audited UK GAAP £	Effect of IFRS Restatement £	Unaudited IFRS As restated £
Plant and equipment		25,370	–	25,370
Inventories		31,956	–	31,956
Trade and other receivables		69,543	–	69,543
Current tax asset		281,536	–	281,536
Cash and cash equivalents		1,808,913	–	1,808,913
Total assets		2,217,318	–	2,217,318
Trade and other payables	(i)	(237,147)	(1,534)	(238,681)
Total net assets		1,980,171	(1,534)	1,978,637
Share capital		97,877	–	97,877
Share premium reserve		8,560,987	–	8,560,987
Other reserve		1,152,165	–	1,152,165
Retained earnings	(ii)	(7,830,858)	(1,534)	(7,832,392)
Total equity		1,980,171	(1,534)	1,978,637

Note (i): Holiday pay provision

IAS 19 'Employee Benefits' requires the creation of an accrued holiday pay provision. This was not required under UK GAAP.

Note (ii): Retained earnings

The impact of (i) is a charge to retained earnings of £1,534 at the date of transition.

9 Explanation of transition to IFRS (continued)

Reconciliation of Group equity at 30 June 2006

	Note	Unaudited UK GAAP £	Effect of IFRS Restatement £	Unaudited IFRS As restated £
Plant and equipment		24,989	–	24,989
Inventories		31,956	–	31,956
Trade and other receivables		64,448	–	64,448
Current tax asset		108,128	–	108,128
Cash and cash equivalents		1,448,665	–	1,448,665
Total assets		1,678,186	–	1,678,186
Trade and other payables	(i)	(242,266)	(3,260)	(245,526)
Total net assets		1,435,920	(3,260)	1,432,660
Share capital		99,337	–	99,337
Share premium reserve		8,925,420	–	8,925,420
Other reserve		1,152,165	–	1,152,165
Retained earnings	(ii)	(8,741,002)	(3,260)	(8,744,262)
Total equity		1,435,920	(3,260)	1,432,660

Reconciliation of Group equity at 31 December 2006

	Note	Audited UK GAAP £	Effect of IFRS Restatement £	Unaudited IFRS As restated £
Plant and equipment		20,109	–	20,109
Inventories		32,648	–	32,648
Trade and other receivables		156,993	–	156,993
Current tax asset		195,034	–	195,034
Cash, cash equivalents and investments		3,779,798	–	3,779,798
Total assets		4,184,582	–	4,184,582
Trade and other payables	(i)	(233,143)	(2,923)	(236,066)
Total net assets		3,951,439	(2,923)	3,948,516
Share capital		110,607	–	110,607
Share premium reserve		12,251,275	–	12,251,275
Other reserve		1,152,165	–	1,152,165
Retained earnings	(ii)	(9,562,608)	(2,923)	(9,565,531)
Total equity		3,951,439	(2,923)	3,948,516

Note (i): Holiday pay provision

IAS 19 'Employee Benefits' requires the creation of an accrued holiday pay provision. This was not required under UK GAAP.

Note (ii): Retained earnings

The impact of (i) is a charge to retained earnings (ii) of £3,260 at 30 June 2006 and £2,923 at 31 December 2006.

Notes to the Interim Financial Information

Continued

9 Explanation of transition to IFRS (continued)

Reconciliation of consolidated income statement for six months ended 30 June 2006

	Note	Unaudited UK GAAP £	Effect of IFRS Restatement £	Unaudited IFRS As restated £
Revenue		492	–	492
Research and development costs	(i)	(588,901)	(3,033)	(591,934)
Administrative costs	(i)	(481,631)	1,307	(480,324)
Operating loss		(1,070,040)	(1,726)	(1,071,766)
Finance income		37,592	–	37,592
Loss before tax		(1,032,448)	(1,726)	(1,034,174)
Taxation		109,228	–	109,228
Loss for the period attributable to equity holders of the company		(923,220)	(1,726)	(924,946)

Note (i): Holiday pay provision

IAS 19 'Employee Benefits' requires the creation of an accrued holiday pay provision. This was not required under UK GAAP.

Reconciliation of consolidated income statement for year ended 31 December 2006

	Note	Audited UK GAAP £	Effect of IFRS Restatement £	Unaudited IFRS As restated £
Revenue		301	–	301
Research and development costs	(i)	(1,077,312)	(2,674)	(1,079,986)
Administrative costs	(i)	(1,030,360)	1,285	(1,029,075)
Operating loss		(2,107,371)	(1,389)	(2,108,760)
Finance income		136,114	–	136,114
Loss before tax		(1,971,257)	(1,389)	(1,972,646)
Taxation		196,133	–	196,133
Loss for the year attributable to equity holders of the company		(1,775,124)	(1,389)	(1,776,513)

Note (i): Holiday pay provision

IAS 19 'Employee Benefits' requires the creation of an accrued holiday pay provision. This was not required under UK GAAP.

Company Information

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4206001

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Dr W D Potter, Executive Chairman
J H Barder, Chief Executive
A L Clayden, Finance Director
D B Davies, Product Development Director
J D Freeman, Non-Executive Director
A Slater, Non-Executive Director

Audit Committee

J D Freeman
A Slater

Remuneration Committee

J D Freeman
A Slater
Dr W D Potter (adviser to Committee)

Nominations Committee

Dr W D Potter
J D Freeman
A Slater

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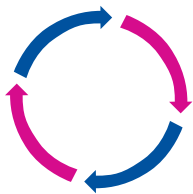
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The Interim Report will be posted to shareholders and copies are available to the public at the Company's registered office or can be downloaded from the Company's website www.futuramedical.co.uk.

www.futuramedical.co.uk



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