



Interim Report 2000

Highlights for the year to date

- **Turnover up 28% to £3.6 million**
- **Losses reduced by 44% to £1.8 million**
- **Operating cash out-flow reduced by 76% to £0.7 million**
- **Marketing and distribution deals signed with Novartis Consumer Health for Germany and Switzerland**
- **Further patents filed in Tissue Engineering and Drug Delivery.**

Chairman's Statement

1

In the six months ended 30 June 2000, turnover increased to £3.6 million (1999 : £2.8 million) and the loss reduced to £1.8 million (1999 : £3.1 million).

The Consumer Skincare business continued to grow strongly with sales increasing by 59% to £1.5 million (1999 : £0.9 million). Product successfully reached the shelf for the start of the season in the key UK and USA markets. Following the success of the launch of Savlon ActivHeal™ with Novartis Consumer Health in the UK, further agreements were signed with Novartis for Germany and Switzerland. As a result of licensing our range to marketing partners, instead of selling direct to retailers, we have been able to reduce selling expenses by 28%.

Professional Woundcare sales increased 14% to £2.1 million, (1999 : £1.8 million). We are continuing our strategy of developing partnerships working with fewer, larger customers.

Ongoing efforts to improve key manufacturing processes have started to bear fruit, with polymer and membrane yields up from 50% at the start of the year to 90% in June. The number of dressings produced at the Winsford facility increased from 6 million to 11 million in the half year (12 million in the whole of 1999) with the same direct headcount. Due to increased automation, the hand-pack content was reduced from 33% to 18%.

We have continued to invest in new materials technology with good progress being made in establishing analytical and development capabilities in cell-fibre interactions for tissue engineering and in actives/drug delivery. Further patents have been filed and academic and commercial relationships are being forged.

Working capital as a percentage of sales reduced to 17.3% (1999 : 35%) and operating cash out-flow in the period reduced from £3.0 million to £0.7 million. This has left the Company with a strong cash position of £8.2 million at the half-year.

Management Focus

Following the Board changes announced in the Annual Report, the new Executive team has focussed on turning around the financial performance of the Company during the first six months. Particular attention has been given to reducing losses and cash out-flow, while improvements in our manufacturing processes will provide a more efficient platform from which to grow the business in the future.

Streamlining of the management team continues. These changes have contributed to a reduction in overhead expenses of £0.5 million, despite an increase in the new materials technology investment.

Outlook

Significant progress has been made during the first six months of 2000. The operational performance of the core business is improving steadily with further progress expected during the remainder of the year, particularly in the area of gross margin.

Distribution agreements continue to be signed and new partnerships are being sought in key markets. This will ensure that we maintain a leading position in the development and manufacture of innovative products for the Advanced Woundcare market.

James Noble

Non-Executive Chairman

Consolidated Profit and Loss Account

Unaudited results for the six months ended 30 June 2000

2

	Note	Unaudited Six months ended 30 June 2000 £'000	Unaudited Six months ended 30 June 1999 £'000	Audited Twelve months ended 31 December 1999 £'000
Turnover	2	3,600	2,806	6,221
Cost of sales		(3,830)	(3,452)	(7,029)
Gross loss		(230)	(646)	(808)
Distribution costs		(104)	(154)	(274)
Administration costs		(2,019)	(2,594)	(4,782)
Other operating income		375	162	564
Operating loss		(1,978)	(3,232)	(5,300)
Interest receivable and similar income		228	145	221
Interest payable and similar charges		(20)	(46)	(77)
Loss on ordinary activities before taxation		(1,770)	(3,133)	(5,156)
Taxation		—	—	—
Loss for the period		(1,770)	(3,133)	(5,156)
Loss per share				
Restated including effects of				
Rights issue	3	(1.9p)	(4.4p)	(7.3p)

Statement of Total Recognised Gains and Losses

Unaudited results for the six months ended 30 June 2000

	Unaudited Six months ended 30 June 2000 £'000	Unaudited Six months ended 30 June 1999 £'000	Audited Twelve months ended 31 December 1999 £'000
Loss for the financial period	(1,770)	(3,133)	(5,156)
Currency translation differences on foreign currency net investments	2	19	14
Total recognised losses relating to the period	(1,768)	(3,114)	(5,142)

3

Reconciliation of Movements in Shareholders' Funds

Unaudited results for the six months ended 30 June 2000

	Note	Unaudited Six months ended 30 June 2000 £'000	Unaudited Six months ended 30 June 1999 £'000	Audited Twelve months ended 31 December 1999 £'000
Opening shareholders' funds		9,590	14,732	14,732
Loss for period		(1,770)	(3,133)	(5,156)
Other recognised gains and losses relating to the period (net)		2	19	14
New share capital subscribed	4	3,185	–	–
Premium on issue of shares during the period	4	3,821	–	–
Cost of share issue		(480)	–	–
Closing shareholders' funds		14,348	11,618	9,590

Consolidated Balance Sheets

Unaudited results for the six months ended 30 June 2000

4

	Note	Unaudited Six months ended 30 June 2000 £'000	Unaudited Six months ended 30 June 1999 £'000	Audited Twelve months ended 31 December 1999 £'000
Fixed assets				
Tangible assets		5,504	5,715	5,606
Current assets				
Stocks		1,656	2,243	1,803
Debtors – due within one year		1,946	1,933	2,091
– due after more than one year		–	132	–
Cash at bank and in hand		8,170	3,977	2,723
		11,772	8,285	6,617
Creditors: amounts falling due within one year		(2,667)	(2,180)	(2,306)
Net current assets		9,105	6,105	4,311
Total assets less current liabilities		14,609	11,820	9,917
Creditors: amounts falling due after more than one year		(261)	(202)	(327)
		14,348	11,618	9,590
Capital and reserves				
Called up share capital	4	9,355	6,170	6,170
Share premium account	4	36,909	33,568	33,568
Other reserve		1,531	1,531	1,531
Profit and loss account		(33,447)	(29,651)	(31,679)
Equity shareholders' funds		14,348	11,618	9,590

Consolidated Cash Flow Statements

Unaudited results for the six months ended 30 June 2000

		Unaudited Six months ended 30 June 2000 £'000	Unaudited Six months ended 30 June 1999 £'000	Audited Twelve months ended 31 December 1999 £'000
	Note			
Net cash outflow from operating activities		(702)	(3,010)	(3,600)
Returns on investments and servicing of finance				
Interest paid		–	–	(1)
Interest received		96	145	170
Interest element of finance lease rental and higher purchase payments		(20)	(46)	(76)
Cash inflow from returns on investments and servicing of finance		76	99	93
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(384)	(233)	(704)
Sale of tangible fixed assets		82	–	7
Cash outflow before use of liquid resources and financing		(928)	(3,144)	(4,204)
Management of liquid resources				
Sale of term deposits		–	2,750	4,223
Purchase of term deposits		(5,204)	–	–
Financing				
Issue of shares	4	7,006	–	–
Share issue expenses		(480)	–	–
Repayment of promissory note		–	–	(49)
Capital element of finance lease rental and hire purchase payments		(151)	(271)	(409)
Net cash inflow/(outflow) from financing		6,375	(271)	(458)
Increase/(decrease) in cash		243	(665)	(439)

Notes

6 1. Basis of preparation

The interim statements have been prepared in accordance with the accounting policies set out in the annual report for the year ended 31 December 1999. The results for the six months ended 30 June 2000 and the six months ended 30 June 1999 have not been audited and do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985.

The results for the year ended 31 December 1999 are extracted from the audited annual financial statements on which the auditors reported without qualification. Full financial statements for that year have been filed with the Registrar of Companies.

2. Segmental information

	Unaudited Six months ended 30 June 2000 £'000	Unaudited Six months ended 30 June 1999 £'000	Audited Twelve months ended 31 December 1999 £'000
Turnover by geographical region:			
United States of America	1,502	861	2,249
United Kingdom	478	519	1,220
Rest of Europe	1,603	1,371	2,688
Rest of World	17	55	64
	3,600	2,806	6,221
Turnover by business unit:			
Consumer	1,450	912	2,132
Professional	2,099	1,848	3,957
Advanced Healthcare	51	46	132
	3,600	2,806	6,221

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

Notes

2. Segmental information (continued)

7

Turnover, Loss before tax and Net assets by origin

	Unaudited Six months ended 30 June 2000 £'000	Unaudited Six months ended 30 June 1999 £'000	Audited Twelve months ended 31 December 1999 £'000
Turnover			
United Kingdom	3,502	2,779	6,194
United States	98	27	27
	3,600	2,806	6,221
Loss before tax			
United Kingdom	(1,691)	(2,852)	(4,662)
United States	(79)	(281)	(494)
	(1,770)	(3,133)	(5,156)
Net assets			
United Kingdom	14,251	11,389	9,512
United States	97	229	78
	14,348	11,618	9,590

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

Notes

8

3. Loss per share

The basic loss per share has been calculated on a weighted average number of shares in issue for the six months ended 30 June 2000, namely 92,806,373 (1999: 70,893,769, after adjusting for the effects of the rights issue) and losses of £1,770,000 (1999: £3,133,000). The comparative loss per share as disclosed in the previous financial statements has been adjusted for the effects of the rights issue.

4. Rights issue

On 6 January 2000, the Company made a rights issue on a 16 for 31 basis at 22p. The Company issued 31,847,615 ordinary 10p shares ranking *pari passu* with existing shares and £7,006,475 was raised before expenses.



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