



Advanced Medical Solutions Group plc

INTERIM REPORT

2002

HIGHLIGHTS FOR THE YEAR TO DATE

- MedLogic Global Holdings Limited and related intellectual property assets acquired for £2.9m including costs.
- Successful VCT Placing and Placing and Open Offer completed to raise £3.5m, net of costs.
- Transfer to Alternative Investment Market.
- Integration of MedLogic well advanced and on line to deliver identified post-acquisition objectives.
- Turnover £4.1m, an increase of 40% over preceding six months.
- Continued focus of core business on Professional Woundcare which grew 26% to £3.6m (2001: £2.9m).
- Group gross margins improved from 18% to 26%.
- Remain on track to achieve sustainable profitability in 2003 in line with market expectations.

OVERVIEW

The first half of 2002 was a period of considerable achievement that has transformed AMS for the future. The Group was able to raise funds in a very difficult market and to complete a key strategic acquisition whilst successfully defeating an EGM resolution to put the Company up for sale. It is a great credit to the management team that this corporate activity was completed whilst still achieving 26% growth of the Company's Professional Woundcare business and maintaining good progress in its strategy of moving to higher value products.

OPERATING REVIEW

The Group's core focus remains the development and manufacture of advanced woundcare products, which are marketed and distributed through blue-chip partners into hospital and nursing homes (Professional Woundcare) and retail pharmacies (Consumer Skincare).

Compared to the second half of 2001 Group turnover increased by 40%, although reduced by 7% when compared with the same period last year with MediLogic contributing £200k. Gross margins continued to improve and increased to 26% (2001: 18%).

Professional Woundcare sales in the underlying business grew by 26% in the period driven by the continued strength of the alginate business. This was despite the uncertainty to our partners around the future of the Company caused by the EGM in February. The launch in May of a range of AMS'

proprietary alginate dressings by Johnson & Johnson Woundcare confirms the Company's strong competitive position in this high growth area of advanced woundcare. This new relationship, together with the continuing strength of existing relationships with major woundcare partners such as 3M, Smith & Nephew, Coloplast and Molnlycke, is expected to contribute significantly to the Group's second half-year performance.

The Group continues to build a Consumer Skincare business based around higher value products supplementing the existing range with Johnson & Johnson Consumer Products, Novartis and Beiersdorf.

MEDLOGIC ACQUISITION

MedLogic Global Holdings Limited, a leading medical grade tissue adhesives company based in Plymouth, was acquired on 1 May 2002 for £2.9m including costs. MedLogic currently provides products primarily into the UK Accident & Emergency market through a direct sales force.

The response of AMS' international partners to both the MedLogic acquisition and product range has been very positive and announcements of new distribution agreements are expected over the next few months.

We are pleased with the progress that has been made in achieving the key integration objectives of meeting financial targets, co-marketing AMS products, and achieving operational efficiencies.

RESEARCH & DEVELOPMENT

The MedLogic tissue adhesives technology has provided another proprietary materials platform to complement AMS' core strategic areas of biopolymers, foam membrane and hydrogels. These form a strong biomaterials base to support the move to higher value medical devices.

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

FINANCIAL REVIEW

On 1 May 2002 the Company acquired MedLogic Global Holdings Limited for £0.4m including costs, and the associated intellectual property for £2.5m including costs. £0.2m of negative goodwill was created, as the acquisition cost of MedLogic Global Holdings Limited was less than the fair value of the net assets acquired. The acquisition was funded by £3.5m of new equity, net of costs.

Turnover for the underlying business in the 6 months reduced by 12% to £3.9m (2001: £4.4m) due to a continuing sacrifice of low margin Consumer business. Gross profit on the underlying business increased to £1.0m (2001: £0.8m) as a consequence of the gross margin improvement to 25% (2001: 18%). Over the period, losses before exceptional items were reduced to £0.8m (2001: £0.9m) and includes an amount for the amortisation of the intellectual property acquired with the acquisition. The

exceptional charge of £0.1m related to the £0.2m costs involved in defending the special resolution to put the Company up for sale and £0.1m of negative goodwill related to the MedLogic Global Holdings Limited acquisition. In common with many other companies and sectors, AMS is facing significantly higher insurance costs and some adverse currency effects due to the dollar exchange rate.

Operating cash outflow for the period was £0.8m (2001: £nil) as a result of working capital increases. The Group had cash of £6.1m (2001: £7.0m) at 30 June 2002 and net funds of £5.6m (2001: £6.8m).

OUTLOOK

The continued strength of the Professional business and a full period's contribution by the MedLogic business are expected to drive top line revenue, gross margin and net earnings improvements during the second half of the year and the Group continues to trade in line with market expectation.

The Group is well positioned to achieve profitability in 2003 and beyond, thus establishing a solid financial platform for delivering its stated strategy of building a larger business and making AMS a more attractive investment opportunity.

Dr Geoffrey N Vernon
Chairman

	Note	Unaudited six months ended 30 June 2002 Before exceptional items £'000	Unaudited six months ended 30 June 2002 Exceptional items £'000	Unaudited six months ended 30 June 2002 Total £'000	Unaudited six months ended 30 June 2001 Total £'000	Audited twelve months ended 31 December 2001 Total £'000
Turnover						
Continuing operations	2	3,912	—	3,912	4,424	7,373
Acquisitions		203	—	203	—	—
		4,115	—	4,115	4,424	7,373
Cost of sales		(3,042)	—	(3,042)	(3,634)	(6,075)
Gross profit		1,073	—	1,073	790	1,298
Distribution costs		(48)	—	(48)	(117)	(136)
Administration costs		(1,998)	(79)	(2,077)	(1,764)	(3,322)
Other operating income		122	—	122	72	222
Operating loss						
Continuing operations		(759)	(79)	(838)	(1,019)	(1,938)
Acquisitions		(92)	—	(92)	—	—
		(851)	(79)	(930)	(1,019)	(1,938)
Interest receivable and similar income		107	—	107	188	369
Interest payable and similar charges		(8)	—	(8)	(19)	(30)
Loss on ordinary activities before taxation		(752)	(79)	(831)	(850)	(1,599)
Taxation		—	—	—	—	129
Retained loss for the year		(752)	(79)	(831)	(850)	(1,470)
Basic loss per share	3	(0.69)p	(0.07)p	(0.76)p	(0.91)p	(1.6)p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2002

	Unaudited six months ended 30 June 2002 £'000	Unaudited six months ended 30 June 2001 £'000	Audited twelve months ended 31 December 2001 £'000
Loss for the financial period	(831)	(850)	(1,470)
Currency translation differences on foreign currency net investments	8	6	10
Total recognised losses relating to the period	(823)	(844)	(1,460)

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2002

	Unaudited six months ended 30 June 2002 £'000	Unaudited six months ended 30 June 2001 £'000	Audited twelve months ended 31 December 2001 £'000
Opening shareholders' funds	11,994	13,454	13,454
Loss for period	(831)	(850)	(1,470)
Currency translation differences on foreign currency net investments	8	6	10
New share capital subscribed	2,427	—	—
Premium on issue of shares during the period	1,711	—	—
Cost of share issue	(667)	—	—
Closing shareholders' funds	14,642	12,610	11,994

	Unaudited six months ended 30 June 2002 £'000	Unaudited six months ended 30 June 2001 £'000	Audited twelve months ended 31 December 2001 £'000
Note			
Fixed assets			
Intangible assets			
— goodwill	(122)	—	—
— other intangibles	2,490	—	—
Tangible assets	5,270	5,108	4,809
	7,638	5,108	4,809
Current assets			
Stocks	1,045	853	887
Debtors			
— due within one year	2,292	2,161	1,844
— due after more than one year	200	200	200
Cash at bank and in hand	6,058	7,037	6,238
	9,595	10,251	9,169
Creditors: amounts falling due within one year	(2,130)	(2,452)	(1,778)
Net current assets	7,465	7,799	7,391
Total assets less current liabilities	15,103	12,907	12,200
Creditors: amounts falling due after more than one year	(461)	(297)	(206)
	14,642	12,610	11,994
Capital and reserves			
Called up share capital	11,782	9,355	9,355
Share premium account	37,954	36,910	36,910
Other reserve	1,531	1,531	1,531
Profit and loss account	(36,625)	(35,186)	(35,802)
Equity shareholders' funds	14,642	12,610	11,994

CONSOLIDATED CASH FLOW STATEMENTS

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	Note	Unaudited six months ended 30 June 2002 £'000	Unaudited six months ended 30 June 2001 £'000	Audited twelve months ended 31 December 2001 £'000
Net cash (outflow)/inflow from operating activities		(814)	48	(764)
Returns on investments and servicing of finance				
Interest received		125	176	395
Interest element of finance lease rental and hire purchase payments		(8)	(19)	(30)
Net cash inflow from returns on investments and servicing of finance		117	157	365
Taxation		129	—	—
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(95)	(227)	(353)
Sale of tangible fixed assets		—	197	204
Net cash outflow for capital expenditure financial investment		(95)	(30)	(149)
Acquisition and disposals				
Purchase of subsidiary undertaking		(2,909)	—	—
Net cash acquired with subsidiary undertaking		(27)	—	—
Net cash outflow for acquisitions and disposals		(2,936)	—	—
Cash (outflow)/inflow before use of liquid resources and financing		(3,599)	175	(548)
Management of liquid resources				
Sale of term deposits		191	43	805
Purchase of term deposits		—	—	—
Financing				
Issue of shares		4,138	—	—
Share issue expenses		(667)	—	—
Repayment of long-term borrowing		(1)	—	—
Net movement of capital element of finance lease rental and hire purchase payments	5	(59)	(157)	(237)
Net cash inflow/(outflow) from financing		3,411	(157)	(237)
Increase in cash	4	3	61	20

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 2001. The results for the six months ended 30 June 2002 and 30 June 2001 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 2001 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 2002 £'000	Unaudited six months ended 30 June 2001 £'000	Audited twelve months ended 31 December 2001 £'000
Turnover by geographical region:			
United States of America	800	1,544	2,399
Rest of Europe	2,568	2,566	4,145
United Kingdom	742	312	825
Rest of World	5	2	4
	4,115	4,424	7,373
Turnover by business unit:			
Consumer	278	1,534	1,887
Professional	3,837	2,890	5,486
	4,115	4,424	7,373
It is not possible to identify loss before taxation and net assets by business unit because of the use of common services. The turnover of Medlogic is included under Professional.			
Turnover, loss before tax and net assets by origin	£'000	£'000	£'000
Turnover			
United Kingdom	4,115	4,424	7,373
United States	—	—	—
	4,115	4,424	7,373
Loss before tax			
United Kingdom	(764)	(736)	(1,436)
United States	(67)	(114)	(163)
	(831)	(850)	(1,599)
Net assets			
United Kingdom	14,608	12,533	11,975
United States	34	77	19
	14,642	12,610	11,994

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

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 2002, namely 109,372,285 (2001: 93,553,394) and losses of £831,000 (2001: £850,000).

4. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT/FUNDS (NOTE 5)

	Unaudited six months ended 30 June 2002 £'000	Unaudited six months ended 30 June 2001 £'000	Audited twelve months ended 31 December 2001 £'000
Increase in cash during the period	3	61	20
Cash outflow to repay finance leases and long-term borrowing	60	157	237
Cash (inflow) to (decrease) liquid resources	(191)	(43)	(805)
Change in net funds resulting from cash flows	(128)	175	(548)
Loans and finance leases acquired with subsidiaries	(361)	—	—
New finance leases	—	(30)	(30)
Translation difference	8	6	10
Movement in net funds in the period	(481)	151	(568)
Net funds at 1 January 2002	6,032	6,600	6,600
Net funds at 30 June 2002	5,551	6,751	6,032

5. ANALYSIS OF NET DEBT/FUNDS

	1 January 2002 £'000	Cash flows £'000	Acquisitions excluding cash and overdrafts £'000	Exchange Movements £'000	30 June 2002 £'000
Cash	403	3	—	8	414
Term deposits	5,835	(191)	—	—	5,644
Cash at bank and in hand	6,238	(188)	—	8	6,058
Debt due within one year	—	—	(10)	—	(10)
Debt due after one year	—	1	(351)	—	(350)
Finance leases	(206)	59	—	—	(147)
Total	6,032	(128)	(361)	8	5,551



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