

# Press Release

**ProStrakan Group plc**

**Interim Results for the Six Months Ended 30 June 2008**

**Galashiels, Scotland, 21 August 2008:** ProStrakan Group plc, the international specialty pharmaceutical company, today announces its interim results for the six months ended 30 June 2008. The period was marked by a significant level of activity in terms of product sales growth, out-licensing activity and product development.

## Financial Highlights

- Total revenues up 26% to £26.4m (2007: £20.9m)
- Product sales up 37% to £25.4m (2007: £18.5m) inc. pan-EU products up 73%
- Gross profit up 16% to £16.0m (2007: £13.8m)
- Operating loss, before one-off impairment (£2.2m), down 13% to £7.6m (2007: £8.7m loss)
- Loss after interest, tax and impairment charge was £11.8m (2007: £8.6m loss)
- Net cash at 30 June of £27.0m (31 December 2007: £24.5m) after additional £10m draw down from £50m debt facility. £20m available for further draw down

## Operating Highlights

### Europe

- Sales of pan-EU products (Tostran, Rectogesic & Xomolix) up by 73%
- Best-selling product, Adcal D3, grows sales by 17%
- Abstral (Rapinyl) now approved in EU – national launches planned from H2 2008

### US

- US infrastructure in place, with sales force recruitment well under way
- Sancuso US approval from FDA expected shortly – preparations in hand for launch later this year, subject to approval
- North America Abstral (Rapinyl) rights in-licensed – NDA filing planned for 2009
- Fortigel (Tostran) positive US trial results achieved – NDA filing planned for H2 2008 with launch expected in 2009

### RoW

- Out-licensing partnership signed for Sancuso in Japan & SE Asia with JapanBridge
- Xomolix out-licensed to Torrex-Chiesi for Austria and Central & Eastern Europe

Commenting on today's results, Dr Wilson Totten, Chief Executive, said:

"The first half of 2008 has seen one of the most active and successful periods in ProStrakan's history as we continued to roll out our growth strategy. Product launches, approvals, clinical trial successes, out-licensing and in-licensing deals have all featured strongly and provide tangible evidence of our strategic progress. This activity has been underpinned by another strong growth performance as our European products and businesses establish themselves across the EU.

"The remainder of 2008 should prove to be even more eventful as our US business gathers momentum with the first launch from our portfolio of late stage products. We are well advanced against our goal of becoming a profitable international specialty pharmaceutical company."

**Enquiries:**

**ProStrakan**

Dr Wilson Totten, Chief Executive  
Callum Spreng, Comms Adviser

Today: 020 7831 3113  
Thereafter: 01896 664000

**Financial Dynamics**

David Yates  
Ben Brewerton

020 7831 3113

A presentation and conference call for analysts will be held at 8.30am today at the offices of Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB. Please call Mo Noonan for further details on 020 7269 7116

## **ProStrakan Group plc**

### **Interim Results to 30 June 2008**

#### **Introduction**

The first six months of 2008 saw a period of further significant progress as ProStrakan rolled out its growth strategy focusing on significant product approvals, value-enhancing out-licensing partnerships and further product development. This strategy has delivered important progression for the Group as we work towards developing ProStrakan into a truly international specialty pharmaceutical company focused on delivering value for shareholders.

Total revenue for the period grew by 26% to £26.4m (2007: £20.9m), reflecting the growth in our pan-European products, consolidation of Adcal D3's market-leading position in the UK and the stronger Euro. Product sales grew by 37% to £25.4m (2007: £18.5m), boosted by the ongoing progress of these pan-European products, which grew by 73% in the period. The stronger Euro accounted for 9% of the overall product sales growth and 17% of the pan-European products' growth.

The operating loss, before impairment of £2.2m, was down 13% to £7.6m (2007: £8.7m loss) as a result of increased product sales and our ongoing focus on cost control. The continued decline in equity markets has led to a reduction in the value of the available for sale financial asset (shareholding in Galapagos NV). This resulted in a one-off impairment charge of £2.2m as at 30 June 2008. This in turn resulted in the loss after interest and tax for the first half of 2008 increasing to £11.8m (2007: £8.6m loss). In July 2008 the Company sold its shares in Galapagos NV for £4.6m (see note 9). Our cash position at the period end was £27.0m, and the Company has now drawn down a total of £30m of its £50m debt facility.

Whilst our growing European business remains the foundation of the Company, the period also saw significant further progress in our aspiration to enter the US, the world's largest pharmaceutical market. We believe that Sancuso, our novel, patent protected transdermal patch for the prevention of chemotherapy-induced nausea and vomiting (CINV), is now nearing an approval decision by the US Food and Drug Administration (FDA). Manufacture of launch stock is now well-advanced and the recruitment of a 67-strong sales force, in collaboration with our US partner, NovaQuest, is also at an advanced stage ahead of Sancuso's planned launch at the end of 2008. We already have in place an experienced management team and a seven-strong Medical Science Liaison team. The launch of Sancuso, subject to FDA approval, will be the Group's most significant single development to date.

We further strengthened our US business in July with the in-license of the North American sales and marketing rights to Abstral (Rapinyl) for which we already held the European rights. Abstral is a fast-dissolving tablet for sub-lingual (under the tongue) administration of fentanyl intended for the management of breakthrough cancer pain in patients who are already receiving opioid analgesics. The strategic fit of this oncology support product with Sancuso is significant and we look forward to marketing both products together, once Abstral achieves US regulatory approval following its New Drug Application (NDA) filing, planned for 2009.

Outside the areas of our core focus – Europe and the US – our strategy is to out-license the rights to our products to partners, building an incoming royalty stream and thereby generating both profits and cash going forward. During the first half of 2008, we out-licensed the rights for Sancuso to JapanBridge K.K. in Japan, China and parts of South East Asia; and for Xomolix (post-operative nausea and vomiting) to Torrex Chiesi Pharma GmbH in Austria and Central and Eastern Europe.

Meanwhile further development progress was achieved in our product pipeline. In June, Abstral received a positive opinion, recommending its approval, from the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA). This product was launched earlier this week in Sweden, with further EU launches planned from the end of 2008.

H1 2008 also saw the successful completion of the pivotal Fortigel (Tostran) study, which supports re-filing of its NDA in H2 2008, and positive outcomes from the TIMES 2 Phase IV study with Tostran in Europe showing beneficial effects on insulin resistance and erectile dysfunction. Tostran (2% testosterone gel) is indicated as replacement therapy for male hypogonadism when testosterone deficiency has been confirmed by clinical symptoms and laboratory analyses.

## **People**

Our Chief Financial Officer, Paul Garvey, has suffered a minor stroke and we anticipate that it will be some months before he returns to work. Paul is recovering well and the Board extends its best wishes to him.

## **Operational Review**

### **Product Sales**

We grew product sales by 37% in the first six months of 2008, with pan-European products increasing by 73% as these products, launched progressively over the previous 18 months, established themselves in their markets.

### ***Pan European Products***

#### **Rectogesic** (chronic anal fissure)

This important product saw further significant sales growth of 108% to £3.1m (2007: £1.5m). Its first launches were in 2005 and it continues to establish itself across the EU as the only prescription product for the treatment of pain associated with chronic anal fissure. This product is now available in all principal European markets.

#### **Tostran/Tostrex/Itrogen** (testosterone replacement therapy)

This product was first launched in Sweden in September 2005, where it now commands a 38% share of the testosterone gels market. It is now available in all principal European markets and recorded growth of 210% to £0.6m (2007: £0.2m). This product has performed well in territories where testosterone replacement is an established therapy, such as Spain, where it already has a 17% share of the testosterone replacement market.

**Xomolix/Droperidol** (post-operative nausea & vomiting)

This product, which has been available on prescription in France and on a named patient basis in a number of other European countries for some time, enjoyed significant growth in sales of 35% in H1 2008 to £2.9m (2007: £2.2m). During the period, Xomolix received marketing authorisations in a further eight European countries. Launch has already been achieved in Germany, where the market is expected to be sizeable, and other launches will follow from H2 2008.

**Country Specific Products****Adcal D3** (calcium vitamin D deficiency)

This product is the UK's market leader in calcium vitamin D supplements and 2008 sales have benefited from the launch in 2007 of lemon-flavoured variants of Adcal D3 in both chewable and soluble formulations. Sales in the first six months of 2008 increased by 17% to £7.8m (2007: £6.6m). This product also increased its share of the calcium vitamin D tablet market in the UK by 3 percentage points to 40.9%.

**Isotard XL** (angina)

This product – also available in the UK only – increased sales by 5% to £2.4m (2007: £2.3m) with encouraging volume growth reflected in a tablet sales increase of 7.1% in a price-competitive market segment. By the start of 2008, Isotard XL had become the second most widely prescribed long-acting mononitrate in the UK.

**Pencial** (prostate cancer)

This product is a branded generic and was launched in the Spanish market in April 2007. Sales increased to £2.3m in H1 2008 (2007: £0.5m) and it now commands a 16.8% market share in Spain.

**Other products**

We have a number of other country-specific products that have been added to our portfolio through previous company acquisitions. Together these recorded total sales up 21% to £6.3m (2007: £5.2m).

**Development Pipeline****Sancuso** (chemotherapy-induced nausea & vomiting)

There was substantial progress in steering our lead development product through the US regulatory process during H1 2008. Discussions between our development team and the FDA are continuing at an advanced stage and we are confident of its approval. We plan to launch Sancuso in the US, the world's largest pharmaceutical market, at the end of 2008, subject to FDA approval.

The Marketing Authorisation Application (MAA) for Europe for Sancuso was submitted in July 2007 and we anticipate further news flow on its European progress in the coming months.

Separately in H1 2008, we granted an exclusive licence to JapanBridge K.K. to market and distribute Sancuso in Japan, the People's Republic of China, Taiwan, Singapore and Malaysia. JapanBridge has agreed to pay to ProStrakan more than \$26m in up front and milestone payments, subject to the achievement of certain approvals and sales targets.

**Abstral (Rapinyl)** (breakthrough cancer pain)

In June, this product received a positive opinion, recommending its approval, from the CHMP of the EMEA. We in-licensed European rights for Abstral from Orexo AB in 2006 and since then ProStrakan has successfully revised the regulatory strategy for this product. ProStrakan plans to launch Abstral in Sweden in Q3 2008 and across Europe from the end of 2008.

Since then we have extended our territorial rights to include North America. Abstral is currently in the latter stages of a Phase III efficacy and safety study in the US and, subject to its successful conclusion, we anticipate filing an NDA in 2009. The US market for cancer breakthrough products is estimated to be worth in excess of \$500m and the US launch of this product, utilising our US sales force, is planned for 2010.

**Rectogesic/Cellegesic** (chronic anal fissure)

During H1 2008 we conducted a pivotal US trial (the "APT" study) in pursuit of FDA approval for this product, which is intended to be branded *Cellegesic* in the US. (*Rectogesic* in Europe.) The in-life phase of this trial is now complete and analysis of the resultant data is ongoing. A further announcement on Cellegesic will be made in due course.

**Tostran/Fortigel** (testosterone replacement therapy)

In May, we announced positive results from the pivotal US clinical program for our 2% testosterone gel (branded *Tostran* in most of Europe and intended to be named *Fortigel* in the US) for testosterone replacement therapy in hypogonadal men. The "FORTIFY" study met all primary and secondary endpoints, demonstrating that the product was able to maintain adequate testosterone levels within all of the pharmacokinetic parameters agreed with the FDA under Special Protocol Assessment (SPA). We plan to file an NDA for this product in H2 2008, with a view to launching in the US in 2009.

During H1 2008 we also published the results of the year-long TIMES 2 study showing that testosterone replacement therapy can significantly improve insulin sensitivity and sexual function in hypogonadal men suffering from Type 2 Diabetes and/or Metabolic Syndrome. We believe that these major new findings add substantially to the knowledge base in this area and highlight the importance of accurate diagnosis and treatment of male hypogonadism.

**Droperidol/Xomolix** (post-operative nausea & vomiting)

ProStrakan already markets Droperidol in eight European countries, including France, the Netherlands and Portugal, with sales of £2.9m in H1 2008. During the period, this product (to be branded *Xomolix* for future launches) was granted Marketing Authorisations in 14 further European countries, in particular in Germany and the UK. The approval of Xomolix in Germany is seen as particularly significant as Germany is viewed as the largest potential PONV market in Europe, with an estimated total market size in excess of €10m. Xomolix was launched in Germany in June and we anticipate further country launches commencing in H1 2009.

During the period, we granted Torrex Chiesi GmbH an exclusive licence to distribute and market Xomolix in Austria and Central and Eastern Europe, further capitalising on its European approval.

## **Operational Summary & Outlook**

The first half of 2008 has seen one of the most active periods in ProStrakan's history as we continued to roll out our growth strategy. Product launches, approvals, clinical trial successes, out-licensing and in-licensing deals have all featured strongly and provide tangible evidence of our strategic progress. This activity has been underpinned by another strong growth performance as our European products and businesses establish themselves across the EU.

The remainder of 2008 should prove to be even more eventful as we implement our US expansion strategy with our portfolio of late stage products either near approval or filing. We are well on track to achieve our goal of becoming a profitable international specialty pharmaceutical company.

## **Financial Review**

The financial results for the six months ended 30 June 2008, prepared under the Group's accounting policies based on International Financial Reporting Standards, are presented below.

### **Principal Risks and Uncertainties**

The principal risks and uncertainties for the Group have not materially changed from those set out in the Corporate Governance Report of the 2007 Annual Report. These are summarised as:

- Commercialised product risk and development risk
- Marketed products
- Products seeking marketing authorisation
- Clinical and regulatory risk
- Competition and intellectual property risk
- Economic risk
- Financial risk

### **Revenue**

Revenue increased by 26% to £26.4m (2007: £20.9m), with product sales increasing by 37% to £25.4m (2007: £18.5m) and licensing, royalty and other revenue decreasing to £1.0m (2007: £2.4m). The increase in product sales was driven by continued growth in existing products and strong growth in the recently launched pan-European products, which were up 73% over the first half of 2007.

### **Gross Margin**

Overall gross profit was higher at £16.0m (2007: £13.8m). The overall gross margin dipped slightly to 61% due mainly to the timing of licensing income receipts together with the creation of non-recurring additional stock provisions on newly launched products.

### **Operating Costs & Losses**

Operating costs consisted of distribution costs of £13.2m (2007: £12.8m), administrative expenses of £4.4m (2007: £4.7m) and other losses of £2.2m (2007: £nil). The relatively minor increase in distribution costs, compared with revenue grown, reflects the "managed" control of the ongoing investment in sales and marketing within the key European markets, along with the set up costs of the US operation. The reduction in administration reflects

ongoing cost management. Other losses of £2.2m reflect the impairment charge in respect of the available for sale Financial Asset, (Galapagos NV shares). We continue to invest heavily in our development projects and our development spend in the first half of 2008 increased, in line with expectations, to £6.0m (2007: £5.0m). This reflects the ongoing development investment in our key products, particularly with regard to the investment in Sancuso, Cellegesic and Fortigel for the US market.

Finance income for the first half of the year remained constant at £0.5m (2007: £0.5m), while finance costs increased to £1.8m (6 months) (2007: £0.9m (3 months)), as a result of a further draw down under the loan facility, together with amortised costs associated with this facility. In addition, we have recognised the increase of £0.7m (2007: decrease of £0.6m) in fair value of the warrants issued to the Lenders in March 2007.

After taxation, the loss for the period increased to £11.8m in 2008 from £8.6m in 2007.

### **Loan Facility**

In June 2008 we drew down a further £10m from the available £50m secured debt facility established in March 2007, bringing the total amount drawn down to date to £30m.

### **Cash Flow**

The loss for the financial period, adjusted for non-cash items such as depreciation, amortisation and impairment of available for sale financial assets less the working capital requirements, led to a net cash outflow from operating activities of £6.4m (2007: £9.9m). Net finance income, finance costs and taxation impacted the cash flow by £0.8m (2007: £0.9m improvement) while net capital expenditure on tangible and intangible assets amounted to £0.3m (2007: £0.4m). Net financing activities representing the debt facility draw down contributed £10.0m (2007: £19.0m) to cash, resulting in a cash increase in the first half of 2008 of £2.6m (2007: £9.6m). Exchange losses impacted the cash flow by £0.1m (2007: exchange gains of £0.3m). Actual cash at the end of the period was £27.0m (2007: £30.4m).

### **Balance Sheet**

The Group's non-current assets at 30 June 2008 were £48.6m (2007: £49.7m). This total consists of: property, plant and equipment of £1.2m; intangible assets of £38.5m; available for sale financial assets of £5.6m; R&D tax credits receivable of £0.9m; and other receivables of £2.4m. The intangible assets consist of acquired product rights of £29.5m, goodwill of £8.9m and other intangibles of £0.1m. Inventories have increased to £5.8m (2007: £4.4m) while trade and other receivables have increased to £8.9m (2007: £7.4m). Trade and other payables, which include the indemnification of the potential tax liability arising from the disposal of ProSkelia SAS in 2006, increased to £28.0m (2007: £24.5m). The fair value of warrants issued to the Lenders increased to £2.2m (December 2007: £1.5m). Other non-current liabilities have increased to £10.1m (2007: £7.9m), whilst borrowings have increased to £26.1m (2007: £15.1m), reflecting the additional £10m draw down in June 2008 and the movement in the amortised cost relating to the facility. Total equity at 30 June 2008 was £24.3m (2007: £42.1m).

### **Post Balance Sheet events**

In July 2008 the Company sold its remaining shareholding of 1.4m Galapagos NV shares, receiving €5.8m in cash. The sale proceeds realised are lower than the book value of the asset. The accumulated loss on the complete sale of Galapagos shares for the full year will amount to £1.7m: comprising £1.4m gain recorded in December 2007, an impairment

of £2.2m recorded in H1 2008 and a further loss of £0.9m which will be recorded in H2 2008.

Peter Allen  
Chairman  
ProStrakan Group plc

21 August 2008

## ProStrakan Group plc

Consolidated interim income statement (unaudited)

		Six months ended 30 June 2008	Six months ended 30 June 2007	Year ended 31 December 2007
	Note	£m	£m	£m
Revenue	3	26.4	20.9	45.6
Cost of goods sold		(10.4)	(7.1)	(16.2)
<b>Gross profit</b>		<b>16.0</b>	<b>13.8</b>	<b>29.4</b>
Distribution costs		(13.2)	(12.8)	(26.2)
Administrative expenses		(4.4)	(4.7)	(11.0)
Development		(6.0)	(5.0)	(10.0)
Other (losses)/gains - net		(2.2)	-	0.1
<b>Operating loss</b>		<b>(9.8)</b>	<b>(8.7)</b>	<b>(17.7)</b>
Operating loss includes:				
Depreciation of tangible assets		0.1	0.1	0.3
Amortisation of intangible assets		1.3	1.2	2.4
Impairment of available for sale financial asset		2.2	-	-
Impairment of product rights		-	-	1.3
Finance income		0.5	0.5	1.3
Finance cost		(1.8)	(0.9)	(2.8)
Movement in fair value of warrants		(0.7)	0.6	1.6
<b>Loss before income tax</b>		<b>(11.8)</b>	<b>(8.5)</b>	<b>(17.6)</b>
Taxation		-	(0.1)	0.3
<b>Loss for the period</b>		<b>(11.8)</b>	<b>(8.6)</b>	<b>(17.3)</b>

Attributable to equity shareholders

Earnings per share for loss attributable to the equity of the holders of the Company during the period (expressed in pence per share)

- basic and diluted	5	(5.9)	(4.3)	(8.6)
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Consolidated interim balance sheet (unaudited)

		30 June 2008	30 June 2007	31 December 2007
	Note	£m	£m	£m
<b>Assets</b>				
<b>Non-current assets</b>				
Available for sale financial assets		5.6	6.6	7.7
Intangible assets		38.5	39.0	38.5
Property, plant and equipment		1.2	1.2	1.3
Other receivables		2.4	2.1	2.3
Research and development tax credits receivable		0.9	0.8	0.8
		<b>48.6</b>	<b>49.7</b>	<b>50.6</b>
<b>Current assets</b>				
Inventories		5.8	4.4	4.5
Trade and other receivables		8.9	7.4	9.2
Income tax receivable		0.5	0.2	0.2
Research and development tax credits receivable		0.1	0.1	0.1
Cash and cash equivalents		27.0	30.4	24.5
		<b>42.3</b>	<b>42.5</b>	<b>38.5</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables		28.0	24.5	26.7
Provisions for other liabilities and charges		0.1	-	0.1
Warrant liability		2.2	2.5	1.5
		30.3	27.0	28.3
<b>Net current assets</b>		<b>12.0</b>	<b>15.5</b>	<b>10.2</b>
<b>Non-current liabilities</b>				
Other non-current liabilities		10.1	7.9	9.3
Borrowings		26.1	15.1	15.6
Provisions for other liabilities and charges		0.1	0.1	0.1
		36.3	23.1	25.0
<b>Net assets</b>		<b>24.3</b>	<b>42.1</b>	<b>35.8</b>
<b>Equity</b>				
<b>Capital and reserves attributable to the Company's equity holders</b>				
Share capital	4	172.2	171.3	172.2
Other reserves		72.4	76.3	72.1
Retained earnings		(220.3)	(205.5)	(208.5)
<b>Total equity</b>		<b>24.3</b>	<b>42.1</b>	<b>35.8</b>

The notes on pages 14 to 17 are an integral part of these consolidated interim financial statements

Consolidated interim cash flow statement (unaudited)

	<b>Six months ended 30 June</b>	<b>Six months ended 30 June</b>	<b>Year ended 31 December</b>	
<b>Note</b>	<b>2008</b>	<b>2007</b>	<b>2007</b>	
	<b>£m</b>	<b>£m</b>	<b>£m</b>	
<b>Cash flows from operating activities</b>	<b>8</b>	<b>(6.4)</b>	<b>(9.9)</b>	<b>(14.7)</b>
Finance income	0.5	0.6	1.3	
Finance cost	(1.3)	(0.6)	(2.0)	
R&D tax credits received	-	0.9	1.0	
	(0.8)	0.9	0.3	
<b>Net cash used in operating activities</b>	<b>(7.2)</b>	<b>(9.0)</b>	<b>(14.4)</b>	
<b>Cash flows from investing activities</b>				
Purchases of intangible assets	(0.2)	(0.2)	(1.0)	
Purchases of property, plant and equipment (PPE)	(0.1)	(0.2)	(0.3)	
Proceeds from sale of available for sale financial assets	0.1	-	-	
<b>Cash flows used in investing activities</b>	<b>(0.2)</b>	<b>(0.4)</b>	<b>(1.3)</b>	
<b>Cash flows from financing activities</b>				
Net proceeds from borrowings	10.0	17.9	17.9	
Proceeds from issuance of ordinary shares (net of own shares purchased by ESOP)	-	1.1	1.8	
<b>Net cash generated by financing activities</b>	<b>10.0</b>	<b>19.0</b>	<b>19.7</b>	
Net increase in cash and cash equivalents	<b>2.6</b>	<b>9.6</b>	<b>4.0</b>	
Cash and cash equivalents at the beginning of the period	24.5	20.5	20.5	
Exchange (losses)/gains on cash and cash equivalents	(0.1)	0.3	-	
<b>Cash and cash equivalent at the end of the period</b>	<b>27.0</b>	<b>30.4</b>	<b>24.5</b>	

## 1. General information

ProStrakan Group plc (the “Company”) and its subsidiaries (together the “Group”) are engaged directly and indirectly in the development, registration, manufacture, distribution and sale of pharmaceuticals and other similar products and related services.

The Company is incorporated and domiciled in the United Kingdom, with its registered office at Galabank Business Park, Galashiels, TD1 1QH, Scotland.

The company is listed on the London Stock Exchange.

This condensed interim financial information was approved by the Board of directors for issue on 20 August 2008 and are unaudited.

This condensed financial information does not comprise statutory accounts within the meaning of section 240 of the Companies Act 1985.

Statutory accounts for the year ended 31 December 2007 were approved by the Board of directors on 18 April 2008 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain any statement under section 237 of the Companies Act 1985.

## 2. Summary of significant accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in those financial statements.

The Group does not consider that any standards or interpretations issued by the International Accounting Standards Board (IASB), but not yet applicable, will have a significant impact on the financial statements.

### 2.1 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2008 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, ‘Interim financial reporting’ as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with IFRSs as adopted by the European Union.

### 2.2 Debt facility

Costs relating to the debt facility have been included in the financial instrument’s initial measurement and will be amortised in the income statement over the instrument’s life. Warrants issued as part of the debt facility have been recorded at fair value at initial recognition and are accounted for as a derivative financial liability. Movements in fair value are recognised in the income statement. The fair value of the debt element at initial recognition has been determined using the market rate of interest for a similar financial instrument that does not include a warrant component. Thereafter the debt is measured at amortised cost.

#### Analysis of net debt

	1 January 2008	Cash flow	Non-cash flow	30 June 2008
	£m	£m	£m	£m
Cash and cash equivalents	24.5	2.6	(0.1)	27.0
Debt due after one year				
Borrowings	15.6	10.0	0.5	26.1

### 3. Segment information

#### Primary reporting format - business segments

Based on the risks and returns, the Directors consider that the primary reporting format is by business segment. The Directors consider that there is only one business segment, being pharmaceuticals. The Group develops, registers, internationally markets or out-licenses a range of pharmaceutical products. The Group also generates limited revenues from other sources, mainly the sale of development resources. Therefore the disclosures for the primary segment have already been given in the financial statements.

#### Secondary reporting format – geographical segments

The Group is organised on a worldwide basis. The operations are based in three main geographical areas. The United Kingdom is the home of the parent company.

	Six months ended 30 June 2008 £m	Six months ended 30 June 2007 £m	Year ended 31 December 2007 £m
<b>Revenue</b>			
United Kingdom	12.4	11.1	23.9
European Union (excluding the UK)	12.8	7.5	17.0
Other countries	1.2	2.3	4.7
	26.4	20.9	45.6

Revenues are allocated based on the country in which the customer is located.

#### Total assets

United Kingdom	7.1	6.7	8.1
European Union (excluding the UK)	31.8	31.4	32.7
Other countries	52.0	54.2	48.3
	90.9	92.2	89.1

Total assets are allocated based on where the assets are located.

#### Capital expenditure

United Kingdom	-	0.1	0.2
European Union (excluding the UK)	0.2	0.1	0.2
Other countries	0.1	0.2	0.9
	0.3	0.4	1.3

Capital expenditure is allocated based on where the assets are located.

#### Analysis of sales by category

Sales of goods	25.4	18.5	40.9
Licensing income	0.8	2.0	4.6
Royalty income	0.2	0.4	0.1
	26.4	20.9	45.6

#### 4. Share capital

	Total millions
<b>Authorised – shares of £0.05 each</b>	
30 June 2008	400.0
<b>Issued and fully paid – shares of £0.05 each</b>	
In issue at 30 June 2008	201.2

	Number of shares millions	Ordinary shares £m	Share premium £m	Own shares held £m	Total £m
<b>At 1 January 2008</b>	201.2	10.0	162.2	-	172.2
<b>At 30 June 2008</b>	201.2	10.0	162.2	-	172.2

All issued shares are fully paid.

The number of options that have expired during the six months to the end of June 2008 amounted to 0.9m.

#### 5. Earnings per share

##### *Basic*

Basic earnings per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the ESOP, which are treated as cancelled.

	Six months ended 30 June 2008	Six months ended 30 June 2007	Year ended 31 December 2007
Loss attributable to equity holders of the Company (£m)	(11.8)	(8.6)	(17.3)
Basic earnings per share (pence per share)	(5.9)	(4.3)	(8.6)
Weighted average number of ordinary shares in issue (millions)	201.2	200.5	200.9

##### *Diluted*

IAS 33 requires presentation of diluted earnings per share when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding dilutive potential ordinary shares, net loss per share would only be decreased by the exercise of such potential ordinary shares. Therefore diluted earnings per share is not presented.

## 6. Consolidated interim statement of changes in equity (unaudited)

	Share capital	Other reserves	Retained earnings	Total equity
	£m	£m	£m	£m
<b>Balance at 1 January 2007</b>	<b>169.8</b>	<b>76.0</b>	<b>(197.0)</b>	<b>48.8</b>
Fair value gains, net of tax:				
- available for sale financial assets	-	0.3	-	0.3
Currency translation difference				
- being net income recognised directly in equity	-	0.1	-	0.1
Net income recognised directly in equity	-	0.4	-	0.4
Loss for the period	-	-	(8.5)	(8.5)
Total recognised income for the period	-	0.4	(8.5)	(8.1)
Employee share option scheme:				
- value of services provided	-	0.3	-	0.3
- proceeds from shares issued	1.1	-	-	1.1
Revaluation of owned shares held by ESOP	-	-	-	-
Shares to be issued – previous year business combinations	0.4	(0.4)	-	-
	1.5	(0.1)	-	1.4
<b>Balance at 30 June 2007</b>	<b>171.3</b>	<b>76.3</b>	<b>(205.5)</b>	<b>42.1</b>
<b>Balance at 1 July 2007</b>	<b>171.3</b>	<b>76.3</b>	<b>(205.5)</b>	<b>42.1</b>
Fair value gains, net of tax:				
– available for sale financial assets	-	0.6	-	0.6
Currency translation differences – being net income recognised directly in equity	-	0.6	-	0.6
Net income recognised directly in equity	-	1.2	-	1.2
Loss for the period	-	-	(8.8)	(8.8)
Total recognised income for the period	-	1.2	(8.8)	(7.6)
Employee share option scheme:				
- value of services provided	-	0.1	-	0.1
- proceeds from shares issued	-	-	-	-
- options exercised	0.2	(0.2)	-	-
Revaluation of owned shares held by ESOP	-	-	-	-
Warrants issued	-	0.5	-	0.5
Issue of share capital	0.7	-	-	0.7
Release of warrants	-	(5.8)	5.8	-
	0.9	(5.4)	5.8	1.3
<b>Balance at 31 December 2007</b>	<b>172.2</b>	<b>72.1</b>	<b>(208.5)</b>	<b>35.8</b>
<b>Balance at 1 January 2008</b>	<b>172.2</b>	<b>72.1</b>	<b>(208.5)</b>	<b>35.8</b>
Currency translation differences – being net income recognised directly in equity	-	-	-	-
Net income recognised directly in equity	-	-	-	-
Loss for the period	-	-	(11.8)	(11.8)
Total recognised income for the period	-	-	(11.8)	(11.8)
Employee share option scheme:				
- Value of services provided	-	0.3	-	0.3
Revaluation of owned shares held by ESOP	-	-	-	-
	-	0.3	-	0.3
<b>Balance at 30 June 2008</b>	<b>172.2</b>	<b>72.4</b>	<b>(220.3)</b>	<b>24.3</b>

## 7. Property plant and equipment

During the six-month period, the group acquired Property, plant and equipment costing £0.1m and disposed of plant and equipment with a net book value of £nil.

## 8. Cash generated from operations

	Six months ended 30 June 2008 £m	Six months ended 30 June 2007 £m	Year Ended 31 December 2007 £m
Loss for the period	(11.8)	(8.6)	(17.3)
Adjustments for:			
- tax	-	-	(0.3)
- depreciation	0.1	0.1	0.3
- amortisation (including write-down of product rights)	1.3	1.2	3.8
- impairment of available for sale financial asset	2.1	-	-
- net movement in provision for liabilities and charges	0.3	-	0.2
- charges for share-based employee benefits	0.3	0.3	0.8
- finance income	(0.5)	(0.6)	(1.3)
- finance cost	1.9	0.9	2.8
- movement in fair value of warrants	0.7	(0.6)	(1.6)
- changes in working capital (excluding the effects of acquisition and exchange difference on consolidation):			
- inventories	(1.3)	(0.7)	(0.8)
- trade and other receivables	0.4	(0.5)	(2.2)
- trade and other payables	0.1	(1.4)	0.9
Cash generated from operations	(6.4)	(9.9)	(14.7)

## 9. Events after the balance sheet date

In July 2008 the Company sold its remaining shareholding of 1.4m Galapagos NV shares, receiving €5.8m in cash. The accumulated loss on the complete sale of Galapagos shares for the full year will amount to £1.7m comprising £1.4m gain recorded in December 2007, an impairment of £2.2m recorded in H108 and a further loss off £0.9m which will be recorded in H208.

## **Statement of directors' responsibilities**

We confirm that to the best of our knowledge:

- The condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the EU.
- The interim management report includes a fair review of the information required by:

DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during the period; and any changes in the related party transactions described in the last Annual Report that could do so.

A list of current directors is maintained on the ProStrakan Group plc website:  
[www.prostrakan.com](http://www.prostrakan.com)

By order of the Board:

Peter Allen  
Chairman  
ProStrakan Group plc

21 August 2008