



Advanced Medical Solutions Group plc

ANNUAL REPORT AND ACCOUNTS **2002**



Advanced Medical Solutions Group plc

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Highlights

- Group revenues up **14% to £8.4 million** (2001: £7.4 million)
- Continued progress on gross margins — increased to **30%** (2001: 18%)
- EBITDA losses before exceptionals halved to **£0.5 million** (2001: £1.0 million) with **£5.1 million** (2001: £6.0 million) net funds at year end
- Acquisition of MedLogic Global Holdings Ltd and related intellectual property — successful integration and performance in line with expectations
- Related fundraising of £3.4 million net of costs
- Key agreements signed in the year and since year end:
 - Noble Fiber Technologies: to enable AMS to offer silver in its alginate wound dressings
 - Expansion of international presence with marketing and distribution partnerships: Hartman, Johnson & Johnson Wound Management, PDI
- FDA 510(k) approval for MedLogic's LiquiShield™ product — thereby extending use and market





“This is a very exciting time for AMS as it pursues many new opportunities and continues to strengthen all the key elements that drive value in an emerging business.”

Overview

2002 was a year of significant achievement that has transformed AMS for the future. The results show that the Board's decision to restructure the Group around higher value woundcare products was the right one. This has led to improved gross margins from 18% to 30% — a trend that we see continuing over the coming years — with Group revenues growing by 14% to £8.4 million.

One of the highlights of 2002 for the Group was the successful acquisition of the MedLogic medical adhesives business. I am pleased to report that this business, acquired in May, has been successfully integrated into the Group and has fully met the Board's expectations, both financially and strategically. The MedLogic technology has significantly strengthened our Professional Woundcare offering and provides exciting new opportunities upon which to rebuild a profitable Consumer business in the future.

Operating Review

The Group's core focus remains the development and manufacture of advanced woundcare products to be marketed and distributed through blue-chip partners into hospitals and nursing homes (“Professional”) and retail pharmacies (“Consumer”).

Professional sales increased overall by 42% to £7.8 million. Sales from the core AMS Professional Woundcare business increased 26% to £6.9 million, with alginate, a natural polymer derived from seaweed, continuing to drive growth. The addition of Johnson & Johnson Wound Management as a partner during 2002, together with existing major partners such as 3M, Smith & Nephew, Molnlycke and Coloplast, ensures strong global distribution of AMS products.

As anticipated, sales into the Consumer market declined to £0.6m. As announced in our trading statement earlier this year the rebuilding of this business, around higher value products, has proved challenging with progress being slower than expected. However, the Board continues to believe that this market offers a significant opportunity for AMS and it is receiving new focus during 2003 with the appointment of a dedicated General Manager.

The MedLogic business, acquired in May 2002, contributed £0.9 million to the Professional sales revenue in line with the Board's expectations. The vast majority of this revenue was for LiquiBand™ wound closure adhesive, sold into the UK Accident and Emergency (A&E) departments via a direct sales force. LiquiBand™ has achieved market leadership in this A&E market for replacing stitches. Interest in both this product and LiquiShield™, the skin protection product, from AMS partners has been extremely high and distribution deals, such as the one recently announced with PDI, are being put in place to expand global distribution. The PDI agreement involves the marketing and distribution of LiquiShield™ into the US hospital and nursing home market.

The FDA 510(k) clearance obtained in January 2003, for extending the use of LiquiShield™ to damaged skin, greatly increases the potential market for this product, particularly in nursing homes. LiquiShield™ works by providing a liquid film that bonds to skin and protects it from breakdown or further damage from friction, shear or moisture, as is common with a bed-ridden patient. It also provides a key stepping-stone for the Group to enter the rapidly emerging consumer liquid bandage market later this year by providing an innovative alternative to plasters for the treatment of cuts and scrapes.

The retained loss for the year before exceptionals was reduced by £0.3 million to £1.2 million. The exceptionals relate to three items — a credit of £242k for negative goodwill associated with the MedLogic acquisition, a cost of £202k for the EGM and £249k for the disposal of assets related to rationalisation of the membrane process at Winsford.

Net cash outflow of £1.1m from operating activities in the period leaves the Group with net funds of £5.1 million as at 31 December 2002.

Corporate Activity

2002 saw significant corporate activity, which has improved AMS position for the future. The Group was able to raise funds in a very difficult stock market, to complete a key strategic acquisition, and it also transferred to the Alternative Investment Market.

In May 2002, MedLogic Global Holdings Ltd and related intellectual property assets were acquired for £2.9 million including costs and a successful VCT Placing and Placing and Open Offer raised £3.4 million, net of costs.

Technology

The acquisition of the MedLogic cyanoacrylate adhesive technology has provided AMS with another proprietary biomaterials platform to complement the core strategic areas of biopolymers, foam, membrane and hydrogels. These form a strong technology base to support the move from passive wound dressings to higher value medical devices for delivery of active ingredients and for tissue repair and engineering.

Our silver-based, anti-microbial programme has progressed well and we anticipate launching dressings containing silver with major partners during the second half of 2003. As a broad spectrum, anti-microbial agent, silver is increasingly being used in wound dressings to help prevent infection.

With the assistance of a UK Government SMART award during 2002, we completed the upgrading of our alginate manufacturing process to allow the incorporation of active agents into our materials.

New Technologies

Our academic collaborations, aimed at underpinning the Company's science base, were extended with the award of an Engineering and Physical Sciences Research Council (EPSRC) grant. This grant will fund a postdoctoral position in the Tissue Engineering Group of the School of Pharmaceutical Science at the University of Nottingham, UK. This collaboration, utilising our biopolymer fibre technology, is aimed at the creation of a new class of biomaterials that control cell behaviour in addition to acting as physical scaffolds for tissue repair and regeneration. These activities and programmes are positioning us to provide an innovative pipeline of high value products for our partners in the years ahead.

Management

At the beginning of 2003, the Company was reorganised into focused business groups and the existing management was strengthened significantly with the appointments of Tom Donovan and Godfrey Axten.

Tom joined the Group as Managing Director of the Professional Woundcare business, with responsibility for all related Winsford functions. He has a wealth of experience gained internationally in sales, marketing and operations in the medical and related industries.

Godfrey has been appointed to run a focused Consumer Division addressing the retail pharmacy, sports and grocery market for first aid, footcare and skincare. He has worked with Wellcome, Warner Lambert and Novartis Consumer Health in Europe, USA and Japan. His experience will be invaluable in helping to rebuild a Consumer business based around high value products.

Tom and Godfrey join Richard Stenton as part of the senior management team. Richard joined AMS from MedLogic, where he remains as its Managing Director, based in Plymouth.

These three executives report directly to the CEO, Dr Don Evans, and bring relevant experience and leadership skills to deliver the necessary growth to bring the Company through to profitability. Graeme Brookes, Sales & Marketing Director, resigned from the Board in January 2003, and I would like to thank him for his contribution to the Business over the last 4 years.

Prospects

AMS remains well positioned in the international arena, with global distribution of its products through major blue-chip partners, which in turn delivers revenues from a range of proprietary products sold into the attractive, growing woundcare market.

The continued growth of the Professional business, re-emergence of a profitable Consumer division and further improvements in gross margins are expected to lead to the Group achieving profitability in 2003 within current cash in line with market expectations.

This is a very exciting time for AMS as it pursues many new opportunities and continues to strengthen all the key elements that drive value in an emerging business. With the expertise of the recently strengthened management team I have no doubt that we have the industry and corporate experience to take the company forward and I look forward to updating the market on our progress.

I would like to thank all employees for their hard work during the last 12 months and I would also like to take this opportunity to welcome the MedLogic employees to the Group.

Dr Geoffrey N Vernon

Chairman
24 March 2003



“We continue to build our relationships with blue chip players that give us strong, global and regional distribution for our products.”

I am pleased to report that Advanced Medical Solutions made further significant progress during 2002 in moving towards a profitable, high value, tissue repair company.

The emphasis shifted to re-establishing revenue growth and ensuring that this was achieved from products that would improve the Group's gross margin. This has been achieved within the core advanced woundcare business and through the acquisition of the higher margin MedLogic wound closure business.

Operating Review

Group turnover increased by 14% to £8.4 million. The Professional business, comprising the existing advanced woundcare product range and the new MedLogic wound closure products, grew 42% to £7.8 million. The core AMS Professional sales into the hospital and nursing home market continued to perform strongly with growth of 26% to £6.9 million, at double the market rate, with our alginate business continuing to go from strength to strength with over 30% growth. This growth maintains our position as a leading company in the supply of this product to major global woundcare companies. The launch of a proprietary alginate range by J & J Wound Management in May was a major step forward in penetrating this market segment — the fastest growing part of advanced woundcare.

We have also strengthened our position in the foam market sector, which is the second fastest global growth area, addressing primarily, chronic wounds such as ulcers and pressure sores. The foam products include thick highly absorbent dressings and thinner versions where conformability is key. The recent launches of our new highly absorbent foam dressing with PDI and Hartmann have given us two additional strong partners within the US market. Our thin foam membrane product is well established in the US and Europe and this product was submitted for regulatory approval in Japan in February 2003. These launches have broadened the business and reduced our dependency on alginates for future

growth. The creation of a strong multi-partner base for alginates and foams presents a platform for the introduction of actives into these materials as part of our move to higher value products.

Our current focus is on the inclusion of anti-microbials such as silver, to help prevent wound infection. Programmes are well developed for silver containing alginate and foam woundcare products for launch this year and are also under way for alternative anti-microbials for market introduction in 2004.

Additionally, we are strengthening our hydrogel product range through developments based on technology acquired through the MedLogic acquisition. As well as basic products for cleaning wounds in Professional and for cooling and soothing of burns in Consumer, hydrogels provide another attractive vehicle for delivering actives. One of our new hydrogel patents is of particular interest as it covers materials that thicken with increased temperature, allowing a liquid gel to be applied to a wound, which then sets in response to body temperature. Trials conducted during 2002 on our new anti-bleed antiseptic gel showed that a thicker gel formulation was required and this can now be addressed with this new advanced material. We have also had considerable interest in licensing our patent for applications of this material outside woundcare.

We are continuing our efforts to rebuild the Consumer business around a few high value products. Two products in particular are attracting interest from potential global and regional partners — a scar reduction dressing and a liquid bandage.

Liquid bandages are a rapidly emerging market in the US with a \$25 million market being created over the last few years driven by cyanoacrylate (superglue) technology. With this technology accessed through MedLogic, we are working through the regulatory approval pathway for an initial launch in the second half of 2003. This product will be used to treat minor cuts, grazes and abrasions with benefits over conventional plasters.



Another rapidly emerging market is the use of advanced woundcare materials in scar therapy to reduce redness and flatten existing scars. Based on our proprietary foam membrane product launched with Novartis Spain, we see opportunities to enter further markets with this product during 2003.

Our business continues to be well balanced globally with Europe and the USA the major contributors to turnover. The appointment of an agent, based in Japan, in 2002 has helped us to identify a number of potential new partners for this important region and discussions on a number of opportunities are well advanced.

MedLogic Integration

The integration of the MedLogic business has progressed smoothly and delivered the benefits and synergies identified at acquisition.

The new products and technology have enhanced the profile of AMS with our major global partners and we have been able to leverage these relationships to expand distribution of MedLogic products outside the UK. The MedLogic UK direct sales force has added Flexipore™ foam membrane to their range. We have incorporated hydrogel patents we acquired into our woundcare development programme, and we are sharing common administrative services between the Winsford and Plymouth sites.

Manufacturing Operations

Due to heavy investment in prior years, we have been able to continue to minimise capital expenditure in manufacturing. Investments were made in upgrading the alginate plant to provide additional capacity and to allow incorporation of actives into our products. We finally completed the rationalisation of our membrane operation at Winsford following the closure of the Tarvin facility at the end of 2001 and this resulted in the disposal of redundant assets of £249k.

Strategies for Growth

The key drivers for growth remain unchanged, namely:

- Global distribution
- The move to higher value technology
- Selective licensing and acquisition of complementary products, technology and business.

We continue to build our relationships with blue-chip players that give us strong, global and regional distribution for our products. Increasingly, we look to add partners that will take a full range into new markets and to upgrade existing partners in the major markets with new differentiated products.

Our direct sales force in the UK has established market leadership for LiquiBand™ tissue adhesive for wound closure in A & E departments, and provide co-marketing opportunities for our advanced woundcare dressings. This direct presence in our home market is invaluable in driving customer-led innovation.

Our R & D programmes are focusing on the two-year time frame as growth in the immediate future is key to reaching sustainable profitability. In this time frame, we plan to significantly upgrade our portfolio from products that simply provide an optimal environment for wound healing (passive) to those that actively accelerate the healing process. Our longer-term R & D activity continues to be channelled very clearly on the use of our biopolymer fibres as scaffolds for cell growth to repair, replace or regenerate tissue and we continue to support that work with external grant funding.

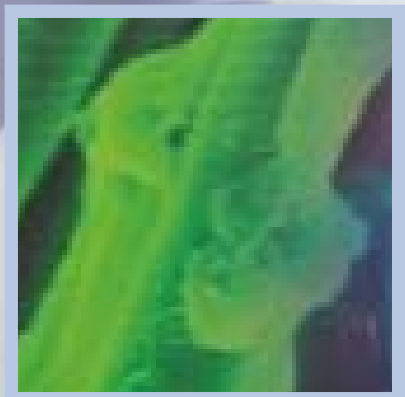
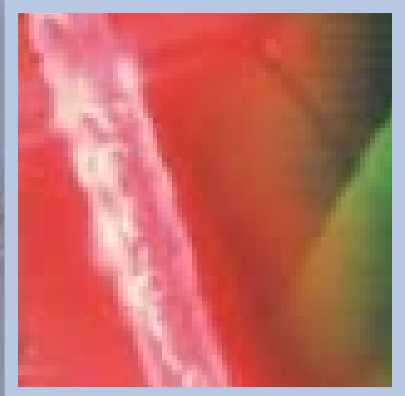
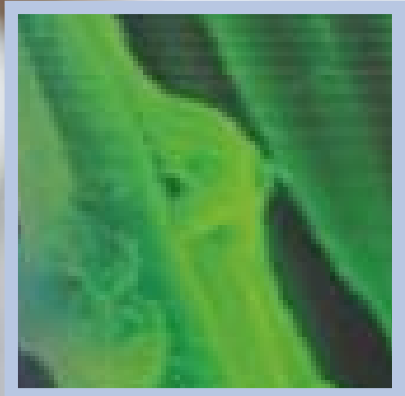
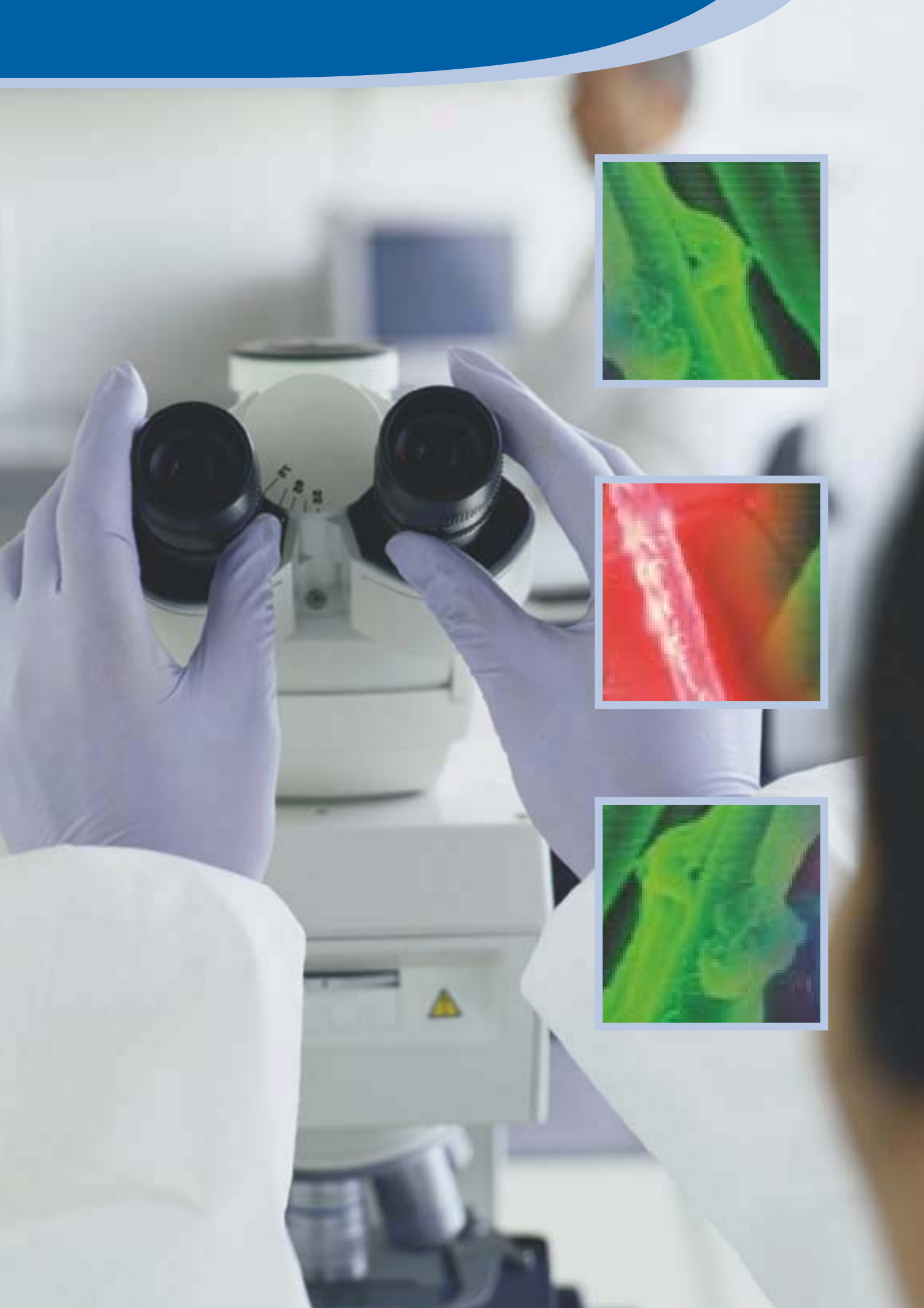
The appointment of Dr Richard Freeman to head up a strengthened R & D Group brings additional relevant expertise to help drive the future business towards products for active delivery and tissue engineering.

Selective licensing and acquisition

We have supplemented our internal R & D programmes during 2002, with licensing and acquisition deals that have significantly enhanced our move to a high value tissue repair company. The licensing deal with Noble Fiber Technology Inc. has accessed silver technology that allows us to add value to our alginate product portfolio. The MedLogic acquisition has added higher margin sales to Group revenues and another proprietary technology platform based on cyanoacrylate adhesives for us to build on in the future.

Dr Don W Evans

Chief Executive Officer
24 March 2003





The child's injury: A cut to the chin area



The applicator containing the glue



The glue is applied to the wound



“However, the nurse was about to introduce us to the wonders of new technology. ‘Wounds like this we glue together now’ she said — ‘no needles, no stitches, no return visit, no pain . . .’ ”

Use of MedLogic’s LiquiBand™ Tissue Adhesive

It was every parent’s nightmare.

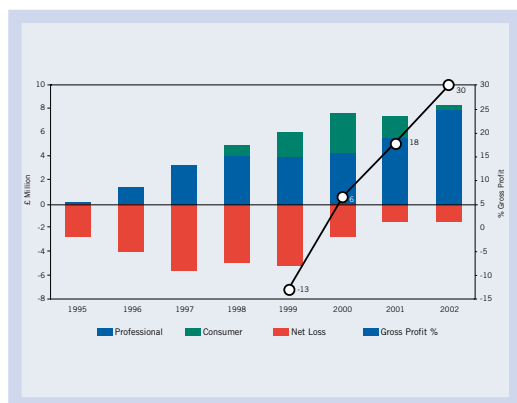
First morning of the summer holiday and we set off from the hotel loaded up with the usual beach equipment and provisions, when in a flash — trip, bang, scream — the two-year old is flat on his face on the pavement, chin split open.

Forty minutes later we are in the Accident and Emergency department of the local hospital with visions of needles, stitches, bandages and the prospect of a hotel room rather than the beach for the first few days of the holiday.

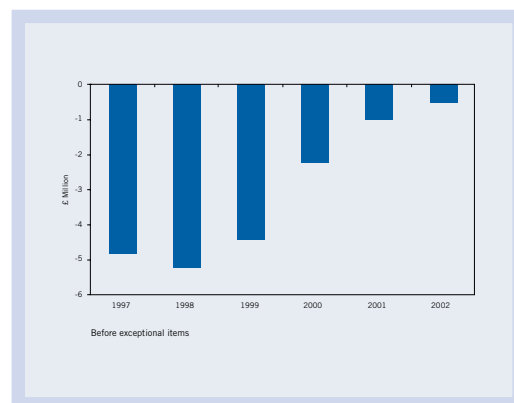
However, the nurse was about to introduce us to the wonders of new technology. “Wounds like this we glue together now” she said — “no needles, no stitches, no bandages, no return visit, no pain, no worries, you’ll be back on the beach this afternoon.”

Seemed reasonable. If you can glue cars and aeroplanes together why not people? After all, still sewing skin together after 1,000 years is a bit archaic, and everyone who has mended the teapot with superglue knows how well it sticks fingers together.

A few minutes later the wound had been cleaned and the bleeding stopped with a dressing made from seaweed. This contains calcium, which helps blood to clot. Then out came the glue. The edges of the wound were brought together, a few drops of adhesive were applied and less than a minute later, the cut was completely sealed and protected from dirt, water and sand. Within a few days the glue started to flake off with the natural healing of the skin to unveil virtually no scarring.



Sales, Net Loss and Gross Profit



EBITDA — losses

Profit and Loss Account

Turnover in the year ended 31 December 2002 increased by 13.5% to £8.4 million, compared with £7.4 million in 2001.

The acquisition of MedLogic Global Ltd contributed £0.9 million to turnover while the existing AMS woundcare business grew 2% to £7.5 million (2001: £7.4 million). Within the existing AMS woundcare business, Professional Woundcare continued to perform well and grew by 26% to £6.9 million (2001: £5.5 million) fuelled both by growth in sales to existing customers and new business in Europe. Consumer Woundcare sales fell by £1.3 million to £0.6 million (2001: £1.9 million) offsetting the growth in Professional Woundcare.

Gross profit increased by 91% to £2.5 million (2001: £1.3 million) while the gross margin improved to 29.7% from 17.6%. Gross margins in the underlying woundcare business improved to 25.3% (2001: 17.6%), while margins in the MedLogic business were higher at 67.2% where most of the sales are made directly with the end customer rather than business to business. This helped to improve the gross margin in the second six months to 33% from 26% in the first half of the year.

Administration costs, including all the costs of research and development and sales and marketing, increased to £4.4 million (2001: £3.3 million). Research and development costs increased to £1.0 million (2001: £0.7 million), though some of this expenditure qualifies for a tax credit and is discussed further below. Sales and

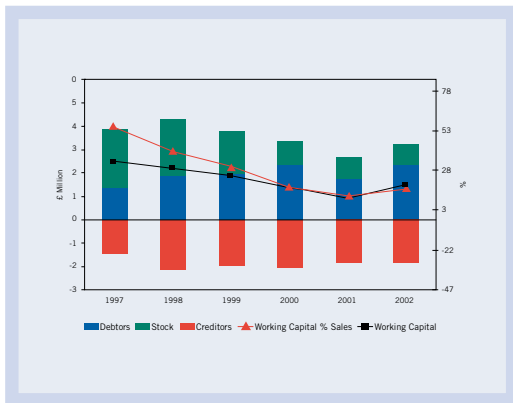
marketing increased to £1.1 million from £0.6 million and includes the costs of the MedLogic direct sales team. Costs were also increased by £0.1 million due to the amortisation of patents acquired with the acquisition and by £0.1 million for the higher insurance costs highlighted in the interims. The exceptional credit includes £0.2 million for the write-off of the negative goodwill acquired with MedLogic.

Other operating income recognises non-refundable income from development fees and licence agreements. Operating losses decreased by £0.5 million or 26% to £1.4 million from £1.9 million. A £0.2 million exceptional loss was incurred on disposal of fixed assets in rationalising the membrane process at Winsford. A further £0.2 million of exceptional costs related to the extraordinary general meeting. Overall, the acquisition of MedLogic contributed £0.1 million profit to the full year loss.

The Group recognised a tax credit on its qualifying research and development amounting to £0.3 million, which remains subject to agreement with the Inland Revenue. The amount claimed in 2001 was received in full during the year. As a result, the loss for the year before exceptional items reduced to £1.2 million (2001: £1.5 million).

Balance Sheet and Cash Flow

The Group balance sheet at 31 December 2002 shows shareholders' funds of £14.1 million (2001: £12.0 million).



Working Capital

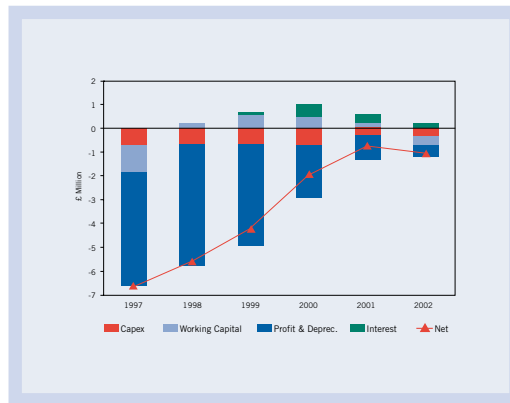
On 1 May 2002 the Group acquired MedLogic Global Holdings Ltd and associated intellectual property rights for £2.9 million. This was funded by £3.4 million of new equity, net of costs. Further details are provided in note 28 Acquisitions. The patents acquired with this acquisition are shown on the balance sheet and are being amortised over their life, which averages 15 years.

Working capital, excluding cash, increased by £0.6 million to £1.7 million due to the increased level of other debtors at the end of the year.

Working capital as a percentage of sales increased to 17% (2001: 16%). Stock and creditors remained at similar levels to last year despite the requirements of the acquisition and reflects continuing improvements that have been made in the existing AMS business. Debtors increased by £0.6 million to £2.4 million (2001: £1.8 million) and includes £0.5 million (2001: £0.1 million) for development grants and research and development tax credits.

The net cash outflow from operating activities excluding exceptional items increased £0.1 million to £0.9 million (2001: £0.8 million). Capital expenditure was at the same level as the previous year at £0.4 million.

The Group had £5.6 million of cash at 31 December 2002 (2001: £6.2 million) and net funds of £5.1 million (£6.0 million). The Group's net funds comprise cash balances together with amounts held as short-term investments.



Cash Outflow

Treasury

The Group's policy is to hedge significant transaction currency exposure by using forward contracts. The Group's main exposure is to the dollar and is able to limit this exposure by sourcing materials from the USA. The Group does not hedge the exposure arising from the translation of overseas assets as they are a small proportion of the Group's assets. Foreign currency exchange movements did not have a material impact on the results of operations in 2002.

The Group invests funds, which are surplus to short-term operational requirements, in fixed rate deposits, operating within parameters approved and monitored by the Board referencing credit ratings and credit limits for individual institutions.

Other

The Group transferred from the Main Listing to the Alternative Investment Market (AIM) on 1 May 2002. The Board continues, however, to apply the Combined Code in a manner which it considers appropriate for the size of the Group.

The Group is also reviewing its accounting policies in preparation for the implementation of the International Accounting Standards that will take effect in 2005.

Mary G Tavener

Finance Director
24 March 2003



Directors

01	Dr G Vernon	Non-Executive Chairman
02	Dr D Evans	Group Chief Executive
03	M Tavener	Finance Director
04	S Harris	Non-Executive Director



01

*Dr Geoffrey N Vernon, Non-Executive Chairman
B.Pharm, PhD, MBA*

Dr Vernon is a former Executive Director of Rothschild Asset Management and partner of the venture capital group Advent Limited. He joined AMS as a non-executive director in July 1998 and became Chairman in January 2001. 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 Chartered Director of the Institute of Directors.



02

*Dr Don W Evans, Group Chief Executive
B.Chem.Eng., MASC, PhD*

After completing a degree in Chemical Engineering at the University of Queensland and a PhD in Biomedical Engineering at the University of Toronto, Dr Evans joined Johnson & Johnson UK where he worked for 19 years in Research & Development and Manufacturing. He was subsequently appointed as Vice-President of European Operations for Johnson & Johnson Professional. Dr Evans joined AMS in 1997 as Operations Director and was appointed Managing Director of Advanced Woundcare in January 1999. He became Group Chief Executive in January 2000.



03

*Mary G Tavener, Finance Director
ACMA, MCT, BA (Hons) Chem (Oxon)*

Ms Tavener joined AMS as Finance Director in 1999. Prior to this she was the Group Financial Controller at BTP plc during a period of considerable corporate activity and was involved in the acquisition and disposal of several businesses that repositioned BTP plc as a fine chemical company. Her experience has been gained in manufacturing and she has held financial positions with Cadburys Ltd and Parker Hannifin, a US Engineering Corporation. Prior to BTP plc, she was the Finance Director of Churchill Tableware Ltd.



04

*R Stephen Harris, Non-Executive Director
B.Pharm., F.R.Pharm.S.*

Mr Harris was appointed as a non-executive director of AMS in January 2001. His career has been in both prescription and consumer healthcare sectors, with sales, marketing and general management experience with MSD, Lilly, Boots and Reckitt & Colman before becoming a main Board Director of Medeva plc. He resigned as a director of Medeva in 1995 to set up his own consultancy business. He now holds a number of non-executive appointments including SkyePharma plc, Proteome Sciences plc, Prophilian plc, GeneMedix plc, Microscience Limited, and Sinclair Pharmaceuticals.

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

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Registered Number

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Solicitors

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Patent Attorneys

Marks & Clerk, Manchester Office, Sussex House, 83–85 Mosley Street, Manchester, M2 3LG
Burns Doane Swecker & Mathis LLP, Suite 700, Twin Dolphin Drive, Redwood Shores, California
94065–1418



The directors present their report and the audited financial statements for the year ended 31 December 2002.

Dividends

The Group made a loss for the year to 31 December 2002 of £1.4 million. The directors do not recommend the payment of a dividend and the whole of the loss will be transferred to reserves.

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). A review of the operations for the year and future developments is contained within the Chief Executive's review on pages 4 to 9 and the financial review on pages 10 and 11.

Research and Development

The Group spent £969k (2001: £748k) in the year ended 31 December 2002 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 2002, 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 2002 represented approximately 59 days of purchases (2001: 79 days).

Charitable and political contributions

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

Post-balance sheet events

On 16 January 2003 Graeme Brookes, Sales and Marketing Director, resigned from the Board.

Directors

The directors of the Company at 31 December 2002 and their interests, all of which are beneficially held, in the share capital of the Company were:

	Ordinary shares of 5p each		Ordinary shares of 10p each	
	31 December 2002		31 December 2001	
	Options	Shares	Options	Shares
G N Vernon	—	545,164	—	240,483
D W Evans	2,600,000	467,680	1,850,000	197,531
G N Brookes	1,425,000	51,562	1,050,000	30,000
M G Tavener	1,275,000	51,562	900,000	30,000
R S Harris	—	197,857	—	100,000

There have been no changes in directors' interests between the end of the financial year and 24 March 2003 being less than one month prior to the date of notice of the Annual General Meeting.

Reappointment

At the forthcoming Annual General Meeting, Stephen Harris and Geoffrey Vernon will retire by rotation and, being eligible, will be proposed for reappointment. Details of the current directors of the Company are shown on page 12.

Substantial shareholdings

The Company's major shareholders at 9 March 2003 are:

	Number of Shares	Per cent
Newton Investment Management Limited	20,984,434	14.76
Close Finsbury Asset Management Ltd	18,478,235	13.00
Invesco	14,124,938	9.94
Advanced Value Realisation Company	10,333,894	7.27
Merrill Lynch Investment	8,500,000	5.98
Electra Investment Trust	5,882,352	4.14
Noble Asset Managers	5,882,352	4.14
Aerion Fund Management Ltd	5,677,972	3.99

Share capital and issue of ordinary shares

The authorised and issued share capital of the Company is set out in Note 25 to the accounts on pages 37 and 38.

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.

Employees are encouraged directly through share option schemes, performance reviews, and training and development opportunities. Each line manager is responsible for implementing this approach.

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.

Health and Safety and the Environment

The Group is committed to high standards in health, safety and environmental performance. It is the Group policy always to abide by all laws, directives and regulations pertinent to its field of operations, and to act in a manner so as to minimise the effects of its operations on the environment. Regular audits are undertaken to evaluate compliance with Health and Safety laws and Company policy.

Directors' interests in contracts

None of the directors had an interest in any contract of significance to which the Group or a subsidiary undertaking was a party during the financial year.



Auditors

Resolution 2 to reappoint Baker Tilly (formerly HLB Kidsons) as auditors to the Company 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 5 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 £355,206.34 representing approximately 5 per cent of the nominal value of the Company's current issued ordinary share capital.

The resolution will cease to have an effect at the conclusion of the Company's Annual General Meeting to be held in 2004 or, if earlier, fifteen months after the date of the passing of this resolution.

Annual General Meeting

The Annual General Meeting will be held at The Blue Cap Hotel, 520 Chester Road, Sandiway, Northwich, Cheshire, CW8 2DN on 29 May 2003 at 11.00 am. Details of the notice of the Annual General Meeting are given on pages 43 and 44. 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 G Tavener

Company Secretary
24 March 2003

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 members of the Committee are given on page 13. The Remuneration Committee has prepared this report on behalf of the Board.

The Board has accepted the Remuneration Committee's recommendations in full.

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.

Remuneration policy

The remuneration policy is based on the need to offer competitive packages to attract, retain and motivate 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 medians.

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% 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 executive directors, together with 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 predetermined 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 Group's existing Unapproved Share Option Scheme was amended in May 2002 to allow the Group to issue options that would qualify under the Enterprise Incentive Management Scheme.

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% by the employee and 6% by the Group. Executive directors may contribute up to 10%, which is matched by the Group. The Pension Plan is a money purchase scheme.

Service agreements.

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

Private healthcare

Executive directors and senior management 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 fees of the non-executive directors are determined by the Chief Executive together with the executive directors. Non-executive directors receive travel expenses but do not participate in any incentive arrangements. The total fees for each non-executive director are set out on page 18. The non-executive directors have entered into terms of appointment. Now that the initial terms have expired, Geoffrey Vernon's appointment is terminable by either party upon six months' notice in writing and Steve Harris's appointment is terminable by either party upon 3 months' notice in writing.



Directors' detailed emoluments

	Salary & fees £'000	Annual bonus £'000	Benefits £'000	Pension £'000	Paid to Third Parties £'000	Total year ending 2002 £'000	Total year ending 2001 £'000
<i>Executive</i>							
Don Evans	143	15	28	14	—	200	199
Graeme Brookes	92	—	13	9	—	114	124
Mary Tavener	97	15	9	10	—	131	123
<i>Non-Executive</i>							
Geoffrey Vernon	—	—	—	—	42	42	42
Steve Harris	—	—	—	—	22	22	22
	332	30	50	33	64	509	510

Bonuses for the directors include amounts for the successful acquisition and integration of MedLogic Global Ltd.

Interests in share options

Details of Grant	Option Price*	D W Evans	M G Tavener	G N Brookes
<i>Unapproved Executive Share Option Scheme</i>				
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
21 May 2002	8.75p	750,000	375,000	375,000
At 31 December 2002		2,600,000	1,275,000	1,425,000

* 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.

The opening share price for the year was 11p and the closing price on the last trading day of 2002 (31 December) was 9p.

The range during the year was 11.25p (*high*) and 6.75p (*low*). (Source: daily official list of the London Stock Exchange.)

Share Performance

Since Advanced Medical Solutions Group plc announced the acquisition of MedLogic Global Holdings Ltd and associated Intellectual Property Rights on 28 March 2002, its share price has outperformed the FTSE Small Cap Index by 22%, the Fledging Index by 11%, FTSE All Share by 16%, FTSE Techmark by 31%, FTSE Health by 21% and AIM by 29%.

By order of the Board

Mary G Tavener

Company Secretary
24 March 2003

The Group transferred to the Alternative Investment Market (AIM) in May 2002. The Board believes the Combined Code provides guidelines for best practice in both fully listed and AIM quoted companies and 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 retains full and effective control of the Group and 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 2002, the Board met sixteen times. Prior to each Board Meeting, directors are sent an agenda including monthly management accounts and accompanying reports from the executive 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, corporate governance matters and health and safety 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.

Since the resignation of Graeme Brookes, the Board now comprises two executive directors and two non-executive directors. The Board considers this adequate to deal with the management of a Group of this size and currently has no plans to increase the number. 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. 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, 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 senior management earning in excess of £50,000 per annum. It approves all grants of options under the Group's Share Options Schemes. The Remuneration Committee meets at least twice a year and its report is included on pages 17 and 18.

The Nominations Committee nominates and recommends the appointment of new directors to the Board. The Committee is chaired by the Chairman of the Group and comprises the non-executive directors and the Chief Executive. The Nominations Committee did not meet in 2002.

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 Group also holds Private Client Broker meetings throughout the year. 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 AMS website www.admedsol.com is regularly updated and provides additional information on the Group including information on the Group's products and technology.

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, lines of accountability and delineated approval limits. The Group promotes the values of integrity and professionalism.
- The Board has a schedule of matters expressly reserved for its consideration. This schedule includes acquisitions, major capital projects, treasury, risk management policies and approval of budgets.
- An ongoing risk management process has been implemented which identifies the key business risks facing the Group including both financial and operational risks.
- The controls in place to minimise the occurrence of the risk are documented and analysed for effectiveness. These include procedures for the approval of capital expenditure or commitment of resources.
- The Board monitors the activities of the Group through the management accounts, forecasts 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.

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.

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 2002, the Group has been in compliance with the requirements of the Combined Code, except in the following areas:

- The Board believes that given its size and complexity it is not appropriate to specify a 'senior' non-executive director. (A.2.1)
- 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 2002, 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.

By order of the Board

Mary G Tavener

Company Secretary
24 March 2003

We have audited the financial statements on pages 22 to 41.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards.

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 1985. 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 regarding directors' remuneration and transactions with the Company is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chairman's Statement, the Chief Executive's Review, the Financial Review, the Remuneration Report and the Corporate

Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 consider 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 the Group's and the Company's affairs as at 31 December 2002 and of the Group's loss for the year then ended and have been properly prepared in accordance with Companies Act 1985.

Baker Tilly

Registered Auditors
Chartered Accountants
Liverpool
11 April 2003



For the year ended 31 December 2002

		Year ended 31 December 2002 before exceptional items £'000	Year ended 31 December 2002 exceptional items £'000	Year ended 31 December 2002 Total £'000	Year ended 31 December 2001 Total £'000
	Note				
Turnover					
Continuing operations		7,495	—	7,495	7,373
Acquisitions		877	—	877	—
	2	8,372	—	8,372	7,373
Cost of sales		(5,887)	—	(5,887)	(6,075)
Gross profit		2,485	—	2,485	1,298
Distribution costs		(38)	—	(38)	(136)
Administration costs	6	(4,648)	242	(4,406)	(3,322)
Other operating income	4	532	—	532	222
Operating loss					
Continuing operations		(1,508)	—	(1,508)	(1,938)
Acquisitions		(161)	242	81	—
	5	(1,669)	242	(1,427)	(1,938)
Loss on disposal of fixed assets	6	—	(249)	(249)	—
EGM Costs	6	—	(202)	(202)	—
Loss on ordinary activities before interest and taxation		(1,669)	(209)	(1,878)	(1,938)
Interest receivable and similar income	9	223	—	223	369
Interest payable and similar charges	10	(34)	—	(34)	(30)
Loss on ordinary activities before taxation		(1,480)	(209)	(1,689)	(1,599)
Taxation	11	292	—	292	129
Loss sustained for the year	12	(1,188)	(209)	(1,397)	(1,470)
Basic and fully diluted loss per share	13	(0.9)p	(0.2)p	(1.1)p	(1.6)p

The above results relate to continuing operations.

There is no difference between reported and historical profits and losses.

The notes on pages 26 to 41 form part of these financial statements.

	Group	
	Year ended	Year ended
	31 December	31 December
	2002	2001
	£'000	£'000
Loss for the financial year	(1,397)	(1,470)
Currency translation differences on foreign currency net investments	15	10
Total losses recognised since last annual report	(1,382)	(1,460)

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

At 31 December 2002

	Group		Company	
	Year ended	Year ended	Year ended	Year ended
	31 December	31 December	31 December	31 December
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Opening shareholders' funds	11,994	13,454	12,140	17,068
Loss for the financial year	(1,397)	(1,470)	(1,205)	(4,928)
Currency translation differences on foreign currency net investments	15	10	—	—
New share capital subscribed	2,427	—	2,427	—
Premium on issue of shares during the year	1,711	—	1,711	—
Costs of share issue	(643)	—	(643)	—
Closing shareholders' funds	14,107	11,994	14,430	12,140

The loss for the Company includes an exceptional write-down in the value of investments of £1,372k (2001: £5,144k).



At 31 December 2002

		Group		Company	
	Note	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Fixed assets					
Intangible assets	14	2,406	—	—	—
Tangible assets	15	4,901	4,809	—	—
Investments	16	—	—	9,138	5,941
		7,307	4,809	9,138	5,941
Current assets					
Stocks	17	918	887	—	—
Debtors — due within one year	18	2,444	1,844	44	42
— due after more than one year	18	200	200	200	200
Cash at bank and in hand		5,558	6,238	5,098	5,963
		9,120	9,169	5,342	6,205
Creditors: amounts falling due within one year	19	(1,838)	(1,778)	(50)	(6)
Net current assets		7,282	7,391	5,292	6,199
Total assets less current liabilities		14,589	12,200	14,430	12,140
Creditors: amounts falling due after more than one year	20	(482)	(206)	—	—
		14,107	11,994	14,430	12,140
Capital and reserves					
Called up share capital	25	11,782	9,355	11,782	9,355
Share premium account	26	37,978	36,910	37,978	36,910
Other reserve	26	1,531	1,531	—	—
Profit and loss account	26	(37,184)	(35,802)	(35,330)	(34,125)
Equity shareholders' funds		14,107	11,994	14,430	12,140

These financial statements were approved by the Board on 24 March 2003

Dr D W Evans

Chief Executive Officer
24 March 2003

The notes on pages 26 to 41 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2002

	Note	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Net cash outflow from operating activities	29	(1,121)	(764)
Returns on investments and servicing of finance			
Interest received		229	395
Interest element of finance lease rental and hire purchase payments		(13)	(30)
Interest paid		(21)	—
Net cash inflow from returns on investments and servicing of finance		195	365
Taxation		129	—
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(354)	(353)
Sale of tangible fixed assets		15	204
Net cash outflow for capital expenditure and financial investment		(339)	(149)
Acquisition and disposals			
Purchase of subsidiary undertaking		(2,789)	—
Net cash acquired with subsidiary undertaking		(27)	—
Net cash outflow for acquisitions and disposals		(2,816)	—
Cash outflow before use of liquid resources and financing		(3,952)	(548)
Management of liquid resources			
Sale of term deposits		739	805
Financing			
Issue of shares	25	4,018	—
Share issue expenses	25	(643)	—
Repayment of long-term borrowing	31	(6)	—
Net movement of capital element of finance lease rental and hire purchase payments	31	(114)	(237)
Net cash inflow/(outflow) from financing		3,255	(237)
Increase in cash	30	42	20

The notes on pages 26 to 41 form part of these 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 2002. 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. Negative goodwill, being the difference between the purchase consideration in subsidiary undertakings and the Group's share of the fair value of the net assets acquired, is included on the balance sheet and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale.

Turnover

Turnover represents sales and royalty income received under licence agreements from external customers at invoiced amounts less value added tax. Advance royalties received are treated as deferred income until earned, when they are recognised as income.

Other operating income

Operating income represents non-refundable upfront 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.

Tangible fixed assets

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:

Freehold property —
4 per cent per annum

Leasehold improvements —
over the length of the lease

Motor vehicles —
25 per cent per annum on cost

Plant and machinery —
10 to 33.3 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

No depreciation is provided on freehold land.

Intangible fixed assets

Intangible fixed assets that are acquired and which can be separately identified and valued are capitalised and amortised over their estimated useful economic lives, usually not exceeding 20 years. In determining the useful economic life each asset is reviewed separately and consideration given to the period over which the Group expects to derive economic benefit from the asset.

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

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

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.

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.

Liquid resources

Liquid resources comprise variable term deposits that are accessible with less than 12 months' notice.



2. Segmental information

Turnover by geographical customers:

	Turnover	
	2002 £'000	2001 £'000
United States of America	1,330	2,399
Rest of Europe	5,243	4,145
United Kingdom	1,765	825
Rest of World	34	4
	8,372	7,373

Turnover by business unit:

	Turnover	
	2002 £'000	2001 £'000
Consumer	594	1,887
Professional	7,778	5,486
	8,372	7,373

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:

	2002 Turnover £'000	2002 Loss £'000	2002 Net assets £'000	2001 Turnover £'000	2001 Loss £'000	2001 Net assets £'000
United Kingdom	8,372	(1,475)	14,098	7,373	(1,436)	11,975
United States	—	(214)	9	—	(163)	19
Group	8,372	(1,689)	14,107	7,373	(1,599)	11,994

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

3. Analysis of cost of sales and net operating expenses

	Continuing operations £'000	Acquired operations £'000	Total £'000
Year ended 31 December 2002			
Cost of sales	(5,599)	(288)	(5,887)
Distribution costs	(18)	(20)	(38)
Administration costs	(3,683)	(723)	(4,406)
Other operating income	297	235	532
Net operating expenses	(3,404)	(508)	(3,912)
Year ended 31 December 2001			
Cost of sales	(6,075)	—	(6,075)
Distribution costs	(136)	—	(136)
Administration costs	(3,322)	—	(3,322)
Other operating income	222	—	222
Net operating expenses	(3,236)	—	(3,236)

4. Other operating income

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Licence fees	182	120
Grants received	201	35
Development fees	149	67
	532	222

5. Operating loss

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Operating loss arrived at after charging/(crediting):		
Government grants	(201)	(35)
Depreciation	1,027	934
Amortisation	112	—
(Profit)/loss on disposal of fixed assets	(6)	36
Operating lease rentals — plant and machinery	76	59
— land and buildings	292	328
Auditors' remuneration — audit services	36	20
— non-audit services (see (a) below)	169	23
Research and development	969	748
Exchange profit	(3)	(29)

(a) Auditors' remuneration for non-audit services includes £162k of costs in relation to the acquisition of MedLogic Global Holdings Limited, associated fund-raising, capital reorganisation and move to AIM.

6. Exceptional Items

The exceptional income of £242k relates to the release of negative goodwill arising on the acquisition of MedLogic Global Holdings Limited. An exceptional charge of £249k was incurred on the disposal of fixed assets in rationalising the membrane process at Winsford. There is also a £202k exceptional item relating to costs involved in defending the special resolution to invite offers for the Company at the EGM.

7. Employees

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

	Year ended 31 December 2002 Number	Year ended 31 December 2001 Number
Production	114	112
Research and development	21	15
Sales and marketing	15	6
Administration	21	17
	171	150



7. Employees continued

Sales and marketing includes 1 person (2001: 1) employed in the United States.

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Staff costs for all employees, including executive directors, consist of:		
Wages and salaries	3,523	3,089
Social Security costs	321	274
Pension costs	154	152
	3,998	3,515

8. Directors' emoluments

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Remuneration for management services	412	414
Pension	33	32
Amounts paid to third parties	64	64
	509	510
Retirement benefits are accruing to the following number of directors under money purchase schemes	3	3

The disclosures required in relation to the highest paid director are contained within the Remuneration Report on pages 17 and 18.

9. Interest receivable and similar income

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Bank interest	216	359
Rent deposit interest	7	10
	223	369

10. Interest payable and similar charges

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Finance leases and hire purchase contracts	13	30
Other loan interest	21	—
	34	30

11. Taxation on loss on ordinary activities

	2002 £'000	2001 £'000
a) Analysis of credit for the year		
Current tax:		
UK corporation tax	292	129
Tax on loss on ordinary activities	292	129
b) Factors affecting tax credit for the year		
The tax assessed for the year is higher than the standard rate of corporation tax in the UK (30%) as explained below:		
Loss on ordinary activities before tax	(1,689)	(1,599)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001: 30%)	(507)	(479)
Effects of:		
Expenses not deductible for tax purposes	420	1,558
Deductions allowed	(518)	(2,661)
Depreciation for period (less than)/in excess of capital allowances	(86)	1,048
Expensive leased cars disallowed costs	2	2
Loss on disposal of fixed assets	72	7
Trading losses carried forward	261	220
Trading losses utilised	356	305
Research and development relief	(292)	(129)
Current tax credit for the year (note 11(a))	(292)	(129)

12. Loss for the financial year

	2002 £'000	2001 £'000
Loss dealt with in the accounts of the parent company	(1,205)	(4,928)
Loss retained by subsidiary undertakings	(1,862)	(5,145)
Consolidation adjustment	1,670	8,603
	(1,397)	(1,470)

13. Loss per share

The basic loss per share has been calculated on a weighted average number of shares in issue during the year, namely 126,127,749 (2001: 93,553,394) and loss of £1,397k (2001: £1,470k). Due to losses for both years there is no dilution of the basic loss per share.



14. Intangible fixed assets

	Intellectual property rights £'000	Negative goodwill £'000	Total £'000
Group			
Cost			
At beginning of year	—	—	—
Additions	2,518	(242)	2,276
At end of year	2,518	(242)	2,276
Amortisation			
At beginning of year	—	—	—
Charged/(credited) in year	112	(242)	(130)
At end of year	112	(242)	(130)
Net book value			
At 31 December 2002	2,406	—	2,406
At 31 December 2001	—	—	—

The intellectual property rights have been amortised over their useful economic lives which averages 15 years.

15. Tangible assets

	Freehold property and improvements £'000	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	7,981	442	44	9,695
Additions	865	—	424	88	—	1,377
Disposals	—	(85)	(678)	—	—	(763)
At end of year	865	1,143	7,727	530	44	10,309
Depreciation						
At beginning of year	—	656	3,870	357	3	4,886
Provided for the year	10	18	951	30	18	1,027
Disposals	—	(68)	(437)	—	—	(505)
At end of year	10	606	4,384	387	21	5,408
Net book value						
At 31 December 2002	855	537	3,343	143	23	4,901
At 31 December 2001	—	572	4,111	85	41	4,809

The net book value of tangible fixed assets includes £19k of motor vehicles (2001: £31k) and £229k of plant and machinery (2001: £357k) held under finance leases and hire purchase contracts. The related depreciation charge for the year was £12k for motor vehicles (2001: £7k) and £38k for plant and machinery (2001: £81k)

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Commitments for capital expenditure				
Authorised for future capital expenditure and not provided in the financial statements	82	38	—	—

16. Fixed asset investments

	2002 £'000	2001 £'000
Company		
Loans to Group undertaking	9,138	5,941
	9,138	5,941

Shares in Group undertakings and loans to Group undertakings have been written down to recognise losses in subsidiary companies (see note 12).

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
MedLogic Global Holdings Limited	England	100%¶	Holding Company
MedLogic Global Limited	England	100%	Development and manufacture of medical products

* Held indirectly through Advanced Medical Solutions Limited.

† Held indirectly through MedLogic Global Holdings Limited.

‡ Held indirectly through Advanced Medical Solutions (UK) Limited.

§ Held indirectly through Advanced Medical Solutions Group Inc.

¶ Held indirectly through MedLogic Global Limited.

The acquisition of MedLogic Global Holdings Limited and MedLogic Global Limited on 1 May 2002 was made through Flowers Park Limited, a dormant company 100% owned by Advanced Medical Solutions Group plc. The acquisition method of accounting has been used.

After the acquisition the assets of MedLogic Global Limited were hived up into Flowers Park Limited. At the same time the name of Flowers Park Limited was changed to MedLogic Global Limited and the name of MedLogic Global Limited was changed to Flowers Park Limited.

The above table reflects the situation at the year end.

**17. Stocks**

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Raw materials	483	395	—	—
Work in progress	204	265	—	—
Finished goods	231	227	—	—
	918	887	—	—

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

18. Debtors

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Due within one year				
Trade debtors	1,584	1,458	—	—
Corporation tax	292	129	—	—
Other debtors	302	65	—	—
Prepayments and accrued income	266	192	44	42
	2,444	1,844	44	42
Due after more than one year				
Other debtors — leasehold rental deposit	200	200	200	200

19. Creditors: amounts falling due within one year

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Trade creditors	961	880	—	—
Taxation and social security	213	166	—	—
Bank loans and overdrafts	2	—	2	—
Other loans	10	—	—	—
Other creditors	8	—	—	—
Obligations under finance leases and hire purchase contracts	92	118	—	—
Accruals and deferred income	552	614	48	6
	1,838	1,778	50	6

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

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Obligations under finance leases and hire purchase contracts	—	88	—	—
Deferred income	137	118	—	—
Other loans	345	—	—	—
	482	206	—	—

The maturity profile of the Group's financial liabilities is described in note 22a.

21. Analysis of borrowings

The maturity by currency of total borrowings comprised;

(i) Finance leases and hire purchase contracts

	Less than 1 year £'000	2–5 years £'000	Total 2002 £'000	Less than 1 year £'000	2–5 years £'000	Total 2001 £'000
Sterling	92	—	92	118	88	206

(ii) Other loans

	Less than 1 year £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000	Total 2002 £'000	Total 2001 £'000
Sterling	10	11	55	279	355	—

The loan is secured by a fixed charge on the freehold property. It is repayable in monthly instalments and interest is payable at 8½% fixed rate.

22. Derivatives and other financial instruments

Page 11 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 FRS 13. 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, of which other loans and finance lease creditors and hire purchase contracts 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	5 years or more £'000	Total medium/ long-term £'000	Total financial liabilities £'000	Interest Rate %
Group							
Deferred income	30	30	107	—	137	167	—
Other loans	10	11	55	279	345	355	8.5
Finance lease creditors and hire purchase contracts	92	—	—	—	—	92	9.0
At 31 December 2002	132	41	162	279	482	614	—
Deferred income	60	60	58	—	118	178	—
Finance lease creditors and hire purchase contracts	118	88	—	—	88	206	11.3
At 31 December 2001	178	148	58	—	206	384	—



22. Derivatives and other financial instruments continued

	2002		2001	
	Fixed rate financial liabilities	Financial liabilities on which no interest is paid	Fixed rate financial liabilities	Financial liabilities on which no interest is paid
	Weighted average period for which rate is fixed	Weighted average period until maturity	Weighted average period for which rate is fixed	Weighted average period until maturity
	Years	Years	Years	Years
Deferred income	—	3	—	4
Other loans	17	—	—	—
Finance lease creditors and hire purchase contracts	1	—	2	—

(b) Interest rate and currency of financial assets

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

	Total £'000	Floating £'000	Fixed £'000	Fixed rate	
				Non-interest bearing £'000	Weighted Average interest rate %
Currency					
Sterling	5,348	97	5,097	154	3.8
US Dollar	204	204	—	—	—
Euro	6	6	—	—	—
At 31 December 2002	5,558	307	5,097	154	—
Sterling	6,115	125	5,836	154	4.2
US Dollar	123	114	—	9	—
At 31 December 2001	6,238	239	5,836	163	—

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

The financial assets all mature within one year.

(c) Currency exposures

At 31 December 2002 the Group had unhedged US Dollar currency exposures of £421k (2001: £446k).

23. Foreign exchange rates

	Average rate		Closing rate		Percentage change	
	2002	2001	2002	2001	Average %	Closing %
Currency						
US Dollar	1.504	1.442	1.609	1.426	4.3	12.8
Euro	1.591	1.609	1.534	1.635	(1.1)	(6.2)

24. Provisions for liabilities and charges

Deferred taxation

	2002	2001
	Provided in	Provided in
	accounts	accounts
	£'000	£'000
Group		
Capital allowances	169	991
Sundry timing differences	(6)	—
Unutilised tax losses	(163)	(991)
	—	—

At 31 December 2002 the Group had tax losses, in excess of the amount disclosed above, worth approximately £10.2 million (2001: £7.3 million), at future rates of taxation.

25. Share capital

	Group and Company	
	2002	2001
	£'000	£'000
Authorised		
300,000,000 (2001: 120,000,000) ordinary shares of 5p (2001: 10p) each	15,000	12,000
	Group and Company	
	2002	2001
	£'000	£'000
Allotted, called up and fully paid		
142,082,536 (2001: 93,553,394) ordinary shares of 5p (2001: 10p) each and 93,553,394 (2001: nil) deferred shares of 5p	11,782	9,355

On 29 April 2002, a capital reorganisation was implemented. At this capital reorganisation, each existing ordinary share with a nominal value of 10p was subdivided into 1 reduced ordinary share and 1 deferred share each with a nominal value of 5p and each unissued existing ordinary share of 10p was subdivided into 2 ordinary shares of 5p each. Each reduced ordinary share carries the same rights as an existing ordinary share. Each deferred share carried no voting rights, does not rank for dividends and only participates on the winding-up of the Company after the sum of £1 million has been paid in respect of each reduced ordinary share.

On 1 May 2002, the Company made a VCT placing of 25,882,352 new ordinary shares and placing and open offer of 21,383,632 new ordinary shares at 8.5p per share.

£4,018k was raised before expenses of £643k. 1,263,158 shares were issued at 9.5p per share as non-cash consideration in partial satisfaction of the acquisition.



25. Share capital continued

Shares to be issued

Options have been granted over the following number of ordinary shares which were outstanding at 31 December 2002.

	Date of Grant	Option Price	Number of Options			At 31 December 2002
			At 1 January 2002	Issued	Lapsed	
<i>Unapproved Executive Share Option Scheme</i>						
	26.10.98	41.35p	1,079,786	—	—	1,079,786
	1.12.98	36.56p	269,946	—	—	269,946
	17.12.98	36.56p	126,468	—	—	126,468
	19.5.99	28.29p	22,974	—	11,487	11,487
	21.6.99	25.68p	344,612	—	97,640	246,972
	15.7.99	26.99p	574,354	—	—	574,354
	19.7.99	38.30p	748,406	—	111,989	636,417
	25.1.00	25.50p	388,897	—	163,410	225,487
	26.5.00	13.50p	1,253,037	—	95,000	1,158,037
	21.5.02	8.75p	—	75,000	—	75,000
	21.05.02	8.75p	—	3,124,000	410,000	2,714,000
	09.10.02	8.75p	—	496,000	—	496,000
<i>Executive Share Option Scheme</i>						
	19.7.99	38.30p	93,507	—	—	93,507
	19.1.00	25.50p	165,500	—	35,000	130,500
	08.05.01	18.25p	246,000	—	93,000	153,000
	05.09.01	13.00p	45,000	—	45,000	—
<i>Savings Related Share Option Scheme</i>						
5 Year	22.11.96	95.97p	24,431	—	24,431	—
			5,382,918	3,695,000	1,086,957	7,990,961

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.

26. Share premium account and reserves

	Share premium account £'000	Other reserve £'000	Profit and loss account £'000
Group			
As at 1 January 2002	36,910	1,531	(35,802)
Loss for the year	—	—	(1,397)
Premium on share issues, less expenses	1,068	—	—
Currency translation differences on foreign currency net investments	—	—	15
As at 31 December 2002	37,978	1,531	(37,184)
Company			
As at 1 January 2002	36,910	—	(34,125)
Loss for the year	—	—	(1,205)
Premium on share issues, less expenses	1,068	—	—
As at 31 December 2002	37,978	—	(35,330)

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 (2001: £5,586k).

27. Commitments under operating leases

As at 31 December 2002, the Group had annual commitments under non-cancellable operating leases as set out below:

	2002 Land and buildings £'000	2002 Other £'000	2001 Land and buildings £'000	2001 Other £'000
Operating leases which expire:				
Within one year	—	15	—	3
In two to five years	—	40	—	17
Greater than five years	259	—	259	—
	259	55	259	20



28. Acquisitions

Group	Book values		Provisional
	at 1 May 2002 £'000	Fair value adjustments £'000	fair values at 1 May 2002 £'000
Fixed assets			
Tangible assets	612	411	1,023
Intangible assets	—	2,518	2,518
	612	2,929	3,541
Current assets			
Stock	110	—	110
Debtors	155	—	155
	265	—	265
Bank overdrafts	(27)	—	(27)
Current liabilities	(267)	—	(267)
Other loans	(361)	—	(361)
	222	2,929	3,151
Net assets			
Satisfied by:			
Shares issued/allocated			120
Cash			2,261
Expenses relating to the transaction			229
Deferred consideration			299
			2,909
Net consideration			2,909
Negative goodwill			(242)

On 1 May 2002 the Group acquired MedLogic Global Holdings Limited for £391k including costs, and the associated intellectual property rights for £2,518k including costs. £242k of negative goodwill was created, as the acquisition cost of MedLogic Global Limited was less than the fair value of the net assets acquired. The fair value of the tangible fixed assets was determined by market valuation. The fair value of the intangible fixed assets was determined by the future income stream generated from the Intellectual Property. The acquisition was funded by £3,375k of new equity, net of costs and non-cash consideration of £120k.

The cash consideration is subject to a retention of \$425k payable on 1 May 2003. \$425k of the cash consideration is to be retained in an escrow account for a period of one year from completion of the Acquisition Agreement to provide security in the event of certain claims by AMS under the Acquisition Agreement. This deferred consideration has been recognised as at 31 December 2002.

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

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Operating loss	(1,427)	(1,938)
Depreciation	1,027	934
Amortisation of intangible fixed assets	112	—
Amortisation of negative goodwill	(242)	—
(Profit)/loss on sale of fixed assets	(6)	36
Extraordinary general meeting costs	(202)	—
Decrease in stocks	79	134
(Increase)/decrease in debtors	(288)	447
Decrease in creditors	(174)	(377)
Net cash outflow from operating activities	(1,121)	(764)

30. Reconciliation of net cash flow to movement in net funds (note 31)

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Increase in cash in year	42	20
Cash outflow from reductions in debt and finance leases	120	237
Cash inflow from decrease in liquid resources	(739)	(805)
Change in net funds resulting from cash flows	(577)	(548)
Loans and finance leases acquired with subsidiaries	(361)	—
New finance leases	—	(30)
Translation difference	15	10
Movement in net funds in year	(923)	(568)
Net funds at 1 January 2002	6,032	6,600
Net funds at 31 December 2002	5,109	6,032

31. Analysis of net funds

	1 January 2002 £'000	Cash flows £'000	Acquisitions excluding cash and overdrafts £'000	Exchange movements £'000	31 December 2002 £'000
Cash	403	44	—	15	462
Bank overdrafts	—	(2)	—	—	(2)
Term deposits	5,835	(739)	—	—	5,096
	6,238	(697)	—	15	5,556
Debt due within one year	—	—	(10)	—	(10)
Debt due after one year	—	6	(351)	—	(345)
Finance leases	(206)	114	—	—	(92)
Total	6,032	(577)	(361)	15	5,109



	2002	2001	2000	1999	1998
	£m	£m	£m	£m	£m
Consolidated profit and loss					
Turnover	8.4	7.4	7.8	6.2	5.4
Operating loss (before exceptional items)	(1.7)	(1.9)	(3.1)	(5.3)	(4.9)
Net interest receivable	0.2	0.3	0.4	0.2	0.1
Net interest payable	—	—	—	(0.1)	(0.1)
Retained loss	(1.4)	(1.5)	(2.7)	(5.2)	(4.9)
Basic loss per share	(1.1)p	(1.6)p	(2.9)p	(7.3)p	(12.2)p
Weighted average number of shares in issue after adjusting for rights issue	126.1m	93.6m	93.2m	70.9m	40.3m
Consolidated balance sheet					
Net assets employed					
Fixed assets	7.3	4.8	5.4	5.6	5.9
Cash and other net current assets	7.3	7.4	8.4	4.3	9.2
Creditors due after one year	(0.5)	(0.2)	(0.3)	(0.3)	(0.4)
Net assets	14.1	12	13.5	9.6	14.7
Capital and reserves					
Called up share capital	11.8	9.4	9.4	6.2	6.2
Share premium account	38.0	36.9	36.9	33.6	33.6
Other reserve	1.5	1.5	1.5	1.5	1.5
Profit and loss account	(37.2)	(35.8)	(34.3)	(31.7)	(26.6)
Equity shareholders' funds	14.1	12	13.5	9.6	14.7

Notice is hereby given that the ninth Annual General Meeting of the Company will be held at 11.00 am on 29 May 2003 at The Blue Cap Hotel, 520 Chester Road, Sandiway, Northwich, Cheshire, CW8 2DN.

As ordinary business

1. To receive the Report of the Directors and the Financial Statements of the Company for the year ended 31 December 2002 (together with the report of the auditors thereon).
2. To reappoint Baker Tilly as auditors and to authorise the directors to fix their remuneration.
3. To re-elect Dr G N Vernon (who retires by rotation in accordance with the Articles of Association) as a director of the Company.
4. To re-elect R S Harris (who retires by rotation in accordance with the Articles of Association) 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 a Special Resolution and Resolution 6 as an Ordinary Resolution.

5. 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 23 April 2002 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 of 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 £355,206.34 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).
6. To invite offers for all or part of the underlying businesses, including for separate intellectual property rights, product lines and related licences and to provide bona fide potential offerors with information, subject only to normal confidentiality obligations, to enable them to make offers which maximise shareholder value.

By order of the Board

Mary G Tavener

Company Secretary
11 April 2003

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 Registrars, PO Box 25, Beckenham, Kent, BR3 4BR 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 9.00 am until the conclusion of the Meeting.
4. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the Register of Members of the Company as at 6 pm on 27 May 2003 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their names at that time. Changes in the entries in the relevant register of securities after 6 pm on 27 May 2003 shall be disregarded in determining the rights of any person to attend or vote at the Meeting.

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