Annual Report and Accounts 2003

Welcome to

Advanced Medical Solutions Group plc

“A technology company supplying the global woundcare market”

Highlights

- Group revenues up ***8% to £9.0 million*** (2002: £8.4 million).
- Further improvement on gross margins

  — increased to ***36%*** (2002: 30%).
- Significant investment to support revenue growth in 2004 resulting in post-tax losses of ***£2.1 million*** (2002: £1.4 million).
- Key licensing and distribution agreements signed in the year and since year end for advanced woundcare products:
  - — Further expansion of international presence with new marketing and distribution partnerships with B. Braun Hospicare, Hartmann AG, Teva Medical Ltd, ADL GmbH and Interpharma Proprietary Ltd among others.
  - — Silver alginate licensed globally to Johnson & Johnson Woundcare.
- MedLogic tissue adhesive business integrated and performing to expectations:
  - — Sales up ***36% to £1.7 million***.
  - — LiquiBand Surgical™ launched in Europe for closing surgical incisions.
  - — FDA 510(k) clearance obtained for introduction of a liquid bandage into the US Consumer OTC market.
- Full range of standard advanced woundcare products introduced for direct sale into NHS Hospitals and Community Care markets.
- Positive outlook for 2004 following strong first quarter.
- Cash of ***£3.6 million*** (2002: £5.6 million) sufficient to take the Group through to profitability.

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Chairman's Statement

"The combination of margin improvement, new distribution agreements and progress in our product portfolio gives us confidence in the current year."

Pictured Above
Membrane plant at Winsford

Overview

I am pleased to report that during 2003, AMS continued its progress towards building a high value global woundcare technology company.

Management focus over the past few years on improving gross margins by concentrating on higher value advanced woundcare products, and the acquisition and integration of the MedLogic wound closure business, has been successful. Gross margins improved further from 30% to 36%, with Group revenues growing by 8% to £9.0 million.

Significant investments made in sales and marketing and product development, to deliver revenue growth in 2004 to take the Group through to break-even, resulted in post-tax losses of £2.1 million. Cash at £3.6 million remains sufficient to achieve sustainable profitability.

Operational Review

The Group's core focus in 2003 remained 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). This is a $1.5 billion global market. Success in Professional Woundcare has been heavily dependent upon the performance of the Group's partners, which include major international woundcare companies such as Johnson & Johnson, 3M, Smith & Nephew, Mölnlycke and Coloplast.

Revenue growth in 2003 was limited by delays in signing partner deals and launching new products. The tough economic conditions experienced during the first half year with the uncertainties caused by the Iraq war resulting in reduced international travel, and the disruptive impact of the resolution put by a shareholder, AVRC, at the AGM to seek offers for all or part of the Group, delayed the signing of partnership deals. Although a large number of deals were signed during the year, these came too late to deliver sales in 2003 but are in place to support revenue growth in 2004.

New partnerships have been established with a broad range of companies for a variety of products and markets. The relationship with B. Braun Hospicare for both fully packed product and rolls of bulk

Innovative technology
& manufacturing
creating global products

Advanced *Medical* Solutions

material (roll-stock) further strengthens our position in alginates — a wound dressing based on seaweed. We have introduced polyurethane foam products into the US market with Paul Hartmann AG and have accessed the new markets of Israel (Teva Medical Ltd) and Australia (Interpharma Proprietary Ltd) with a full range of advanced woundcare products. Our agreement with ADL GmbH broadens our presence in Germany with a company focused on the Community Care market alongside our existing hospital business.

A global exclusive agreement for silver alginate, using the X-Static™ fibres supplied by Noble Fiber Technology Inc, with Johnson & Johnson Wound Management was completed. This is a first step in upgrading the AMS product range to include active ingredients such as anti-microbials, which help to prevent infection. Regulatory clearance for sale of this product into the US has been obtained and European approval is expected during 2004.

In addition to the delays which restricted growth, a planned shift from cartoned product to roll-stock with one of our major European partners reduced sales turnover but improved margins in line with our strategy of moving to higher value business.

A thorough re-evaluation of the Consumer OTC opportunity for the use of our technology as first-aid dressings was

Pictured Above
Alginate plant at Winsford

Chairman's Statement continued

"New partnerships have been established with a broad range of companies for a variety of products and markets."

Pictured Above
Use of LiquiBand™ in the Accident & Emergency Department

conducted during 2003. This has shown that current manufacturing costs prohibit sufficient margin to be made to justify expanding this business apart from a few selective areas. The major opportunities identified are in products for reducing the size and redness of existing scars, and for liquid bandages as alternatives to traditional first-aid plasters. These opportunities will be exploited on a niche basis whilst the main focus of the Group will remain on the Professional Woundcare market.

The acquisition of the MedLogic tissue adhesive business in May 2002 has allowed AMS to access the $5 billion global wound closure market. Although adhesives currently make up only a small part of this market, it has been estimated that up to 40% of wounds currently closed by sutures and staples are suitable for closure by adhesives.

The MedLogic business has been successfully integrated into the Group during 2003 and delivered revenue growth of 36% on an annualised basis. The Group strengthened its market leadership position in the UK with LiquiBand™ tissue adhesive for use in closing trauma wounds in the Accident and Emergency Department and, with the launch of LiquiBand™ Surgical in December, has now accessed the much larger Operating Room (OR) market for closure of surgical incisions. Both these products, which are sold through a direct sales force in the UK, are being rolled out throughout Europe during 2004 with country specific distributors who have a presence and focus primarily in the OR. The agreement signed with Resorba Clinicare GmbH, for the key German market in January this year, has supplemented strong existing distribution in Italy and Denmark. Agreements for further countries are under discussion.

To leverage the UK direct resource and existing customer relationships, a full range of standard advanced woundcare products are also now being offered to the NHS through this sales and marketing infrastructure. The NHS currently spends an estimated £100 million per year on advanced woundcare products as used in hospitals, nursing homes and in community care. Drug Tariff approval for these products has been obtained, which allows them to be prescribed by healthcare professionals throughout England and Wales.

Good progress has also been made in exploiting the MedLogic technology in the Consumer arena for use as liquid bandages for protecting skin and treating minor wounds. Specific products are being progressed through development and regulatory approval for market introduction by the end of 2004.

Corporate Activity

The Board continues to evaluate all options for delivering shareholder value. The 2002 EGM and the 2003 AGM resolutions by AVRC seeking offers for all or part of the Group were not supported by the vast majority of shareholders. This activity has been an unwelcome and costly distraction to management and caused uncertainty to our partners. I am pleased to report that AVRC's shares were placed in July 2003 with new and existing shareholders.

The success of the MedLogic acquisition has confirmed management's strategy of focussing on taking the core business to profitability whilst using shareholder support when appropriate to deliver strategic deals that can move the Group to higher value and accelerate future growth and earnings. Further opportunities, particularly those that could transform the business, will continue to be considered by the Board.

Prospects

The Group finished 2003 strongly and this trend has continued into 2004 with growth of 30% being achieved during the first quarter in line with forecast.

With an established business base covering leading edge advanced woundcare and wound closure products and technology, a focussed direct sales team in the UK home market and supported by strong global marketing and distribution partners, the Group is well positioned to achieve the necessary growth to come through to profitability within its current cash position.

I would like to thank all AMS employees for their hard work during the last 12 months and look forward to their achieving the success they have worked towards in creating and delivering a high value woundcare technology company for our shareholders.

Dr Geoffrey N Vernon
Chairman
29 March 2004

Pictured Above
Alginate manufacturing at Winsford

Chief Executive's Review

"Our technology programmes are moving the Group to higher value products."

Materials Technology

Film

Foam/Membrane

Hydrogel

Alginate

Hydrocolloid

AMS continues to establish itself as a leading global supplier of products and technology into the advanced woundcare and wound closure market. The Group is structured with business units focusing on each of these markets and will report its results in line with this on a segmental basis. Products are taken to market through major international and regional branded woundcare companies, private label distributors and more recently by a direct UK sales force.

Technology

The Group provides a full range of materials technology for advanced woundcare covering: alginate, foam/membrane, hydrocolloid, hydrogel, and film.

These are all manufactured in dedicated state-of-the-art medical device facilities in Winsford, Cheshire.

This capability, together with the flexibility of providing products in various forms from roll-stock through to fully packed, sterilised, branded cartons, has attracted an impressive array of leading woundcare partners. Capital investments in machinery, clean rooms and laboratories and the organisation of operations in accordance with the principles of world class manufacturing have positioned the Group to respond rapidly and cost-effectively to increased demand. The focus over the past few years on improving gross margins has ensured that increases in sales and volumes through the plant will provide real benefits to the bottom line going forward.

The strongest technology platform within the advanced woundcare dressings range is alginate. This is a naturally occurring polymer derived from seaweed, which is processed through a state-of-the-art manufacturing operation to provide an ideal product for wound healing. Our position in alginates has been further strengthened during 2003 with improvements in manufacturing capacity and efficiency, the launch of new, higher performance products to new and existing partners and the addition of silver fibres to create higher value, anti-microbial dressings.

Our proprietary foam/membrane technology has been further exploited by the introduction of high absorbency dressings for chronic wounds, such as ulcers and pressure sores, into the US market, and the launch of a private label scar reduction product into the US Consumer market, building on the continued success of a similar product supplied to Novartis Spain aimed at treating Caesarean section scars.

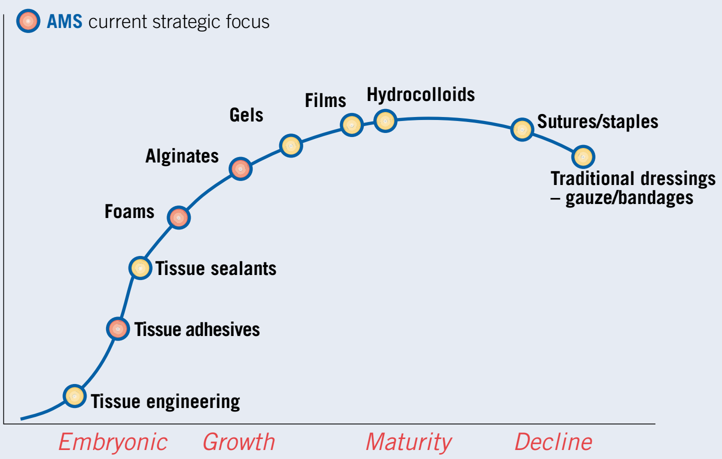
Another key technology platform is medical grade cyanoacrylate (super-glue) adhesives. These products are developed and manufactured at a dedicated medical device facility in Plymouth, Devon. This technology is being exploited as a tissue adhesive or glue for closing wounds with significant benefits to the patient, surgeon and nursing staff over traditional sutures, staples and adhesive strips and as a liquid film for protecting skin and treating minor wounds.

Our market leadership position with LiquiBand™ Tissue Adhesive for closing wounds in the UK A & E arena has been strengthened with the introduction of LiquiBand™ Flow Control. This product, which contains a novel applicator, ensures that the adhesive can be used safely and confidently for facial wounds particularly around the eye.

The launch of LiquiBand Surgical™ at the end of 2003, following regulatory approval for Europe, is a major step forward in accessing the much larger operating room market. This product has been designed in association with surgeons and post-operative nursing staff to address the requirements for the closure of surgical incisions. It consists of two components: a fast-setting adhesive for closing the incision and a liquid bandage which is painted over the wound to protect against moisture and infection. The initial response to this product from surgeons in

Pictured Above
Cyanoacrylate adhesive

Woundcare – product life cycle



Above
Innovation is key to the Group's future

Chief Executive's Review CONTINUED

"Our direct sales force in the UK has established *market leadership for LiquiBand™* tissue adhesive for wound closure in A & E departments."

Pictured Above
LiquiBand Surgical™

the UK and throughout the rest of Europe has been extremely positive with successful closures ranging from small keyhole incisions to major wounds in orthopaedic and general surgery.

The liquid film technology is currently on sale in US and Europe as LiquiShield™ with a focus on protection of intact or damaged skin from breakdown. Regulatory clearance has recently been received to allow us to market a product in the US for treatment of minor cuts and scrapes. Development and supply agreements are being finalised to allow introduction this year of appropriate products into the dynamic US Consumer OTC liquid bandage market, which is currently estimated at around $30 million.

As a technology company, it is critical that a new product pipeline is maintained in line with product life cycles. The strategic focus of our R & D activity is on those technologies that are in the growth phase such as alginates, foams and tissue adhesives, whilst the addition of "actives" such as silver and other anti-microbials, allows us to upgrade and extend the life cycle of these and more mature products. We continue to supplement our own R & D efforts by licensing in complementary technology that allows us to add value to our products and Intellectual Property. In addition to silver fibre technology, we licensed a novel applicator from Hardwood for use with cyanoacrylate and have had new patents granted and applications filed in our technology focus areas of alginates and cyanoacrylates.

Route to Market

A clear trend has emerged in the woundcare market whereby the major international woundcare companies are focussing on higher value products. Also, major distributors, particularly in the US, are adding private label ranges of the standard products.

AMS is ideally placed to satisfy these trends and we have evolved our business model to maximise revenue and profit. This has resulted in a three-tier approach to the marketplace:

- New markets/technology — "Concept Sell"
  - → Strategic partnerships with major companies and brands
- Existing markets/technology — "replacement sell"
  - → Supply agreements with private label distributors
- UK Home market — "Customer driven innovation"
  - → Direct sales

Strategy

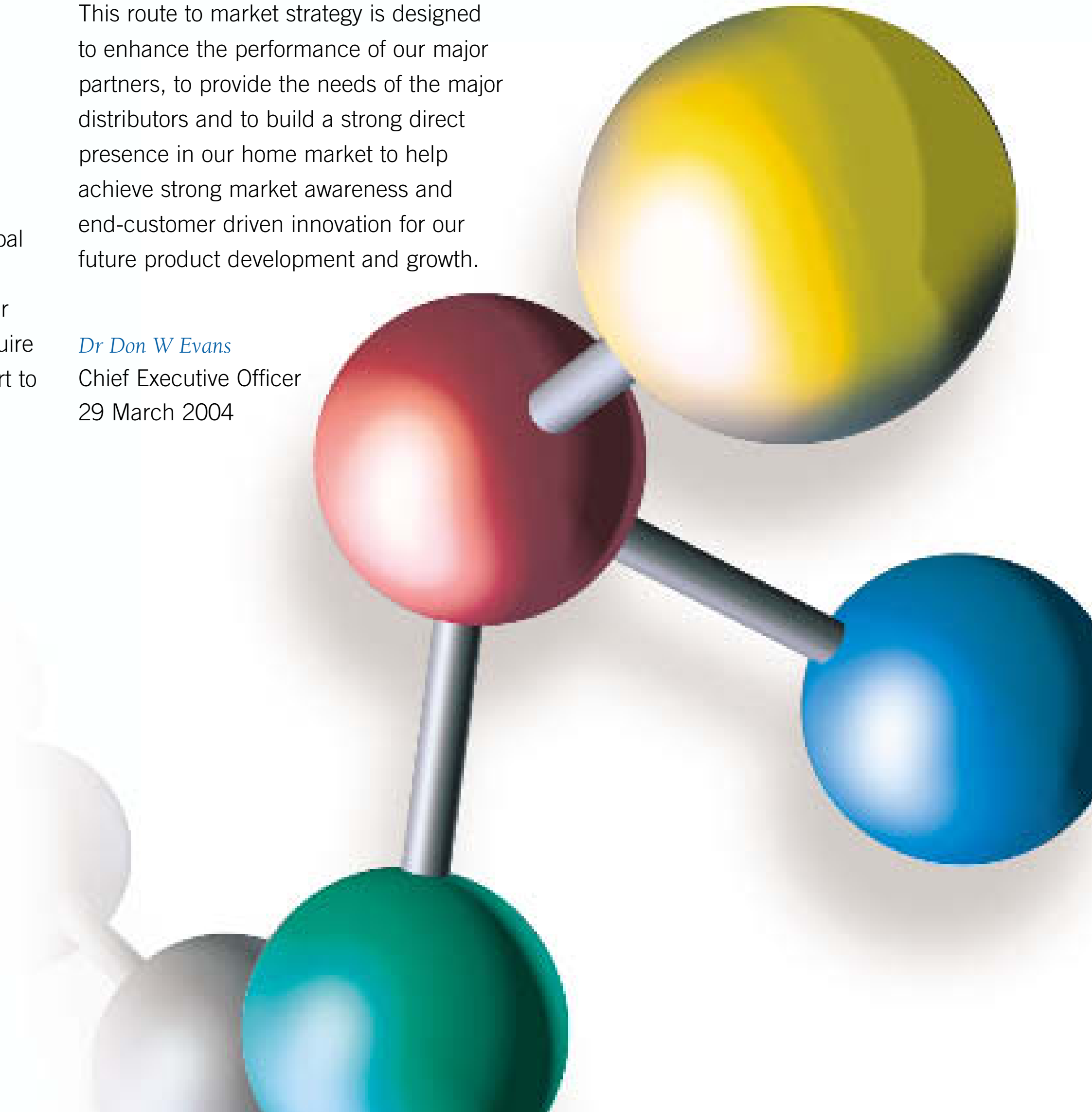
We will continue to sign up strong global or regional woundcare companies as strategic partners to commercialise our novel, differentiated products that require significant sales and marketing support to educate the end users.

We are starting to supply major distributors, particularly in the US and rest of the world markets, which are seeking private label versions of standard established products at competitive prices.

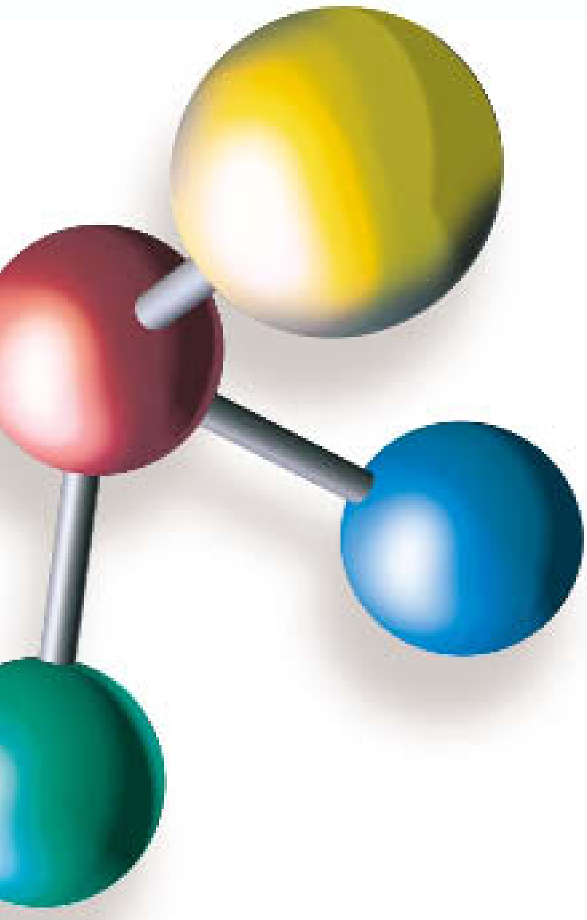
We will utilise our MedLogic direct sales and marketing infrastructure to strengthen our presence in our UK home market. The launch of our branded ActivHeal™ woundcare range into the NHS and Drug Tariff approval has positioned us to start to build this business during 2004.

This route to market strategy is designed to enhance the performance of our major partners, to provide the needs of the major distributors and to build a strong direct presence in our home market to help achieve strong market awareness and end-customer driven innovation for our future product development and growth.

Dr Don W Evans
Chief Executive Officer
29 March 2004



Financial Review



Overall Results

AMS's results are set out on pages 22 to 42. Sales of £9.0 million were achieved (2002: £8.4 million), generating an overall loss for the year of £2.1 million (2002: £1.4 million). The gross margin was 36%, compared with 30% last year and the Group ended the year with cash of £3.6 million (2002: £5.6 million).

Sales

Group turnover increased by 8% to £9.0 million, compared with £8.4 million in 2002.

The Professional business comprises sales of medical adhesives based on cyanoacrylate technology acquired with the MedLogic business and advanced woundcare products manufactured at Winsford and sold indirectly into hospitals and care homes. This business grew overall by 9% to £8.5 million (2002: £7.8 million) mainly as a result of the growth of the medical adhesives business which grew 36% to £1.7 million (2002: £0.9 million) on an underlying year-on-year basis. The Consumer business which includes sales into the retail trade declined by 13% to £0.5 million with the Group now focussing on its antiscar product and a liquid bandage product that is due to be launched in 2004.

The Group believes that a better analysis would be provided by segmenting the business into advanced woundcare and wound closure. Advanced woundcare includes all products that are used to treat wounds regardless of route to market. Wound closure includes all sales of products used to close wounds both for use in Accident and Emergency units and in the Operating Room. Sales of wound closure products increased by 43% on an underlying year-on-year basis to £1.6 million (2002: £0.8 million) while advanced woundcare products sales declined by 2% to £7.4 million (2002: £7.5 million). The turnover of advanced woundcare was affected by several factors. Although a number of new supply and partnership contracts were signed, these agreements were in place later than planned, resulting in delays to product launches. Additionally, a planned shift from cartoned product to lower sales value, higher margin roll-stock for a European partner impacted sales by £0.4 million, and the weakness of the dollar reduced sales by £0.1 million. After adjusting for the effects of the acquisition, currency fluctuations and roll-stock, underlying sales are estimated to have increased by 9%.

Gross margin

Gross profit increased by 29% to £3.2 million (2002: £2.5 million), while gross margin improved to 36% (2002: 30%). Gross margins on wound closure improved to 69% from 67% and gross margins on the advanced woundcare business improved to 28% (2002: 25%) reflecting the move to supply roll-stock mentioned above. Whilst this move reduced sales, the gross profit was unchanged.

Research and Development Expenditure

Over the past two years the Group has shown a strong commitment to developing new products and bringing them to market. In the past year this has included the launch of silver alginate and LiquiBand Surgical™, a tissue adhesive suitable for use in the Operating Room. R & D expenditure for the year was £1.4 million (2002: £1.0 million). Some of this expenditure qualifies for a tax credit and is discussed further below.

Sales and Marketing

Sales and marketing spend increased to £1.5 million (2002: £1.1 million) and includes a full year of costs of the MedLogic direct sales team. It also includes £0.2 million of costs associated with supporting the Consumer business that will be non-recurring in 2004.

General administration

General administration costs, which include the costs of insurance, regulatory, protection of intellectual property and patent amortisation, increased by £0.4 million from £2.6 million (pre-exceptional costs) in 2002 to £3.0 million. Additional spend was incurred in enhancing patent protection around the cyanoacrylate based products.

Losses

The operating loss for the year was £2.4 million, an increase of £0.8 million compared with the pre-exceptional operating loss in 2002. After adjusting for the effects of the acquisition and currency fluctuations, the underlying loss is estimated to have increased by £0.4 million. EBITDA losses for the full year were £1.3 million compared with £0.5 million pre-exceptional EBITDA losses in 2002.

Interest and Taxation

The net interest received in the year was £0.1 million (2002: £0.2 million) resulting from the investment of funds surplus to short-term requirements. The Group has also recognised a tax credit on its qualifying R & D amounting to £0.2 million (2002: £0.3 million). The amount claimed for 2002 was received in January 2004.

The loss for the year was £2.1 million (2002: £1.4 million) and the loss per share was 1.5p (2002: 1.1p).

Cash Flow and Investing Activities

Working capital, excluding cash, increased by £0.4 million to £2.1 million (2002: £1.7 million). Stock increased by £0.4 million to £1.3 million, reflecting the increased level of business in Quarter 1 2004. Trade debtors increased by £0.3 million to £1.8 million with 51 receivable days outstanding compared with 53 days outstanding at the end of 2002. Short-term creditors also increased by £0.3 million to £2.1 million (2002: £1.8 million).

Operating cash flow, being the net of earnings before interest, tax, depreciation, amortisation and working capital movements amounted to £1.7 million (2002: £1.1 million). Capital expenditure was at a similar level to last year at £0.4 million. The Group had £3.6 million of cash at the year end (2002: £5.6 million) and net funds of £3.2 million (£5.1 million).

Half Year Performance

Sales in the second half of the year were £4.9 million compared with £4.3 million for the comparative period. Operating loss before exceptional items was £1.2 million compared with £0.7 million. Sales and operating loss for the first half of the year were £4.1 million and £1.2 million respectively.

Treasury

The Group's main exposure is to the dollar and it is able to limit this exposure by sourcing materials from the USA. The Group's policy is to hedge significant transaction exposure by using forward contracts and options. 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 negatively impacted sales by £0.1 million compared with 2002.

The Group invests funds, which are surplus to short-term 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 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
29 March 2004

Board of Directors

01

02

03

04

Directors

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

Dr Geoffrey N Vernon,
Non-Executive Chairman
BPharm, 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.

Dr Don W Evans, Chief Executive Officer
BChemEng, 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.

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.

R Stephen Harris, Non-Executive Director
BPharm, FRPharmS

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 non-executive appointments with a number of quoted and privately owned healthcare companies.

Committees and Advisers

Corporate Governance Standing Committees

Audit Committee
Dr G N Vernon, Chairman
R S Harris

Remuneration Committee
R S Harris, Chairman
Dr G N Vernon

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

Company Secretary
M G Tavener

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

Registered Number
2867684

Financial Adviser
Robert W Baird, Mint House,
77 Mansell Street, London, E1 8AF

Stockbrokers
Robert W Baird, Mint House,
77 Mansell Street, London, E1 8AF

Auditors
Baker Tilly
No. 1 Old Hall Street, Liverpool, L3 9SX

Solicitors
Wragge & Co, 55 Colmore Row,
Birmingham, B3 2AS

Registrars and Transfer Office
Capita IRG Plc, The Registry,
34 Beckenham Road, Beckenham, Kent,
BR3 4TU

Bankers
National Westminster Bank PLC,
23 Sankey Street, Warrington, Cheshire,
WA1 1XH

Patent Attorneys
Marks & Clerk, Manchester Office,
Sussex House, 83–85 Mosley Street,
Manchester, M2 3LG

Foley & Lardner, LLC, Building 3,
Palo Alto Square, 3000 El Camino Real,
Palo Alto, CA 94306

Report of the Directors

for the year ended 31 December 2003

The directors present their report and the audited financial statements for the year ended 31 December 2003.

Dividends

The Group made a loss for the year to 31 December 2003 of £2.1 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) and medical adhesives for the healthcare market. A review of the operations for the year and future developments is contained within the Chief Executive's review on pages 6 to 9 and the financial review on pages 10 and 11.

Research and Development

The Group spent £1,413k (2002: £969k) in the year ended 31 December 2003 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 2003, 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 2003 represented approximately 91 days of purchases (2002: 59 days).

Charitable and political contributions

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

Directors

The directors of the Company at 31 December 2003 and their interests, all of which are beneficially held, in the share capital of the Company were:

	Ordinary shares of 5p each 31 December 2003		Ordinary shares of 5p each 31 December 2002	
	Options	**Shares**	Options	Shares
G Vernon	**—**	**545,164**	—	545,164
D Evans	**2,600,000**	**517,680**	2,600,000	467,680
M Tavener	**1,275,000**	**51,562**	1,275,000	51,562
R Harris	**—**	**197,857**	—	197,857

There have been no changes in directors' interests between the end of the financial year and 29 March 2004 being less than one month prior to the date of notice of the Annual General Meeting.

Reappointment

At the forthcoming Annual General Meeting, Don Evans and Mary Tavener 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 28 February 2004 are:

	Number of Shares	Per cent
Newton Investment Management	20,036,797	14.10
Close Finsbury Asset Management Ltd	18,498,235	13.01
Invesco	14,324,938	10.08
Merrill Lynch Investment Managers	9,684,704	6.81
Electra Investment Trust	5,882,352	4.14
Noble Asset Managers Limited	5,882,352	4.14
Aerion Fund Management	5,677,972	3.99
Gartmore Investment Management Limited	4,782,945	3.36

Share capital and issue of ordinary shares

The authorised and issued share capital of the Company is set out in Note 24 to the accounts on pages 38 and 39.

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 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 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 2005 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 19 May 2004 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

M G Tavener
Company Secretary
6 April 2004

Remuneration Report

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

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

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

The Group has complied during the year with Section 1B 'Directors' Remuneration' of the provisions of the Combined Code and the Schedules A & B to the Combined Code.

Remuneration policy

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

Salary

Salaries are measured against performance and market mediums.

Annual performance bonus

The service agreements provide that each executive 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. Each participant may receive up to 40% of his or her salary dependent upon performance measured against targets resulting from the completion of the Group's business plan and the performance of the Group measured by total shareholder return compared with the FTSE Small Cap Index.

Long-term incentives

All executive directors, together with employees, are eligible to join the Executive Share Option Scheme and/or the Unapproved Scheme. The policy of the Group is to grant options to all employees. Options granted under these Schemes are not offered at a discount. The exercising of options under these schemes is conditional on certain performance conditions which are pre-determined by the Remuneration Committee and which accord with the Joint Statement from the Investment Committees of the Association of British Insurers and the National Association of Pension Funds.

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

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 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 executive directors. Non-executive directors receive travel expenses but do not participate in any incentive arrangements. The non-executive directors have entered into terms of appointment. Geoffrey Vernon's appointment is terminable by either party upon six months' notice in writing. Steve Harris's appointment is terminable by either party upon three months' notice in writing.

Directors' detailed emoluments

	Salary & fees £'000	Annual bonus £'000	Benefits £'000	Pension £'000	Compensation for loss of office	Paid to Third Parties £'000	**Total year ending 2003 £'000**	Total year ending 2002 £'000
Executive								
Don Evans	148	—	25	15	—	—	**188**	200
Graeme Brookes	3	—	5	4	49	—	**61**	114
Mary Tavener	102	—	8	10	—	—	**120**	131
Non-Executive								
Geoffrey Vernon	—	—	—	—	—	47	**47**	42
Steve Harris	—	—	—	—	—	24	**24**	22
	253	—	38	29	49	71	**440**	509

Interests in share options

Details of Grant	**Option Price***	**D W Evans**	**M G Tavener**
Unapproved Executive Share Option Scheme			
26 October 1998	41.35p	781,122	—
1 December 1998	36.56p	195,280	—
15 July 1999	26.99p	—	574,354
19 July 1999	38.30p	290,730	—
26 May 2000	13.50p	582,868	325,646
21 May 2002	8.75p	750,000	375,000
At 31 December 2003		**2,600,000**	**1,275,000**

* 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 9p and the closing price on the last trading day of 2003 (31 December) was 10.75p.

The range during the year was 12.5p (high) and 7.12p (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 13%, FTSE All Share by 36%, FTSE Techmark by 32%, FTSE Health by 36% and AIM by 7% and underperformed the Fledging Index by 16%.

By order of the Board

Mary Tavener
Company Secretary
6 April 2004

Corporate Governance

The Board is committed to the principles of corporate governance 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 2003, the Board met 8 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 and corporate governance matters. Operational control is delegated to the executive directors. All directors have access to the advice and services of the Company Secretary and can take independent professional advice, if necessary, at the Group's expense. The non-executive directors are able to contact the executive directors at any time for further information.

The Board 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 but this matter continues to be reviewed. 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 of the Combined Code but is consistent with a Group of this size.

The Audit Committee also undertakes a formal assessment of the auditor's independence which includes:

- A review of non-audit services provided to the Group and related fees.

- Discussion with the auditors of a written report detailing all relationships with the Company and any other parties that could affect independence or the perception of independence.
- A review of the auditor's own procedures for ensuring the independence of the audit firm and partners and staff involved in the audit, including the regular rotation of the audit partner.
- Obtaining written confirmation from the auditors that, in their professional judgement, that they are independent.
- An analysis of the fees payable to the external audit firm in respect of the both audit and non-audit services during the year is set out in note 4 of the financial statements.

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 Option Schemes. The Remuneration Committee meets at least twice a year and its report is included on pages 16 and 17.

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 2003.

Investor Relations

The Group maintains a regular dialogue with institutional shareholders, mainly in the periods following the announcement of the interim and final results, but also at other times during the year. Existing and potential institutional investors are encouraged to visit the Group to improve their understanding of the Group's business. The Board encourages the participation of shareholders at its annual general meeting, notice of which is sent to shareholders at least 20 working days before the meeting. The AMS website 'www.admedsol.com' is regularly updated and provides additional information on the Group including information of 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 and lines of accountability. 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 major 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 areas 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.

Corporate Governance

continued

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 2003, 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.
- The Group has only two non-executives. Consequently the Audit Committee does not comprise at least three non-executive directors.

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 2003, 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
6 April 2004

Independent Auditor's Report to the Members of Advanced Medical Solutions Group plc

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 and 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 opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Group's affairs at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Baker Tilly
Registered Auditor
Chartered Accountants
Liverpool
6 April 2004

Consolidated Profit and Loss Account

For the year ended 31 December 2003

	Note	**Year ended 31 December 2003 £'000**	Year ended 31 December 2002 £'000
Turnover	2	**9,015**	8,372
Cost of sales		**(5,809)**	(5,887)
Gross profit		**3,206**	2,485
Distribution costs		**(86)**	(38)
Administration costs		**(5,859)**	(4,406)
Other operating income	3	**304**	532
Operating loss	4	**(2,435)**	(1,427)
Loss on disposal of fixed assets	5	**—**	(249)
EGM costs	5	**—**	(202)
Loss on ordinary activities before interest and taxation		**(2,435)**	(1,878)
Interest receivable and similar income	8	**152**	223
Interest payable and similar charges	9	**(35)**	(34)
Loss on ordinary activities before taxation		**(2,318)**	(1,689)
Taxation	10	**234**	292
Loss sustained for the year	11	**(2,084)**	(1,397)
Basic and fully diluted loss per share	12	**(1.5)p**	(1.1)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.

Statement of Total Recognised Gains and Losses

	Group	
	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Loss for the financial year	**(2,084)**	(1,397)
Currency translation differences on foreign currency net investments	**(19)**	15
Total losses recognised since last annual report	**(2,103)**	(1,382)

Reconciliation of Movements in Shareholders' Funds

At 31 December 2003

	Group		Company	
	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000	**Year ended 31 December 2003 £'000**	Year ended 31 December 2002 £'000
Opening shareholders' funds	**14,107**	11,994	**14,430**	12,140
Loss for the financial year	**(2,084)**	(1,397)	**(1,672)**	(1,205)
Currency translation differences on foreign currency net investments	**(19)**	15	**—**	—
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	**12,004**	14,107	**12,758**	14,430

The loss for the Company includes an exceptional write-down in the value of investments of £1,842k (2002: £1,372k).

Balance Sheets

At 31 December 2003

		Group		Company	
		2003	2002	**2003**	2002
	Note	**£'000**	£'000	**£'000**	£'000
Fixed assets					
Intangible assets	13	**2,238**	2,406	**—**	—
Tangible assets	14	**4,373**	4,901	**—**	—
Investments	15	**—**	—	**9,427**	9,138
		6,611	7,307	**9,427**	9,138
Current assets					
Stocks	16	**1,279**	918	**—**	—
Debtors — due within one year	17	**2,793**	2,444	**35**	44
— due after more than one year	17	**200**	200	**200**	200
Cash at bank and in hand		**3,608**	5,558	**3,223**	5,098
		7,880	9,120	**3,458**	5,342
Creditors: amounts falling due within one year	18	**(2,139)**	(1,838)	**(127)**	(50)
Net current assets		**5,741**	7,282	**3,331**	5,292
Total assets less current liabilities		**12,352**	14,589	**12,758**	14,430
Creditors: amounts falling due after more than one year	19	**(348)**	(482)	**—**	—
		12,004	14,107	**12,758**	14,430
Capital and reserves					
Called up share capital	24	**11,782**	11,782	**11,782**	11,782
Share premium account	25	**37,978**	37,978	**37,978**	37,978
Other reserve	25	**1,531**	1,531	**—**	—
Profit and loss account	25	**(39,287)**	(37,184)	**(37,002)**	(35,330)
Equity shareholders' funds		**12,004**	14,107	**12,758**	14,430

These financial statements were approved by the Board on 6 April 2004.

Dr D W Evans
Chief Executive Officer

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

Consolidated Cash Flow Statement

For the year ended 31 December 2003

	Note	**Year ended 31 December 2003 £'000**	Year ended 31 December 2002 £'000
Net cash outflow from operating activities	27	**(1,708)**	(1,121)
Returns on investments and servicing of finance			
Interest received		**158**	229
Interest element of finance lease rental and hire purchase payments		**(5)**	(13)
Interest paid		**(30)**	(21)
Net cash inflow from returns on investments and servicing of finance		**123**	195
Taxation		**153**	129
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(400)**	(354)
Sale of tangible fixed assets		**7**	15
Net cash outflow for capital expenditure and financial investment		**(393)**	(339)
Acquisitions 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		**(1,825)**	(3,952)
Management of liquid resources			
Sale of term deposits		**2,249**	739
Financing			
Issue of shares		**—**	4,018
Share issue expenses		**—**	(643)
Repayment of secured loan	29	**(10)**	(6)
Net movement of capital element of finance lease rental and hire purchase payments	29	**(94)**	(114)
Net cash (outflow)/inflow from financing		**(104)**	3,255
Increase in cash	28	**320**	42

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

Notes Forming Part of the Financial Statements

1. *Accounting policies*

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

Basis of consolidation

The consolidated accounts include the financial statements of Advanced Medical Solutions Group plc and all of its subsidiary undertakings made up to 31 December 2003. 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.

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 annum
Leasehold improvements	— over the length of the lease
Motor vehicles	— 25% per annum on cost
Plant and machinery	— 0 to 33.3% per annum on cost
Fixtures and fittings	— 5 to 20% per annum on cost
Computers	— 33.3% 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 18 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.

Notes Forming Part of the Financial Statements
continued

2. *Segmental information*

Turnover by geographical customers:

	Turnover 2003 £'000	Turnover 2002 £'000
United States of America	**2,167**	1,330
Rest of Europe	**4,789**	5,243
United Kingdom	**1,918**	1,765
Rest of World	**141**	34
	9,015	8,372

Turnover by business unit:

	Turnover 2003 £'000	Turnover 2002 £'000
Advanced woundcare	**7,412**	7,529
Wound closure	**1,603**	843
	9,015	8,372
Consumer	**518**	594
Professional	**8,497**	7,778
	9,015	8,372

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:

	2003 Turnover £'000	2003 Loss £'000	2003 Net Assets £'000	2002 Turnover £'000	2002 Loss £'000	2002 Net Assets £'000
United Kingdom	**9,015**	**(2,217)**	**11,996**	8,372	(1,475)	14,098
United States	**—**	**(101)**	**8**	—	(214)	9
Group	**9,015**	**(2,318)**	**12,004**	8,372	(1,689)	14,107

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

3. *Other operating income*

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Licence fees	**220**	182
Grants received	**48**	201
Development fees	**36**	149
	304	532

4. *Operating loss*

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Operating loss arrived at after charging/(crediting):		
Government grants	**(50)**	(201)
Depreciation	**942**	1,027
Amortisation	**168**	112
Profit on disposal of fixed assets	**(2)**	(6)
Operating lease rentals — plant and machinery	**104**	76
— land and buildings	**274**	292
Auditors' remuneration — audit services	**28**	36
— non-audit services (See (a) below)	**15**	169
Research and development	**1,413**	969
Exchange loss/(profit)	**17**	(3)

(a) In 2002, auditors' remuneration for non-audit services included £162k of costs in relation to the acquisition of MedLogic Global Holdings Limited, associated fund-raising, capital reorganisation and move to AIM.

5. *Exceptional Items*

In 2002, the exceptional credit of £242k relates to the release of negative goodwill arising on the acquisition of MedLogic Global Holding Limited. An exceptional charge of £249k was also incurred on the disposal of fixed assets in rationalising the membrane process at Winsford. There was also a £202k exceptional item relating to costs involved in defending the special resolution to invite offers for the Company at the EGM.

6. *Employees*

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

	Year ended 31 December 2003 Number	Year ended 31 December 2002 Number
Production	**110**	114
Research and development	**25**	21
Sales and marketing	**21**	15
Administration	**19**	21
	175	171

Notes Forming Part of the Financial Statements
continued

6. *Employees continued*

Sales and marketing includes 1 person (2002: 1) employed in the United States.

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Staff costs for all employees, including executive directors, consist of:		
Wages and salaries	**4,185**	3,523
Social Security costs	**407**	321
Pension costs	**176**	154
	4,768	3,998

7. *Directors' emoluments*

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Remuneration for management services	**291**	412
Pension	**29**	33
Amounts paid to third parties	**71**	64
Compensation for loss of office	**49**	—
	440	509
Retirement benefits are accruing to the following number of directors under money purchase schemes	**2**	3

The disclosures required in relation to the highest paid director are contained within the Remuneration Report on pages 16 to 17.

8. *Interest receivable and similar income*

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Bank interest	**144**	216
Rent deposit interest	**8**	7
	152	223

9. *Interest payable and similar charges*

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Finance leases and hire purchase contracts	**5**	13
Other loan interest	**30**	18
Bank interest	**—**	3
	35	34

10. *Taxation on loss on ordinary activities*

	2003 £'000	2002 £'000
a) Analysis of credit for the year		
Current tax:		
UK corporation tax	**234**	292
Tax on loss on ordinary activities	**234**	292
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	**(2,318)**	(1,689)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	**(695)**	(507)
Effects of:		
Expenses not deductible for tax purposes	**38**	420
Deductions allowed	**—**	(518)
Depreciation for period less than capital allowances	**(118)**	(86)
Expensive leased cars disallowed costs	**1**	2
Loss on disposal of fixed assets	**1**	72
Trading losses carried forward	**146**	261
Trading losses utilised	**627**	356
Research and development relief	**(234)**	(292)
Current tax credit for the year (note 10(a))	**(234)**	(292)

11. *Loss for the financial year*

	2003 £'000	2002 £'000
Loss dealt with in the accounts of the parent company	**(1,672)**	(1,205)
Loss retained by subsidiary undertakings	**(2,327)**	(1,862)
Consolidation adjustment	**1,915**	1,670
	(2,084)	(1,397)

The Company has taken advantage of section 230 of the Companies Act 1985 not to publish its own profit and loss account.

Notes Forming Part of the Financial Statements
continued

12. *Loss per share*

The basic loss per share has been calculated on a weighted average number of shares in issue during the year, namely 142,082,536 (2002:126,127,749) and loss of £2,084k (2002: £1,397k).

13. *Intangible fixed assets*

	Intellectual Property Rights £'000
Group	
Cost	
At beginning and end of year	**2,518**
Amortisation	
At beginning of year	112
Charged in year	168
At end of year	**280**
Net book value	
At 31 December 2003	**2,238**
At 31 December 2002	2,406

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

14. *Tangible assets*

	Freehold land, 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	865	1,143	7,727	530	44	10,309
Additions	—	—	414	5	—	419
Disposals	—	—	(11)	—	—	(11)
At end of year	**865**	**1,143**	**8,130**	**535**	**44**	**10,717**
Depreciation						
At beginning of year	10	606	4,384	387	21	5,408
Provided for the year	25	18	849	39	11	942
Disposals	—	—	(6)	—	—	(6)
At end of year	**35**	**624**	**5,227**	**426**	**32**	**6,344**
Net book value						
At 31 December 2003	**830**	**519**	**2,903**	**109**	**12**	**4,373**
At 31 December 2002	855	537	3,343	143	23	4,901

The net book value of tangible fixed assets includes £8k of motor vehicles (2002: £19k) and £212k of plant and machinery (2002: £229k) held under finance leases and hire purchase contracts. The related depreciation charge for the year was £11k for motor vehicles (2002: £12k) and £36k for plant and machinery (2002: £38k).

	Group		**Company**	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Commitments for capital expenditure				
Authorised for future capital expenditure and not provided in the financial statements	**143**	82	**—**	—

Notes Forming Part of the Financial Statements
continued

15. *Fixed asset investments*

	2003 £'000	2002 £'000
Company		
Loans to Group undertakings	**9,427**	9,138

Shares in Group undertakings and loans to Group undertakings have been written down to recognise losses in subsidiary companies.

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 (Delaware) 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.

In May 2003, Advanced Medical Solutions (US) Inc changed its name to Advanced Medical Solutions (Delaware) Inc.

The above table reflects the situation at the year end.

16. *Stocks*

	Group		**Company**	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Raw materials	**666**	483	**—**	—
Work in progress	**365**	204	**—**	—
Finished goods	**248**	231	**—**	—
	1,279	918	**—**	—

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

17. *Debtors*

	Group		Company	
	2003	2002	**2003**	2002
	£'000	£'000	**£'000**	£'000
Due within one year				
Trade debtors	**1,836**	1,584	**—**	—
Corporation tax	**373**	292	**—**	—
Other debtors	**238**	302	**—**	—
Prepayments and accrued income	**346**	266	**35**	44
	2,793	2,444	**35**	44
Due after more than one year				
Other debtors — leasehold rental deposit	**200**	200	**200**	200

18. *Creditors: amounts falling due within one year*

	Group		Company	
	2003	2002	**2003**	2002
	£'000	£'000	**£'000**	£'000
Trade creditors	**1,450**	961	**57**	—
Taxation and social security	**260**	213	**—**	—
Bank loans and overdrafts	**—**	2	**—**	2
Other loans	**11**	10	**—**	—
Other creditors	**4**	8	**—**	—
Obligations under finance leases and hire purchase contracts	**3**	92	**—**	—
Accruals and deferred income	**411**	552	**70**	48
	2,139	1,838	**127**	50

19. *Creditors: amounts falling due after more than one year*

	Group		Company	
	2003	2002	**2003**	2002
	£'000	£'000	**£'000**	£'000
Obligations under finance leases and hire purchase contracts	**14**	—	**—**	—
Deferred income	**—**	137	**—**	—
Other loans	**334**	345	**—**	—
	348	482	**—**	—

The maturity profile of the Group's financial liabilities is described in note 21a.

Notes Forming Part of the Financial Statements
continued

20. *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 2003 £'000**	Less than 1 year £'000	2–5 years £'000	Total 2002 £'000
Sterling	**3**	**14**	**17**	92	—	92

(ii) Other loans

See note 21(a).

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.

21. *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 their 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**	**Five years or more £'000**	**Total medium/ long-term £'000**	**Total financial liabilities £'000**	**Interest rate %**
Group							
Other loans	11	12	43	279	334	345	8.5
Finance lease creditors and hire purchase contracts	3	4	10	—	14	17	9.4
At 31 December 2003	**14**	**16**	**53**	**279**	**348**	**362**	**—**
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	—

	2003 Fixed rate financial liabilities	2003 Financial liabilities on which no interest is paid	2002 Fixed rate financial liabilities	2002 Financial liabilities on which no interest is paid
	Weighted average period for which rate is fixed Years	**Weighted average period until maturity Years**	Weighted average period for which rate is fixed Years	Weighted average period until maturity Years
Deferred income	**—**	**—**	—	3
Other loans	**16**	**—**	17	—
Finance lease creditors and hire purchase contracts	**1**	**—**	1	—

(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**	**Non-interest bearing £'000**	**Fixed rate weighted average interest rate %**
Currency					
Sterling	3,175	77	2,863	235	3.9
US Dollar	344	344	—	—	—
Euro	89	89	—	—	—
At 31 December 2003	**3,608**	**510**	**2,863**	**235**	**—**
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	—

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 2003 the Group had unhedged US Dollar currency exposures of £491k (2002: £421k).

Notes Forming Part of the Financial Statements
continued

22. *Foreign exchange rates*

	Average rate		Closing rate		Percentage change	
	2003	2002	**2003**	2002	Average %	Closing %
Currency						
US Dollar	**1.635**	1.504	**1.791**	1.609	8.7	11.3
Euro	**1.446**	1.591	**1.420**	1.534	(9.1)	(7.4)

23. *Provisions for liabilities and charges*

Deferred taxation

	2003 Provided in accounts £'000	2002 Provided in accounts £'000
Group		
Capital allowances	**83**	169
Sundry timing differences	**(2)**	(6)
Unutilised tax losses	**(81)**	(163)
	—	—

At 31 December 2003 the Group had tax losses, in excess of the amount disclosed above, worth approximately £10.8 million (2002: £10.2 million), at future rates of taxation.

24. *Share capital*

	Group and Company	
	2003 £'000	2002 £'000
Authorised		
300,000,000 (2002: 300,000,000) ordinary shares of 5p each	**15,000**	15,000

	Group and Company	
	2003 £'000	2002 £'000
Allotted, called up and fully paid		
142,082,536 (2002: 142,082,536) ordinary shares of 5p each and 93,553,394 (2002: 93,553,394) deferred shares of 5p each	**11,782**	11,782

24. *Share capital continued*

Shares to be issued

Options have been granted over the following number of ordinary shares which were outstanding at 31 December 2003.

Date of Grant	Option Price	Number of Options At 1 January 2003	Issued	Lapsed	Number of Options At 31 December 2003
Unapproved Executive Share Option Scheme					
26.10.98	41.35p	1,079,786	—	298,664	**781,122**
1.12.98	36.56p	269,946	—	74,666	**195,280**
17.12.98	36.56p	126,468	—	51,691	**74,777**
19.5.99	28.29p	11,487	—	—	**11,487**
21.6.99	25.68p	246,972	—	235,485	**11,487**
15.7.99	26.99p	574,354	—	—	**574,354**
19.7.99	38.30p	636,417	—	264,887	**371,530**
25.1.00	25.50p	225,487	—	68,542	**156,945**
26.5.00	13.50p	1,158,037	—	249,523	**908,514**
21.5.02	8.75p	75,000	—	—	**75,000**
14.4.03	8.75p	—	30,000	—	**30,000**
Executive Share Option Scheme					
19.7.99	38.30p	93,507	—	—	**93,507**
19.1.00	25.50p	130,500	—	5,000	**125,500**
08.5.01	18.25p	153,000	—	25,000	**128,000**
Enterprise Management Incentive Scheme					
21.5.02	8.75p	2,714,000	—	671,000	**2,043,000**
09.10.02	8.75p	496,000	—	5,000	**491,000**
14.4.03	8.75p	—	460,000	—	**460,000**
07.10.03	11.50p	—	207,000	—	**207,000**
		7,990,961	697,000	1,949,458	**6,738,503**

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.

Notes Forming Part of the Financial Statements
continued

25. *Share premium account and reserves*

	Share premium account £'000	Other reserve £'000	Profit and loss account £'000
Group			
As at 1 January 2003	37,978	1,531	(37,184)
Loss for the year	—	—	(2,084)
Currency translation differences on foreign currency net investments	—	—	(19)
As at 31 December 2003	**37,978**	**1,531**	**(39,287)**
Company			
As at 1 January 2003	37,978	—	(35,330)
Loss for the year	—	—	(1,672)
As at 31 December 2003	**37,978**	**—**	**(37,002)**

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 (2002: £5,586k).

26. *Commitments under operating leases*

As at 31 December 2003, the Group had annual commitments under non-cancellable operating leases as set out below:

	2003 Land and buildings £'000	**2003 Other £'000**	2002 Land and buildings £'000	2002 Other £'000
Operating leases which expire:				
Within one year	**—**	**7**	—	15
In two to five years	**—**	**32**	—	40
Greater than five years	**259**	**—**	259	—
	259	**39**	259	55

27. *Reconciliation of operating loss to net cash outflow from operating activities*

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Operating loss	**(2,435)**	(1,427)
Depreciation	**942**	1,027
Amortisation of intangible fixed assets	**168**	112
Amortisation of negative goodwill	**—**	(242)
Profit on sale of fixed assets	**(2)**	(6)
Extraordinary general meeting costs	**—**	(202)
(Increase)/decrease in stocks	**(361)**	79
Increase in debtors	**(274)**	(288)
Increase/(decrease) in creditors	**254**	(174)
Net cash outflow from operating activities	**(1,708)**	(1,121)

28. *Reconciliation of net cash flow to movement in net funds (note 29)*

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Increase in cash in year	**320**	42
Cash outflow from reductions in debt and finance leases	**104**	120
Cash inflow from decrease in liquid resources	**(2,249)**	(739)
Change in net funds resulting from cash flows	**(1,825)**	(577)
Loans and finance leases acquired with subsidiaries	**—**	(361)
New finance leases	**(19)**	—
Translation difference	**(19)**	15
Movement in net funds in year	**(1,863)**	(923)
Net funds at 1 January 2003	**5,109**	6,032
Net funds at 31 December 2003	**3,246**	5,109

29. *Analysis of net funds*

	1 January 2003 £'000	**Cash flows £'000**	**Non-cash changes £'000**	**Exchange movements £'000**	**31 December 2003 £'000**
Cash	462	**318**	**—**	**(19)**	**761**
Bank overdrafts	(2)	**2**	**—**	**—**	**—**
Term deposits	5,096	**(2,249)**	**—**	**—**	**2,847**
Cash at bank and in hand	5,556	**(1,929)**	**—**	**(19)**	**3,608**
Debt due within one year	(10)	**(1)**	**—**	**—**	**(11)**
Debt due after one year	(345)	**11**	**—**	**—**	**(334)**
Finance leases	(92)	**94**	**(19)**	**—**	**(17)**
Total	5,109	**(1,825)**	**(19)**	**(19)**	**3,246**

Five Year Summary

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Consolidated profit & loss account					
Turnover	**9.0**	8.4	7.4	7.8	6.2
Operating loss (before exceptional items)	**(2.4)**	(1.7)	(1.9)	(3.1)	(5.3)
Net interest receivable	**0.1**	0.2	0.3	0.4	0.1
Retained loss	**(2.1)**	(1.4)	(1.5)	(2.7)	(5.2)
Basic loss per share	**(1.5)p**	(1.1)p	(1.6)p	(2.9)p	(7.3)p
Weighted average number on shares in issue after adjusting for rights issue	**142.1m**	126.1m	93.6m	93.2m	70.9m
Consolidated balance sheet					
Net assets employed					
Fixed assets	**6.6**	7.3	4.8	5.4	5.6
Cash and other net current assets	**5.7**	7.3	7.4	8.4	4.3
Creditors due after one year	**(0.3)**	(0.5)	(0.2)	(0.3)	(0.3)
Net assets	**12.0**	14.1	12	13.5	9.6
Capital and reserves					
Called up share capital	**11.8**	11.8	9.4	9.4	6.2
Share premium account	**38.0**	38.0	36.9	36.9	33.6
Other reserve	**1.5**	1.5	1.5	1.5	1.5
Profit and loss account	**(39.3)**	(37.2)	(35.8)	(34.3)	(31.7)
Equity shareholders' funds	**12.0**	14.1	12	13.5	9.6

Notice of Meeting

Notice is hereby given that the tenth Annual General Meeting of the Company will be held at 11.00 a.m. on 19 May 2004 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 2003 (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 Don Evans (who retires by rotation in accordance with the Articles of Association) as a director of the Company.

4. To re-elect Mary Tavener (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 Resolution 5, which will be proposed as a Special 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 29 May 2003 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).

By order of the Board

Mary G Tavener
Company Secretary
6 April 2004

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

Notice of Meeting

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(Proxies), 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 a.m. 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 6.00 p.m. on 17 May 2004 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 6.00 p.m. on 17 May 2004 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

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