Advanced Medical Solutions Group plc

Annual Report & Accounts 2000

Advanced Medical Solutions
Group plc

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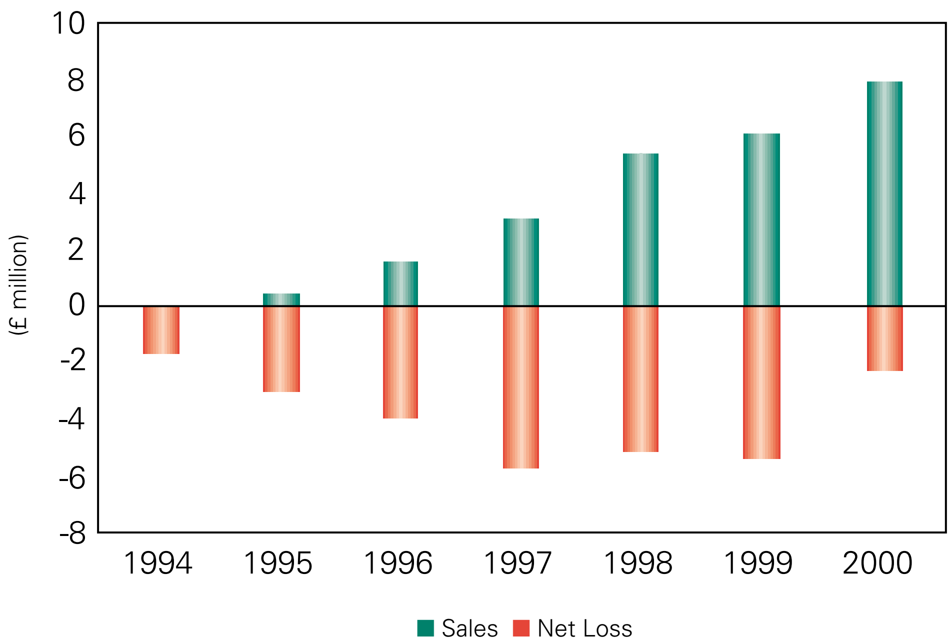
“A more secure financial platform has been established for future sustainable growth”

Highlights

- **Turnover up by 26 per cent to £7.8 million** (1999: £6.2 million)
- **Losses almost halved to £2.7 million** (1999: £5.2 million)
- **Operating cash outflow reduced by 53 per cent to £1.7 million** (1999: £3.6 million)
- **Balance sheet improved with cash over £7 million**
- **Further significant partnerships agreed including Johnson & Johnson Consumer Products Company in North America**
- **Technology position strengthened for future revenue stream in our two focus areas of delivery of actives and tissue engineering**

Sales/Net Loss: 1994–2000



Chairman's Statement

"The Group has signed major strategic partnerships, has become a recognised global producer of woundcare dressings and has improved the balance sheet."

Pictured left: Alginate carding line — Winsford.

I am delighted to have taken over as Chairman at a time when the Company has started to realise its potential and is entering an exciting phase in its evolution. The financial improvement that has been achieved during the last year has put the Group firmly on track to achieve profitability.

Financial Performance

Group turnover has increased by 26 per cent to £7.8 million driven by strong growth in the Consumer Skincare business. The focus of the management team on reducing losses and cash burn resulted in a 48 per cent reduction in loss to £2.7m, whilst the operating cash outflow position improved by 53 per cent to £1.7 million. This, together with continued tight control of working capital, puts the Group in a strong cash position going forward with £7 million cash at 31 December 2000. Good progress continues to be made in improving manufacturing efficiencies with the Group achieving positive gross profit over 2000.

Partnerships

Increased volumes will continue to improve our gross margins going forward. Therefore, the partnerships we have developed with leading sales and marketing companies capable of providing growth are key. The recent addition of Johnson & Johnson Consumer Products Company as a partner is a significant step forward for the Group, as the strength of its first aid brands in North America complements the strength in Europe of the Novartis Consumer Health brands. Our strategy of focusing on securing relationships with high quality players is proving successful, which allows streamlining of the business at all levels.

Technology

The identification and delivery of proprietary new materials technology has been, and will remain, key to attracting major partners into strategic relationships, thus improving the value of the Group. By focusing our efforts and resources on areas where we can build upon our expertise and add value, we have considerably strengthened our position during the past year in actives/drug delivery and cell-fibre interactions for tissue engineering. Our strategy is to move from passive to active products which can accelerate tissue repair for woundcare and other healthcare applications. Relationships have been forged with leading academic institutions in the UK. These collaborations together with the awarding of grants have served to validate our technology and are enabling us to progress longer-term research.

Board Changes

With the departure of James Noble owing to his increased commitments, I assumed the non-executive Chairman's role in January this year. In addition, the Board was strengthened by the appointment of Steve Harris as a non-executive director. Steve and I are excited to be working with the executive team to complete the Group's transition to profitability and, in the future, based on our international exposure to the healthcare and biotechnology markets, support Advanced Medical Solutions as it increases its portfolio of added value products throughout all its key target markets.

Advisers

As part of an overall review of the Group's professional advisers, HLB Kidsons have been appointed as our auditors and Granville Baird as our sole stockbrokers and financial advisers. These changes took effect from December, 2000.

Prospects

The rights issue, strong cash management and continued growth are securing a firmer financial footing for the future. The Group has signed major strategic partnerships, has become a recognised global producer of woundcare dressings and has improved the balance sheet. A strong and experienced management team is in place who are capable of delivering value for shareholders from this opportunity. I am pleased to report that results for the first quarter of 2001 are in line with our forecasts and market expectations.

Finally, I would like to thank all of the employees at Advanced Medical Solutions who have committed long hours to the Group during 2000. They have experienced a year of significant change and have worked extremely hard on your behalf in moving the business towards profitability.

Dr Geoffrey N. Vernon
Chairman
27 March 2001

Above: Novartis Consumer Health product advertising.

Chief Executive's Review

"The progress made in developing our 'actives' delivery and tissue engineering technology, paves the way for the delivery of future high value healthcare products."

Having taken over as Chief Executive Officer at the beginning of 2000, a revised business plan was developed and implemented which, whilst still maintaining the overall strategy of the Group, increased the emphasis on the short-term need to reach profitability within the existing cash reserves, build strategic partnerships with major players and strengthen our technology position in order to deliver future value to shareholders.
I am pleased to report that good progress has been made in delivering this plan and the overall strategy.

Financial Performance

In order to ensure a solid financial platform for future growth of the Group, the emphasis during 2000 was placed on significantly reducing the losses from £5.2 million, and the operating cash outflow from £3.6 million as reported for 1999. Group turnover grew by 26 per cent compared with 15 per cent in the previous year, despite a conscious decision being taken to shed low margin business, which would not provide the necessary profitability in the future. The Consumer Skincare business grew by 59 per cent to £3.4 million as we launched products with new partners and in new territories. We were also successful in turning around the Professional Woundcare business where a 5 per cent decline in 1999 was reversed with the business growing by 9 per cent to £4.3 million during 2000.
Net losses were almost halved to £2.7 million. We had targeted two areas for substantial cost reductions during 2000 — overheads and manufacturing costs. Around £1 million was taken out of overhead

with savings made at every level of the organisation; Board, professional advisers and management. By signing further deals with partners for distribution of our own brands, ActivHeal™ and Spyroflex®, thus reducing our direct sales effort, a 30 per cent reduction in sales and marketing costs has been achieved in 2000 compared with 1999.

Another £0.8 million of cost savings were achieved in manufacturing by a range of projects targeting raw material costs, labour productivity and waste levels. Resourcing and standardisation of packaging allowed savings to be made in purchased raw materials. Over 20 million dressings were produced at the Winsford manufacturing facility during 2000, up from 12 million in 1999, with the same direct headcount. Capital investment in automation has enabled the number of dressings packed by hand to reduce from 30 per cent in 1999 to 15 per cent in 2000. Most work centres have now reduced waste levels to below 10 per cent and in the case of polymer and membrane, this is decreased from 50 per cent in 1999. These cost savings together with the increased volumes have contributed to the gross profit moving from -13 per cent in 1999 to 6 per cent in 2000. Further improvements were made in working capital. In particular, a reduction in stock from £1.8 million to £1.0 million, has resulted in a 53 per cent reduction in operating cash outflow to £1.7 million, maintaining a strong cash position at the end of 2000.

Partnerships

We have continued to focus on our top customers, ten of which now contribute over 70 per cent of our sales. In Consumer Skincare, we have considerably strengthened our partnerships by agreeing further deals with Novartis Consumer Health, for the supply of first aid ranges in Germany and Switzerland under their Fenistil® and Merfen® brands respectively, and a deal with Johnson & Johnson Consumer Products Company for the supply of a proprietary alginate material for inclusion in certain products for the USA and Canada. These deals illustrate the breadth of our offering as they cover products from roll-stock through to finished packed product, sold under leading brands in key global markets. We also successfully licensed the Spyroflex® trademark as part of a development and manufacturing agreement for our proprietary membrane products with AGS Laboratories Inc., a leading supplier into the North American outdoor market.

In Professional Woundcare, we strengthened our relationships with

Above: Graeme Brookes, Sales and Marketing Director, discussing the benefits of advanced wound healing.

Chief Executive's Review continued

major global partners such as Mölnlycke Healthcare, Smith and Nephew/Beiersdorf and Coloplast and their success during 2000 with the products we supply was a major contributor to us restoring growth in this competitive market.

Technology

Whilst our main emphasis during 2000 was in the process of turning around the financial performance of the Group, we have not sacrificed investment in new materials technology that will deliver future value. We have strengthened our position in our two focus areas — delivery of actives and cell-fibre interactions for tissue engineering.

Our current product offerings are essentially passive — they protect the wound and manage exudate whilst allowing the body to effectively heal itself. The next generation of products will incorporate "actives" which will help accelerate the tissue repair process. At the first level of these added value products, we already incorporate herbal ingredients/ antiseptics, such as tea tree oil, into selected dressings. We are currently working on products which contain anti-microbial agents to help prevent infection and these products are expected to come into regular use in both the Professional and Consumer areas in the near future. Our core materials such as alginates, hydrocolloids, gels and adhesives also offer exciting opportunities as vehicles for topical and transdermal drug delivery. A number of projects are under way with pharmaceutical partners to develop products incorporating appropriate drugs for a range of applications.

Above: Dr Don Evans, Chief Executive Officer, reviewing test data on delivery of "actives" with analytical chemist Dr David Riley.

A core competency of Advanced Medical Solutions is our ability to wet spin fibres of various biopolymers. These can subsequently be fabricated into fibrous scaffolds that can then be used to construct a range of medical devices. By controlling the physical and chemical properties of the biopolymer fibres, cell growth can be influenced. The wet spinning process is also an attractive environment for incorporation of biological molecules. The most obvious application for these fibre scaffolds is in our existing woundcare business for treating chronic wounds or as an artificial skin. However, the core technology can also be exploited in other areas of healthcare, where there are applications for devices that can repair, replace or regenerate tissue. Patents have been filed and collaborations have been formed with leading academic centres in the UK. As part of a consortium under the leadership of Professor Adam Curtis of the Department of Cellular

“The identification and delivery of proprietary new materials technology is key to attracting major partners and improving future growth.”

Pictured right: Clean room operation — Winsford.

Engineering at the University of Glasgow, Advanced Medical Solutions will develop cell-fibre scaffolds for a project entitled “Nanobiotechnology and Medicine”. The research is financed under the European Framework V Scheme. Further work on the development of cell-fibre scaffolds to support endothelial cell growth will be performed as part of a project entitled “Improving the design of small bore vascular grafts”. This work is to be performed in association with Dr Helen Griffiths and Dr Allan Coombes of the Pharmaceutical Sciences Research Institute, Aston University, and is supported under the Dti/Teaching Company Scheme.

As well as providing academic validation of our technology, this will help us progress our research activities in the exciting new field of tissue engineering.

Summary

In summary, we have been successful during 2000 in establishing a more secure financial platform for future growth of the business in the years ahead. As we deliver new generations of added value products, we look forward to rebuilding shareholder value.

Dr D. W. Evans
Chief Executive Officer
27 March 2001

Advanced Medical Solutions Group plc

Financial Review

Background

In January, the Group received £6.5 million of cash net of expenses from the proceeds of a 16 for 31 rights issue announced in November 1999.

These funds will have to be sufficient to see the Group to profitability in two years. The Group has, therefore, concentrated on controlled, profitable growth on higher margin business whilst containing costs and rigorously managing working capital.

The results reflect this emphasis and the Group believes it is on target to achieve profitability within this time frame.

Analysis of results

Turnover increased by 26 per cent to £7.8 million (1999: £6.2 million). The Consumer Woundcare business continued to grow strongly and delivered sales of £3.4 million, an increase of 59 per cent over the previous year (1999: £2.1 million). The Professional Woundcare business also increased 9 per cent to £4.3 million (1999: £4.0 million), reversing the previous year's trend. The Group now exports 88 per cent of its turnover (1999: 80 per cent) with the USA being the largest market at 43 per cent (1999: 36 per cent).

The Group reported a gross profit for the year of 6 per cent or £0.4 million (1999: -13per cent), an improvement of 19 percentage points on the previous year. Manufacturing yields have increased as the difficulties in manufacturing the smaller, composite dressings in the Consumer Woundcare business have been addressed or engineered out. Improvements continue to be made.

The gross margin for the second half of the year was 16 per cent compared with -5 per cent for the first six months, an improvement of 21 percentage points as the benefits of investment in the autocartoner and improvements to the polymer and membrane plant were seen. Although turnover and output have increased, the salary and wage costs have reduced to £3.9 million (1999: £4.0 million) reflecting the improvements in productivity, and the Group ended the year with 159 employees (1999: 167).

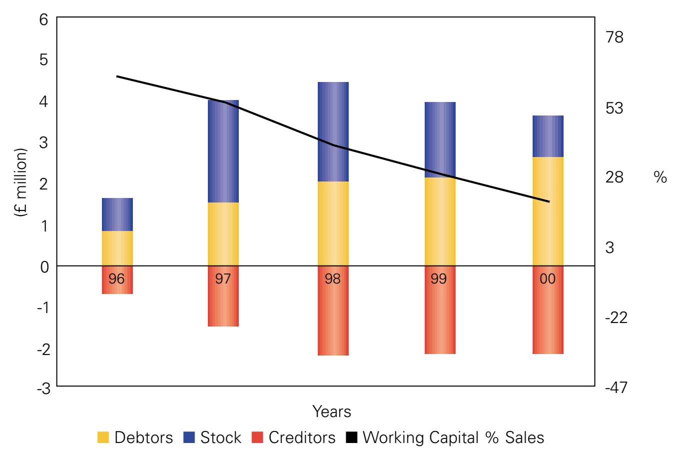
Administrative expenses, which includes all the costs of research and development and sales and marketing, reduced by 23 per cent to £3.7 million (1999: £4.8 million), reflecting savings made by reducing the size of the Board and the benefits from selling business to business instead of direct to the end customer. Investment in research and development is key to the future of the business and so, therefore, spend was increased in this area to £0.7 million (1999: £0.5 million).

Cash flow and funding

Capital expenditure of £0.7 million (1999: £0.7 million) was invested in plant and machinery primarily to improve production efficiency. Benefits have been seen in the reduced waste levels and the increased number of dressings produced.

One of the targets for the year was to improve the management of working capital and stock in particular. At the year end, working capital as a percentage of sales was 18 per cent (1999: 27 per cent), an improvement of 9 percentage points. Working capital is now at an appropriate level for the Group.

Working Capital



Stock levels fell 43 per cent to £1 million. This reduction resulted from better planning of production and from working with fewer, larger partners with more predictable business. This also helped in the management of trade debtors, which increased by 12.5 per cent to £1.8 million at the year end (1999: £1.6 million), although turnover increased by 26 per cent.

The proceeds of a rights issue announced on 17 November 1999 to raise £6.5 million cash net of expenses were received in early January 2000. These proceeds are being used to finance the existing business. The Group also leases items of plant and machinery on fixed terms. At the year end, the Group had cash of £7.0 million (1999: £2.7 million) and debt through finance leases of £0.4 million (1999: £0.4 million).

Treasury

The Group's treasury function seeks to manage financial risks, ensure sufficient funds are available for operations and to invest funds safely. The major financial risks of the Group are related to currency and counter-party credit risk as the Group has an investment in cash. The Group limits its exposure to counter-party risk by operating within parameters approved and monitored by the Board referencing credit-ratings and credit limits for individual institutions.

Currency exposures arise on exports when invoiced in currencies other than sterling, primarily the dollar. The Group does not hedge profit translation but significant transaction currency exposures are hedged by using forward contracts. Details are provided in note 19. The Group is also able to limit this exposure by sourcing materials from the USA. As the proportion of the Group's net assets overseas is small, the Group does not hedge the exposure arising from the translation of overseas assets.

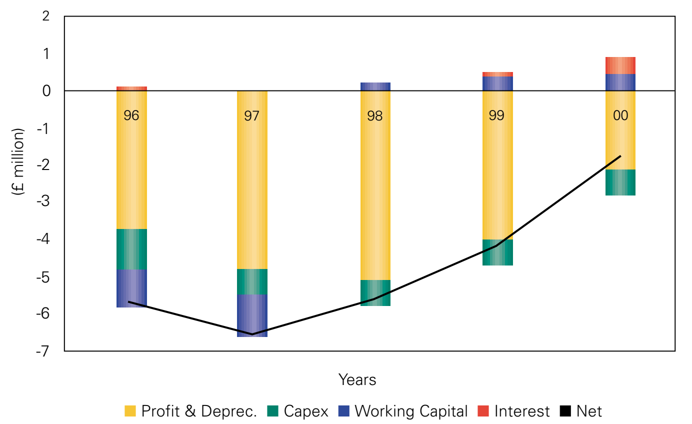
Auditors

In December, the Board invited HLB Kidsons to become auditors to the Group, replacing PricewaterhouseCoopers.

I would like to thank PricewaterhouseCoopers for all their efforts over the years and to commend to the shareholders the reappointment of HLB Kidsons at the Annual General Meeting.

Mary Tavener
Finance Director
11 April 2001

Cash Flow



Right: Mary Tavener, Finance Director, with Corporate Finance Adviser Shaun Dobson of Granville Baird.

Advanced Medical Solutions
Group plc

Directors and Advisers

Directors

Dr G N Vernon	Non-Executive Chairman
R S Harris	Non-Executive Director
Dr D W Evans	Chief Executive Officer
G N Brookes	Executive Director
M G Tavener	Executive Director

The Board of **ADVANCED MEDICAL SOLUTIONS GROUP plc,** facing the future with added confidence.

Left to right: Mary Tavener, Steve Harris, Don Evans (CEO), Geoffrey Vernon (Chairman), Graeme Brookes.

Corporate Governance Standing Committees

Audit Committee
Dr G N Vernon Chairman
R S Harris

Remuneration Committee
R S Harris Chairman
Dr G N Vernon

Nominations Committee
Dr G N Vernon Chairman
R S Harris
Dr D W Evans

Company Secretary
M G Tavener

Registered Office
Road Three
Winsford Industrial Estate
Winsford
Cheshire CW7 3PD

Registered Number
2867684

Financial Adviser
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77 Mansell Street
London
E1 8AF

Stockbrokers
Granville Baird
Mint House
77 Mansell Street
London
E1 8AF

Auditors
HLB Kidsons
No. 1 Old Hall Street,
Liverpool
L3 9SX

Solicitors
Wragge & Co
55 Colmore Row
Birmingham
B3 2AS

Registrars and Transfer Office
CAPITA IRG Plc
Balfour House
390/398 High Road
Ilford
Essex
IG1 1NQ

Bankers
National Westminster Bank PLC
PO Box No. 28
7 Winwick Street
Warrington
WA1 1XU

Report of the Directors

for the year ended 31 December 2000

The directors present their report and the audited financial statements for the year ended 31 December 2000.

Dividends

The directors do not recommend the payment of a dividend.

Principal activities, trading review and future developments

The principal activity of the Group comprises the design, development and manufacture of novel high performance polymers (both natural and synthetic) for the healthcare market. A review of the operations for the year and future developments is contained within the Chief Executive's review on pages 4 to 7 and the financial review on pages 8 and 9.

Research and development

The Group spent £706K (1999: £468K) in the year ended 31 December 2000 on research and development, all of which has been written off to the profit and loss account.

Creditors payment policy

The Group's policy for the year to 31 December 2000 for all suppliers is to fix terms of payment when agreeing the terms of each business transaction, to ensure the supplier is aware of those terms, and to abide by the agreed terms of payment provided that the supplier performs its obligations. Where terms have not been specifically agreed, it is the Group's practice to settle invoices in line with local and industry requirements. The Group's trade creditors at 31 December 2000 represented approximately 65 days of purchases (1999: 71 days).

Charitable/political contributions

The Group did not make any charitable or political contributions during the year.

Post-balance sheet events

James Noble resigned as non-executive Chairman from the Group on 16 January 2001. Geoffrey Vernon replaced James Noble as non-executive Chairman of the Group from the same date.

Steve Harris was appointed as a non-executive director of the Group on 16 January 2001.

Directors

The directors of the Company at 31 December 2000 and their interests, all of which are beneficially held, in the share capital of the Company were:

	Ordinary shares of 10p each			
	31 December 2000		31 December 1999	
	Options*	Shares	Options	Shares
G N Vernon	—	170,483	—	30,000
D W Evans	1,850,000	172,531	1,103,093	47,840
G N Brookes	1,050,000	30,000	696,850	—
M G Tavener	900,000	30,000	500,000	—
J J Noble	—	321,318	—	47,040

* Restated to take account of 16 for 31 rights issue on 6 January 2000, except for those options issued following the announcement of rights issue on 17 November 1999.

Report of the Directors continued

Geoffrey Vernon purchased a further 60,000 Ordinary Shares on 11 January 2001. This takes his total holding of Ordinary Shares to 230,483 or 0.18 per cent of the total issued share capital. Steve Harris purchased 100,000 Ordinary Shares on 22 December 2000. His holding is 0.11 per cent of the total issued share capital. Other than this, there have been no further changes in directors' interests between the end of the financial year and 28 March 2001.

Roy Smith resigned as Chief Executive Officer on 18 January 2000 and resigned from the Board on 18 May 2000.

Walter Christie, non-executive director, retired from the Board on 31 March 2000.

The directors who retire by rotation are Graeme Brookes and Geoffrey Vernon who, both being eligible, offer themselves for re-election. On 20 July 1998, the Company appointed G N Vernon for a fixed term of two years. Now the fixed term has expired, his appointment is terminable by 12 months' notice in writing. Geoffrey Vernon's profile is included below.

On 14 April 1998 the Company appointed Graeme Brookes for a fixed term of two years. Now the fixed period term has expired, his appointment is terminable by 12 months' notice in writing. Graeme Brookes gained a wealth of experience in sales and marketing within healthcare at Johnson & Johnson and Amersham International. Prior to joining the Group his most recent experience was in the area of acquisitions, joint ventures and licensing.

Steve Harris was appointed as a non-executive director on 16 January 2001 and offers himself for appointment at the Annual General Meeting. His profile is included below.

Profiles of the non-executive Directors

J J Noble
(Resigned 16 January 2001)
James Noble was appointed as a non-executive director of Advanced Medical Solutions on 20 May 1997 and became Chairman on 1 April 1998. Previously he was finance director of British Biotech plc, and a director of Kleinwort Benson Limited. He resigned as non-executive Chairman from the Group on

Substantial shareholdings

The Company's major shareholders at 16 March 2001 are:

	Number of Shares	Per cent
Newton Investment Management Limited	10,866,696	11.62
Advanced Value Realisation Company	10,333,894	11.05
Invesco	8,230,613	8.80
Hermes Pension Management	5,905,376	6.31
Royal London Mutual Insurance Society Ltd	5,140,036	5.49
Finsbury	4,340,587	4.64
Thornton UK & General Fund	3,946,870	4.22
Aerion Fund Management Ltd	3,787,054	4.05
Nomura	3,722,808	3.98
Credit Suisse First Boston UK	3,498,340	3.74

16 January 2001 to take up the full-time position of Chairman and Chief Executive Officer of Avidex Limited.

G N Vernon
Dr Geoffrey Vernon is a former executive director of Rothschild Asset Management and partner of the venture capital group Advent Limited. He joined Advanced Medical Solutions as a non-executive director in July 1998. He has over 20 years' experience in healthcare and life sciences. He is a non-executive chairman and director of a number of quoted and privately owned companies. He is a Fellow of the Institute of Directors.

R S Harris
Steve Harris's entire career has been in the pharmaceutical industry working within multinational companies such as ICI's Pharmaceutical Division (now Zeneca), Merck Sharp and Dohme, Eli Lilly and Reckitt and Colman, as well as start-up companies such as Gensia and Medeva. He resigned as a director of Medeva in 1995 to set up his own consultancy business. He is a non-executive of several quoted and privately owned companies in the healthcare field including SkyePharma plc. He is also Chairman of Proteome Sciences plc.

Employees

The Group's policy is to consult and discuss with employees, through meetings, those matters likely to affect employees' interests. The Employees' Consultative Committee, which comprises representatives of employees and management, meets regularly to discuss business issues and areas of concern.
It is the Group's policy to give full and fair consideration to all applications for employment from disabled persons having regard to their particular aptitudes and abilities and to encourage the training and career development of all personnel employed by the Group, including disabled persons. Should an employee become disabled, the Group would, where practicable, seek to continue the employment and arrange appropriate training.

Auditors

HLB Kidsons were appointed by the Board on 6 December 2000 to act as auditors of the Group following the resignation of PricewaterhouseCoopers.

PricewaterhouseCoopers stated that there are no circumstances they consider should be brought to the attention of the members or creditors. HLB Kidsons have been invited to attend the Annual General Meeting.

Resolution 5 to reappoint HLB Kidsons as auditors to the Group will be proposed at the Annual General Meeting and authorises the directors to agree payment for their services.

Special business at the Annual General Meeting

The effect of Resolution 6 to be proposed at the meeting would be to disapply the statutory pre-emption rights conferred by Section 89 of the Companies Act 1985 to a limited extent, that is to say:

— in connection with generally pre-emptive issues; or
— in respect of shares having an aggregate nominal value of £467,767 representing approximately 5 per cent of the nominal value of the Company's current issued ordinary share capital.

The resolution will cease to have effect at the conclusion of the Company's Annual General Meeting to be held in 2002 or, if earlier, fifteen months after the date of the passing of this Resolution.

By order of the Board

Mary Tavener
Company Secretary
11 April 2001

Corporate Governance

The Board has continued to apply the Combined Code in a manner which it considers appropriate for the size of the Group. In compliance with the Code the narrative below describes how the Group applied the principles. The second part of the statement details where the Group has not complied with the provisions of the Combined Code and the reasons for this.

The Board of Directors

The Board of Directors has a schedule of matters specifically reserved for its decision. The Board meets on a formal basis regularly, at least six times a year. In 2000, the Board met ten times. Prior to each Board Meeting, directors are sent an agenda including monthly management accounts and accompanying reports from the Chief Executive, Finance and Sales and Marketing Directors. The Board is responsible for formulating the Group's corporate strategy, approval of budgets, monitoring financial performance, approval and review of major capital expenditure and corporate governance matters. Operational control is delegated to the executive directors. All directors have access to the advice and services of the Company Secretary and can take independent professional advice, if necessary, at the Group's expense. The non-executive directors are able to contact the executive directors at any time for further information.

The Board now comprises three executive directors and two non-executive directors. The Board considers this adequate to deal with the management of a Group of this size. The Chairman is one of the non-executive directors and there is a clear division of responsibility between the Chairman and Chief Executive. The non-executive directors are independent of the executive management. All directors are required to stand for re-election at the first annual general meeting following their appointment and, as a minimum, every three years thereafter.

Board Committees

The Board has delegated specific authority to the Remuneration Committee, Nominations Committee and the Audit Committee. The non-executives are the only members of the Remuneration and Audit Committees.

The Audit Committee is chaired by Geoffrey Vernon and meets at least twice a year. He replaces James Noble, who served as Chairman of this Committee throughout 2000, following James Noble's resignation from the Board in January 2001. The Committee considers the appointment and fees of the auditors and discusses the scope of the audit and its findings. It is also responsible for monitoring the Group's accounting policies, assessing the Group's internal controls and reviewing the annual and interim statements prior to their submission for approval by the Board. The Committee has the right of access to the external auditors without the attendance of the executive directors. The size of the Audit Committee is not in strict compliance with the Combined Code but is consistent with a Group of this size.

The Remuneration Committee is chaired by Steve Harris and is responsible for determining the Executive Directors' remuneration and benefits and the approval of grants of options under the Executive Share Option Schemes. Steve Harris succeeds Geoffrey Vernon who served as Chairman of this Committee throughout 2000 and has now taken on the responsibility as Chairman of the Group. The Remuneration Committee meets at least twice a year and its report is set out below.

The Nominations Committee was established partway through the year to nominate and recommend the appointment of new directors to the Board. The Committee is chaired by the Chairman of the Group and comprises of the non-executive directors and the Chief Executive.

The Risk Committee was disbanded at the start of the year. The Group felt it was appropriate and in line with the Combined Code to include and discuss the matters dealt by the Risk Management Committee by the Board as a whole.

Remuneration Report

The members of the Remuneration Committee are all non-executive directors of the Group and have no personal financial interest arising from cross-directorship and no day-to-day involvement in running the business.

The Board has accepted the Remuneration Committee's recommendations in full.
The Remuneration Committee, on behalf of the Board and in consultation with the Chief Executive, determines the Group's policy on executive remuneration, employment conditions and the individual remuneration packages of executive directors and management earning in excess of £50,000 per annum and administers the Share Option Schemes.

The Group has complied during the year with Section 1B 'Directors'

Remuneration' of the provisions of the Combined Code and the Schedules A & B to the Combined Code except as detailed below.

- The service agreement for Don Evans as Chief Executive Officer is for a fixed term of two years and terminable thereafter by either party giving not less than 12 months' notice in writing which notice shall not commence until after the expiry of the fixed term. His contract will revert to 12 months' notice from 1 January 2002. The Remuneration Committee considers that this period is both appropriate and necessary.

Remuneration policy

The remuneration policy is based on the need to offer competitive packages to attract and retain senior executives of the highest calibre. Regular reviews of the policy are carried out supported by independent advice to ensure that the range and level of emoluments and incentive schemes continue to match current market practice.

Salary

Salaries are measured against performance and market mediums.

Annual performance bonus

The service agreements provide that each director shall be entitled to receive an annual bonus to be determined by the Remuneration Committee based on the Group's financial and operating performance and the achievement of individual objectives. Each participant may receive up to 30 per cent of his or her salary dependent upon performance measured against targets resulting from the completion of the Group's business plan.

Long-term incentives

All staff including executive directors are entitled to join the Savings Related Share Option Scheme. The Board believes that giving employees an interest in the Company's shares in this way is likely to increase their identification with, and commitment to, the Group and its business.

All executive directors, together with all employees, are eligible to join the Executive Share Option Scheme and/or the Unapproved Scheme. The exercising of options under these schemes is conditional on certain performance conditions which are pre-determined by the Remuneration Committee and which accord with the Joint Statement from the Investment Committees of the Association of British Insurers and the National Association of Pension Funds.

Shareholders are invited to approve all new long-term incentive schemes which potentially commit Shareholders' funds over more than one year or dilute their equity.

The Company has for some time been concerned at the potential liability to employer's national insurance on the exercise of options granted since 5 April 1999 under the Advanced Medical Solutions Group Plc Unapproved Executive Share Option Scheme. New legislation now allows option holders to agree to assume that liability. Accordingly, on 9 April 2001, the Committee resolved to change the Rules of that Scheme so that on the exercise of any option granted after that change, all employer's national insurance arising will be met by the option holder, and not by his or her employer.

Pension

Executive directors are entitled to become a member of the Group Pension and Life Assurance Scheme, which was set up with effect from 1 February 1999. This covers all employees and requires a contribution of 3 per cent by the employee and 6 per cent by the Group. Executive directors may contribute up to 10 per cent, which is matched by the Group. The Pension Plan is a money purchase scheme.

Service agreements

The service agreement for Don Evans has been described above.

The service agreements for Mary Tavener and Graeme Brookes are terminable by either party giving not less than 12 months' notice in writing.

Private healthcare

Executive directors are entitled to private healthcare and permanent health insurance.

Car

The value and type of vehicle which may, from time to time, be provided to executive directors is kept in line with market practice and forms part of the overall review of benefits.

Non-executive directors

The remuneration of non-executive directors is determined by the Chief Executive together with the executive directors. Non-executive directors are not invited to participate in the Group's Bonus, Savings Related Share Option Scheme or the Executive Share Option Scheme.

Corporate Governance continued

Directors' detailed emoluments

	Salary & fees £'000	Annual bonus £'000	Benefits £'000	2000 Pension £'000	Paid to third parties £'000	Loss of office £'000	Total year ended 2000 £'000	Total year ended 1999 £'000
Executive								
D W Evans	135	20	25	14	—	—	194	130
G N Brookes	90	14	8	9	—	—	121	97
M G Tavener	90	14	8	9	—	—	121	54
R Smith	28	—	13	3	—	—	44	155
D R Chellingsworth	—	—	—	—	—	—	—	85
Non-Executive								
G N Vernon	—	—	—	—	21	—	21	20
J J Noble	—	—	—	—	42	—	42	41
W E Christie	8	—	—	—	—	31	39	31
J D Berry	—	—	—	—	—	—	—	30
	351	48	54	35	63	31	582	643

Interests in share options

Details of grant	Option price*	D W Evans	M G Tavener	G N Brookes
Unapproved Executive Share Option Scheme				
26 October 1998	41.35p	781,122	—	298,664
1 December 1998	36.56p	195,280	—	74,666
1 June 1999	25.68p	—	—	201,024
15 July 1999	26.99p	—	574,354	—
19 July 1999	38.30p	290,730	—	226,123
26 May 2000	13.50p	582,868	325,646	249,523
At 31 December 2000		1,850,000	900,000	1,050,000

* Restated to take account of the 16 for 31 rights issue on 6 January 2000 except for those options issued after the announcement of the rights issue on 17 November 1999. Inland Revenue approval has been obtained.

Roy Smith's options lapsed upon his resignation.

The opening share price for the year was 24.5p and the closing price on the last trading day of 2000 (29 December) was 10.5p.

The range during the year was 27.5p (high) and 10.5p (low). (Source: daily official list of the London Stock Exchange.)

Investor Relations

The Group maintains a regular dialogue with institutional shareholders, mainly in the periods following the announcement of the interim and final results, but also at other times during the year. Existing and potential institutional investors are encouraged to visit the Group to improve their understanding of the Group's business. The Board encourages the participation of shareholders at its annual general meeting, notice of which is sent to shareholders at least 20 working days before the meeting. The Group also regularly updates its website '*www.admedsol.com*' to provide additional information on the Group and access to press releases and other materials issued by the Group.

Internal Control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. In the context of the Group's business any such system can only reasonably be expected to manage rather than eliminate risks arising from its operations. It can, therefore, only provide reasonable and not absolute assurance against material loss or misstatement.

The Combined Code required directors to review the effectiveness of the Group's system of internal control in the wider sense, encompassing operational and compliance matters in addition to the traditional financial issues.
Key features of the internal control system are as follows:

- The Group has an organisational structure with clearly established responsibilities and lines of accountability. The Group promotes the values of integrity and professionalism.
- A self-assessment of the business was undertaken at the start of the year to identify the key material risks of the Group. The review covered all controls including financial, operational and risk management.
- The likelihood of the occurrence of the risk and the potential impact on the Group, was assessed.
- The controls in place to minimise the occurrence of the risk are documented and analysed for effectiveness. These include procedures for the approval of major expenditure or commitment of resources.
- The Board monitors the activities of the Group through the management accounts and other reports on current activities and plans. The executive management regularly monitors financial and operational performance in detail and takes any necessary corrective action.
- The Board specifically reserves an item on the agenda to review an area of the business in the light of the results of the risk analysis.

This process has been in place since the beginning of the year. The Board reviews and continues to review the effectiveness of the Group's procedure in managing risk and, therefore, believes it meets the requirements of the Guidance.

The Board has considered the need for internal audit. It is of the opinion that, given the size and nature of the Group's operations and the other controls in place, it would not be appropriate at the present time. The matter continues to be reviewed. The Group does call on the services of external bodies to review the controls in certain areas of the Group. The British Standards Institute (BSI) reviews and reports on the quality assurance systems every 6 months. The British Safety Council also reviews and reports on the Health and Safety Systems in the Group each year.

Corporate Governance continued

Going Concern

The directors are of the opinion that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Compliance with the Combined Code

During the year ended 31 December 2000, the Group has been in compliance with the requirements of the Combined Code, except in the following areas:

- The Group has not previously indicated the level of proxies lodged on each resolution at Annual General Meetings. This will be undertaken from the 2001 Annual General Meeting. (C.2.1)
- The Board believes that given its size and complexity it is not appropriate to specify a 'senior' non-executive director. (A.2.1)
- The service agreements of Dr Don Evans as Chief Executive Officer is for a fixed term of two years and terminable hereafter by either party giving not less than 12 months' notice in writing which notice shall not commence until after the expiry of the fixed term. Dr Don Evans's service contract will revert to 12 months' notice from 1 January 2002. The Remuneration Committee considers that this period is both appropriate and necessary. (B.1.7)
- The Group has only two non-executives. Consequently, the Audit Committee does not comprise at least three non-executive directors. (D.3.1)

Statement of Directors' Responsibilities

Company law requires that the directors prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period.

In preparing the financial statements for the year ended 31 December 2000, the directors confirm that:

- Suitable accounting policies have been used and applied consistently.
- Judgements and estimates that are reasonable and prudent have been made.
- Applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Notice of the Annual General Meeting

Details of the notice of the Annual General Meeting are given on pages 39 and 40. The Annual General Meeting provides an opportunity for private shareholders to question your Board and to meet informally with the executive management after the meeting.

By order of the Board

Mary Tavener
Company Secretary
11 April 2001

Auditors' Report
to the Members of Advanced Medical Solutions Group plc

We have audited the financial statements on pages 20 to 37 which have been prepared under the historical cost convention and the accounting policies set out on pages 24 and 25.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described on page 18, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.
We review whether the corporate governance statement on pages 14 to 18 reflects the Group's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all the risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and Group as at 31 December 2000 and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

HLB Kidsons
Registered auditors
Chartered Accountants
Liverpool
11 April 2001

Consolidated Profit and Loss Account

for the year ended 31 December 2000

	Note	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Turnover	2	**7,815**	6,221
Cost of sales		**(7,373)**	(7,029)
Gross profit/(loss)		**442**	(808)
Distribution costs		**(262)**	(274)
Administration costs		**(3,701)**	(4,782)
Other operating income	3	**402**	564
Operating loss	4	**(3,119)**	(5,300)
Interest receivable and similar income	7	**470**	221
Interest payable and similar charges	8	**(37)**	(77)
Loss on ordinary activities before taxation		**(2,686)**	(5,156)
Taxation	9	**—**	—
Retained loss for the year	10	**(2,686)**	(5,156)
Basic loss per share: restated including effect of rights issue	11	**(2.9)p**	(7.3)p

The above results relate to continuing operations.

The difference between reported and historical profits and losses is immaterial.

The notes on pages 24 to 37 form part of these financial statements.

Statement of Total Recognised Gains and Losses

	Group	
	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Loss for the financial year	(2,686)	(5,156)
Currency translation differences on foreign currency net investments	24	14
Total losses recognised since last annual report	(2,662)	(5,142)

Reconciliation of Movements in Shareholders' Funds

	Group		Company	
	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Opening shareholders' funds	9,590	14,732	13,351	39,582
Loss for the financial year	(2,686)	(5,156)	(2,809)	(26,231)
Currency translation differences on foreign currency net investments	24	14	—	—
New share capital subscribed	3,184	—	3,184	—
Premium on issue of shares during the year	3,822	—	3,822	—
Costs of share issue	(480)	—	(480)	—
Closing shareholders' funds	13,454	9,590	17,068	13,351

The loss for the Company includes an exceptional write-down in the value of investments of £3,164K (1999: £26,312K).

Balance Sheets

at 31 December 2000

	Note	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Fixed assets					
Tangible assets	12	**5,403**	5,606	**—**	—
Investments	13	**—**	—	**10,180**	10,742
		5,403	5,606	**10,180**	10,742
Current assets					
Stocks	14	**1,021**	1,803	**—**	—
Debtors — due within one year	15	**2,385**	2,091	**68**	254
— due after more than one year	15	**200**	—	**200**	—
Cash at bank and in hand	27	**7,013**	2,723	**6,642**	2,387
		10,619	6,617	**6,910**	2,641
Creditors: amounts falling due within one year	16	**(2,228)**	(2,306)	**(22)**	(32)
Net current assets		**8,391**	4,311	**6,888**	2,609
Total assets less current liabilities		**13,794**	9,917	**17,068**	13,351
Creditors: amounts falling due after more than one year	17	**(340)**	(327)	**—**	—
Provisions for liabilities and charges	21	**—**	—	**—**	—
		13,454	9,590	**17,068**	13,351
Capitals and reserves					
Called up share capital	22	**9,355**	6,171	**9,355**	6,171
Share premium account	23	**36,910**	33,568	**36,910**	33,568
Other reserve	23	**1,531**	1,531	**—**	—
Profit and loss account	23	**(34,342)**	(31,680)	**(29,197)**	(26,388)
Equity shareholders' funds		**13,454**	9,590	**17,068**	13,351

These financial statements were approved by the Board on 11 April 2001.

Dr D W Evans

Chief Executive Officer

The notes on pages 24 to 37 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2000

	Note	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Net cash outflow from operating activities	25	**(1,705)**	(3,600)
Returns on investments and servicing of finance			
Interest paid		**—**	(1)
Interest received		**452**	170
Interest element of finance lease rental and hire purchase payments		**(37)**	(76)
Net cash inflow from returns on investments and servicing of finance		**415**	93
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(660)**	(704)
Sale of tangible fixed assets		**6**	6
Cash outflow before use of liquid resources and financing		**(1,944)**	(4,205)
Management of liquid resources			
Sales of term deposits		**—**	4,223
Purchase of term deposits		**(4,362)**	—
Financing			
Share issues by parent company	22/23	**7,006**	—
Share issue expenses	23	**(480)**	—
Repayment of promissory note		**—**	(49)
Net movement of capital element of finance lease rental and hire purchase payments	27	**(316)**	(409)
Net cash inflow/(outflow) from financing		**6,210**	(458)
Decrease in cash	26	**(96)**	(440)

The notes on pages 24 to 37 form part of these financial statements.

Notes forming part of the Financial Statements

1. Accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and under the historical cost convention. The Company has taken advantage of the exemption from presenting its own profit and loss account. A summary of the more important Group accounting policies, which have been applied consistently, is set out below.

Basis of consolidation

The consolidated accounts include the financial statements of Advanced Medical Solutions Group plc and all of its subsidiary undertakings made up to 31 December 2000. The Group uses both the acquisition and the merger method of accounting to consolidate the results of subsidiary undertakings. Intra-group sales and profits are eliminated fully on consolidation.

Merger accounting

Where merger accounting is used, the investment is recorded in the Company's balance sheet at the nominal value of the shares issued together with the fair value of any additional consideration paid.

In the Group accounts, merged subsidiary undertakings are treated as if they had always been a member of the Group. The results of such a subsidiary in the year it joins the Group are included for the whole period. Any difference between the nominal value of the shares acquired by the Group and those issued by the Group to acquire them is taken to reserves. Share premium attributable to the subsidiary is included as Other Reserve.

Acquisition accounting

The results of the subsidiary undertakings are included from the date control passes. On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses that arise after the Group has gained control are charged to the post-acquisition profit and loss account. Goodwill arising on the acquisition of subsidiaries in previous years has been written off immediately against reserves and has not been reinstated on the introduction of Financial Reporting Standard (FRS) 10.

Investments

Investments in subsidiary undertakings are stated at cost less provision for any loss in value considered permanent.

Goodwill

Goodwill arising on acquisitions made after 1 April 1998 is capitalised and amortised over the estimated useful economic life of 20 years. Goodwill previously eliminated against reserves has not been reinstated, but will be charged to the profit and loss account on subsequent disposal of the businesses to which it relates.

Turnover

Turnover represents sales to and royalty income received under licence agreements from external customers at invoiced amounts less value added tax. In previous years royalty income was included under other operating income. A prior year adjustment has not been made as the amount is immaterial.

Other operating income

Operating income represents non-refundable up-front licence payments received for the grant of rights for the development and marketing of products, contributions received to research and development, government grants of a revenue nature and other sundry income.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets over their expected useful lives from the date that the asset is brought into use. It is calculated at the following rates:

Leasehold improvements —
over the length of the lease

Motor vehicles —
25 per cent per annum on cost

Plant and machinery —
10 to 20 per cent per annum on cost

Fixtures and fittings —
15 to 20 per cent per annum on cost

Computers —
33.3 per cent per annum on cost

Amortisation
Licence fees capitalised are amortised on a straight line basis over the term of the licence.

Stock
Stocks are valued at the lower of cost or net realisable value. Cost is calculated as follows:

Raw materials —
cost of purchase on first in, first out basis

Work in progress and finished goods —
cost of raw materials and labour and attributable overheads

Net realisable value is based on estimated selling price less further costs to completion and disposal.

Research and development
Expenditure on pure and applied research is charged to the profit and loss account in the period in which it is incurred.

Development costs are also charged to the profit and loss account in the period of expenditure.

Deferred taxation
Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes, to the extent that it is probable that a liability or asset will crystallise.

Government grants
Grants relating to expenditure on tangible fixed assets are credited to the profit and loss account at the same rate as the depreciation on the assets to which the grants relate. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are credited to the profit and loss account in the period to which they relate.

Leases and hire purchase contracts
Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Hire purchase contracts are treated identically to finance leases.

Pensions
The Group operates a money purchase pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged against the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Foreign currency
Assets, liabilities and transactions of subsidiaries in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. Differences on exchange arising from the translation of the opening net investment in subsidiary companies are taken to reserves and are reported in the statement of total recognised gains and losses. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Notes forming part of the Financial Statements

2. Segmental information

Turnover by geographical customers:

	Turnover 2000 £'000	Turnover 1999 £'000
United States	**3,382**	2,249
Rest of Europe	**3,465**	2,688
United Kingdom	**945**	1,220
Rest of World	**23**	64
	7,815	6,221

Turnover by business unit:

	Turnover 2000 £'000	Turnover 1999 £'000
Consumer	**3,380**	2,132
Professional	**4,309**	3,957
Advanced Healthcare	**126**	132
	7,815	6,221

It is not possible to identify loss before taxation and net asset by business unit because of the use of common services.

Turnover, loss before tax and net assets by origin:

	2000 Turnover £'000	2000 Loss £'000	2000 Net assets £'000	1999 Turnover £'000	1999 Loss £'000	1999 Net assets £'000
United Kingdom	**7,682**	**(2,600)**	**13,380**	6,194	(4,663)	9,512
United States	**133**	**(86)**	**74**	27	(493)	78
Group	**7,815**	**(2,686)**	**13,454**	6,221	(5,156)	9,590

The turnover and loss before taxation is wholly attributable to the principal activity of the Group.

3. Other operating income

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Licence fees	**365**	503
Grants received	**37**	61
	402	564

4. Operating loss

		Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Operating loss arrived at after charging/(crediting):			
Government grants		**(37)**	(61)
Depreciation (see (a) below)		**957**	904
Profit/(loss) on disposal of fixed assets		**(6)**	181
Operating lease rentals	— plant and machinery	**50**	27
	— land and buildings	**347**	303
Auditors' remuneration	— audit services	**18**	30
	— non-audit services	**6**	4
Research and development		**706**	468

(a) Depreciation includes £121K (1999: £103K) charged on assets held under finance leases and hire purchase contracts.

5. Employees

The average monthly number of employees of the Group during the year, including executive directors, was as follows:

	Year ended 31 December 2000 Number	Year ended 31 December 1999 Number
Production	**119**	125
Research and development	**16**	12
Sales and marketing	**9**	13
Administration	**15**	17
	159	167

Sales and marketing includes 1 person (1999: 1) employed in the United States.

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Staff costs for all employees, including executive directors, consists of:		
Wages and salaries	**3,392**	3,552
Social security costs	**313**	312
Pension costs	**163**	161
	3,868	4,025

Notes forming part of the Financial Statements

6. Directors' emoluments

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Fees as directors	8	31
Remuneration for management services	480	483
Amounts paid to third parties	63	81
Compensation for loss of office	31	48
	582	643
Retirement benefits are accruing to the following number of directors under money purchase schemes	3	4

The disclosures required in relation to the highest paid director are contained within the Corporate Governance Report on pages 14 to 18.

7. Interest receivable and similar income

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Bank interest	462	219
Rent deposit interest	8	2
	470	221

8. Interest payable and similar charges

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Bank interest	—	1
Finance leases and hire purchase contracts	37	76
	37	77

9. Taxation on loss on ordinary activities

No provision for taxation is required due to the availability of losses.

10. Loss for the financial year

	2000 £'000	1999 £'000
Profit dealt with in the accounts of the parent company	355	80
Loss retained by subsidiary undertakings	(3,041)	(5,236)
	(2,686)	(5,156)

11. Loss per share

The basic loss per share has been calculated on a weighted average number of shares in issue during the year, namely 93,181,925 (1999: 70,893,769 after adjusting for the effect of the rights issue) and loss of £2,686K (1999: £5,156K). The comparative loss per share as disclosed in the previous financial statements has been adjusted for the effects of the right issue.

12. Tangible assets

	Short leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Group					
Cost					
At beginning of year	1,228	7,274	442	—	8,944
Additions	—	741	—	13	754
At end of year	**1,228**	**8,015**	**442**	**13**	**9,698**
Depreciation					
At beginning of year	603	2,410	325	—	3,338
Provided for the year	26	910	21	—	957
At end of year	**629**	**3,320**	**346**	**—**	**4,295**
Net book value					
At 31 December 2000	**599**	**4,695**	**96**	**13**	**5,403**
At 31 December 1999	625	4,864	117	—	5,606

The net book value of tangible fixed assets includes an amount of £996K (1999: £764K) in respect of assets held under finance leases and hire purchase contracts. The related depreciation charge for the year was £121K (1999: £103K).

	Group		Company	
	2000 £'000	1999 £'000	**2000 £'000**	1999 £'000
Commitments for capital expenditure				
Contracts placed for future capital expenditure and not provided in the financial statements	**204**	216	**—**	—

Notes forming part of the Financial Statements

13. Fixed asset investments

	2000 £'000	1999 £'000
Company		
Shares in group undertakings	—	—
Loans to group undertakings	10,180	10,742
	10,180	10,742

Shares in group undertakings and loans to group undertakings have been written down to recognise losses in subsidiary companies (see note 23).

The following were subsidiary undertakings at the end of the year and have all been included in the consolidated accounts.

Name	Country of operation	Proportion of voting rights and ordinary share capital held	Nature of business
Advanced Medical Solutions Limited	England	100%	Development and manufacture of medical products
Advanced Medical Solutions (UK) Limited	England	100%	Holding Company
Advanced Healthcare Systems Limited	England	100%‡	Dormant
Innovative Technologies Limited	England	100%	Dormant
Flowers Park Limited	England	100%	Dormant
Advanced Medical Solutions Group Inc.	USA	100%*	Holding Company
Advanced Medical Solutions (US) Inc.	USA	100%†	Development and manufacture of medical products

* Held indirectly through Advanced Medical Solutions (UK) Limited.
† Held indirectly through Advanced Medical Solutions Group Inc.
‡ Held indirectly through Advanced Medical Solutions Limited.

14. Stocks

	Group		Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Raw materials	531	854	—	—
Work in progress	440	651	—	—
Finished goods	50	298	—	—
	1,021	1,803	—	—

There is no material difference between the replacement cost of stock and the amount at which it is stated in the financial statements.

15. Debtors

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Due within one year				
Trade debtors	**1,787**	1,604	**—**	—
Other debtors	**342**	342	**—**	198
Prepayments and accrued income	**256**	145	**68**	56
	2,385	2,091	**68**	254
Due after more than one year				
Other debtors — leasehold rental deposit	**200**	—	**200**	—

16. Creditors: amounts falling due within one year

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Trade creditors	**1,105**	1,292	**—**	—
Taxation and social security	**84**	104	**—**	—
Obligations under finance leases and hire purchase contracts	**230**	291	**—**	—
Accruals and deferred income	**809**	619	**22**	32
	2,228	2,306	**22**	32

The Company no longer has an overdraft facility.

17. Creditors: amounts falling due after more than one year

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Obligations under finance leases and hire purchase contracts	**183**	147	**—**	—
Deferred income	**157**	180	**—**	—
	340	327	**—**	—

The maturity profile of the Group's financial liabilities, all of which are less than 5 years are described in note 19(a).

Notes forming part of the Financial Statements

18. Analysis of borrowings

The maturity by currency of total borrowings comprised:

	Less than 1 year £'000	1–2 years £'000	2–5 years £'000	2000 £'000	1999 £'000
Sterling	230	106	77	413	438

Borrowings are comprised of obligations under finance leases and hire purchase contracts.

The Company has entered a cross guarantee with its subsidiary undertakings in relation to bank overdraft facilities. No liability existed at 31 December 2000.

19. Derivatives and other financial instruments

Page 9 of the Financial Review provides an explanation of the financial risks faced by the Group and the objectives and policies for managing those risks. The information below deals with the financial assets and liabilities. Short-term debtors and creditors have been excluded from the analysis as permitted by FRS13. The carrying value of the Group's financial assets and liabilities equals its fair value.

(a) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities, all of which are at fixed rates and denominated in sterling, is as follows:

	On demand or within one year £'000	Between one and two years £'000	Between two and five years £'000	Total medium/ long-term £'000	Total financial liabilities £'000	Interest Rate %
Group						
Deferred income	60	75	82	157	217	—
Finance lease creditors and hire purchase contracts	230	106	77	183	413	12.4
At 31 December 2000	290	181	159	340	630	
Deferred income	60	75	105	180	240	—
Finance lease creditors and hire purchase contracts	291	141	6	147	438	13.5
At 31 December 1999	351	216	111	327	678	

(b) Borrowing facilities

The Group no longer has an overdraft facility.

	31 December 2000 £'000	31 December 1999 £'000
Expiring in less than one year	—	500

19. Derivatives and other financial instruments (continued)

(c) Interest rate and currency of financial assets

The currency and interest rate profile of the financial assets of the Group:

	Total £'000	Floating £'000	Fixed £'000	Non-interest bearing £'000	Fixed rate weighted average interest rate %
Currency					
Sterling	**6,874**	**20**	**6,640**	**214**	**6.1**
US Dollar	**139**	**139**	**—**	**—**	**—**
At 31 December 2000	**7,013**	**159**	**6,640**	**214**	
Sterling	2,505	128	2,277	100	4.9
US Dollar	218	218	—	—	—
At 31 December 1999	2,723	346	2,277	100	

The floating rate financial assets comprise of bank deposits bearing interest at commercial rates.

The financial assets all mature within one year.

(d) Currency exposures

At 31 December 2000 the Group had unhedged dollar currency exposures of £132K (1999: £218K).

(e) Hedges of future transactions

Gains and losses on instruments used for hedging currency and interest rate exposures are not recognised until the exposure that is being hedged is itself recognised.

	2000 £'000	1999 £'000
Gain expected to be recognised in 2001 or later	**13**	—

20. Foreign exchange rates

	Average rate		Closing rate		Percentage change	
	2000	1999	**2000**	1999	Average %	Closing %
Currency						
US Dollar	**1.515**	1.60	**1.495**	1.65	(5.3)	(9.4)

Notes forming part of the Financial Statements

21. Provisions for liabilities and charges

Deferred taxation

The amount of unprovided deferred taxation and the amount provided are as follows:

	2000		1999	
	Unprovided £'000	**Provided in accounts £'000**	Unprovided £'000	Provided in accounts £'000
Group				
Capital allowances	**—**	**1,050**	—	1,076
Sundry timing differences	**—**	**—**	—	—
Unutilised tax losses	**—**	**(1,050)**	—	(1,076)
	—	**—**	—	—

At 31 December 2000 the Group had tax losses, in excess of the amount disclosed above, worth approximately £7.3 million (1999: £6.7 million), at future rates of taxation, without replacement.

22. Share capital

	Group and Company	
	2000 £'000	1999 £'000
Authorised		
120,000,000 (1999: 80,000,000) ordinary shares of 10p each	**12,000**	8,000

	Group and Company	
	2000 £'000	1999 £'000
Allotted, called up and fully paid		
93,553,394 (1999: 61,705,779) ordinary shares of 10p each	**9,355**	6,171

Movements in ordinary shares during the year:

	Subscription price	**Number**	**£'000**
In issue at 1 January 2000		61,705,779	6,171
Rights issue on 6 January 2000	22p	31,847,615	3,184
In issue at 31 December 2000		**93,553,394**	**9,355**

On 6 January 2000 the Company made a rights issue on a 16 for 31 basis at 22p.

The Company issued 31,847,615 ordinary 10p shares ranking *pari passu* with existing shares.

£7,006K was raised before expenses of £480K.

22. **Share capital** (continued)

Shares to be issued

Options have been granted over the following number of ordinary shares which were outstanding at 31 December 2000.

	Date of grant	Option price	Number of Options At 1 January 2000	Issued	Lapsed	Rights adjustment	At 31 December 2000
Unapproved Executive Share Option Scheme							
	26.10.98	41.35p	1,870,000	—	1,068,298	278,084	**1,079,786**
	1.12.98	36.56p	455,000	—	252,715	67,661	**269,946**
	17.12.98	36.56p	220,098	—	114,869	32,726	**137,955**
	19.5.99	28.29p	80,000	—	34,461	11,896	**57,435**
	21.6.99	25.68p	355,000	—	—	52,790	**407,790**
	15.7.99	26.99p	500,000	—	—	74,354	**574,354**
	19.7.99	38.30p	1,309,029	—	620,722	194,656	**882,963**
	25.1.00	25.50p	—	604,635	83,191	—	**521,444**
	26.5.00	13.50p	—	1,263,037	10,000	—	**1,253,037**
Executive Share Option Scheme							
	19.7.99	38.30p	139,685	—	14,356	20,768	**146,097**
	19.1.00	25.50p	—	194,500	18,500	—	**176,000**
Savings Related Share Option Scheme							
5 Year	30.6.95	52.62p	29,670	—	34,079	4,409	**—**
5 Year	22.11.96	95.97p	21,272	—	—	3,159	**24,431**
3 Year	22.11.96	95.97p	8,837	—	10,148	1,311	**—**
			4,988,591	2,062,172	2,261,339	741,814	**5,531,238**

Option price is restated to take account of the rights issue on 6 January 2000, except for those options issued after the announcement of the rights issue on 17 November 1999.

In normal circumstances, the options granted under the Unapproved Executive Share Option Scheme and the Executive Share Option Scheme are exercisable, subject to the satisfaction of the relevant performance criteria, not earlier than 3 and not later than 7 years after the date of the grant. Options granted under the Saving Related Share Option Scheme are exercisable in normal circumstances within 6 months after the end of the option period.

Notes forming part of the Financial Statements

23. Share premium account and reserves

	Premium account £'000	Other reserve £'000	Profit and loss account £'000
Group			
As at 1 January 2000	33,568	1,531	(31,680)
Loss for the year	—	—	(2,686)
Premium on issue of shares during the year	3,822	—	—
Costs of share issues	(480)	—	—
Currency translation differences on foreign currency net investments	—	—	24
As at 31 December 2000	**36,910**	**1,531**	**(34,342)**
Company			
As at 1 January 2000	33,568	—	(26,388)
Profit for the year	—	—	355
Premium on issue of shares during the year	3,822	—	—
Costs of share issues	(480)	—	—
Provision for write-down in value of investments	—	—	(3,164)
As at 31 December 2000	**36,910**	**—**	**(29,197)**

The other reserve represents Advanced Medical Solutions Limited's share premium account arising from merger accounting (see note 1).

The cumulative goodwill written off to reserves is £5,586K (1999: £5,586K).

24. Commitments under operating leases

As at 31 December 2000, the Group had annual commitments under non-cancellable operating leases as set out below:

	2000 Land and buildings £'000	2000 Other £'000	1999 Land and buildings £'000	1999 Other £'000
Operating leases which expire:				
Within one year	**15**	**4**	192	—
In two to five years	**60**	**12**	90	—
Greater than five years	**192**	**—**	—	—

25. Reconciliation of operating loss to net cash outflow from operating activities

	Year ended 31 December 2000 £000	Year ended 31 December 1999 £000
Operating loss	**(3,119)**	(5,300)
Depreciation	**957**	904
(Profit)/loss on sale of fixed assets	**(6)**	181
Decrease in stocks	**782**	617
(Increase) in debtors	**(280)**	(2)
(Decrease) in creditors	**(39)**	—
Net cash outflow from operating activities	**(1,705)**	(3,600)

26. Reconciliation of net cash flow to movement in net debt/funds (note 27)

	2000 £'000	1999 £'000
Decrease in cash in year	**(96)**	(440)
Cash outflow to repay finance leases	**316**	409
Cash outflow/(inflow) to increase/(decrease) liquid resources	**4,362**	(4,223)
Change in net funds resulting from cash flows	**4,582**	(4,254)
New finance leases	**(291)**	(24)
Translation difference	**24**	14
Movement in net funds in year	**4,315**	(4,264)
Net funds at 1 January 2000	**2,285**	6,549
Net funds at 31 December 2000	**6,600**	2,285

27. Analysis of net debt/funds

	1 January 2000 £'000	**Cash flows £'000**	**Other changes £'000**	**Exchange movements £'000**	**31 December 2000 £'000**
Cash	445	(96)	—	24	**373**
Term deposits	2,278	4,362	—	—	**6,640**
Cash at bank and in hand	2,723	4,266	—	24	**7,013**
Finance leases	(438)	316	(291)	—	**(413)**
Total	2,285	4,582	(291)	24	**6,600**

Advanced Medical Solutions Group plc

Five Year Summary

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Consolidated profit & loss					
Turnover	**7.8**	6.2	5.4	3.3	1.4
Operating loss (before exceptional items)	**(3.1)**	(5.3)	(4.9)	(5.6)	(4.1)
Net interest receivable	**0.4**	0.2	0.1	0.2	0.2
Net interest payable	**—**	(0.1)	(0.1)	(0.2)	(0.1)
Retained loss	**(2.7)**	(5.2)	(4.9)	(5.6)	(4.0)
Basic loss per share	**(2.9)p**	(7.3)p	(12.2)p	(16.14)p	(13.12)p
Weighted average number of shares in issue after adjusting for rights issue	**93.2m**	70.9m	40.3m	34.6m	30.4m
Consolidated balance sheet					
Net assets employed					
Fixed assets	**5.4**	5.6	5.9	5.8	3.7
Cash and other net current assets	**8.4**	4.3	9.2	6.2	1.8
Creditors due after one year	**(0.3)**	(0.3)	(0.4)	(2.9)	(0.4)
Net assets	**13.5**	9.6	14.7	9.1	5.1
Capital and reserves					
Called up share capital	**9.4**	6.2	6.2	3.7	3.2
Share premium account	**36.9**	33.6	33.6	28.1	9.7
Other reserve	**1.5**	1.5	1.5	1.5	1.5
Profit and loss account	**(34.3)**	(31.7)	(26.6)	(24.2)	(9.3)
Equity shareholders' funds	**13.5**	9.6	14.7	9.1	5.1

Notice of Meeting

Advanced Medical Solutions Group plc

(Registered in England — No. 2867684)

Notice is hereby given that the seventh Annual General Meeting of the Company will be held at 11:00 a.m. on 29 May 2001 at Oaklands Country House Hotel, Millington Lane, Gorstage, Weaverham, Northwich, Cheshire, CW8 2SU.

As ordinary business

1. To receive the Report of the Directors and the Financial Statements of the Company for the year ended 31 December 2000 (together with the report of the auditors thereon).

2. To re-elect Geoffrey Nicholas Vernon (who retires by rotation in accordance with the Articles of Association) as a director of the Company.

3. To re-elect Graeme Nigel Brookes (who retires by rotation in accordance with the Articles of Association) as a director of the Company.

4. To appoint Ralph Stephen Harris, who (having been appointed a director with effect from 16 January 2001) retires at the meeting, as a director of the Company.

As special business

To consider and, if thought fit, to pass the following resolutions of which Resolution 5 will be proposed as an Ordinary Resolution and Resolution 6 will be proposed as a Special Resolution.

5. That HLB Kidsons, who were appointed by the directors during the previous year, be reappointed as auditors of the Company to hold office from the conclusion of the meeting until the conclusion of the next annual general meeting of the Company at which accounts are laid and to authorise the directors to fix their remuneration.

6. That the directors be empowered pursuant to and in accordance with Section 95 of the Companies Act 1985 ("Act") to allot equity securities pursuant to the authority conferred by a Special Resolution of the Company dated 18 May 2000 as if Section 89(1) of the Act did not (insofar as it would otherwise do) apply to any such allotment, provided that

i) this power shall expire on the date fifteen months after the date of passing this resolution or at the conclusion of the next Annual General Meeting of the Company, whichever is the earlier, save that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if this power had not expired and provided further that such allotments would have fallen within the limit hereinafter mentioned if made before such expiry;

ii) equity securities allotted otherwise than in connection with a Pro Rata Offer (as defined below) or a scrip dividend alternative offered in accordance with Article 151 of the Company's Articles of Association or pursuant to the terms of any share option scheme for employees approved by the members in general meeting shall not exceed an aggregate nominal value of £467,767 and for this purpose an issue of securities convertible into ordinary shares shall be deemed to be an allotment of the number of shares which would be required to satisfy the conversion rights attached to those securities in full at the initial conversion price provided for in the terms and conditions of the issue.

In this resolution:

a) words and expressions shall be construed in accordance with Part IV of the Act; and

b) the expression "Pro Rata Offer" means an offer of equity securities open for acceptance for a period fixed by the directors to holders of ordinary shares on the register on a fixed record date in proportion (or as nearly as may be) to their then holdings of such ordinary shares (but subject to such exclusions or other arrangements as the directors may consider necessary or expedient in relation to fractional entitlements or on account either of legal problems under the laws of any territory or the requirements of any recognised regulatory body or any other stock exchange).

By order of the Board

M G Tavener
Company Secretary
11 April 2001

Registered office:
Road Three
Winsford Industrial Estate
Winsford
Cheshire
CW7 3PD

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the Company.

2. A form of proxy is enclosed for use by members. To be effective, it must be completed and deposited at the offices of the Company's Registrars, CAPITA IRG PLC, Balfour House, 390/398 High Road, Ilford, Essex, IG1 1BR not less than 48 hours before the time fixed for the Meeting.

3. The register of directors' interests in the shares of the Company will be available for inspection at the registered office of the Company during usual business hours on any weekday (public holidays excepted) until the date of the Meeting and also on that date and at the place of the Meeting from 10:00 a.m. until the conclusion of the Meeting.

4. The Company, pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those shareholders registered in the Register of Members of the Company as at 6:00 p.m. on 27 May 2001 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered or their value at that time. Changes in the entries in the relevant register of Securities after 6:00 p.m. 27 May 2001 shall be disregarded in determining the rights of any person to attend or vote at the Meeting.

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