



Advanced Medical Solutions Group Plc

ANNUAL REPORT AND ACCOUNTS

2001

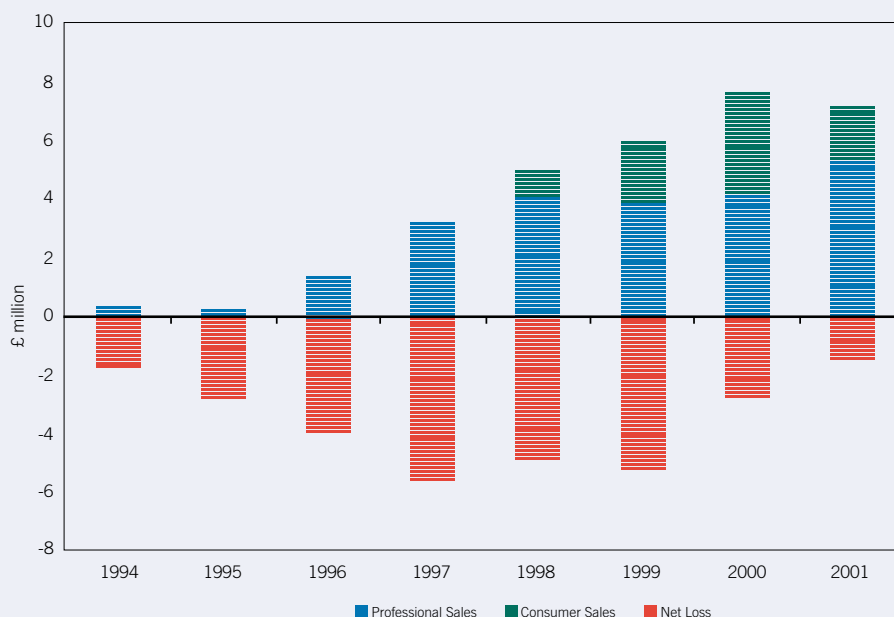


01	Highlights	20	Consolidated Profit and Loss Account
02	Chairman's Statement	21	Total Recognised Gains and Losses
04	Chief Executive's Review	22	Balance Sheets
08	Financial Review	23	Consolidated Cash Flow Statement
10	Directors & Advisers	24	Notes Forming Part of the Financial Statements
11	Report of the Directors	38	Five Year Summary
14	Corporate Governance	39	Notice of Meeting
19	Auditors Report		

HIGHLIGHTS:

- LOSSES REDUCED BY 45% TO £1.5 MILLION **(2000: £2.7 MILLION)**
- GROSS MARGINS IMPROVED FROM 6% TO 18%
- CASH OUTFLOW REDUCED BY 55% TO £0.8 MILLION **(2000: £1.8 MILLION)**
- NET FUNDS OF £6.0 MILLION SUFFICIENT TO GET EXISTING BUSINESS TO SUSTAINABLE PROFITABILITY IN LINE WITH MARKET EXPECTATIONS
- BUSINESS RE-FOCUSED ON HIGHER VALUE PROFESSIONAL WOUNDCARE WHICH GREW 24%
- TECHNOLOGY FURTHER STRENGTHENED IN FOCUS AREAS OF ACTIVES DELIVERY AND TISSUE ENGINEERING

SALES/NET LOSS: 1994–2001



I am pleased to report that our results for 2001 show the continued progress of the Group towards profitability within current cash. The Shareholders' decision at the recent extraordinary general meeting not to invite offers for the share capital of the Company, I believe, confirms the support of the majority of our shareholders of the Company's strategy to focus on taking the core woundcare business to break-even and thus provide a solid financial platform from which to grow a leading medical device company.

As I outlined in my letter accompanying the extraordinary general meeting circular, management have demonstrated an ability to control costs and manage cash. The Board feels that it is now appropriate and opportune to accelerate growth through selective corporate activity. Following a review of potential acquisition candidates, the Board feels that the proposed acquisition of MedLogic, which was announced today, will increase the market available to the Group and assist in positioning the Group within the "higher end" tissue repair sector of the woundcare market

FINANCIAL PERFORMANCE

The continuing focus of the management team during 2001 on reducing losses and cash burn has resulted in a 45 per cent reduction in net loss to £1.5 million, while the operating cash outflow position improved by 55 per cent to £0.8 million. This, together with continued tight control of working capital, leaves the Group with sufficient net funds, £6.0 million, to get the existing business to sustainable profitability and to implement the strategy to acquire complementary technologies that will drive growth and increase shareholder value.

Gross margins improved from 6 per cent to 18 per cent despite a reduction in turnover as low margin

Consumer sales were shed as part of a refocusing of the business on higher value Professional woundcare products.

PARTNERSHIPS

Existing partnerships with blue chip firms such as Smith & Nephew, 3M, Coloplast and Molnlycke were further strengthened during 2001, which contributed to a 24 per cent increase in sales for Professional woundcare. Our strategy of focusing on fewer partners continues to prove successful, allowing a streamlining of the business at all levels. As a result of a major review of the Consumer business, a significant amount of unprofitable business was shed to ensure that higher margins could be achieved going forward. Although this had an impact on revenues, it did not reduce the bottom line.

The relationship with Novartis Consumer Health Europe was broadened with the launch of our new proprietary scar reduction product into the Spanish market under their Trofolastin® brand. This is an important step in moving our Consumer range upmarket from the price-sensitive Retail end to the higher value Pharmacy market. Johnson & Johnson Consumer Product Company's Band-Aid® product employing our alginate material is on sale in US pharmacies.

TECHNOLOGY

The Group has continued to progress its research and development activities to move from passive wound dressings to higher value active delivery and tissue repair and engineering.

At the simplest level, our blister dressings routinely contain homeopathic/antiseptic agents such as tea tree oil.

Our collaboration with Noble Fiber Technologies allows us to incorporate silver fibres into our alginate material, thus producing dressings that provide

silver (a broad spectrum antimicrobial) at the wound site whilst maintaining the fluid handling and haemostatic features of alginate. Products arising out of this technology collaboration are being reviewed with potential partners for development and clinical and regulatory approval for a launch in early 2003.

The granting of two new patents, announced in September 2001, has strengthened our hydrogel technology platform. Our new anti-bleed gel, which is based on one of these patents, forms the basis of a development agreement with a major pharmaceutical partner. This involves the development of a product under a leading antibiotic brand.

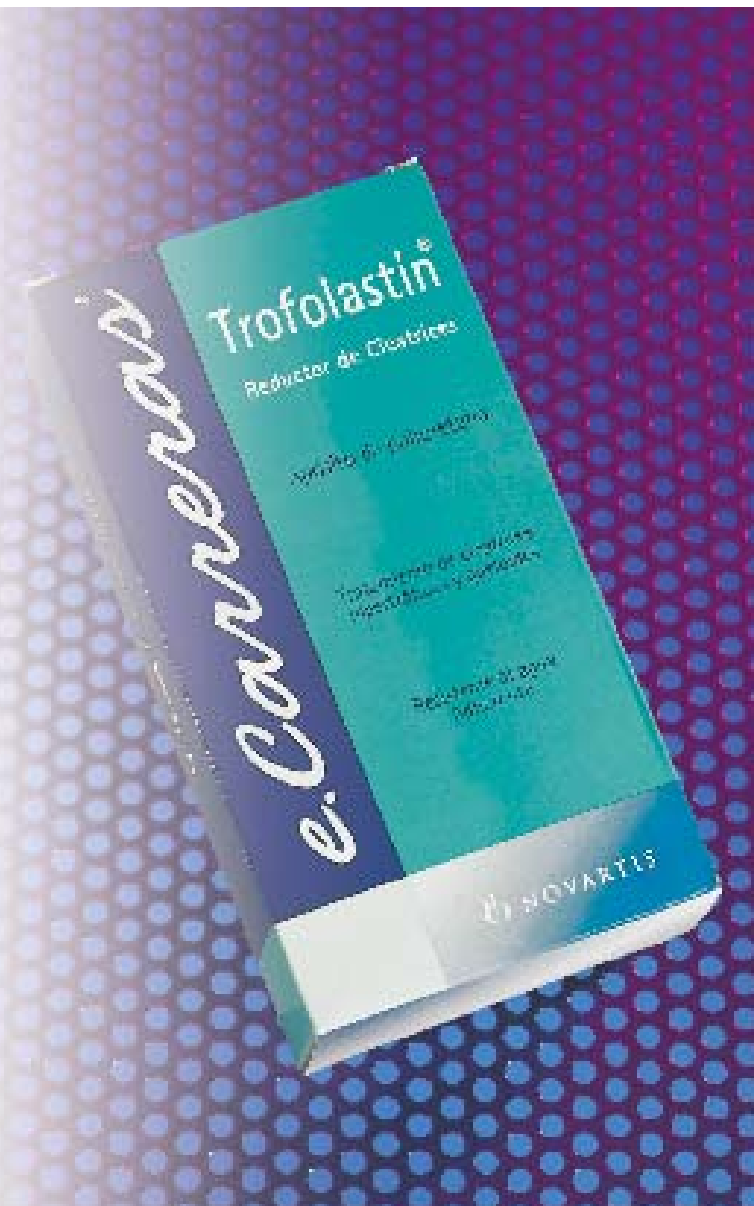
Our tissue engineering programme based around the use of biopolymer fibres as scaffolds for cell growth was progressed with the support of external grant funding.

PROSPECTS

The operational performance during the last two years has provided a firmer financial footing for the future. This has allowed us to look at ways of accelerating growth. In addition, a number of external opportunities to increase the Group's product range and broaden its technology base are being investigated. The Board believes that the proposed acquisition of MedLogic is a strong strategic fit with the Company's current business and that it will not delay break-even in line with current market expectations.

Finally, I would like to thank all of the employees at Advanced Medical Solutions who have worked extremely hard on your behalf in moving the business forward during 2001.

Dr Geoffrey N Vernon
Chairman
27 March 2002



FINANCIAL POSITION
CONTINUES TO IMPROVE.

A KEY CAPABILITY OF **ADVANCED
MEDICAL SOLUTIONS GROUP PLC**
IS TO PARTNER WITH
BLUE-CHIP COMPANIES.



The new scar reduction product improves the cosmetic appearance of scars following Caesarean sections

Since January 2000 when the current Executive Management Team was formed, the focus of the AMS Group has been on achieving profitability from the core woundcare business within current cash resources, thereby building a solid financial platform from which to grow a leading medical device company.

The 2001 results demonstrate that we are firmly on track to reach our immediate financial targets and have allowed us to look for ways to accelerate growth and creation of shareholder value.

FINANCIAL PERFORMANCE

In order to ensure that appropriate gross margins could be achieved going forward, the business was refocused during 2001 on the higher value Professional Woundcare products and low margin Consumer sales were shed. Although this resulted in a decline in turnover to £7.4 million compared with £7.8 million in the previous year, gross margins improved from 6% to 18% and net losses were reduced by 45% to £1.5 million. This represents the second consecutive year that losses have been almost halved and costs are now firmly under control.

The majority of the low margin Consumer sales have now been shed and as growth is re-established in the business, this will not fill existing capacity with unprofitable activity. Meanwhile, the Professional Woundcare business performed strongly with growth of 24% taking it to £5.4 million.

The reduced losses and further reductions in working capital resulted in a 55% reduction in operating cash outflow to £0.8 million. This is the second consecutive year that operating cash outflow has more than halved and this leaves the Group with cash of £6.2 million, sufficient to get the core business to profitability.

STRATEGY FOR GROWTH AND VALUE CREATION

The Management have identified three key drivers to grow the business and create future value for shareholders:

- Blue chip partnerships
- High value added technology
- Selective corporate activity

PARTNERSHIPS

A key capability of AMS is our proven ability to partner with blue-chip companies who are capable of leading the market. Our strategy of focusing on fewer, key partners continues to prove successful with 70% of our sales now coming from our top 8 customers, although no one customer represents more than 20% of our turnover.

In Professional Woundcare our partnerships with companies such as 3M, Smith & Nephew, Coloplast, Molnlycke and Medline, who serve hospitals and nursing homes, have enabled strong global growth of our products during 2001. The alginate business continues to drive growth and we anticipate that this business will continue to grow strongly in 2002 with new products being launched with existing partners and major new partners coming on board.

We are in the process of rebuilding our Consumer business as we understand better the positioning and the pricing that will attract consumers to the advantages of moist wound healing. It is clear that our products need to be aimed at the premium pharmacy end of the first aid market and we are focusing our new product launches at that opportunity. Our proprietary scar reduction product recently launched with Novartis into the Spanish market is a good example of this approach.

Although we have established relationships with strong partners in both North America and Europe, such as Novartis Consumer Health, Johnson & Johnson Consumer Products and Beiersdorf, we have not yet accessed the attractive Far Eastern market. To address this, we have recently appointed our own agent based in Japan and we believe this will facilitate progress in moving products into this market during 2002 and 2003.

TECHNOLOGY

Our internal research and development programmes and external licensing/acquisition opportunities are designed to move the Group to higher value products. We have established four platform technologies:



- Biopolymers — such as alginate
- Synthetic polymers/adhesives
- Hydrogels
- Hydrocolloids

and have a broad base of patents and know-how around these with particular strengths in biopolymer fibre spinning, polymer processing and conversion of



HIGH VALUE ADDED TECHNOLOGY IS A KEY DRIVER TO FUTURE GROWTH

AMS'S TECHNOLOGY PROGRAMMES ARE MOVING THE COMPANY TOWARDS HIGHER VALUE PRODUCTS

Passive Wound Dressings	 Active Wound Dressings	 Active Delivery Tissue Engineering	
Technology Platform	2002	2003-4	2004
Biopolymers (Alginate, Chitosan)	Medium exudate Bleeding Wound (Haemostat)	Anti-Microbial Silver Alginate	Fibre/Foam scaffolds Tissue substitutes Growth factor delivery
Polymers/adhesives (films, membrane)	Low exudate Conformable coverings	NOBLE Scar reduction Adhesive delivery Tissue Adhesives	SMART Award Compliant Scaffolds
Hydrogels	Debriding agents Burns	MEDLOGIC Tissue sealants Haemostatic gels	Antibiotic, Growth factor delivery gels
Hydrocolloids	High exudate Blisters	Homeopathic dressings/pain patches	Occlusive patches for delivery of actives

materials into functional medical dressings. We have strengthened our technology position during 2001 with capital investment in alginates and polymers, patents issued in hydrogels and licensing in of silver technology.

Despite tight control on costs and cash, we have progressed our tissue engineering programme with financial support under the Framework V and Teaching Company Schemes. We closed our Tarvin, Cheshire research facility at the end of 2001 and have consolidated all our research and development activities into refurbished laboratories at our Winsford head office. Our research on the use of biopolymer fibre scaffolds as a matrix for cell growth has moved forward and is being published at scientific meetings on Tissue Engineering for woundcare and cardiovascular applications.

CORPORATE ACTIVITY

During the latter part of 2001 the management formally started to review opportunities to accelerate growth and value through selective corporate activity. This involved two areas:

1. IN-FILL TECHNOLOGY DEALS

These consisted of small licensing/acquisition deals for complementary technology within current cash. A number of opportunities have been reviewed with the option to license silver fibre technology from Noble Fiber Technologies being announced in January 2002.

2. STRATEGIC ACQUISITIONS

These are larger deals that will

accelerate revenue and profit growth over the core business and the proposed acquisition of MedLogic has met the criteria we set, namely:

- Good strategic fit.
- Complementary products/technology.
- Moves AMS to higher value business.
- Offers good leverage opportunities of existing partnerships and organisation.

MEDLOGIC

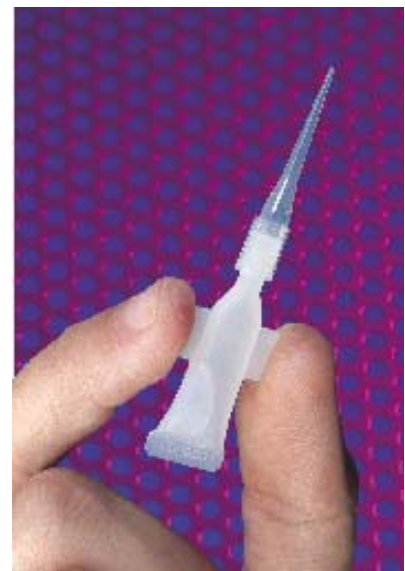
MedLogic develops, manufactures and markets medical grade adhesives and sealants principally for topical wound closure and wound management. The wound closure products are designed to replace or supplement alternative methods of closure such as sutures, staples or adhesive strips. The sealants are intended to protect skin from infection and break-down due to friction, shear or the presence of moisture.

MedLogic has developed its technology platform and IPR portfolio based on the optimisation and commercialisation of cyanoacrylate adhesive materials (commonly known as superglues), specifically n-butyl cyanoacrylates — an advanced version of the base material offering characteristics more favourable for clinical applications.

This technology provides a platform for entry into multiple healthcare applications. Specific products have been developed to address a number of these markets and a number of further products are in development. MedLogic's current active portfolio consists of two products:



MedLogic facility at Plymton, Plymouth



LiquiBand® Tissue adhesive



LiquiBand® in use in A&E Department

- LiquiBand® — a tissue adhesive for the wound closure market.
- LiquiShield® (Superskin®) — a tissue barrier film for wound management.

LIQUIBAND® — WOUND CLOSURE

The world-wide wound closure market is widely estimated to be approximately US\$3.3 billion at retail prices. The market consists of four distinct segments:

- Sutures: the use of needle and thread for closing wounds.
- Staples: metallic devices to hold the tissue edges together during healing.
- Adhesive strips: small pieces of tape, often “butterfly” shaped, to close skin wounds.
- Tissue adhesives: the “glueing” together of the edges of the wound.

Tissue adhesives are a comparatively recent introduction and currently account for a relatively small but growing proportion of the market. It is estimated that as much as 40% of the global suture/staple market could eventually be accounted for by tissue adhesives and sealants. The perceived advantages of tissue adhesives over alternative methods include:

- Ease and speed of application;
- Reduced patient trauma (no anaesthetic or needles required);
- Superior wound sealing;
- Reduced infection potential;
- Improved cosmetic outcome; and
- Relatively low total treatment costs.

LiquiBand® is a disposable single use liquid adhesive device designed to close and seal the epidermal layer of a

wide variety of traumatic and surgical wounds. MedLogic obtained a class IIA device CE mark for LiquiBand® in the European Union in June 1998 and began commercialisation of the product in 1999 focusing on selling to Accident and Emergency units in the UK where it has Drug Tariff approval. MedLogic has its own direct sales force to access this market. The product is currently being introduced into European markets via distributors. However, it does not yet have FDA approval for sale in the USA.

LIQUISHIELD® — WOUND MANAGEMENT

Wound management products range from traditional gauzes and adhesive plasters to the advanced moist woundcare dressings as currently sold by AMS. The use of medical adhesives as a barrier for the protection of skin is a relatively new concept. LiquiShield® is a topical, liquid barrier film that is painted onto the skin in a very thin layer in order to provide protection against skin damage caused by friction, shear and/or the presence of moisture.

LiquiShield® (original name SuperSkin®) was MedLogic’s first commercial product. It received FDA clearance for sale in the USA in December 1997 and a CE mark for sales into Europe in April 1998. While it was renamed LiquiShield® for the USA market, it continues to be sold under the name of SuperSkin® in the UK.

LiquiShield® is sold through distributors into both markets, targeted mainly at the nursing home sector.

There are few competitors within the liquid barrier market and the directors

believe that the formulation of the LiquiShield® product provides a number of competitive advantages.

Friction, shear or the presence of moisture can lead to skin breakdown, particularly in radiation patients, amputees utilising prosthetic limbs, stoma patients, bedridden patients, paraplegics, quadriplegics and individuals with generally compromised skin integrity. LiquiShield® has potential applications in each of these areas.

SUMMARY

The last two years have seen significant progress in improving the financial position of the Group and the core advanced woundcare business is now progressing towards profitability and positive cash in line with market expectations.

Organic growth will continue to be achieved, driven by the strength of our partnerships and our technology pipeline.

The proposed acquisition of MedLogic provides an opportunity to accelerate growth of a bigger business and reinforces the image of AMS as a high value “Tissue Repair” company. It also transforms AMS for future corporate options and makes the Group a more attractive investment opportunity.

Dr Don W Evans

Chief Executive Officer
27 March 2002

BACKGROUND

2001 was a year of steady progress by the Group towards its target of achieving profitability. Low margin business was sacrificed, resulting in a decrease of turnover; however, overall this helped to reduce the loss for the year.

ANALYSIS OF RESULTS

Turnover reduced by 6% to £7.4 million (2000: £7.8 million). The Professional Woundcare business grew by 24% to £5.5 million (2000: £4.4 million), with the four largest customers contributing £0.9 million of this increase, reflecting the benefits of the Group's strategy of focusing on its major partners.

Consumer Woundcare sales fell by 44% to £1.9 million (2000: £3.4 million) as low margin business was shed.

Gross profit for the Group was 18 per cent or £1.3 million (2000: 6 per cent), an improvement of 12 percentage points on the previous year. Gross margins were improved by the manufacturing efficiencies achieved from the visibility of the rolling forecasts and the larger volume runs in the Professional Woundcare business and from the termination of low margin contracts in the Consumer Woundcare business.

Administration costs, which includes all the costs of research and development and sales and marketing, were also reduced by £0.4 million to £3.3 million (2000: £3.7 million), a reduction of 10 per cent. While spend on research and development remained at a similar level to 2000, spend in sales and marketing

was further reduced by £0.1 million to £0.6 million (2000: £0.7 million). Overall, staff costs for all employees decreased by £0.4 million to £3.5 million (2000: £3.9 million).

The Group also benefited from a research and development tax credit resulting from qualifying research and development spend.

The Group was able to report a retained loss of £1.5 million (2000: £2.7 million) a reduction of 45 per cent, reflecting that the Group is building a solid financial platform from which to grow the business.

CASH FLOW AND FUNDING

Capital expenditure of £0.4 million (2000: £0.7 million) was relatively modest with the £0.2 million acetone recovery system financed by sale and leaseback. Working capital as a percentage of sales was 14.9 per cent (2000: 18 per cent).

Working capital remained tightly controlled and was reduced by £0.2 million (2000: £0.5 million). Stock was reduced by £0.1 million (2000: £0.8 million). This reduction was made possible by the introduction of an MRP (manufacturing resources planning) system, implemented at the half year.

At the year end the Group had net funds of £6.0 million (2000: £6.6 million) and cash at the bank of £6.2 million (2000: £7.0 million).

TREASURY

The Group's treasury function seeks to manage financial risks, ensure

sufficient funds are available for operations and to invest funds safely. The major financial risks of the Group are related to currency and to counter-party credit risk as the Group has an investment in cash. The Group limits its exposure to counter-party risk by operating within parameters approved and monitored by the Board referencing credit ratings and credit limits for individual institutions.

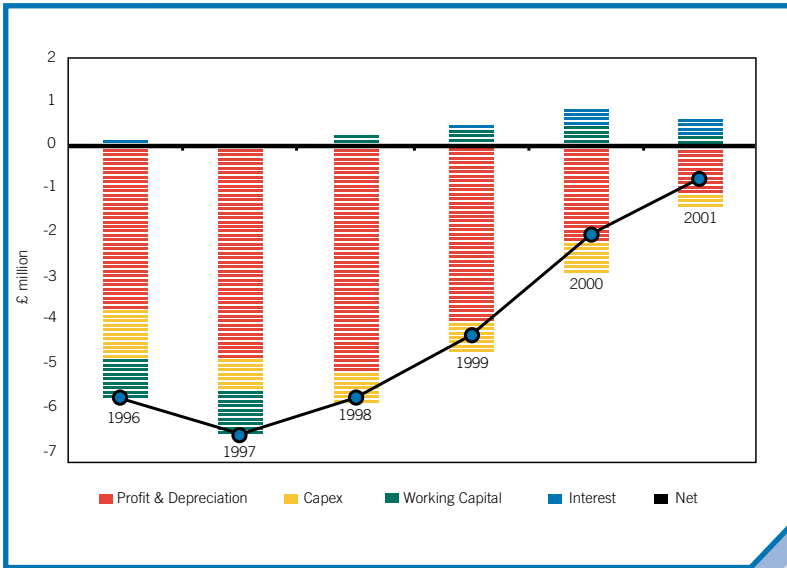
Currency exposures arise on exports when invoiced in currencies other than sterling. The Group's policy does not hedge profit translation but significant transaction currency exposures are hedged by using forward contracts. Details are provided in note 19. The Group is also able to limit this exposure by sourcing materials from the USA. As the proportion of the Group's net assets overseas is small, the Group does not hedge the exposure arising from the translation of overseas assets.

AUDITORS

Finally, I would like to thank HLB Kidsons for their effort over the year and to recommend to the shareholders their reappointment at the Annual General Meeting.

Mary G Tavener

Finance Director
27 March 2002



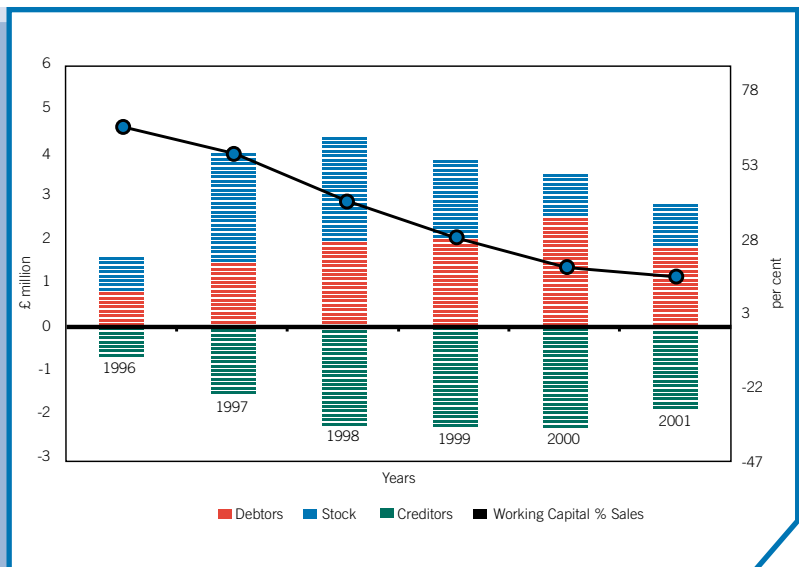
CASH FLOW:

CASH OUTFLOW
REDUCED:

**BY 55% TO £0.8 MILLION
(2000: £1.8 MILLION)**

CASH FLOW

WORKING CAPITAL:
WORKING CAPITAL AS A
PERCENTAGE OF SALES:
14.9% (2000: 18%)



WORKING CAPITAL

**PICTURED TOP LEFT TO RIGHT:**

Mary Tavener, Don Evans (CEO)
and Graeme Brookes

PICTURED BOTTOM LEFT TO RIGHT:

Steve Harris and
Geoffrey Vernon (Chairman),



The Board of **ADVANCED MEDICAL SOLUTIONS GROUP plc**, facing the future with added confidence

DIRECTORS

Dr G N Vernon	Non-Executive Chairman
R S Harris	Non-Executive Director
Dr D W Evans	Chief Executive Officer
G N Brookes	Executive Director
M G Tavener	Executive Director

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

HLB Kidsons
No. 1 Old Hall Street
Liverpool
L3 9SX

SOLICITORS

Wragge & Co
55 Colmore Row
Birmingham
B3 2AS

REGISTRARS AND TRANSFER OFFICE

Capita IRG Plc
Balfour House
390/398 High Road
Ilford
Essex
IG1 1NQ

BANKERS

National Westminster Bank PLC
PO Box No. 28
7 Winwick Street
Warrington
WA1 1XU

The directors present their report and the audited financial statements for the year ended 31 December 2001.

DIVIDENDS

The directors do not recommend the payment of a dividend.

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) 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 4 to 7 and the financial review on pages 8 and 9.

RESEARCH AND DEVELOPMENT

The Group spent £748K (2000: £706K) in the year ended 31 December 2001 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 2001, 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 2001 represented approximately 79 days of purchases (2000: 65 days).

CHARITABLE AND POLITICAL CONTRIBUTIONS

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

POST-BALANCE SHEET EVENTS

On 5 March 2002, an extraordinary general meeting was called by Advanced Value Realisation Company Limited. The Company was asked to put the following Ordinary Resolution to its Shareholders: "That the Board is requested to invite offers for the entire share capital of the Company and to provide bona fide potential offerors with information, subject only to normal confidentiality obligations, to enable them to make offers which maximise shareholder value." On 5 March 2002, the extraordinary general meeting was held and the resolution was defeated.

On 27 March 2002, the Board approved for release on 28 March 2002, notice of an extraordinary general meeting announcing the proposed acquisition of Medlogix Global Holdings Limited and related intellectual property assets, the proposed VCT placing of 25,882,352 new ordinary shares and placing an open offer of 21,383,632 new shares at 8.5p per share, a proposed capital reorganisation and transfer from the Official List to the Alternative Investment Market.

DIRECTORS

The directors of the Company at 31 December 2001 and their interests, all of which are beneficially held, in the share capital of the Company were:

	Ordinary shares of 10p each			
	31 December 2001		31 December 2000	
	Options	Shares	Options*	Shares
G N Vernon		240,483	—	170,483
D W Evans	1,850,000	197,531	1,850,000	172,531
G N Brookes	1,050,000	30,000	1,050,000	30,000
M G Tavener	900,000	30,000	900,000	30,000
R S Harris	—	100,000	—	—
J J Noble	—	—	—	321,318

* Restated to take account of 16 for 31 Rights Issue on 6 January 2000, except for those options issued following the announcement of Rights Issue on 17 November 1999.

The directors who retire by rotation are D W Evans and M G Tavener, who both being eligible, offer themselves for re-election. On 26 August 1997, D W Evans entered into a service agreement with the Company. On 1 January 2000, D W Evans entered into a new service agreement with the Company for a fixed term of two years. Now the fixed term has expired, his appointment is terminable by 12 months' notice in writing. 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.

On 28 June 1999, the Company appointed M G Tavener for a fixed term of one year. Now the fixed period term has expired, her appointment is terminable by 12 months' notice in writing. 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.

PROFILES OF THE NON-EXECUTIVE DIRECTORS

Dr G N Vernon (Non-Executive Chairman)

Dr Geoffrey 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

R S Harris

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

SUBSTANTIAL SHAREHOLDINGS

The Company's major shareholders at 26 March 2002 are:

	Number of Shares	Percentage before VCT Placing and Placing and Open Offer
Newton Investment Management Limited	14,226,450	15.20
Advanced Value Realisation Company	10,333,894	11.04
Invesco	9,522,125	10.17
Hermes Pension Management	5,905,376	6.31
Close Finsbury Asset Management Ltd	5,492,199	5.87
Royal London Asset Management Ltd	5,441,867	5.81
Dresdner RCM Global Investors	3,946,870	4.21
Aerion Fund Management Ltd	3,787,054	4.05

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.

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.

AUDITORS

Resolution 4 to reappoint HLB Kidsons as auditors to the Company will be proposed at the Annual General Meeting and authorises the directors to agree payment for their services.

By order of the Board

Mary G Tavener

Company Secretary
27 March 2002

The Board 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 of directors 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 2001, the Board met eight times. Prior to each Board Meeting, directors are sent an agenda including monthly management accounts and accompanying reports from the Chief Executive, Finance and Sales and Marketing 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 now comprises three executive directors and two non-executive directors. The Board considers this adequate to deal with the management of a Group of this size. 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 Remuneration Committee is chaired by Steve Harris and is responsible for determining the Executive Directors' remuneration and benefits and the approval of grants of options under the Executive Share Option Schemes. The Remuneration Committee meets at least twice a year and its report is set out below.

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.

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 director shall be entitled to

receive an annual bonus to be determined by the Remuneration Committee based on the Group's financial and operating performance and the achievement of individual objectives. Each participant may receive up to 30 per cent of his or her salary dependent upon performance measured against targets resulting from the completion of the Group's business plan.

Long-term incentives

All executive directors, together with employees, are eligible to join the Executive Share Option Scheme and/or the Unapproved Scheme. The exercising of options under these schemes is conditional on certain performance conditions which are 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, Mary Tavener and Graeme Brookes 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 remuneration of non-executive directors is determined by the Chief Executive together with the executive directors. Non-executive directors are not invited to participate in the Group's Bonus, Savings Related Share Option Scheme or the Executive Share Option Scheme.

DIRECTORS' DETAILED EMOLUMENTS

	Salary & fees £'000	Annual bonus £'000	Benefits £'000	Pension £'000	Paid to Third Parties £'000	Total year ended 2001 £'000	Total year ended 2000 £'000
<i>Executive</i>							
Don Evans	138	20	27	14	—	199	194
Graeme Brookes	92	13	10	9	—	124	121
Mary Tavener	92	13	9	9	—	123	121
Roy Smith	—	—	—	—	—	—	44
<i>Non-Executive</i>							
Geoffrey Vernon	—	—	—	—	42	42	21
Steve Harris	—	—	—	—	22	22	—
James Noble	—	—	—	—	—	—	42
Walter E Christie	—	—	—	—	—	—	39
	322	46	46	32	64	510	582

Interests in share options

Details of Grant	Option Price*	D W Evans	M G Tavener	G N Brookes
<i>Unapproved Executive Share Option Scheme</i>				
26 October 1998	41.35p	781,122	—	298,664
1 December 1998	36.56p	195,280	—	74,666
1 June 1999	25.68p	—	—	201,024
15 July 1999	26.99p	—	574,354	—
19 July 1999	38.30p	290,730	—	226,123
26 May 2000	13.50p	582,868	325,646	249,523
At 31 December 2001		1,850,000	900,000	1,050,000

* 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 10.5p and the closing price on the last trading day of 2001 (29 December) was 11p.

The range during the year was 18.25p (high) and 9.75p (low). (Source: daily official list of the London Stock Exchange.)

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 Group has held Private Client Broker meetings through out the year. The Group also regularly updates its website 'www.admedsol.com' to provide additional information on the Group and access to press releases and other materials issued by the Group.

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 requires 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.
- A self-assessment of the business was undertaken at the start of the year to identify the key material risks of the Group. The review covered all controls including financial, operational and risk management.
- The likelihood of the occurrence of the risk and the potential impact on the Group were assessed.
- 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 and other reports on current activities and plans. The executive management regularly monitors financial and operational performance in detail and takes any necessary corrective action.
- The Board specifically reserves an item on the agenda to review an area of the business in the light of the results of the risk analysis.

The Board reviews and continues to review the effectiveness of the Group's procedure in managing risk and, therefore, believes it meets the requirements of the Guidance.

The Board has considered the need for internal audit. It is of the opinion that, given the size and nature of the Group's operations and the other controls in place, it would not be appropriate at the present time. The matter continues to be reviewed. The Group does call on the services of external bodies to review the controls in certain areas of the Group. The British Standards Institute (BSI) reviews and reports on the quality assurance systems every 6 months. The British Safety Council also reviews and reports on the Health and Safety Systems in the Group each year.

GOING CONCERN

The directors are of the opinion that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

COMPLIANCE WITH THE COMBINED CODE.

During the year ended 31 December 2001, the Group has been in compliance with the requirements of the Combined Code, except in the following areas:

- The Board believes that given its size and complexity it is not appropriate to specify a 'senior' non-executive director. (A.2.1)
- The Group has only two non-executives. Consequently, the Audit Committee does not comprise at least three non-executive directors. (D.3.1)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires that the directors prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period.

In preparing the financial statements for the year ended 31 December 2001, 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.

NOTICE OF THE ANNUAL GENERAL MEETING

Details of the notice of the Annual General Meeting are given on pages 39 and 40. The Annual General Meeting provides an opportunity for private shareholders to question your Board and to meet informally with the executive management after the meeting.

By order of the Board

Mary G Tavener

Company Secretary
27 March 2002

We have audited the financial statements of Advanced Medical Solutions Group plc for the year ended 31 December 2001 on pages 20 to 37. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

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 or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Group's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance or its risk and control procedures.

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

BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements

made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion the financial statements give a true and fair view of the state of the Group's and the Company's affairs as at 31 December 2001 and of the Group's loss for the year then ended and have been properly prepared in accordance with Companies Act 1985.

HLB Kidsons

Registered Auditors
Chartered Accountants
Liverpool
27 March 2002

FOR THE YEAR ENDED 31 DECEMBER 2001

	Note	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000
Turnover	2	7,373	7,815
Cost of sales		(6,075)	(7,373)
Gross profit		1,298	442
Distribution costs		(136)	(262)
Administration costs		(3,322)	(3,701)
Other operating income	3	222	402
Operating loss	4	(1,938)	(3,119)
Interest receivable and similar income	7	369	470
Interest payable and similar charges	8	(30)	(37)
Loss on ordinary activities before taxation		(1,599)	(2,686)
Taxation	9	129	—
Retained loss for the year	10	(1,470)	(2,686)
Basic loss per share: restated including effect of rights issue	11	(1.6)p	(2.9)p

The above results relate to continuing operations.

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

The notes on pages 24 to 37 form part of these financial statements.

	Group	
	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000
Loss for the financial year	(1,470)	(2,686)
Currency translation differences on foreign currency net investments	10	24
Total losses recognised since last annual report	(1,460)	(2,662)

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

AT 31 DECEMBER 2001

	Group		Company	
	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000
Opening shareholders' funds	13,454	9,590	17,068	13,351
Loss for the financial year	(1,470)	(2,686)	(4,928)	(2,809)
Currency translation differences on foreign currency net investments	10	24	—	—
New share capital subscribed	—	3,184	—	3,184
Premium on issue of shares during the year	—	3,822	—	3,822
Costs of share issue	—	(480)	—	(480)
Closing shareholders' funds	11,994	13,454	12,140	17,068

The loss for the Company includes an exceptional write-down in the value of investments of £5,144K (2000: £3,164K).

AT 31 DECEMBER 2001

	Note	Group		Company	
		2001 £'000	2000 £'000	2001 £'000	2000 £'000
Fixed assets					
Tangible assets	12	4,809	5,403	—	—
Investments	13	—	—	5,941	10,180
		4,809	5,403	5,941	10,180
Current assets					
Stocks	14	887	1,021	—	—
Debtors — due within one year	15	1,844	2,385	42	68
— due after more than one year	15	200	200	200	200
Cash at bank and in hand	28	6,238	7,013	5,963	6,642
		9,169	10,619	6,205	6,910
Creditors: amounts falling due within one year.	16	(1,778)	(2,228)	(6)	(22)
		7,391	8,391	6,199	6,888
Net current assets					
		7,391	8,391	6,199	6,888
Total assets less current liabilities					
		12,200	13,794	12,140	17,068
Creditors: amounts falling due after more than one year	17	(206)	(340)	—	—
Provisions for liabilities and charges	21	—	—	—	—
		11,994	13,454	12,140	17,068
Capital and reserves					
Called up share capital	22	9,355	9,355	9,355	9,355
Share premium account	23	36,910	36,910	36,910	36,910
Other reserve	23	1,531	1,531	—	—
Profit and loss account	23	(35,802)	(34,342)	(34,125)	(29,197)
		11,994	13,454	12,140	17,068
Equity shareholders' funds					
		11,994	13,454	12,140	17,068

These financial statements were approved by the Board on 27 March 2002

Dr D W Evans
Chief Executive Officer
27 March 2002

The notes on pages 24 to 37 form part of these financial statements.

FOR THE YEAR ENDED 31 DECEMBER 2001

	Note	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000
Net cash outflow from operating activities	26	(764)	(1,705)
Returns on investments and servicing of finance			
Interest received		395	452
Interest element of finance lease rental and hire purchase payments		(30)	(37)
Net cash inflow from returns on investments and servicing of finance		365	415
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(353)	(660)
Sale of tangible fixed assets		204	6
Net cash outflow before use of liquid resources and financing		(548)	(1,944)
Management of liquid resources			
Sales of term deposits		805	—
Purchase of term deposits		—	(4,362)
Financing			
Share issues by parent company	22/23	—	7,006
Share issue expenses		—	(480)
Net movement of capital element of finance lease rental and hire purchase payments	28	(237)	(316)
Net cash (outflow)/inflow from financing		(237)	6,210
Increase/(decrease) in cash	27	20	(96)

The notes on pages 24 to 37 form part of these financial statements.

1. ACCOUNTING POLICIES

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

Basis of consolidation

The consolidated accounts include the financial statements of Advanced Medical Solutions Group plc and all of its subsidiary undertakings made up to 31 December 2001. 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.

Turnover

Turnover represents sales to and royalty income received under licence agreements from external customers at invoiced amounts less value added tax.

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.

Depreciation

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:

Leasehold improvements	— over the length of the lease
Motor vehicles	— 25 per cent per annum on cost
Plant and machinery	— 10 to 33.3 per cent per annum on cost
Fixtures and fittings	— 15 to 20 per cent per annum on cost
Computers	— 33.3 per cent per annum on cost

Amortisation

Licence fees capitalised are amortised on a straight line basis over the term of the licence.

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

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes, to the extent that it is probable that a liability or asset will crystallise.

Government grants

Grants relating to expenditure on tangible fixed assets are credited to the

profit and loss account at the same rate as the depreciation on the assets to which the grants relate. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are credited to the profit and loss account in the period to which they relate.

Leases

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor. All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Pensions

The Group operates a money purchase pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged against the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Foreign currency

Assets, liabilities and transactions of subsidiaries in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. Differences on exchange arising from the translation of the opening net investment in subsidiary companies are taken to reserves and are reported in the statement of total recognised gains and losses. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Liquid resources

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

2. SEGMENTAL INFORMATION

Turnover by geographical customers:

	Turnover	
	2001 £'000	2000 £'000
United States of America	2,399	3,382
Rest of Europe	4,145	3,465
United Kingdom	825	945
Rest of World	4	23
	7,373	7,815

Turnover by business unit:

	Turnover	
	2001 £'000	2000 £'000
Consumer	1,887	3,380
Professional	5,486	4,435
	7,373	7,815

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:

	2001 Turnover £'000	2001 Loss £'000	2001 Net assets £'000	2000 Turnover £'000	2000 Loss £'000	2000 Net assets £'000
United Kingdom	7,373	(1,436)	11,975	7,682	(2,600)	13,380
United States	—	(163)	19	133	(86)	74
Group	7,373	(1,599)	11,994	7,815	(2,686)	13,454

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

3. OTHER OPERATING INCOME

	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000
	Licence fees	187
Grants received	35	37
	222	402

4. OPERATING LOSS

	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000
Operating loss arrived at after charging/(crediting):		
Government grants	(35)	(37)
Depreciation (see (a) below)	934	957
Loss/(profit) on disposal of fixed assets	36	(6)
Operating lease rentals — plant and machinery	59	50
— land and buildings	328	347
Auditors' remuneration — audit services	20	18
— non-audit services	23	6
Research and development	748	706

(a) Depreciation includes £88K (2000: £121K) charged on assets held under finance leases and hire purchase contracts.

5. EMPLOYEES

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

	Year ended 31 December 2001 Number	Year ended 31 December 2000 Number
Production	112	119
Research and development	15	16
Sales and marketing	6	9
Administration	17	15
	150	159

Sales and marketing includes 1 person (2000: 1) employed in the United States.

	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000
Staff costs for all employees, including executive directors, consists of:		
Wages and salaries	3,089	3,392
Social Security costs	274	313
Pension costs	152	163
	3,515	3,868

6. DIRECTORS' EMOLUMENTS

	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000
Fees as directors	—	8
Remuneration for management services	414	446
Pension	32	34
Amounts paid to third parties	64	63
Compensation for loss of office	—	31
	510	582
Retirement benefits are accruing to the following number of directors under money purchase schemes	3	3

The disclosures required in relation to the highest paid director are contained within the Corporate Governance Report on pages 14 to 18.

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000
Bank interest	359	462
Rent deposit interest	10	8
	369	470

8. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000
Finance leases and hire purchase contracts	30	37
	30	37

9. TAXATION ON LOSS ON ORDINARY ACTIVITIES

	2001 £'000	2000 £'000
No provision for taxation is required due to the availability of losses.		
Research and development tax credit	129	—

10. LOSS FOR THE FINANCIAL YEAR

	2001 £'000	2000 £'000
Loss dealt with in the accounts of the parent company	(4,928)	(2,809)
Loss retained by subsidiary undertakings	(5,145)	(3,103)
Consolidation adjustment	8,603	3,226
	(1,470)	(2,686)

11. LOSS PER SHARE

The basic loss per share has been calculated on a weighted average number of shares in issue during the year, namely 93,553,394 (2000: 93,181,925 after adjusting for the effect of the rights issue) and loss of £1,470K (2000: £2,686K). The comparative loss per share as disclosed in the previous financial statements has been adjusted for the effects of the right issue.

12. TANGIBLE ASSETS

	Short leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Group					
Cost					
At beginning of year	1,228	8,015	442	13	9,698
Additions	—	352	—	31	383
Disposals	—	(386)	—	—	(386)
At end of year	1,228	7,981	442	44	9,695
Depreciation					
At beginning of year	629	3,320	346	—	4,295
Provided for the year	27	893	11	3	934
Disposals	—	(343)	—	—	(343)
At end of year	656	3,870	357	3	4,886
Net book value					
At 31 December 2001	572	4,111	85	41	4,809
At 31 December 2000	599	4,695	96	13	5,403

The net book value of tangible fixed assets includes an amount of £388K (2000: £996K) in respect of assets held under finance leases and hire purchase contracts. The related depreciation charge for the year was £88K (2000: £121K).

12. TANGIBLE ASSETS continued

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Commitments for capital expenditure				
Contracts placed for future capital expenditure and not provided in the financial statements	38	204	—	—

13. FIXED ASSET INVESTMENTS

Company	2001 £'000	2000 £'000
Shares in group undertakings	—	—
Loans to group undertaking	5,941	10,180
	5,941	10,180

The following were subsidiary undertakings at the end of the year and have all been included in the consolidated accounts

Name	Country of operation	Proportion of voting rights and ordinary share capital held	Nature of business
Advanced Medical Solutions Limited	England	100%	Development and manufacture of medical products
Advanced Medical Solutions (UK) Limited	England	100%	Holding Company
Advanced Healthcare Systems Limited	England	100%‡	Dormant
Innovative Technologies Limited	England	100%	Dormant
Flowers Park Limited	England	100%	Dormant
Advanced Medical Solutions Group Inc.	USA	100%*	Holding Company
Advanced Medical Solutions (US) Inc.	USA	100%†	Development and manufacture of medical products

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

† Held indirectly through Advanced Medical Solutions Group Inc.

‡ Held indirectly through Advanced Medical Solutions Limited.

14. STOCKS

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Raw materials	395	531	—	—
Work in progress	265	440	—	—
Finished goods	227	50	—	—
	887	1,021	—	—

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

15. DEBTORS

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Due within one year				
Trade debtors	1,458	1,787	—	—
Corporation tax	129	—	—	—
Other debtors	65	342	—	—
Prepayments and accrued income	192	256	42	68
	1,844	2,385	42	68
Due after more than one year				
Other debtors — leasehold rental deposit	200	200	200	200

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Trade creditors	880	1,105	—	—
Taxation and social security	166	84	—	—
Obligations under finance leases and hire purchase contracts	118	230	—	—
Accruals and deferred income	614	809	6	22
	1,778	2,228	6	22

17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Obligations under finance leases and hire purchase contracts	88	183	—	—
Deferred income	118	157	—	—
	206	340	—	—

The maturity profile of the Group's financial liabilities, all of which are less than 5 years, are described in note 19a.

18. ANALYSIS OF BORROWINGS

The maturity by currency of total borrowings comprised:

	Less than		2001 £'000	Less than		2000 £'000
	1 year £'000	2–5 years £'000		1 year £'000	2–5 years £'000	
Sterling	118	88	206	230	183	413

Borrowings comprised obligations under finance leases and hire purchase contracts.

19. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

Page 8 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 FRS13. The carrying value of the Group's financial assets and liabilities equals its fair value.

19. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS *continued*

(a) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities, all of which 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	Total medium/ long-term £'000	Total financial liabilities £'000	Interest Rate %
Group						
Deferred income	60	60	58	118	178	—
Finance lease creditors and hire purchase contracts	118	88	—	88	206	11.3
At 31 December 2001	178	148	58	206	384	—
Deferred income	60	75	82	157	217	—
Finance lease creditors and hire purchase contracts	230	106	77	183	413	12.4
At 31 December 2000	290	181	159	340	630	—

(b) Interest rate and currency of financial assets

The currency and interest rate profile of the financial assets of the Group

	Total £'000	Floating £'000	Fixed £'000	Non-interest bearing £'000	Fixed rate weighted average interest rate %
Currency					
Sterling	6,115	125	5,836	154	4.2
US Dollar	123	114	—	9	—
At 31 December 2001	6,238	239	5,836	163	
Sterling	6,874	20	6,640	214	6.1
US Dollar	139	139	—	—	—
At 31 December 2000	7,013	159	6,640	214	

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 2001 the Group had unhedged dollar currency exposures of £446K (2000: £132K).

19. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS continued**(d) Hedges of future transactions**

Gains and losses on instruments used for hedging currency and interest rate exposures are not recognised until the exposure that is being hedged is itself recognised.

	2001 £'000	2000 £'000
Gain expected to be recognised in 2002 or later	—	13

20. FOREIGN EXCHANGE RATES

	Average rate		Closing rate		Percentage change	
	2001	2000	2001	2000	Average %	Closing %
Currency						
US Dollar	1.442	1.515	1.426	1.495	(4.8)	(4.6)

21. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation

The amount of unprovided deferred taxation and the amount provided are as follows:

Group	2001		2000	
	Unprovided £'000	Provided in accounts £'000	Unprovided £'000	Provided in accounts £'000
Capital allowances	—	991	—	1,050
Sundry timing differences	—	—	—	—
Unutilised tax losses	—	(991)	—	(1,050)
	—	—	—	—

At 31 December 2001 the Group had tax losses, in excess of the amount disclosed above, worth approximately £7.3 million (2000: £7.3 million), at future rates of taxation.

22. SHARE CAPITAL

	2001 £'000	2000 £'000
Authorised		
120,000,000 (2000: 120,000,000) ordinary shares of 10p each	12,000	12,000
	Group and Company	
	2001	2000
	£'000	£'000
Allotted, called up and fully paid		
93,553,394 (2000: 93,553,394) ordinary shares of 10p each	9,355	9,355

Shares to be issued

Options have been granted over the following number of ordinary shares which were outstanding at 31 December 2001.

	Date of Grant	Option Price	Number of Options			At 31 December 2001
			At 1 January 2001	Issued	Lapsed	
<i>Unapproved Executive Share Option Scheme</i>						
	26.10.98	41.35p	1,079,786	—	—	1,079,786
	1.12.98	36.56p	269,946	—	—	269,946
	17.12.98	36.56p	137,955	—	11,487	126,468
	19.5.99	28.29p	57,435	—	34,461	22,974
	21.6.99	25.68p	407,790	—	63,178	344,612
	15.7.99	26.99p	574,354	—	—	574,354
	19.7.99	38.30p	882,963	—	134,557	748,406
	25.1.00	25.50p	521,444	—	132,547	388,897
	26.5.00	13.50p	1,253,037	—	—	1,253,037
<i>Executive Share Option Scheme</i>						
	19.7.99	38.30p	146,097	—	52,590	93,507
	19.1.00	25.50p	176,000	—	10,500	165,500
	08.05.01	18.25p	—	271,000	25,000	246,000
	05.09.01	13.00p	—	45,000	—	45,000
<i>Savings Related Share Option Scheme</i>						
5 Year	22.11.96	95.97p	24,431	—	—	24,431
			5,531,238	316,000	464,320	5,382,918

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. Options granted under the Savings Related Share Option Scheme are exercisable in normal circumstances within 6 months after the end of the option period.

23. SHARE PREMIUM ACCOUNT AND RESERVES

	Premium account £'000	Other reserve £'000	Profit and loss account £'000
Group			
As at 1 January 2001	36,910	1,531	(34,342)
Loss for the year	—	—	(1,470)
Currency translation differences on foreign currency net investments	—	—	10
As at 31 December 2001	36,910	1,531	(35,802)
Company			
As at 1 January 2001	36,910	—	(29,197)
Loss for the year	—	—	(4,928)
As at 31 December 2001	36,910	—	(34,125)

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 (2000: £5,586K).

24. COMMITMENTS UNDER OPERATING LEASES

As at 31 December 2001, the Group had annual commitments under non-cancellable operating leases as set out below:

	2001 Land and buildings £'000	2001 Other £'000	2000 Land and buildings £'000	2000 Other £'000
Operating leases which expire:				
Within one year	—	3	15	4
In two to five years	—	17	60	12
Greater than five years	259	—	192	—
	259	20	267	16

25. POST-BALANCE SHEET EVENT

Since 31 December 2001 the Group has entered into an agreement to acquire the entire issued share capital of MedLogic Global Holdings Limited and associated intellectual property rights. It is proposed that this will be funded through a placing and open offer of shares.

The Company intends to transfer the listing of its share capital from the official list of the UK Listing Authority to the Alternative Investment Market of the London Stock Exchange plc.

26. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000
Operating loss	(1,938)	(3,119)
Depreciation	934	957
Loss/(profit) on sale of fixed assets	36	(6)
Decrease in stocks	134	782
Decrease/(increase) in debtors	447	(280)
Decrease in creditors	(377)	(39)
Net cash outflow from operating activities	(764)	(1,705)

27. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS (NOTE 28)

	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000
Increase/(decrease) in cash in year	20	(96)
Cash outflow to repay finance leases	237	316
Cash (inflow)/outflow to (decrease)/increase liquid resources	(805)	4,362
Change in net funds resulting from cash flows	(548)	4,582
New finance leases	(30)	(291)
Translation difference	10	24
Movement in net funds in year	(568)	4,315
Net funds at 1 January 2001	6,600	2,285
Net funds at 31 December 2001	6,032	6,600

28. ANALYSIS OF NET FUNDS

	1 January 2001 £'000	Cash flows £'000	Other changes £'000	Exchange movements £'000	31 December 2001 £'000
Cash	373	20	—	10	403
Term deposits	6,640	(805)	—	—	5,835
Cash at bank and in hand	7,013	(785)	—	10	6,238
Finance leases	(413)	237	(30)	—	(206)
Total	6,600	(548)	(30)	10	6,032

	2001	2000	1999	1998	1997
	£m	£m	£m	£m	£m
Consolidated profit and loss					
Turnover	7.4	7.8	6.2	5.4	3.3
Operating loss (before exceptional items)	(1.9)	(3.1)	(5.3)	(4.9)	(5.6)
Net interest receivable	0.3	0.4	0.2	0.1	0.2
Net interest payable	—	—	(0.1)	(0.1)	(0.2)
Retained loss	(1.5)	(2.7)	(5.2)	(4.9)	(5.6)
Basic loss per share	(1.6)p	(2.9)p	(7.3)p	(12.2)p	(16.14)p
Weighted average number of shares in issue after adjusting for rights issue	93.6m	93.2m	70.9m	40.3m	34.6m
Consolidated balance sheet					
Net assets employed					
Fixed assets	4.8	5.4	5.6	5.9	5.8
Cash and other net current assets	7.4	8.4	4.3	9.2	6.2
Creditors due after one year	(0.2)	(0.3)	(0.3)	(0.4)	(2.9)
Net assets	12	13.5	9.6	14.7	9.1
Capital and reserves					
Called up share capital	9.4	9.4	6.2	6.2	3.7
Share premium account	36.9	36.9	33.6	33.6	28.1
Other reserve	1.5	1.5	1.5	1.5	1.5
Profit and loss account	(35.8)	(34.3)	(31.7)	(26.6)	(24.2)
Equity shareholders' funds	12	13.5	9.6	14.7	9.1

Notice is hereby given that the eighth Annual General Meeting of the Company will be held at 11 a.m. on Friday, 31 May 2002 at The Blue Cap, 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 2001 (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 D W Evans (who retires by rotation in accordance with the Articles of Association) as a director of the Company.
4. To re-elect M G 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 the following resolution, 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 (if Resolution 2 in the Notice of Extraordinary General Meeting of the Company ("EGM Notice") contained in the circular to shareholders dated 28 March 2002 ("Circular") was passed) 23 April 2002 or (if Resolution 2 in the EGM Notice was not passed) 10 December 1999 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 (if the Placing and Open Offer, as defined in the Circular, shall have become unconditional in all respects prior to the passing of this Resolution) £355,206.30 or (if the VCT Placing, as defined in the Circular, shall have become unconditional in all respects prior to the passing of this Resolution but the Placing and Open Offer has not) £298,589.00 or (if Resolution 2 in the EGM Notice was passed but neither First Admission nor Second Admission, both as defined in the Circular, occurred) £233,883.49 or (if Resolution 2 in the EGM Notice was not passed) £467,767.00 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
29 April 2002

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

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the Company.
2. A form of proxy is enclosed for use by members. To be effective, it must be completed and deposited at the offices of the Company's Registrars, Capita IRG Plc, Balfour House, 390/398 High Road, Ilford, Essex, IG1 1BR 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 10.00 a.m. until the conclusion of the Meeting.
4. The Company, pursuant to Regulation 34 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 29 May 2002 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 29 May 2002 shall be disregarded in determining the rights of any person to attend or vote at the Meeting.



Advanced Medical Solutions Group Plc

Road 3, Winford Industrial Estate
Winsford, Cheshire, CW7 3PD, UK

TEL: +44 (0)1606 863500

FAX: +44(0)1606 863600

E-MAIL: info@admedsol.com

WEB: www.admedsol.com