



Advanced Medical Solutions Group plc

INTERIM REPORT **2003**



ADVANCED MEDICAL SOLUTIONS GROUP plc



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Highlights for the year to date

- Group gross margins increased from 26% to 38% on turnover of £4.1 million.
- New partnerships signed with Paul Hartmann AG, PDI Inc, ASO Corporation and Hardwood Products Company LP and with B.Braun Hospicare and Teva Medical Ltd since period end.
- Silver alginate licensed to Johnson & Johnson Wound Management and 510(k) clearance received in July 2003.
- Significant investments in Sales & Marketing and Research & Development to support revenue growth in second half of the year.
- Cash of £4.2 million sufficient to take the Group through to profitability.

CHAIRMAN'S STATEMENT

Overview

Significant progress has been made during the first half of the year establishing the fundamentals which will generate the top line growth necessary to take the Group through to profitability. During the period, new supply and distribution agreements have been signed which supplement existing partnerships, new products have been launched and the Group's cash position has remained strong. In addition, further good progress has been made in improving gross margins to 38%. Towards the end of the period and since 30 June 2003, a number of key licensing agreements have been signed and the Directors believe that the Group is in a position to achieve a strong second half-year.

Operating Review

The Group's core focus remains the development and manufacture of woundcare products for sale into hospitals and long-term care facilities. The majority of our products are marketed and distributed in Europe and the US, either through major multi-national woundcare companies under their leading brands, or through regional private label distributors. Our products are also sold in the UK through a small direct sales force targeting the NHS hospital market. Current marketing and distribution partners include 3M, Johnson & Johnson, Smith & Nephew, Novartis, Molnlycke, Coloplast and Beiersdorf. Our products are supplied in various forms, from rolls of bulk material (roll-stock) through to fully packed, sterilised, branded cartons.

Professional Woundcare sales for the first half-year were similar to the corresponding period

of 2002, with a shortfall in the core advanced woundcare business being compensated for by the MedLogic wound closure products which are at a higher margin. This contributed to the significant improvement in Group gross margins from 26% to 38%. The tough economic conditions experienced during the second quarter of the period with the uncertainties caused by the Iraq war resulting in reduced international travel and the disruptive impact of the resolution put by AVRC at the AGM to seek offers for all or part of the Group, delayed the signing of deals. This has resulted in lower sales than anticipated in the first half of the year. A number of partnership deals have been signed, albeit later than originally anticipated, and we are pleased to report that further opportunities are under negotiation. New supply and distribution partnerships have been announced with Paul Hartmann AG, PDI Inc, B.Braun Hospicare, TEVA Medical Ltd and ASO Corporation. A global exclusive agreement for silver alginate, using the X-Static™ fibres supplied by Noble Fiber Technology Inc, with Johnson & Johnson Wound Management was also completed.

In addition to the delays in signing new deals, two other factors affected the Professional Woundcare sales revenue. Firstly, a planned shift from cartoned product to lower sales value, higher margin roll-stock for one of our major European partners, which is now completed. Secondly, the failure to finalise a major deal for distribution of the MedLogic LiquiBand™ tissue adhesive product range by a potential new partner. Despite successfully completing market evaluation of the opportunity, the potential



partner was unable to proceed due to a change in its corporate strategy. Discussions with alternative partners for this technology are well advanced. The core UK LiquiBand™ business continues to perform strongly with the product's market leadership position strengthened in the Accident & Emergency arena.

Encouraging signs have been seen with the Consumer business with a number of exciting new opportunities identified in the areas of scar therapy and liquid bandages which should materialise in sales later this year.

Following targeted investments in sales and marketing and product development, the Board believes that a positive impact will be seen through new product launches and additional partnership agreements. A significant trend is being seen in the industry, for major distributors to carry their own private label range of standard woundcare products. AMS is well placed to fulfil this need as well as continuing to provide new, differentiated products to the leading international woundcare companies. These companies look to lead the market in advanced treatments, such as in the move from passive to active tissue repair.

Research and Development

The provision of a technology pipeline is key to attracting major strategic partners and to ensure that the Group moves to higher value products.

During the period good progress has been made, including:

- The further exploitation of AMS' proprietary polyurethane foam technology

with the launch of highly absorbent foam dressings by Paul Hartmann AG and PDI Inc for Professional Woundcare and the introduction of a scar therapy product for the US Consumer market with ASO Corporation targeted for the fourth quarter.

- The 510(k) clearance of our silver alginate product as the first step in upgrading the AMS product range to include active ingredients such as anti-microbials.
- A licensing agreement with Hardwood Products Company LLP for its popule applicator technology to exploit further the MedLogic cyanoacrylate technology in Professional Woundcare for skin protection and as a liquid bandage for Consumer OTC and sports applications.
- The progression through development and regulatory approval of additional novel liquid bandage products which are expected to be introduced by the end of 2003, initially into the US market.

In addition, the new LiquiBand™ Surgical tissue adhesive product allows us to enter the operating room market for wound closure. This product has been specifically designed for use on surgical incisions and addresses the significant opportunity for glues in the current \$3 billion suture and staple market. Initial feedback from UK trials has confirmed that this product will be very well received by users for a variety of surgical procedures when it undergoes full market release following CE mark approval, which is expected by the end of September 2003.



Financial Review

In the six months ended 30th June 2003 turnover was £4.1 million (2002: £4.1 million). In the Professional Woundcare business, turnover was affected by a number of factors which have previously been discussed and has resulted in unchanged sales of £3.8 million. Sales from the wound closure products resulting from the MedLogic acquisition completed in May 2002, continue to show good growth with a 32% increase to £0.7 million (2002: £0.5 million). Consumer sales were £0.4 million (2002: £0.3 million).

Overall, gross margin for the Group improved to 38% from 26% with gross profit increasing 47% to £1.6 million from £1.1 million and demonstrates the benefit of the Group's decision to deliver higher value products into the market.

Operating expenses increased to £2.8 million (2002: £2.1 million). These now include a full six months' spend from the MedLogic acquisition and reflects our investment in Sales and Marketing and Research and Development which is anticipated to deliver significant growth in turnover. The overall spend on Sales and Marketing and Research and Development increased to £1.4 million (2002: £0.9 million). Administration also now includes six months of patent amortisation of £0.1 million. As a result, the Group reported an operating loss of £1.2 million (2002: £0.9 million) and an overall loss of £1.1 million (2002: £0.8 million).

Working capital (excluding cash) increased to £2.0 million (2002: £1.2 million). This is due to an increase of stock to supply two product

launches in July and an increase in other debtors for insurance, Research and Development grants and fee income. As a consequence, operating cash outflow increased to £1.4 million over the period (2002: £0.8 million) leaving the Group with £4.2 million of cash at 30 June 2003 (2002: £6 million) and net funds of £3.8 million (2002: £5.5 million).

Outlook

The Board recognises that to move through to profitability strong revenue growth is needed. This will in part be fuelled by the new partnerships that have recently been announced with B. Braun Hospicare, TEVA Medical Ltd and a major US private label distributor, all of whom are expected to be selling products by the end of September 2003. Further announcements are expected to follow before year-end. The launch of new products into the market place by these and existing partners will drive sales growth during the second half-year, 2004 and beyond.

Whilst the delays encountered in signing deals have put back profitability, the Board is confident that the business will be profitable in the second half of this year and will be profitable at EBITDA level for the full year. In line with its stated strategy the Group has sufficient cash to take the business through to sustainable profitability and the future prospects remain extremely positive for building a high value technology company.

Dr Geoffrey N. Vernon
Chairman



ADVANCED MEDICAL SOLUTIONS GROUP plc
CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	Unaudited six months ended 30 June 2003 £'000	Unaudited six months ended 30 June 2002 £'000	Audited twelve months ended 31 December 2002 £'000
Turnover	2	4,134	4,115	8,372
Cost of sales		(2,555)	(3,042)	(5,887)
Gross profit		1,579	1,073	2,485
Distribution costs		(32)	(48)	(38)
Administration costs		(2,819)	(2,077)	(4,406)
Other operating income		90	122	532
Operating loss		(1,182)	(930)	(1,427)
Loss on disposal of fixed assets		—	—	(249)
EGM costs		—	—	(202)
Interest receivable and similar income		82	107	223
Interest payable and similar charges		(18)	(8)	(34)
Loss on ordinary activities before taxation		(1,118)	(831)	(1,689)
Taxation		—	—	292
Loss sustained for the period		(1,118)	(831)	(1,397)
Basic and fully diluted loss per share	3	(0.79)p	(0.76)p	(1.1)p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Unaudited six months ended 30 June 2003 £'000	Unaudited six months ended 30 June 2002 £'000	Audited twelve months ended 31 December 2002 £'000
Loss for the financial period	(1,118)	(831)	(1,397)
Currency translation differences on foreign currency net investments	3	8	15
Total recognised losses relating to the period	(1,115)	(823)	(1,382)

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Unaudited six months ended 30 June 2003 £'000	Unaudited six months ended 30 June 2002 £'000	Audited twelve months ended 31 December 2002 £'000
Opening shareholders' funds	14,107	11,994	11,994
Loss for the period	(1,118)	(831)	(1,397)
Currency translation differences on foreign currency net investments	3	8	15
New share capital subscribed	—	2,427	2,427
Premium on issue of shares during the period	—	1,711	1,711
Cost of share issue	—	(667)	(643)
Closing shareholders' funds	12,992	14,642	14,107



ADVANCED MEDICAL SOLUTIONS GROUP plc
CONSOLIDATED BALANCE SHEETS

	Unaudited six months ended 30 June 2003 £'000	Unaudited six months ended 30 June 2002 £'000	Audited twelve months ended 31 December 2002 £'000
Fixed assets			
Intangible assets			
— goodwill	—	(122)	—
— other intangibles	2,322	2,490	2,406
Tangible assets	4,624	5,270	4,901
	6,946	7,638	7,307
Current assets			
Stocks	1,313	1,045	918
Debtors			
— due within one year	2,589	2,292	2,444
— due after more than one year	200	200	200
Cash at bank and in hand	4,218	6,058	5,558
	8,320	9,595	9,120
Creditors: amounts falling due within one year	(1,934)	(2,130)	(1,838)
Net current assets	6,386	7,465	7,282
Total assets less current liabilities	13,332	15,103	14,589
Creditors: amounts falling due after more than one year	(340)	(461)	(482)
	12,992	14,642	14,107
Capital and reserves			
Called up share capital	11,782	11,782	11,782
Share premium account	37,978	37,954	37,978
Other reserve	1,531	1,531	1,531
Profit and loss account	(38,299)	(36,625)	(37,184)
Equity shareholders' funds	12,992	14,642	14,107

CONSOLIDATED CASH FLOW STATEMENT

	Note	Unaudited six months ended 30 June 2003 £'000	Unaudited six months ended 30 June 2002 £'000	Audited twelve months ended 31 December 2002 £'000
Net cash outflow from operating activities		(1,363)	(814)	(1,121)
Returns on investments and servicing of finance				
Interest received		99	125	229
Interest element of finance lease rental and hire purchase payments		(3)	(8)	(13)
Interest paid		(15)	—	(21)
Net cash inflow from returns on investments and servicing of finance		81	117	195
Taxation		137	129	129
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(192)	(95)	(354)
Sale of tangible fixed assets		4	—	15
Net cash outflow for capital expenditure and financial investment		(188)	(95)	(339)
Acquisitions and disposals				
Purchase of subsidiary undertaking		—	(2,909)	(2,789)
Net cash acquired with subsidiary undertaking		—	(27)	(27)
Net cash outflow for acquisitions and disposals		—	(2,936)	(2,816)
Cash outflow before use of liquid resources and financing		(1,333)	(3,599)	(3,952)
Management of liquid resources				
Sale of term deposits		1,471	191	739
Financing				
Issue of shares		—	4,138	4,018
Share issue expenses		—	(667)	(643)
Repayment of long-term borrowing	5	(5)	(1)	(6)
Net movement of capital element of finance lease rental and hire purchase payments	5	(55)	(59)	(114)
Net cash (outflow)/inflow from financing		(60)	3,411	3,255
Increase in cash	4	78	3	42



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 2002. The results for the six months ended 30 June 2003 and 30 June 2002 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 2002 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.

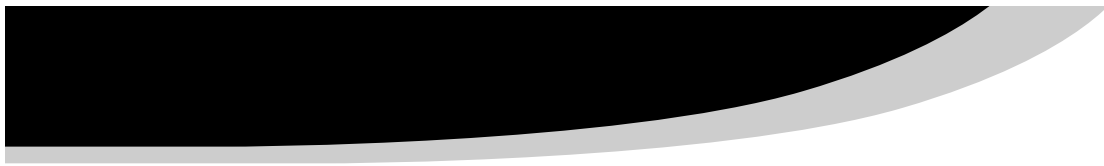
2. Segmental information

	Unaudited six months ended 30 June 2003 £'000	Unaudited six months ended 30 June 2002 £'000	Audited twelve months ended 31 December 2002 £'000
Turnover by geographical region:			
United States of America	1,106	800	1,330
Rest of Europe	2,120	2,568	5,243
United Kingdom	880	742	1,765
Rest of World	28	5	34
	4,134	4,115	8,372
Turnover by business unit:			
Consumer	368	278	594
Professional	3,766	3,837	7,778
	4,134	4,115	8,372

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

Turnover, loss before tax and net assets by origin	£'000	£'000	£'000
Turnover			
United Kingdom	4,134	4,115	8,372
United States	—	—	—
	4,134	4,115	8,372
Loss before tax			
United Kingdom	(1,026)	(764)	(1,475)
United States	(92)	(67)	(214)
	(1,118)	(831)	(1,689)
Net assets			
United Kingdom	12,976	14,608	14,098
United States	16	34	9
	12,992	14,642	14,107

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 2003, namely 142,082,536 (2002: 109,372,285) and losses of £1,118k (2002: £831k).

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

	Unaudited six months ended 30 June 2003 £'000	Unaudited six months ended 30 June 2002 £'000	Audited twelve months ended 31 December 2002 £'000
Increase in cash during the period	78	3	42
Cash outflow to repay debt and finance leases	60	60	120
Cash inflow from decrease in liquid resources	(1,471)	(191)	(739)
Change in net funds resulting from cash flows	(1,333)	(128)	(577)
Loans and finance leases acquired with subsidiaries	—	(361)	(361)
Translation difference	3	8	15
Movement in net funds in the period	(1,330)	(481)	(923)
Net funds at 1 January 2003	5,109	6,032	6,032
Net funds at 30 June 2003	3,779	5,551	5,109

5. Analysis of net funds

	1 January 2003 £'000	Cash flows £'000	Exchange Movements £'000	30 June 2003 £'000
Cash	462	128	3	593
Bank overdrafts	(2)	(50)	—	(52)
Term deposits	5,096	(1,471)	—	3,625
	5,556	(1,393)	3	4,166
Debt due within one year	(10)	—	—	(10)
Debt due after one year	(345)	5	—	(340)
Finance leases	(92)	55	—	(37)
Total	5,109	(1,333)	3	3,779

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