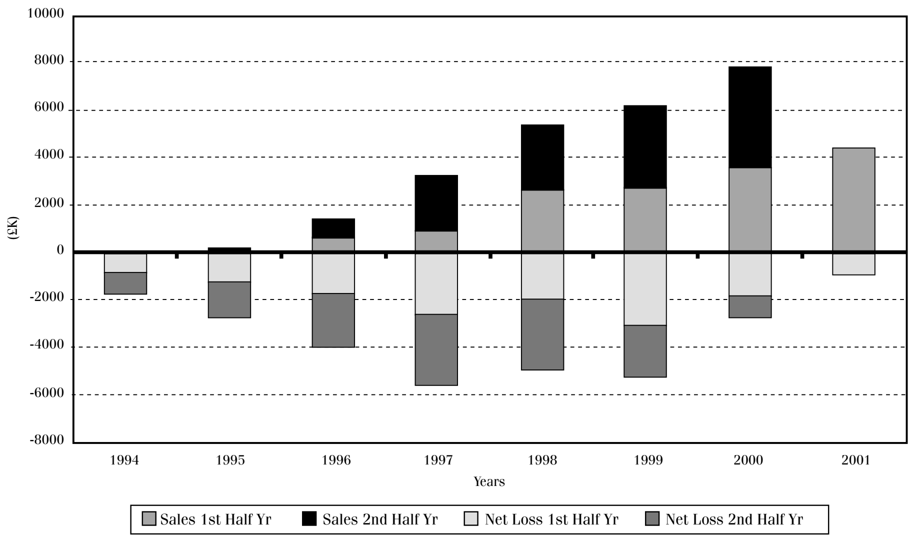
Advanced Medical Solutions Group plc

Interim Report 2001

Highlights for the year to date

- **Turnover up 23% to £4.4 million** (2000: £3.6 million)
- **Losses halved to £0.9 million** (2000: £1.8 million)
- **Operating cash flow neutral in period, £7 million in the bank at period end**
- **Gross margins improved from -6% to 18%**
- **Partnerships with major woundcare players strengthened**

Sales/Net Loss: 1994–2001



Chairman's Statement

Overview

The last six months have seen continued progress in both the Professional Woundcare and the Consumer Skincare operations. This growth has been achieved by extending our partnership arrangements with key players in the woundcare industry including Johnson & Johnson Consumer Products and Novartis Consumer Health.

Operating Review

Advanced Woundcare is the Group's core division and is focused on dressings for the professional woundcare and consumer skincare markets.

Professional Woundcare — AMS sells advanced dressings and related products to sales & marketing partners who sell them on to hospitals and nursing establishments. Current internationally recognised brand owners that AMS is partnered with in this area include Smith and Nephew, Molnlycke Healthcare and 3M Healthcare.

Consumer Skincare — this area involves the production of moist healing dressings for the consumer market where the brand is key. In an industry heavily dominated by the big players, it has been part of the management's strategy to move away from its smaller, lower margin partners towards major partners with strong brands such as Novartis with "Savlon"® and Johnson & Johnson Consumer Products with "Band Aid"®.

Research & Development

AMS is focusing on two areas: tissue engineering and delivery of actives. Tissue engineering involves the use of AMS's biopolymer fibres to provide cells with a scaffold on which to grow, speeding up the healing process. This work is being funded with the help of a SMART Award for £105,000, which was announced on 27 July 2001.

The second area of R & D focus is the delivery of active ingredients into tissue. A particular growth area in the Professional Woundcare market is the incorporation of anti-microbial agents, such as silver, into dressings. AMS is in the process of developing its own silver-based dressings, which it hopes to launch during the course of 2002.

Financial Review

In the six months ended 30 June 2001, turnover increased 23% to £4.4 million (2000: £3.6 million) primarily due to increased alginate sales in both Professional Woundcare and Consumer Skincare. Over the period, losses were halved from £1.8 million to £0.9 million. This was mainly due to further improvements in manufacturing productivity, with 14 million dressings being produced (2000: 11 million) with no increase in direct labour costs.

Professional Woundcare sales increased by 34% to £2.8 million (2000: £2.1 million) and saw strong growth across all areas in Europe and the USA.

As expected, the management's decision to refocus the Consumer Skincare division towards higher margin partners restricted the growth in sales over the period to 5%. The move, however, has resulted in an improvement in gross margin and will benefit AMS in the medium to long term.

Overall, therefore, a combination of the shift to higher margin partners, continued cost savings in manufacturing and improved productivity have resulted in the gross margin improving from -6% to 18%.

Investment continues to be made in research and technology, as this forms the basis of the Group's move into higher value products for the delivery of actives and tissue engineering devices. The spend over the period was £363,000 (2000: £357,000).

Operating cash flow was neutral over the period (2000: £702,000). This has left the Group with over £7 million of cash as at 30 June 2001 (2000: £8.2 million).

Outlook

Significant progress has continued to be made over the last six months, with additional positive developments having taken place since the end of the reporting period. AMS continues to move forward in line with internally set targets and is still on course to achieve profitability within its current cash reserves.

Revenue growth is expected to slow during the second half of the year as AMS consciously looks to shed low margin business, particularly in Consumer Skincare, and replace it with higher value sales with major strategic partners.

Capital investment is planned for the membrane operation. This will upgrade the manufacturing process of the Group's proprietary membrane technology in response to increasing demand from partners for products based on this material.

Increasingly, alginate and membrane will be the strategic focus areas for AMS as these products have strong proprietary positions and form the basis of our move into higher value products for delivery of actives and tissue engineering devices.

Dr Geoffrey N. Vernon
Chairman

Consolidated Profit and Loss Account

Unaudited results for the six months ended 30 June 2001

	Note	**Unaudited six months ended 30 June 2001 £'000**	Unaudited six months ended 30 June 2000 £'000	Audited twelve months ended 31 December 2000 £'000
Turnover	2	**4,424**	3,600	7,815
Cost of sales		**(3,634)**	(3,830)	(7,373)
Gross profit/(loss)		**790**	(230)	442
Distribution costs		**(117)**	(104)	(262)
Administration costs		**(1,764)**	(2,019)	(3,701)
Other operating income		**72**	375	402
Operating loss		**(1,019)**	(1,978)	(3,119)
Interest receivable and similar income		**188**	228	470
Interest payable and similar charges		**(19)**	(20)	(37)
Loss on ordinary activities before taxation		**(850)**	(1,770)	(2,686)
Taxation		**—**	—	—
Loss for the period		**(850)**	(1,770)	(2,686)
Loss per share				
Restated including effects of rights issue	3	**(0.91)p**	(1.9)p	(2.9)p

Statement of Total Recognised Gains and Losses

Unaudited results for the six months ended 30 June 2001

	Unaudited six months ended 30 June 2001 £'000	Unaudited six months ended 30 June 2000 £'000	Audited twelve months ended 31 December 2000 £'000
Loss for the financial period	**(850)**	(1,770)	(2,686)
Currency translation differences on foreign currency net investments	**6**	2	24
Total recognised losses relating to the period	**(844)**	(1,768)	(2,662)

Reconciliation of Movements in Shareholders' Funds

Unaudited results for the six months ended 30 June 2001

	Unaudited six months ended 30 June 2001 £'000	Unaudited six months ended 30 June 2000 £'000	Audited twelve months ended 31 December 2000 £'000
Opening shareholders' funds	**13,454**	9,590	9,590
Loss for period	**(850)**	(1,770)	(2,686)
Currency translation differences on foreign currency net investments	**6**	2	24
New share capital subscribed	**—**	3,184	3,184
Premium on issue of shares during the period	**—**	3,822	3,822
Cost of share issue	**—**	(480)	(480)
Closing shareholders' funds	**12,610**	14,348	13,454

Consolidated Balance Sheets

Unaudited results for the six months ended 30 June 2001

	Unaudited six months ended 30 June 2001 £'000	Unaudited six months ended 30 June 2000 £'000	Audited twelve months ended 31 December 2000 £'000
Fixed assets			
Tangible assets	**5,108**	5,504	5,403
Current assets			
Stocks	**853**	1,656	1,021
Debtors			
— due within one year	**2,161**	1,946	2,385
— due after more than one year	**200**	—	200
Cash at bank and in hand	**7,037**	8,170	7,013
	10,251	11,772	10,619
Creditors: amounts falling due within one year	**(2,452)**	(2,667)	(2,228)
Net current assets	**7,799**	9,105	8,391
Total assets less current liabilities	**12,907**	14,609	13,794
Creditors: amounts falling due after more than one year	**(297)**	(261)	(340)
	12,610	14,348	13,454
Capital and reserves			
Called up share capital	**9,355**	9,355	9,355
Share premium account	**36,910**	36,910	36,910
Other reserve	**1,531**	1,531	1,531
Profit and loss account	**(35,186)**	(33,448)	(34,342)
Equity shareholders' funds	**12,610**	14,348	13,454

Consolidated Cash Flow Statements

Unaudited results for the six months ended 30 June 2001

	Note	**Unaudited six months ended 30 June 2001 £'000**	Unaudited six months ended 30 June 2000 £'000	Audited twelve months ended 31 December 2000 £'000
Net cash inflow/(outflow) from operating activities		**48**	(702)	(1,705)
Returns on investments and Servicing of finance				
Interest received		**176**	96	452
Interest element of finance lease rental and hire purchase payments		**(19)**	(20)	(37)
Cash inflow from returns on investments and servicing of finance		**157**	76	415
Capital expenditure and financial investment				
Purchase of tangible fixed assets		**(227)**	(384)	(660)
Sale of tangible fixed assets		**197**	82	6
Cash inflow/(outflow) before use of liquid resources and financing		**175**	(928)	(1,944)
Management of liquid resources				
Sale of term deposits		**43**	—	—
Purchase of term deposits		**—**	(5,204)	(4,362)
Financing				
Issue of shares		**—**	7,006	7,006
Share issue expenses		**—**	(480)	(480)
Capital element of finance lease rental and hire purchase payments	5	**(157)**	(151)	(316)
Net cash (outflow)/inflow from Financing		**(157)**	6,375	6,210
Increase/(decrease) in cash	4	**61**	243	(96)

Notes

1. Basis of Preparation

The interim statements have been prepared in accordance with the accounting policies set out in the annual report for the year ended 31 December 2000. The results for the six months ended 30 June 2001 and 30 June 2000 have not been audited and do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985.

The results for the year ended 31 December 2000 are extracted from the audited annual financial statements on which the auditors reported without qualification. Full financial statements for that year have been filed with the Registrar of Companies.

2. Segmental information

	Unaudited six months ended 30 June 2001 £'000	Unaudited six months ended 30 June 2000 £'000	Audited twelve months ended 31 December 2000 £'000
Turnover by geographical region:			
United States of America	**1,544**	1,502	3,382
Rest of Europe	**2,566**	1,603	3,465
United Kingdom	**312**	478	945
Rest of World	**2**	17	23
	4,424	3,600	7,815
Turnover by business unit:			
Consumer	**1,534**	1,450	3,380
Professional	**2,890**	2,150	4,435
	4,424	3,600	7,815

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

Turnover, loss before tax and net assets by origin

	£'000	£'000	£'000
Turnover			
United Kingdom	**4,424**	3,502	7,682
United States	**—**	98	133
	4,424	3,600	7,815
Loss before tax			
United Kingdom	**(736)**	(1,691)	(2,600)
United States	**(114)**	(79)	(86)
	(850)	(1,770)	(2,686)
Net assets			
United Kingdom	**12,533**	14,251	13,380
United States	**77**	97	74
	12,610	14,348	13,454

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

Notes

3. Loss per share

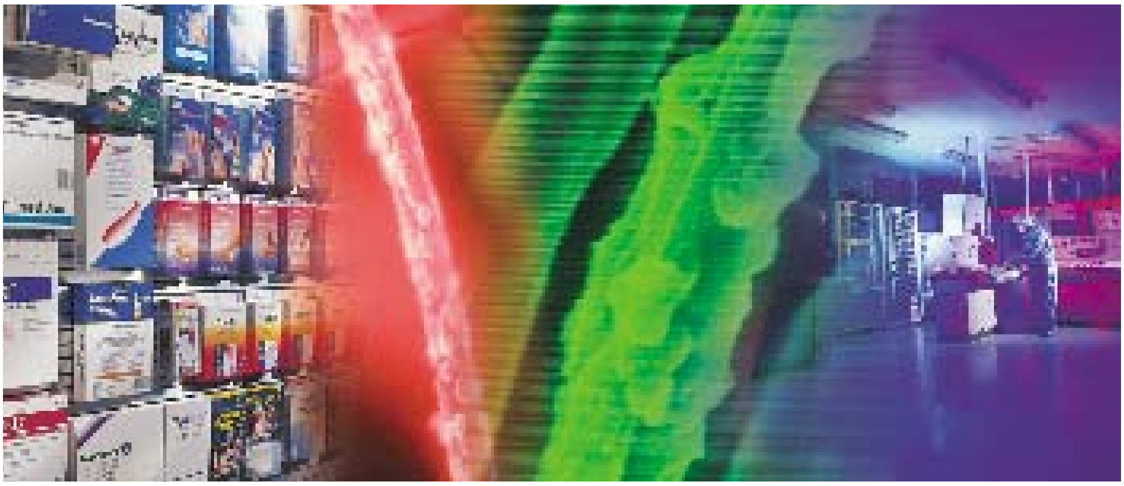
The basic loss per share has been calculated on a weighted average number of shares in issue for the six months ended 30 June 2001, namely 93,553,394 (2000: 92,806,373 after adjusting for the effects of the rights issue) and losses of £850,000 (2000: £1,770,000).

4. Reconciliation of net cash flow to movement in net debt/funds (note 5)

	Unaudited six months ended 30 June 2001 £'000	Unaudited six months ended 30 June 2000 £'000	Audited twelve months ended 31 December 2000 £'000
Increase/(decrease) in cash during the period	**61**	243	(96)
Cash outflow to repay finance leases	**157**	151	316
Cash (inflow)/outflow to (decrease)/increase liquid resources	**(43)**	5,204	4,362
Change in net funds resulting from cash flows	**175**	5,598	4,582
New finance leases	**(30)**	(84)	(291)
Translation difference	**6**	2	24
Movement in net funds in the period	**151**	5,516	4,315
Net funds at 1 January 2001	**6,600**	2,285	2,285
Net funds at 30 June 2001	**6,751**	7,801	6,600

5. Analysis of net debt/funds

	1 January 2001 £'000	**Cash Flows £'000**	**Other Changes £'000**	**Exchange Movements £'000**	**30 June 2001 £'000**
Cash	373	61	—	6	**440**
Term deposits	6,640	(43)	—	—	**6,597**
Cash at bank and in hand	7,013	18	—	6	**7,037**
Finance leases	(413)	157	(30)	—	**(286)**
Total	6,600	175	(30)	6	**6,751**



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