Medical Solutions plc

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Providing solutions to medical problems

T M TWOSE

A D LONGSTAFFE

Annual Report & Accounts 2000

CONTENTS

Medical Solutions plc is the holding company for a number of operating subsidiaries. Our aim is to provide cost effective and innovative solutions to problems arising in the medical field. We seek to expand through organic growth and a focussed acquisition strategy based on sustainable profits and growth potential.

key events

YEAR 2000

April	Gained Control of Second Opinion Solutions
May	Acquired Adams Healthcare Limited
May	Raised £19.5m through a Placing & Open Offer
May	Transferred the Thackray Instruments and Practice Plus divisions of Adams to Cellpath plc to create the Medical Products Distribution Division
August	Acquired Kinetic Imaging Limited for the Digital Diagnosis Division
December	Acquired Quinoderm Limited to add Branded Dermatologicals to the Pharmaceutical Division
January 2001	Appointed new Chief Executive
February 2001	Established Expert Pathology Services

financial highlights

Strong Financial Performance – Revenue and Profits Sharply UP

chairman's statement

During 2000 Medical Solutions grew substantially in stature, making key acquisitions, strengthening its management team and establishing a new divisional structure, including establishing a new pharmaceuticals division. Revenues and profits were sharply up with part-year contributions from acquisitions; the product range was expanded; and the company acquired its first strongly branded prescription and over-the-counter products.

Highlights included the acquisition of Adams Healthcare, Andarik, Kinetic Imaging and Quinoderm, financed by a placing and open offer raising £19.5 million net of expenses.

Adams is a profitable established pharmaceutical company that develops, manufactures and markets infection and contamination control products. It was spun out of DePuy (Boehringer Mannheim) some three years previously by Rod Adams and his management team, who have all been retained by Medical Solutions. Andarik, a respected and well-established microbiological laboratory, will enhance Adams contamination control business. Kinetic Imaging specialises in digital imaging solutions for medical research, especially cancer research, expanding the offerings in the Digital Diagnosis Division. Quinoderm, a profitable dermatologicals company contributes a strong range of branded products, a natural extension of Adams' skin antisepsis products. Since the year end we announced the establishment of an advanced diagnostics services division to strengthen our position in cancer diagnosis and prognosis. It is well on its way to signing up the initial target of 30 leading pathology specialists in the country, to whom it will refer samples for diagnosis. The first meeting of its Medical Advisory Board was held in February. We anticipate making further announcements as the company progresses in the coming year. Fairfield Imaging's telepathology products will be a cornerstone of the new service.

Medical Solutions now has the core group management team to take it forward. Rod Adams and Andy Longstaffe joined with the Adams acquisition and were appointed Chief Operating Officer and Finance Director of the group respectively in May 2000. In January 2001, Trevor Twose joined as group Chief Executive. Trevor brings over 25 years of experience in pharmaceuticals, diagnostics and biotechnology in large, medium and start-up companies. He has played a leading role in flotations on Nasdaq and the London Stock Exchange.

On a personal note, I was delighted to take on the role of Chairman on 28 April 2000, and would like to take this opportunity to recognise the contribution made by Mike McDonald, initial investor and first chairman of Medical Solutions. He and Charles Green, Business Development Director and Acting Chief Executive, were the founders and architects of this company and without their vision and hard work, it would not have made the remarkable progress it has made to date. Michael will step down from the board on 28 February 2001 and Charles will become a non-executive director also at that date after handing over to Trevor Twose. His experience will continue to be available in matters relating to business development. We thank them and all the employees of Medical Solutions for their contributions.

Sir Gareth Roberts
Chairman

Gareth Roberts

SIR GARETH ROBERTS

chief executive's review

Health systems throughout the developed world are struggling to meet ever increasing and ever evolving demand driven by demographic change and the growing expectations of consumers. In Medical Solutions' home market in the UK, expectations are running at an all-time high, putting enormous pressure on the National Health Service and the medical professions. There is a great opportunity to provide cost-effective solutions to such pressing medical problems, and this is Medical Solutions' aim.

Through a wide range of products and services, our businesses help hospitals and suppliers prevent infections, such as the 'superbug' MRSA, and clean up contaminated areas. We help pathology departments provide better services to cancer patients and cancer specialists, and overcome the serious shortage of trained pathologists. We provide medical professionals with high quality hand-held surgical instruments, and cervical screening supplies. In an exciting development at the end of the year, with the acquisition of Quinoderm, we acquired our first strong consumer brands and began supplying dermatological products through pharmacies to end consumers.

Medical Solutions' 2000 financial results show a marked increase over 1999. Group turnover for the year ended 31 December 2000 was £9.8 million compared with £1.3 million for 1999. The gross profit was £4.3 million, representing a healthy 44.2% gross margin, and EBITDA increased to £1.3 million, compared with a loss of £0.7 million in 1999. Net earnings, after amortisation charges of £0.7 million grew to £0.4 million compared with a loss of £0.8 million in 1999. Medical Solutions ended the year 2000 with a strong balance sheet, with £5.8 million in cash and short-term investments and £4.7 million of debt including £2.7 million of loan notes relating to the acquisition of Quinoderm Limited. The 2000 results included 8, 6 and 5 months' contributions respectively from the acquired businesses of Adams, Andarik, and Kinetic.

During the year, the group reorganised its business into three divisions: *Digital Diagnosis*, incorporating the Fairfield and Kinetic Imaging businesses; *Pharmaceuticals*, incorporating Adams, Andarik and Quinoderm; and *Medical Products Distribution*, incorporating the CellPath, Thackray Instruments and Thackray Practice Plus businesses. The early 2000 acquisitions have been integrated into the group, with a lean group head office being located at Adams Healthcare's offices in Leeds.

On an annualised basis, the Digital Diagnosis, Pharmaceuticals and Medical Products Distribution Divisions represented 8%, 70% and 22% of turnover in 2000, respectively. Digital diagnosis is emerging as an exciting business prospect. Quinoderm, acquired on 27 December 2000, has annual turnover of £1.5 million, which would add 2% to the Pharmaceutical Division. Top performing products included Spiriclens, a high specification decontamination agent for use in pharmaceutical manufacturing; Hydrex and Videne for skin antisepsis and hardsurface hygiene; the Pathsight telepathology system; the Komet software for measuring DNA damage; and CerviKits, cervical cytology kits for cervical cancer screening.

Annualised Turnover by Division

Medical Solutions' sales are still predominantly in the United Kingdom, though all three divisions have footholds in the Continental European and United States markets, which are important medical markets for the group to address as it grows.

Annualised Turnover by Customer Location

In the short 18 months since its birth with its first acquisition in July 1999, Medical Solutions has built a thriving medical products company, with a well-balanced portfolio of profitable growth businesses and emerging, yet-to-be profitable businesses. Much has been achieved, due to the vision and hard work of Medical Solutions' founders and its acquired businesses. When I joined as Chief Executive, I inherited a group poised for future growth, with a tremendous group of assets and an excellent management team. I am excited about the potential of the group. We have much to achieve - refining our strategies, continuing the integration process, achieving strong organic growth, further acquisitions - but these are challenges we relish. I am looking forward to working closely with the chairman, Medical Solutions management team and our businesses, our advisors and brokers, our supportive shareholders and new investors to build shareholder value over the coming months and years.

Trevor M Twose
Chief Executive

"Fairfield Imaging applies modern computerised methods to analysis of digital images of biopsy material, bringing increased accuracy, precision and confidence to diagnosis."

Clinical trial data has shown the value of Fairfield DNA Ploidy in managing certain cancers of the mouth (oral leucoplakia) and also Stage I ovarian cancer, the results of which have been accepted for publication in a leading medical journal. Other ongoing trials will be completed in 2001, including a large study relating to prognosis in early prostate cancer, as well as a smaller trial relating to management of early breast cancer.

During the last year, Fairfield established reference sites for its automatic DNA Cytometry systems in specialist centres such as the Fox Chase Cancer Centre in Philadelphia; the Department of Genomic Medicine at the University of Sheffield; the Division of Digital Pathology at the Norwegian Radium Hospital, Oslo; and at the Osaka Medical Centre in Japan.

DIGITAL DIAGNOSIS REVIEW

Following the acquisition of Fairfield Imaging by Medical Solutions in August 1999, re-organisation has been completed to focus the company firmly on its goal to become the UK's preferred provider in the niche market for cancer related digital diagnostics. During 2000 the management team was strengthened by the appointment of two experienced sales people.

Fairfield works closely with top diagnostic pathologists, often collaborating on product evaluations and scientific publications. Collaborations with opinion leaders in leading centres and publications in high impact peer-reviewed journals are some of the most powerful means to communicate the advantages of Fairfield's products to potential users and to gain acceptance of their use.

New digital imaging systems were launched in mid-year and the first system sales made towards the end of the year. Fairfield is strengthening its marketing capabilities and expanding its efforts in European markets. The Company believes that prospects for sales growth in 2001 are excellent

Prognostic information for cancer patients and doctors

Fairfield's DNA Cytometry products provide information on how a cancer is likely to develop (prognosis) using digital image analysis. This information is needed to guide clinical decisions on the most efficaceous and cost-effective treatment for individual patients.

Pathology over the wires

The Company's main telemedicine product, the PathSight telepathology workstation, is now established for routine clinical use in most of the Regional District Hospitals of Southern Norway. There is also a group of installations in county hospitals of Southern Sweden. During 2000 the first UK installations were made in Edinburgh, Glasgow, Nottingham, Sheffield and Chesterfield, and the first Japanese installations in Hamamatsu City. A large four centre trial (St Thomas', Hammersmith, Oslo and Stavanger, Norway) has been successfully completed, and the results have been submitted for publication.

This specialised niche market is developing rapidly, both in the UK and throughout Europe. Recent developments at Fairfield enable the integration of high-resolution digital images from PathSight into a professional video-conference package, which can greatly boost the efficiency of multi-disciplinary team patient management meetings, by reducing the need for experts to travel.

An acute need for such equipment has been created by the "Calman-Hine" re-organisation of NHS hospitals into regional cancer centres and satellite hospitals. We are confident that Fairfield is well positioned to supply this need, and this is a priority focus for our marketing efforts.

Cervical screening nearer the patient

Fairfield is bringing tests needed to follow up abnormal or 'borderline' PAP smears 'nearer the patient'. These tests, currently running at 270,000 per year, often prove to be false alarms. The system potentially brings a new level of convenience and reduces anxiety for women who are faced with this often harrowing experience, reduces costs and reduces waiting times. The Fairfield Telecolposcopy System enables the tests to be done by a practice nurse at the local doctor's surgery.

Fairfield has now completed a successful NHS funded pilot study and is in a randomised prospective multi-centre trial in the Birmingham area. Early data from the trial will be available in 2002. Fairfield Telecolposcopy has the potential to save millions of pounds for NHS Primary Care Groups every year by providing a cost-effective secondary cervical screening system.

During 2000, Fairfield was awarded a £40,000 contract by the National Radiological Protection Board for the production of a 3-D model of the human female for radiation safety applications. Delivery will be in the first quarter of 2001. A three-year contract worth £270,000 to supply volume modelling software for confocal microscopy was agreed with Bio-Rad Microscience (UK) Ltd.

Digital imaging for medical research

Kinetic Imaging has been an innovator and supplier of electronic bio-imaging systems for the international research market for more than ten years. Kinetic has developed unique and innovative software products, and provides powerful cost-effective solutions for the imaging needs of busy laboratories.

Kinetic focuses on three areas: Live Cell Imaging; Genetics and Toxicology; and Tissue Quantification. Over recent years these areas of research have seen increasing adoption of common imaging and analysis techniques. Many of the tools that Kinetic develops have a direct relevance in cancer research. Collaboration with Fairfield Imaging has already enhanced the live cell imaging products.

Highlights for Kinetic in the year 2000 have included: record sales; ongoing success in the multi-user, live-cell imaging facility at the Imperial Cancer Research Fund; exciting new results in combined fluorescence-luminescence imaging through a Kinetic/DTI-funded Teaching Company Scheme at Liverpool University; sustained success with Kinetics' Komet product for DNA damage analysis; and a step increase in the success of the latest release of the tissue analysis software, Histo-Metrics.

2001 will see continued efforts to improve products, sales and systems. A revamped website will be rolled out in February and Kinetic will continue to service and expand overseas distribution partners. Kinetic will develop the expertise of the sales and applications support team and develop sales and marketing strategies with the rest of the Medical Solutions group.

PHARMACEUTICAL REVIEW

INFECTION CONTROL

With the growing incidence of Hospital Acquired Infections, Adams Healthcare is committed to developing and enhancing its infection control portfolio.

Adams already has the most comprehensive range of skin antisepsis and surface disinfection products supplied to UK hospitals with brands such as Hydrex; Videne; Cliniwipe and Spirigel.

Adams' Infection Control business is expanding its franchise in international markets and also increasing its activity in the development of improved hand hygiene products and systems.

"The core competencies of Infection Control/Contamination Control and Dermatology are the focus for innovation and growth."

Adams Healthcare was acquired by Medical Solutions in May 2000. The company, which specialises in the development, manufacture and marketing of Infection Control; Dermatology products and Contamination Control products, has continued to perform well. Adams distributes its products to hospitals; primary care specialists; patients; the pharmaceutical industry; and the medical device industry.

Adams has also continued to expand in the worldwide pharmaceutical market in areas where it could bring significant benefits. The distribution and marketing partnership contracts signed with Bode Chemie, a division of Beiersdorf, in Germany in October 2000 and the Steris Corporation in the USA at the end of 2000 will have a significant impact on sales during 2001 and beyond.

DERMATOLOGY

Skin related medical problems and the need for improved treatments continues to grow. Adams Healthcare, utilising its existing technical and commercial skills, is well placed to provide innovative solutions to the dermatology sector.

This strategic objective is being achieved by building a portfolio of dermatological and topical therapeutic treatments through the acquisition and licensing of brands and companies that will benefit from improved promotion, clinical profiling and repositioning.

Adams acquired Quinoderm Ltd in December 2000. Quinoderm is a specialist dermatological manufacturing company with a 40 year heritage of providing prescription products to the Community market. The two main brands, Quinoderm Cream, an acne treatment, and Hydromol, an emollient, will improve the existing range and enhance the market potential for Adams products.

Contamination Control

This division of Adams provides contamination control products to healthcare manufacturers for use in their clean rooms and aseptic suites where sterile pharmaceuticals and medical devices are produced.
The division has been built around Adams core competencies of skin antisepsis, surface disinfection and its pharmaceutical manufacturing excellence. This has enabled Adams to provide high specification sterile disinfection and cleaning products, manufactured to pharmaceutical Good Manufacturing Practice (cGMP) standards for this niche market.
The market for cGMP manufactured Contamination Control products is rapidly developing, driven by both the need to comply with increasing regulatory standards and desire by the healthcare industry to outsource the development, testing and manufacture of these products.

The Adams Pharmaclens range, featuring the market leading Spiriclens products, gives a fully validated range of sterile disinfectants and cleaning products. This combined with the Andarik QC microbiological testing and validation service, acquired in July 2000, and the Pharmequip range of innovative application systems provides a comprehensive leading edge Contamination Control Service.

MEDICAL PRODUCTS DISTRIBUTION REVIEW

The appointment of a new Managing Director in October 2000 saw another step forward for CellPath. He brings a wide knowledge of Healthcare, after working for 30 years in this market, latterly as Managing Director of a UK subsidiary of a German pharmaceutical company. He brings with him skills in marketing, sales and general management. He grew his previous company from £5 million to £25 million within 10 years.

"Cellpath is developing its sales force and technology to maintain its ability to react quickly to customer requirements and changes in the marketplace."

The year 2000 was the Year of Change for CellPath. It exceeded £2 million turnover for the first time ever.

CellPath expanded its product range and customer base by taking over the marketing and distribution of Thackray Instruments and Thackray Practice Plus in August 2000 following the integration of Adams Healthcare into the Medical Solutions group.

Thackray Instruments is a long and well established name in quality hand-held surgical instruments, which are used widely in hospitals and GP practices.

Practice Plus is a mail order service for the UK's 32,000 GPs and supplies all the equipment needs of a modern surgery.

With the addition of these two businesses and the continuing growth of the existing pathology segment, CellPath sales in 2000 grew by an impressive 67%.

To ensure CellPath is more closely aligned with its customers and becomes more marketing led, a new sales team has been recruited and a telesales team for the Practice Plus group became operational in September 2000. These efforts should bear fruit in 2001. Practice Plus is well placed to capture greater market share of this segment.

The US market is a growth area for the future and CellPath will use its experience gained in Europe in 2001 to make a greater impact in the American market in 2002, although its American business in 2001 is already expected to account for 20% of its export turnover.

Following many discussions with NHS decisionmakers in 2000, CellPath's new technology product Autocyte has been selected to take part in a National Institute of Clinical Excellence study. The study commenced in January 2001 and will assess the cost-effectiveness and efficacy of screening cervical smears using "Liquid Based Cytology". CellPath will receive income from this trial in 2001 and will launch at least one new product into this area.

CellPath, operating from its base in Newtown, Wales, is focussed on improving customer service. CellPath is developing its technology to ensure rapid response to queries and orders. With a sales force, linked by computers to the head office in Newtown, a fully integrated sales and support system will mean that CellPath will be able to react quickly to customers and changes in the marketplace.

CellPath has seen many changes in 2000 and these have been successfully incorporated whilst still growing the business.

finance directors report

The profits of the group for the year were significantly affected by the acquisitions of Adams Healthcare Limited and Kinetic Imaging Limited. These companies were part of the group for 8 and 5 months respectively. Quinoderm Limited was acquired on 27 December 2000 and as such its closing December balance sheet has been consolidated but no earnings have been included. There were no discontinued operations in the year, this being the first full year of operation as Medical Solutions plc. The continuing operations results for 1999 included 4 months results for Fairfield Imaging Limited and 2 months results for Cellpath Plc.

Turnover for the year was £9,820,000 (1999: £1,308,000), of which £7,815,000 relates to companies acquired during the year. Fairfield's turnover, of £408,000 for the year, reflects the commercialisation of that business in the summer of 2000, and the recruitment of 2 sales professionals.

Operating costs include £533,000 of amortisation of goodwill arising on consolidation, and £197,000 amortisation of goodwill and know-how in Adams. These intangible assets are being written off over 20 years.

During December Adams sold the rights to sell its licenced povidone iodene product 'Videne' in certain overseas territories, where Adams does not currently operate or plan to operate, for £500,000. This disposal is shown under the caption 'Sale of Fixed Assets' on the consolidated profit and loss account. Also included under this caption is the profit on the sale of property of £100,000.

The EBITDA for the group in 2000 was £1,336,000 (1999: loss £767,000).

The group has net interest received in the year of £101,000 (1999: paid £28,000), leaving the profit before tax at £428,000 (1999: loss £892,000).

The group had cash and short term deposits at the end of the year of £5,785,000 (1999: £941,000), and borrowings of £1,952,000. Of the £20.7 million cash raised in the placing and open offer in May 2000, £11.1 million was paid to the Vendors of Adams Healthcare Limited, £0.7 million for the acquisition of 64.6% of Second Opinion Solutions AS, £0.1 million for the acquisition of the assets of Andarik QC, £0.6 million for the acquisition of Kinetic Imaging Limited, £1.0 million to the vendors of Quinoderm Limited, and £1.4 million to the company's professional advisors in these transactions. The borrowings are those of Adams and are repayable in equal quarterly installments over the next 3 years 3 months. £2,771,000 of loan notes issued to the vendors of Quinoderm Limited are also outstanding, and are repayable on demand. The cash resources, taken with the groups' operational cash flows, are sufficient for the foreseeable future.

The net assets of the group at the end of the year were £29,317,000 (1999: £4,439,000). Intangibles, including development costs, goodwill and know-how are £23,335,000 (1999: £3,112,000), and tangible assets are £2,669,000 (1999: £745,000). Net current assets were £5,114,000 at 31 December 2000 (1999: £965,000).

Share capital and share premium increased by £24,514,000 to £31,242,000 at 31 December 2000 (1999: £6,728,000). This increase arose from the May 2000 placing and open offer of £20.7 million, the issue of shares to the Vendors of Adams Healthcare Limited, valued at £3,000,000, and the exercise of the remaining Texas and Bradmount warrants, issued in connection with the acquisition of Fairfield in 1999. The group had 79 million ordinary shares in issue at 31 December 2000 (1999: 49 million).

university links

Research Links

A feature of Medical Solutions' success has been the fertile connections it has forged with key research led universities and major medical schools. In recent years **Sheffield University**, whose status as a highly regarded research-led University has been confirmed in national quality assessments, has gained a strong profile in health related areas, based on the work of its **Faculty of Medicine and School of Biological Sciences**. Nearly one-third of its circa £220 million annual turnover is devoted to health related activities. The success of this research in areas such as molecular medicine and medical technology has led to commercial exploitation of much of the ensuing intellectual property.

Medical Solutions plc enjoys the benefit of a unique collaborative agreement with the University whereby the academics help identify areas of mutual interest and work alongside company staff to research, evaluate and commercialise suitable products. During the past year, this relationship has functioned effectively in terms of supporting the Fairfield Group with the DNA Ploidy products and via innovative engineering support into the imaging system. The productive partnership between Fairfield staff and the supportive oncology cluster in the **Sheffield Medical School** will serve as a model for other companies within Medical Solutions in their interactions with academe.

For Fairfield Imaging, strong links with world-class centres for cancer diagnosis are a vital part of its mission to become the preferred supplier of services in the field of evidence-based digital diagnostics. Professional links to practising clinicians and scientists provide a route to find, and to qualify, significant new commercial opportunities. For example, the Fairfield Telecolposcopy System is being developed in close collaboration with members of **the Department of Gynaecology at the Birmingham City Hospital**. In the field of breast cancer diagnostic quality assurance application of the Fairfield Virtual Microscopy concept is being developed with the National Quality Assurance Centre in the **City Hospital, Nottingham**. Fairfield is pioneering the concept of an extended network of telepathology systems as a basis for delivery of uniform regional diagnostic excellence in the UK in association with the Department of Pathology at the **Edinburgh Medical School**. But of all the collaborative relationships, the one which has received most attention is that with the Research Board of the Norwegian **Radium Hospital** in Oslo. Under the terms of an exclusive co-operation agreement, Fairfield has access to all intellectual property and know-how within the Division of Digital Pathology of the Institute for Cancer Research at this universally-recognised cancer treatment and research centre. This relationship has already led to the commercial release of the Fairfield DNA-Ploidy product, and to active development of the unique nucleotyping test which is expected to provide for the first time accurate and reliable guidance to clinicians faced with treating early ovary, breast, and prostate cancers.

CellPath collaborated with a number of universities in the 90's. The major projects being a Teaching Company Scheme with **Bangor University** Chemistry Departments' Professor Baird, on the development of cytology stains. A world marketing agreement was also made with **Liverpool John Moore's University** for their highly acclaimed multi media "CytoFocus" CD-ROM for training and continuing education of cytology professionals which was developed by LJMU in collaboration with Dr Lesley Turnbull, Dr Peter Smith and Interactive Designs Ltd with funding assistance from the Department of Employment.

Adams' collaboration with the Centre for Evidence-Based Pharmacotherapy at **Aston University**, Birmingham has resulted in the appointment of a Postdoctorate Research Fellow. This new position working under the direction of Professor Alain Li Wan Po will investigate and identify development opportunities that it is believed will lead to new evidence based dermatological and topical pharmaceutical products and consequently enhanced treatments for the medical profession and patients.

your board

Sir Gareth Gwyn Roberts (60)
Chairman
Sir Gareth was appointed non-executive Chairman in April 2000, having joined the Board as non-executive director in August 1999. He chairs the Remuneration and Audit Committees. Sir Gareth has an international reputation for his research on semiconductors and molecular electronics and is the author of over 200 publications and patents. He was awarded fellowship of The Royal Society in 1984 and is the current chairman of the Higher Education Funding Council's Research Committee. During 2000 he resigned his position as vice chancellor of the University of Sheffield to take up the presidencies of Wolfson College, Oxford University and of the National Science Council. He also chairs the government's Genome Valley Steering Group. Sir Gareth has also held two senior industrial posts, the first as senior research scientist with Xerox Corporation in America and the second as director of Research and Chief Scientist of Thorn EMI.

Trevor M. Twose (54)
Chief Executive
Trevor joined the board on 1 January 2001 with over 25 years industry experience in the life sciences sector, spanning pharmaceuticals, medical diagnostics and biotechnology. He played key roles in fund raising, flotation and subsequent management of Xenova Group plc, which is developing several anti-cancer drugs, and is quoted on both Nasdaq and the London Stock Exchange. Most recently he was a founder and Chief Executive of EPTTCO Limited, a private UK biopharmaceutical company focusing on cancer therapies, and is Non-Executive Director of Cytocell Limited, a UK genomic diagnostics company. Previously he was co-founder and head of R & D, establishing the new diagnostics business of ICI plc which launched one of the world's first DNA diagnostic businesses in the US and Europe. Prior to that he managed arthritis and immunology drug research programmes at ICI Pharmaceuticals.

Charles A. Green (47)
Business Development Director
Charles has significant experience of corporate acquisitions gained through his employment as Business Development Director of Texas Holdings Limited since 1993, when he was responsible for the acquisition by Texas of L.Gardner Group plc. L.Gardner Group plc was floated on the Official List in November 1995. He also orchestrated the purchase by Texas of a controlling stake in the holding company of Sheffield United F.C. where he was Chief Executive until March 1998 and was responsible for its floatation in January 1997. He is currently Chairman of Kingsbridge Holdings plc.

Rodney H. Adams (56)
Chief Operating Officer
Rod joined the Board in May 2000 on the acquisition of Adams Healthcare Limited, where he was Managing Director. Rod joined the business in 1989 as Managing Director of DePuy Healthcare and as a main board member of DePuy International. He previously held senior posts in manufacturing and quality assurance within blue chip pharmaceutical companies including Glaxo, E C De Witt, Macarthy Medical, and Rusco Pharmaceuticals. He is a Chartered Chemist with a BSc(Hons) in Chemistry and an MSc and PhD in organic chemistry. He is also a "Qualified Person" under E.U legislation authorised to release for sale licenced products.

Andrew D. Longstaffe (41)
Finance Director and Company Secretary
Andy joined the Board in May 2000 on the acquisition of Adams Healthcare Limited, where he was Finance Director. Andy joined DePuy in 1989 and was Group Financial Controller during the international expansion of the business from a turnover of £20 million to £250 million. He was responsible for DePuy Healthcare, part of which became Adams Healthcare, from 1994. He is a Chartered Accountant who trained with Deloitte, Haskins & Sells in the UK and worked for them in South Africa for three years. His experience includes Stock Exchange circulars, leveraged buy-outs and due diligence reports.

Donald E Seymour (81)
Non-Executive Director
Donald joined the Board in June 2000, having been a non-executive director of Adams Healthcare since 1997. Donald brings with him valuable connections and experience through his 40 years with Smith & Nephew plc where he was Managing Director and Chairman of Smith and Nephew Research Ltd., Chairman of the Boards of operations in USA and Canada, and deputy Chief Executive of Smith & Nephew plc. He has also held non-executive directorships of Celltech Ltd., Interferon Sciences Inc, I.Q.(Bio)Cambridge., Novo Bio Labs, and Vitatron NV Netherlands. He has also been non-executive chairman of Speywood Laboratories Ltd and LRC International plc.

directors, officers and advisors

Directors

Sir G.G. Roberts	*Non-Executive Chairman*
T.M. Twose	*Chief Executive Officer*
R.H. Adams	*Chief Operating Officer*
C. Green	*Business Development Director*
A.D. Longstaffe	*Finance Director*
A.M. McDonald	*Non-Executive Director*
D.E. Seymour	*Non-Executive Director*

Secretary

A.D. Longstaffe

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Medical and Scientific Advisory Board

Sir Gareth Gwyn Roberts (Chairman)

Professor Mark Ferguson	University of Manchester
Professor Karol Sikora	Pharmacia and Upjohn
Professor Nick Wright	Imperial Cancer Research Fund
Professor James Underwood	University of Sheffield
Dr Noah Clinch	Fairfield Imaging
Professor Gordon Duff	University of Sheffield
Professor Iain MacIntyre	William Harvey Research Institute
Donald Seymour	Adams Health Care

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directors' report

The directors present their annual report on the affairs of the group, together with the accounts and auditors' report for the year ended 31 December 2000.

Results and Dividends

Turnover for the year amounted to £9,820,000 (1999 - £1,308,000). The profit for the year before taxation amounted to £428,000 compared to a loss of £892,000 in 1999. No dividend payment can be made (1999 - £nil).

A review of operations and future prospects is contained in the Chairman's statement.

Principal Activities

Medical Solutions plc is a holding company.

Fairfield Imaging Limited is involved in the marketing and sale of microscopy hardware and software and image analysis and management systems, development of intellectual property in cancer diagnosis/prognosis systems and the development, support and assembly of diagnostic telepathology workstations

Cellpath plc offers a range of chemicals, consumables, laboratory instruments and software for histopathology laboratories. Cellpath acquired the Thackray Instruments and Practice Plus divisions of Adams Healthcare Limited on 4 May 2000. These two businesses distribute surgical instruments to hospital markets and practice equipment to General Practitioners.

Second Opinion Solutions AS, acquired on 30 April 2000, holds the intellectual property for Pathsight, a Fairfield Imaging product.

Adams Healthcare Limited was acquired on 4 May 2000. It's principal activities are the manufacture and distribution of pharmaceutical products to the hospital and industrial markets.

Kinetic Imaging Limited was acquired on 16 August 2000. It's principal activities are the provision of computerised systems and equipment together with consultancy services for medical research.

Quinoderm Limited was acquired on 27 December 2000. It's principal activities are the manufacture and distribution of pharmaceutical products.

Post Balance Sheet Event

On 31 January 2001 the High Court approved the reduction of the share premium account by £3,556,000 to eliminate the deficit on the profit and loss account at 31 December 1999, with the amount of the reduction being credited to the profit and loss account. The Court also approved the cancellation of the Deferred Shares in issue. The rights attaching to these Deferred shares, which are not listed or quoted on any recognised stock exchange, are minimal, thereby rendering them effectively valueless.

On 12 February 2001 the group announced the establishment of a new subsidiary Advanced Diagnostic Solutions Limited. This subsidiary is to be financed from the group's existing cash resources.

Share Capital

On 5 April 2000 the company issued 277,775 new ordinary shares of 0.5p at an issue price of 45p in full and final settlement of the deferred consideration pursuant to the acquisition of Cellpath Plc.

Pursuant to the acquisition agreement of Adams Healthcare Limited, 12,354,079 new ordinary shares of 0.5p were issued on 4 May 2000 at an issue price of 16p each, and 6,451,613 warrants of 0.5p were granted to Granville Private Equity at 16p. The company's share price was 16p when agreement was reached with the vendors of Adams for the sale of its share capital to Medical Solutions plc. On the same date 69,989,488 new ordinary shares of 0.5p were issued pursuant to a Placing and Open Offer at an issue price of 30p.

On 4 May 2000 the company issued 6,451,613 shares at 16p each to Granville Private Equity on exercise of warrants held.

On 21 June 2000 the company issued 2,324,400 ordinary shares of 0.5p shares at 2.25p each to Bradmount on exercise of warrants held.

On 31 August 2000 the company issued 28,000,000 ordinary shares of 0.5p shares at 2.25p each to Texas Holdings Limited on exercise of warrants held.

By an ordinary resolution of the company passed on 11 October 2000 every four ordinary shares of 0.5p in the capital of the company were consolidated into one ordinary share of 2p each. This consolidation was effected in order to achieve an appropriate share price and to reduce volatility experienced in the Company's share price in the summer of 2000.

69,405 ordinary shares of 2p were issued to Sheffield University on 27 November 2000 as part consideration for the collaboration agreement.

At the year end a total of 78,958,232 ordinary shares of 2p, and 25,238,390 deferred shares were in issue.

directors' report

continued

Directors and their interests

As at 31 December 2000 and at the date of this report the directors of the company, who served throughout the year were Charles A. Green, Anthony M. McDonald, and Sir Gareth G. Roberts.

Sir Gareth G. Roberts was appointed as Non-Executive Chairman on 28 April 2000. On the same date Anthony M. McDonald reverted to a non-executive role and has indicated his intention to resign from the board on 28 February 2001.

Rodney H. Adams and Andrew D. Longstaffe were appointed to the Board as Executive Directors on 4 May 2000.
Donald E. Seymour was appointed to the Board as Non-Executive Director on 21 June 2000. Trevor M. Twose was appointed to the Board as Executive Director on 1 January 2001.

S.G. Thomson and N. Clinch resigned from the Board on 19 April 2000. E.J. Cater resigned on 27 July 2000.

C.A. Green, R.H. Adams, A.D. Longstaffe, D.E. Seymour, and T.M. Twose retire according to the articles of association and being eligible, offer themselves for re-election. C.A. Green will cease to be an executive director of the company on 28 February 2001 and will continue as a non-executive director from that date.

Save as disclosed in note 27, no contract existed during this year, or at the year end, in which any director of the company was interested.

None of the directors, except R.H. Adams, A.D. Longstaffe and T.M. Twose has a service contract with the company requiring more than 12 months' notice of termination to be given.

The directors' interests in the ordinary shares of the Company at 31 December 2000, at 1 January 1999 or the date of appointment were:

	Beneficial holdings	
	2000 Number of shares	1999 (or date of Appointment) Number of shares
E.J. Cater	818,359	3,273,437
S.G. Thomson	525,435	2,222,220
A.M. McDonald	555,555	2,222,220
C.A. Green	222,222	888,888
N. Clinch	2,638,889	20,277,777
G.G. Roberts	176,666	666,664
R.H. Adams	1,598,591	–
A.D. Longstaffe	689,038	–
D.E. Seymour	1,434	–

As at the date of this report there has been no change to the directors' shareholdings.

Directors options

The directors hold options under the unapproved share option scheme authorised by shareholders on 23 August 1999 as follows

	Date Granted	Number	Option Price	First Exercisable Date	Last Exercisable Date
C.A. Green	September 29, 1999	416,667	48p	September 28, 2002	September 28, 2009
G.G. Roberts	November 2, 2000	89,286	112p	November 1, 2003	November 1, 2010
R.H. Adams	November 2, 2000	294,643	112p	November 1, 2003	November 1, 2010
A.D. Longstaffe	November 2, 2000	241,071	112p	November 1, 2003	November 1, 2010

A.M. McDonald is also interested in the shares held by Texas Holdings Limited, a company in which he, his wife, brother and family trust together hold a major shareholding.

Texas Holdings Limited entered into a call option agreement with Dr. N. and Mrs. Clinch whereby, if the 25,555,555 ordinary shares, issued to them under the conditional agreement dated 27 July 1999 between Turnpyke Group Plc and the vendors of Fairfield Imaging Limited, doubled in value, by reference to the market value as derived from the mid-market closing price from the official list of the London Stock Exchange, to 4.5p each then, within the period of six months thereafter, Texas Holdings Limited had the right, but not the obligation, to buy 10,555,555 ordinary shares at the Placing Price. On 8 December 1999, Texas Holdings Limited exercised its right under the call option agreement and purchased 5,277,777 ordinary shares from Dr. and Mrs. Clinch, and agreed to extend the period for exercising the balance of its rights under the call option agreement until August 2000.

On 24 August 2000, Texas Holdings Limited exercised the balance of its rights under the call option agreement and purchased 5,277,778 ordinary shares from Dr. and Mrs. Clinch.

No other directors held share options in the company.

Substantial shareholders

On 27 February 2001 the company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985 of the following interests, of 3 per cent or more, in the company's ordinary share capital:

	Number	Percentage of ordinary share capital
Texas Holdings Limited	4,119,064	5.22
RBSTB Nominees Limited	4,026,844	5.10
Vidacos Nominees Limited	6,217,390	7.87
The Equitable Life Assurance Society	3,085,659	3.91

Disabled employees

It is the group policy that disabled persons should be considered for employment, training, career development and promotion on the basis of their abilities and aptitude in common with all employees.

Employee consultation

Medical Solutions plc recognises the importance of communicating with its employees and that their involvement is crucial to the success of the business.

Charitable donations

The group made no charitable donations during the year (1999 - £nil).

Supplier payment policy

The group is committed to obtaining the best terms for all types of business. Consequently, there is no single policy as to the terms used. It is the group's policy to abide by its agreed terms of business provided the supplier meets its obligations. The number of days purchases represented by group trade creditors at 31 December 2000 was 71 days (1999 - 88 days).

The Euro

The group is able to treat the euro as any other foreign currency. The group is considering the impact upon the group of the UK's potential entry into the European Monetary Union.

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

By order of the Board,

A.D. Longstaffe
Company Secretary

Lotherton Way
Garforth
Leeds LS25 2JY

27 February 2001

corporate governance

In June 1998 the Hempel Committee and the London Stock Exchange published the Combined Code on Corporate Governance. This combines the Cadbury Code on Corporate Governance, the Greenbury Code on Directors' Remuneration, and new requirements arising from the findings of the Hempel Committee.

Statement of Compliance in the Code of Best Practice

The Remuneration and Audit Committees are both chaired by Sir G.G. Roberts. All the Non-Executive Directors are members of the Remuneration Committee. The Audit Committee consists of the Chief Executive Officer and the non-executive directors. The Financial Director acts as Secretary of the Committee.

The group continues to be committed to high standards of corporate governance and the board believes that the group now substantially complies with the Provisions of the Code of Best Practice set out in section 1 of the Combined Code. In the area of internal controls, however, transitional arrangements have been adopted this year as detailed below.

Statement about applying the Principles of Good Governance

The group has applied the Principles of Good Governance set out in section 1 of the Combined Code by complying with the Code of Best Practice as reported above. Further explanation of how the Principles have been applied is set out below and, in connection with directors' remuneration, in the Remuneration report.

Dialogue with Institutional Shareholders

The directors seek to build on a mutual understanding of objectives between the group and its institutional shareholders, in particular by communicating regularly throughout the year (by holding regular meetings) and encouraging them to participate in the annual general meeting.

Maintenance of a sound system of internal controls

In applying the principle that the board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets, the directors recognise that they have overall responsibility for ensuring that the group maintains a system of internal control to provide them with reasonable assurance regarding effective and efficient operation, internal financial control and compliance with laws and regulations. However, there are inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance.

The group is further considering the remaining procedures necessary to implement the guidance on internal control issued by the Turnbull Committee, including assigning responsibility to a named director, establishing a risk committee and holding workshops with management teams to identify and prioritise business risks.

In the meantime, the group has adopted the transitional approach permitted by the London Stock Exchange and reviewed the effectiveness of internal control in accordance with the previous guidance. Accordingly, the disclosures below are mainly restricted to internal financial controls. The group will report in accordance with the Turnbull guidance in the next annual report.

The key features of the internal control system that operated during the year covered by the accounts are described below:

The board meets regularly (at least ten times a year) to review all aspects of the group's performance, concentrating mainly on financial performance, business risks and development. A number of matters are reserved for the board's specific approval, including major capital expenditure, banking, group budgets and dividend policy.

There is a clearly defined organisational structure with minimum levels of financial control to which each operating subsidiary must conform. The group operates a comprehensive annual planning and budgeting process. Each operating subsidiary holds monthly meetings, chaired by a group director, for which a comprehensive financial reporting pack is prepared. The financial results are then consolidated and presented to the group Board which enables the board to monitor variances against plan, identify risks, assess their implications and set down subsequent control procedures. The board also receives reports on other important subjects such as banking, environmental issues, legal and insurance matters.

The Board's monitoring covers all controls including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The board has reviewed the need for an internal audit team and has concluded, based on the size of the group, the involvement of the directors and the effectiveness of the existing systems that this is not required.

GOING CONCERN

In accordance with the guidance for directors of listed companies "Going Concern and Financial Reporting" and after making appropriate enquiries, the directors have concluded that it is appropriate to continue to adopt the going concern basis in preparing these accounts. This is based on the directors' opinion that the group has adequate financial resources to continue in operational existence for the foreseeable future.

After making enquiries and examining major areas which could give rise to significant financial exposure, the directors are satisfied that no material or significant exposures exist and that the company has adequate resources to continue its operations for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Approved by the Board of Directors
and signed on behalf of the Board

Gareth Roberts

Sir G.G. Roberts
Non-Executive Chairman

SIR GARETH ROBERTS

27 February 2001

remuneration report

The Remuneration Committee is chaired by Sir G.G. Roberts.

The company has complied throughout the year ended 31 December 2000 with section A of the Best Practice Provisions on directors' remuneration annexed to the Stock Exchange Listing Rules. In framing remuneration policy, the Board has given full consideration to section B of the Best Practice Provisions annexed to the Listing Rules of the Financial Services Authority.

Remuneration of each executive director is considered by the Remuneration Committee. Remuneration packages are structured to reward and provide incentives to the executive directors based on their performance and taking into account the size of the company and rewards to directors in similar sized companies. Remuneration of the non-executive directors is approved by the full Board.

The directors' emoluments are disclosed in note 7 to the accounts including performance related bonuses.

R.H. Adams and A.D. Longstaffe have 3 year service contracts with twelve month notice periods and T.M.Twose has a 2 year service contract with a twelve month notice period.

E.J. Cater was a member of a former subsidiary's Inland Revenue approved retirement benefit scheme and continued in membership of that scheme after the sale of that subsidiary, The West Bromwich Spring Limited, for a maximum period of 1 year. He is entitled to a pension based on earnings and length of pensionable service, subject to Inland Revenue limits. The scheme is a funded, final salary occupational pension scheme. Directors' contributions are 3% of salary. Bonuses are included in pensionable earnings in accordance with the rules of the pension scheme which applies to all the members of the scheme.

The directors' pension entitlements required to be shown by the Stock Exchange Listing Rules are shown in note 4 to the accounts.

The directors' interests in shares are shown in the Directors' Report. The company operates an approved and an unapproved share option scheme for executive directors and senior employees.

Share options are granted to executive directors and senior employees to encourage them to identify with shareholder interest and to meet performance objectives. Share options are granted and exercised under the rules of the Inland Revenue approved Executive Share Option Scheme (under which no new options can be issued after 31 December 2000) and the unapproved Executive Share Option Scheme.

The company does not operate any long term incentive schemes. The company has a Save As You Earn share option scheme which has been approved by both shareholders and Inland Revenue. Savings contracts have been commenced by 81 employees covering 190,172 ordinary shares under this scheme during the year.

Sir G.G. Roberts
Chairman of Remuneration Committee

Gareth Roberts
SIR GARETH ROBERTS

27 February 2001

statement of directors' responsibilities

Accounts, including adoption of going concern basis

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit and loss of the group for that period.
In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

Other matters

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

auditors' report

To the shareholders of Medical Solutions plc:

We have audited the accounts on pages 22 to 47 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 25 and 26.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described on page 20 preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company 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 company and the group is not disclosed.

We review whether the corporate governance statement on pages 18 and 19 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, 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 company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the accounts.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material mis-statement, 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group at 31 December 2000 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

Bank House
9 Charlotte Street
Manchester
M1 4EU

27 February 2001

consolidated profit and loss account

For the year ended 31 December 2000

	Notes	2000 £'000	1999 £'000
Turnover			
Continuing operations	2	**2,005**	442
Acquisitions		**7,815**	–
Continuing operations		**9,820**	442
Discontinued operations	2	**–**	866
		9,820	1,308
Cost of sales	3	**(5,478)**	(996)
Gross profit		**4,342**	312
Other operating expenses (net)	3	**(4,603)**	(1,428)
Operating loss	4	**(261)**	(1,116)
Continuing operations		**(1,173)**	(248)
Acquisitions		**912**	–
Continuing operations		**(261)**	(248)
Discontinued operations		**–**	(868)
		(261)	(1,116)
Profit on sale of discontinued operations		**–**	252
Profit on sale of fixed assets	5	**588**	–
Profit /(loss) on ordinary activities before interest and taxation		**327**	(864)
Bank interest (net)		**136**	(19)
Other interest payable	8	**(35)**	(9)
Profit / (loss) on ordinary activities before taxation		**428**	(892)
Tax on profit / (loss) on ordinary activities	9	**(64)**	8
Profit / (loss) for the financial year	24	**364**	(884)
Earnings / (loss) per ordinary share	11	**0.55p**	(4.43p)
Diluted earnings / (loss) per ordinary share	11	**0.53p**	(4.31p)

There are no recognised gains and losses other than the retained profit / (loss) for the year.

There is no material difference between the results as disclosed in the profit and loss account and the results on an unmodified historical cost basis.

Accordingly, a note of the historical cost profits and losses and a statement of total recognised gains and losses for the year are not given.

The accompanying notes are an integral part of this consolidated profit and loss account

balance sheets

31 December 2000

	Notes	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Fixed assets					
Intangible assets	12	**23,335**	3,112	–	–
Tangible assets	13	**2,669**	745	**4**	–
Investments	14	**12**	97	**23,181**	2,997
		2,681	842	**23,185**	2,997
Current assets					
Stocks	15	**2,173**	292	–	–
Debtors	16	**4,209**	531	**3,977**	1,452
Cash at bank and in hand		**5,785**	941	**5,614**	868
		12,167	1,764	**9,591**	2,320
Creditors: Amounts falling due within one year	17	**(7,053)**	(799)	**(3,602)**	(159)
Net current assets		**5,114**	965	**5,989**	2,161
Total assets less current liabilities		**31,130**	4,919	**29,174**	5,158
Creditors: Amounts falling due after more than one year	18	**(1,514)**	(480)	**–**	(430)
Provisions for liabilities and charges	22	**(299)**	–	**–**	–
Net assets		**29,317**	4,439	**29,174**	4,728
Capital and reserves					
Called-up share capital	23	**2,715**	2,122	**2,715**	2,122
Share premium account	24	**28,527**	4,606	**28,527**	4,606
Merger Reserve	24	**1,267**	1,267	**1,267**	1,267
Profit and loss account	24	**(3,192)**	(3,556)	**(3,335)**	(3,267)
Equity shareholders' funds		**29,317**	4,439	**29,174**	4,728

The accompanying notes are an integral part of these balance sheets.

The financial statements were approved by the board of directors on 27 February 2001 and signed on its behalf by:

Andrew D. Longstaffe
Finance Director

consolidated cash flow statement

For the year ended 31 December 2000

	Notes	2000 £'000	2000 £'000	1999 £'000	1999 £'000
Net cash outflow from operating activities	25a	**(1,081)**		(1,397)	
Returns on investments and servicing of finance	25b	**101**		(28)	
Taxation		**(38)**		(19)	
Capital expenditure and financial investment	25b	**(690)**		(399)	
Acquisitions	25b	**(15,590)**		(1,202)	
Disposals	25b	–		817	
Equity dividends paid	25b	–		(25)	
Cash outflow before management of liquid resources and financing			**(17,298)**		(2,253)
Management of liquid resources			–		56
Financing					
- issue of shares	25b	**22,537**		3,577	
- (decrease) increase in debt	25b	**(575)**		1,175	
			21,962		4,752
Increase in cash in the year			**4,664**		2,555

The accompanying notes are an integral part of these cash flow statements.

reconciliation of net cash flow to movement in net funds

	Notes	2000 £'000	2000 £'000	1999 £'000	1999 £'000
Increase in cash in the year	25c	**4,664**		2,555	
Cash outflow (inflow) from decrease (increase) in debt and lease financing	25c	**575**		(1,175)	
Cash inflow from decrease in liquid resources	25c	–		(56)	
			5,239		1,324
Loans and finance leases acquired with subsidiary undertakings			**(2,709)**		(244)
Loans and finance leases disposed of with subsidiary undertaking			–		1,869
New finance leases			**(21)**		(8)
Current asset investments acquired with subsidiary undertakings			–		56
Movement in net funds in the year			**2,509**		2,997
Net funds (debt) at 1 January			**832**		(2,165)
Net funds at 31 December	25c		**3,341**		832

statement of accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

1 Accounting policies

The accounts have been prepared under the historical cost convention and have been prepared in accordance with applicable accounting standards.

a) Basis of consolidation

The consolidated accounts include the company and all its subsidiary undertakings. The results of subsidiaries and business undertakings acquired or sold are included in the consolidated profit and loss account for the periods from or to the date on which control passed. Intra-group sales and profits are eliminated on consolidation and all sales and profit figures relate to external transactions only.

b) Intangibles

i) Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life. Provision is made for any impairment.

Goodwill arising on acquisitions in the year ended 1997 and earlier periods was written off to reserves in accordance with the accounting standard then in force. A separate goodwill reserve was created in the group balance sheet for the purpose of writing off the goodwill net of merger relief. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

ii) Development costs

Development costs are written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised from the point of sale of the product over the period during which the group is expected to benefit, which is four years. Development costs on projects in progress are not amortised. Provision is made for any impairment.

c) Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life as follows:

Freehold buildings	–	50 years
Plant and machinery	–	5 – 15 years
Fixtures and office equipment	–	6 – 10 years
Computers	–	3 – 6 years
Motor cars	–	4 years

d) Government grants

Government grants of a revenue nature are credited to the profit and loss account in the same period as the related expenditure.

Government grants of a capital nature are released to the profit and loss account by equal annual instalments over the expected useful lives of the relevant assets.

e) Leasing and hire purchase commitments

Assets obtained under finance leases and hire purchase contracts that transfer substantially all the risks and rewards of ownership to the group are capitalised in the balance sheet and depreciated over their useful lives. The interest element of the rental obligation 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.

Costs in respect of operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

statement of accounting policies

1 Accounting policies *(continued)*

f) Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis and includes transport and handling costs. In the case of manufactured product, cost includes all direct expenditure and production overheads based on the normal level of activity. Net realisable value is the price at which stock can be sold in the normal course of business after allowing for the cost of realisation and, where appropriate, the cost of conversion from their existing state to a finished condition. Provision is made where necessary for obsolete, slow-moving and defective stock.

g) Deferred taxation

Deferred taxation is provided on the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate on which it is estimated the tax will be payable.

h) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

i) Investments

Fixed asset investments are shown at cost less provision for impairment.

j) Pensions

The group operates a defined contribution pension scheme for the benefit of the directors of a subsidiary company. The assets of the schemes are administered by trustees in funds independent from those of the subsidiary.

The cost of the defined contribution scheme is charged to the profit and loss account as incurred.

notes to the accounts

31 December 2000

2 Turnover and segmental analysis

Turnover from continuing activities represents amounts invoiced to third parties for medical equipment and consumables, net of value added tax. Discontinued turnover relates to property income and the manufacture and sale of springs, net of value added tax.

The contributions of the various activities of the group to turnover and loss on ordinary activities before taxation are set out below:

	Turnover		Profit/(loss) before taxation	
	2000	1999	**2000**	1999
By activity	**£'000**	£'000	**£'000**	£'000
Continuing operations:				
Development, manufacture and sale of medical equipment and consumables	**9,820**	442	**(261)**	(248)
Discontinued operations:				
Manufacture and sale of springs	**–**	866	**–**	(868)
	9,820	1,308	**(261)**	(1,116)
Profit on sale of fixed assets	**–**	–	**588**	–
Profit on sale of springs subsidiary	**–**	–	**–**	252
Less unallocated administrative expenses and interest	**–**	–	**101**	(28)
	9,820	1,308	**428**	(892)

2 Turnover and segmental analysis *(continued)*

	Continuing Operations £'000	Acquisitions £'000	**2000 Total £'000**	1999 Total £'000
Turnover by customer location:				
United Kingdom and Republic of Ireland	1,473	6,553	**8,026**	959
Other European Union	244	275	**519**	141
Rest of Europe	44	210	**254**	95
The Americas	101	20	**121**	78
Africa	18	243	**261**	11
Asia	18	487	**505**	24
Other	107	27	**134**	–
	2,005	7,815	**9,820**	1,308

Turnover in the current year arose entirely from the development, manufacture and sale of medical equipment and consumables.

3 Cost of sales and operating costs

	Continuing operations £'000	Acquisitions £'000	**2000 Total £'000**	1999 Total £'000
Cost of sales	1,132	4,346	**5,478**	996
Distribution costs	59	1,168	**1,227**	14
Administration costs	1,986	1,390	**3,376**	1,608
Other operating income	–	–	**–**	(194)

4 Operating loss

a) This is stated after charging

	Continuing operations £'000	Acquisitions £'000	**2000 Total £'000**	1999 Total £'000
Depreciation of owned assets	101	122	**223**	55
Depreciation of assets held under finance leases and hire purchase contracts	2	54	**56**	1
Amortisation of goodwill	533	197	**730**	55
Amortisation of development costs	46	21	**67**	47
Profit on disposal of tangible fixed assets	–	–	**–**	1
Operating lease rentals				
– plant and machinery	8	8	**16**	–
– other	35	113	**148**	22
Auditors' remuneration for audit services	35	18	**53**	25

Amounts payable to Arthur Andersen by the company and its UK subsidiary undertakings in respect of non-audit services were £122,245 (1999 - £165,000)

5 Sale of fixed assets

i) During the year Adams Healthcare Limited sold the rights to sell Videne in certain overseas territories for £500,000.

ii) A property acquired during the year was sold for a profit of £100,000.

notes to the accounts

6 Staff costs

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

	2000 Number	1999 Number
Management	**13**	14
Administration and finance	**42**	8
Production, development and technical	**65**	21
Sales and marketing	**25**	1
	145	44

	2000 £'000	1999 £'000
Wages and salaries	**2,406**	830
Social security costs	**221**	76
Other pension costs	**63**	9
	2,690	915

7 Directors' remuneration

a) Emoluments

Directors' emoluments	Fees/basic salary £'000	Pension contributions £'000	Bonus payment £'000	Taxable benefits in kind £'000	**Total 2000 £'000**	Total 1999 £'000
Executive directors						
E.J. Cater (resigned 27 July 2000)	41*	–	15	–	**56**	45
C. Green	70	–	35	5	**110**	24
N. Clinch (resigned 19 April 2000)	21	–	–	–	**21**	29
C.A.R. Gillams	–	–	–	–	–	2
R.H. Adams	67	5	–	7	**79**	–
A.D. Longstaffe	53	3	–	7	**63**	–
Non-executive directors						
A.M. McDonald	–	–	–	–	–	–
S.G. Thomson (resigned 19 April 2000)	–	–	–	–	–	–
Sir G.G. Roberts	–	–	–	–	–	–
D.E. Seymour	16	–	–	–	**16**	–
	268	8	50	19	**345**	100
Fees to third parties					**22**	126
					367	226

C.A. Green was the highest paid director in the year to 31 December 2000 with total fees paid £110,636.

*E.J. Cater fees include an ex-gratia payment of £30,000.

Fees to third parties include £12,026 paid in fees to SGT Services, on behalf of S.G. Thomson and £10,000 payable to Texas Holdings Limited on behalf of A.M. McDonald.

7 Directors' remuneration *(continued)*

b) Directors' pension entitlements are as follows:

	Increase in accrued pension excluding inflation	Accrued transfer value of increase	**Accrued pension 31 December 2000**	Accrued pension 31 December 1999
	£	£	**£**	£
E.J. Cater	–	–	**9,648**	9,648

One director continues to be a member of the defined benefit pension scheme of a former subsidiary, which is administered by the Standard Life Assurance Company.

The normal pensionable age is 65 and the pension arrangements provide for a maximum pension of two thirds annual earnings. From his normal retirement date, upon the director's death, his spouse is eligible for a pension of two thirds of the amount previously paid.

In the event of death in service, a pension equal to four ninths of the director's pensionable earnings will be paid to his spouse. There are no early retirement rights or options. Other than the statutory increases the scheme rules do not make any provision for increases in pension payments after the normal retirement date.

8 Other interest payable

	2000	1999
	£'000	£'000
Finance leases and hire purchase contracts	**32**	7
Interest on late payment of tax	**3**	2
	35	9

9 Tax on profit (loss) on ordinary activities

	2000 £'000	1999 £'000
The tax charge/(credit) comprises:		
UK Corporation tax	**210**	–
Deferred tax	**–**	(8)
Adjustments in respect of prior years	**250**	–
– UK corporation tax	**(146)**	–
– deferred tax	**–**	(8)
	64	(8)

Losses within the parent company and certain subsidiaries which are available for relief against future profits of the same trade are approximately £621,000 (1999 - £2,228,000).

10 Loss attributable to members of the parent company

In accordance with the exemption allowed by section 230(1) of the Companies Act 1985 the company has not presented its own profit and loss account. The loss after taxation dealt with in the accounts of the parent company amounted to £68,000 (1999 - £390,000).

11 Earnings/(loss) per ordinary share

The calculations of earnings per share are based on the following profits and numbers of shares.

	Basic		Diluted	
	2000 £'000	1999 £'000	**2000 £'000**	1999 £'000
Profit/(loss) for the financial year	**364**	(884)	**364**	(884)

	2000 Number of shares	1999 Number of shares
Weighted average number of shares:		
For basic earnings per share	**66,437,959**	19,975,879
Exercise of share options	**2,522,281**	516,667
For diluted earnings per share	**68,960,240**	20,492,546

The 1999 share numbers have been re-stated to reflect the one for four share consolidation carried out in 2000.

12. Intangible fixed asset

	Group			
	Development costs £'000	Goodwill £'000	Know-how £'000	Total £'000
Cost				
At 1 January 2000	452	2,742	–	3,194
Acquisitions of subsidiary undertakings	322	18,438	3,000	21,760
Additions	444	–	–	444
At 31 December 2000	**1,218**	**21,180**	**3,000**	**25,398**
Amortisation				
At 1 January 2000	47	35	–	82
Acquisitions of subsidiary undertakings	269	298	617	1,184
Charge for the year	67	597	133	797
At 31 December 2000	**383**	**930**	**750**	**2,063**
Net book value				
At 31 December 2000	**835**	**20,250**	**2,250**	**23,335**
At 1 January 2000	405	2,707	–	3,112

Goodwill is amortised over a period of 20 years. The charge for the year is based on the period that each subsidiary has been part of the group, this being 9 months for Second Opinion Solutions, 8 months for Adams Healthcare Ltd and 5 months for Kinetic Imaging Ltd. No amortisation charge has been applied to Quinoderm Ltd which was acquired on 27 December 2000.

In June 2000, Adams Healthcare Ltd purchased the net assets of Andarik Quality Control Ltd. Goodwill of £140,000 arising on acquisition is included in the accounts under acquisition of subsidiary undertakings

13 Tangible fixed assets

a) Group

	Freehold land and buildings £'000	Plant and Machinery £'000	Fixtures, fittings, and office equipment £'000	Motor Vehicles £'000	Total £'000
Cost or valuation					
At 1 January 2000	520	124	420	115	1,179
Subsidiaries acquired	1,030	1,262	794	137	3,223
Additions	46	129	161	–	336
Transfers	–	(43)	89	(46)	–
Disposals	(170)	–	(39)	(37)	(246)
At 31 December 2000	**1,426**	**1,472**	**1,425**	**169**	**4,492**
Depreciation					
At 1 January 2000	34	60	277	63	434
Subsidiaries acquired	119	630	409	59	1,217
Charge for year	31	80	156	12	279
Transfers	–	(15)	24	(17)	(8)
Disposals	(40)	–	(36)	(23)	(99)
As at 31 December 2000	**144**	**755**	**830**	**94**	**1,823**
Net book value					
At 31 December 2000	**1,282**	**717**	**595**	**75**	**2,669**
At 31 December 1999	486	64	143	52	745

There is no material difference between the market valuation and the historic cost of freehold buildings.

The total net book value of fixed assets includes £453,195 (1999 - £59,632) of assets held under finance leases and hire purchase contracts.

13 Tangible fixed asset *(continued)*

b) Company	Freehold Land and Buildings £'000	Fixtures, fittings, and office equipment £'000	Total £'000
Cost and net book value			
At 1 January 2000	–	–	–
Additions	130	4	134
Revaluations			
Disposals	(130)	–	(130)
At 31 December 2000	**–**	**4**	**4**
Net book value			
At 31 December 2000	**–**	**4**	**4**

14 Investments

	Company £'000
Cost and net book value	
At 1 January 2000	2,997
Acquisitions	20,304
Reduction in deferred consideration payable	(120)
Disposals	
At 31 December 2000	**23,181**
Net book value	
At 31 December 2000	**23,181**
At 31 December 1999	2,997

The group holds 50% of the ordinary shares (held indirectly) in Data-og Billedsystemer AS, a company incorporated in Norway. This has not been equity accounted for and has been treated as an investment as the group does not exercise significant influence over the company. The net book value of the investment is £12,000 (1999 - £12,000).

14 Investments *(continued)*

The principal subsidiary undertakings of Medical Solutions plc and their respective activities were as follows at 31 December 2000:

	Country of incorporation	Principal activity	Percentage held
Cellpath plc	England	Manufacture and sale of laboratory instrumentation and software and supply of chemicals and consumables for histopathology laboratories. Distribution of surgical instruments to hospital markets and practice equipment to General Practitioners.	100%
Fairfield Imaging Limited	England	Marketing and sale of microscopy hardware and software and image analysis and management systems, development of intellectual property in a cancer diagnosis/prognosis system and development, support and assembly of diagnostic telepathology workstations	100%
Fairfield Research Limited	England	Dormant	100%*
Fairfield Telepathology Limited	England	Dormant	100%*
Adams Healthcare Limited	England	Manufacture and distribution of pharmaceutical products to the hospital and industrial markets.	100%
Kinetic Imaging Limited	England	Provision of computerised systems and equipment together with consultancy services for medical research.	100%
Quinoderm Limited	England	Manufacture and distribution of pharmaceutical products.	100%
Second Opinion Solutions AS	Norway	Holds intellectual property	71.4%

* held indirectly

14 Investments *(continued)*

Acquisition of subsidiary undertakings

Second Opinion Solutions AS

On April 30 2000 the company purchased a further 63.2% of the share capital of Second Opinion Solutions AS (thus increasing its total holding to 71.4% of the share capital) a company incorporated in Norway, for a consideration of £555,000 in cash.

The company has recorded the cost of investment as the fair value of consideration plus the costs directly associated with the acquisition in accordance with FRS7. The value of the original investment was £84,711. The total cost of the current investment is therefore £639,711.

	Book value and fair value to group £'000
Current assets	
Stocks	25
Cash	60
Total assets	85
Creditors	
Other creditors	(268)
Total liabilities	(268)
Net liabilities	(183)
Goodwill	823
Consideration	640
Satisfied by	
Cash	640
	640

Net cash outflows in respect of the acquisition in this financial year comprised:

	£'000
Cash consideration	(555)
Cash at bank and in hand acquired	60
	(495)

Second Opinion Solutions had no earnings in the period since the date of acquisition.

14 Investments *(continued)*

Acquisition of Adams Healthcare Ltd

On 4 May 2000, the company acquired 100% of the issued share capital of Adams Healthcare Ltd for a consideration comprising the issue of 12,354,079 ordinary shares of 0.5 pence each in the company at 16p each, cash of £11,121,348 and the issue of 6,451,613 warrants for a value of £1,000,000. The fair value of the total consideration was £14,098,000.

The company has recorded the cost of investment as the fair value of the consideration plus the costs directly associated with the acquisition in accordance with FRS7. The total cost capitalised is £15,410,835.

	Book value and fair value to group £'000
Fixed assets	
Intangible	5,010
Tangible	1,740
Current assets	
Stocks	934
Debtors	1,556
Total assets	9240
Creditors	
Bank overdrafts	(2,509)
Trade creditors	(684)
Other creditors	(1,229)
Provisions	(299)
Total liabilities	(4,721)
Net assets	4,519
Goodwill	10,892
Consideration	15,411
Satisfied by	
Shares issued	1,977
Warrants issued	1,000
Cash payment	11,121
Professional fees incurred on acquisition	1,313
	15,411
Net cash outflows in respect of the acquisition comprised:	
Cash consideration	11,121
Professional fees	1,313
Bank overdraft acquired	102
	12,536

Adams Healthcare Ltd earned a profit after taxation of £395,000 in the period from 1 April 2000 to 31 December 2000 (year ended 31 March 2000 – profit £260,000) of which £395,000 loss arose in the period from 1 April 2000 to 3 May 2000.

14 Investments *(continued)*

The summarised profit and loss account from 1 April 2000 to 3 May 2000 is shown below on the basis of the accounting policies of Adams Healthcare Ltd prior to the acquisition:

Profit and loss account	£'000
Turnover	188
Cost of sales	(126)
Gross profit	62
Other operating expenses (net)	(274)
Operating profit	(212)
Finance charges (net)	(50)
Loss on ordinary activities before taxation	(262)
Tax on loss on ordinary activities	–
Loss on ordinary activities after tax	**(262)**
Preference dividend	**(133)**
Absorbed loss for the period	**(395)**

Acquisition of Kinetic Imaging Ltd

On 14 August 2000, the company acquired 100% of the issued share capital of Kinetic Ltd for consideration in cash of £550,000. The fair value of the total consideration was £550,000.

The company has recorded the cost of investment as the fair value of the consideration plus the costs directly associated with the acquisition in accordance with FRS7. The total cost capitalised is £571,000.

	Book value and fair value to group £'000
Fixed assets	
Intangible	53
Tangible	32
Current assets	
Stocks	107
Debtors	50
Cash	92
Total assets	334
Creditors	
Bank overdrafts	(8)
Trade creditors	(90)
Other creditors	(48)
Total liabilities	(146)
Net assets	188
Goodwill	383
Consideration	571
Satisfied by	
Cash payment	550
Professional fees incurred on acquisition	21
	571

14 Investments *(continued)*

Net cash outflows in respect of the acquisition comprised:

	£'000
Cash consideration	550
Professional fees	21
Net (cash) acquired	(84)
	487

Kinetic Imaging Ltd earned a profit after taxation of £37,000 in the period from 1 June 2000 to 31 December 2000 (year ended 31 May 2000 – profit £53,310) of which £11,000 loss arose in the period from 1 June 2000 to 14 August 2000.

The summarised profit and loss account from 1 June 2000 to 14 August 2000 is shown below on the basis of the accounting policies of Kinetic Imaging Ltd prior to the acquisition:

Profit and loss account	£'000
Turnover	48
Cost of sales	(17)
Gross profit	31
Other operating expenses (net)	(42)
Operating loss	(11)
Finance charges (net)	–
Loss on ordinary activities before taxation	(11)
Tax on loss on ordinary activities	–
Loss for the financial period	(11)

Acquisition of Quinoderm Limited

On 27 December 2000, the company acquired 100% of the issued share capital of Quinoderm Ltd for a consideration comprising the issue of loan notes for £2,771,183 and cash of £1,060,158. The fair value of the total consideration was £3,831,341. The loan notes carry a coupon of 0-5% below bank base rate and are repayable on demand, hence fair value is not materially affected by the coupon.

The company has recorded the cost of investment as the fair value of the consideration plus the costs directly associated with the acquisition in accordance with FRS7. The total cost capitalised is £3,900,625.

14 Investments *(continued)*

Acquisition of Quinoderm Ltd (continued)

	Book value £'000	Revaluation £'000	Other £'000	Fair value to group £'000
Fixed assets				
Intangible	5		(5)	–
Tangible	268	(35)		233
Current assets				
Stocks	171			171
Debtors	360			360
Cash	53			53
Total assets	857	(35)	(5)	817
Creditors				
Trade creditors	(89)			(89)
Other creditors	(221)		–	(221)
Total liabilities	(310)		–	(310)
Net assets	547	(35)	(5)	507
Goodwill				3,394
Consideration				3,901
Satisfied by				
Loan notes issued				2,771
Cash payment				1,060
Professional fees incurred on acquisition				70
				3,901

The fair value adjustment arose in respect of the revaluation of fixed assets and intangible assets.
Net cash outflows in respect of the acquisition comprised:

	£'000
Cash consideration	1,060
Professional fees	70
Net (cash) acquired	(53)
	1,077

Quinoderm Limited earned a profit after taxation of £92,171 in the year ended 31 December 2000 (Year to 31 March 2000 – profit £122,406) all of which has been treated as pre-acquisition.

14 Investments *(continued)*

Acquisition of Quinoderm Ltd (continued)

The summarised profit and loss account from 1 April 2000 to 31 December 2000 is shown below on the basis of the accounting policies of Quinoderm Limited prior to the acquisition:

Profit and loss account	£'000
Turnover	1,077
Cost of sales	(747)
Gross profit	330
Other operating expenses (net)	(234)
Operating profit	96
Finance charges (net)	(2)
Profit on ordinary activities before taxation	94
Tax on loss on ordinary activities	(2)
Profit for the financial period	92

15 Stocks

	Group	
	2000	1999
	£'000	£'000
Raw materials and consumables	**697**	100
Work in progress	**173**	8
Finished goods	**1,303**	184
	2,173	292

The directors consider that the difference between the amounts shown and the replacement cost is not significant.

16 Debtors

Amounts falling due within one year:

	Group		Company	
	2000	1999	**2000**	1999
	£'000	£'000	**£'000**	£'000
Trade debtors	**3,394**	271	**169**	–
Amounts owed by subsidiary undertakings	**–**	–	**3,533**	1,287
VAT	**63**	194	**25**	142
Other debtors	**584**	25	**230**	23
Prepayments	**168**	41	**20**	–
	4,209	531	**3,977**	1,452

notes to the accounts

17 Creditors: amounts falling due within one year

	Group		Company	
	2000	1999	**2000**	1999
	£'000	£'000	**£'000**	£'000
Finance leases and hire purchase contracts (note 19)	**97**	28	–	–
Bank loans and overdrafts (note 20)	**833**	52	–	–
Payments received on account	–	74	–	–
Trade creditors	**1,712**	449	**19**	133
Amounts owed to subsidiary undertaking	–	–	**578**	–
Corporation tax	**242**	–	–	–
Other taxes and social security	**323**	52	–	6
Other creditors	**282**	49	–	20
Accruals	**613**	95	**54**	–
Deferred consideration	**2,951**	–	**2,951**	
	7,053	799	**3,602**	159

The deferred consideration comprises £2,771,000 of loan notes relating to the acquisition of Quinoderm Ltd and £180,000 relating to the acquisition of Fairfield Imaging Ltd.

The Quinoderm Ltd loan notes are bank guaranteed unsecured loan notes 2005 carrying an interest rate of 0.5% below the banks base rate, and may be redeemed on demand, but at the latest by 31 December 2005.

18 Creditors: amounts falling due after one year

	Group		Company	
	2000	1999	**2000**	1999
	£'000	£'000	**£'000**	£'000
Finance leases and hire purchase contracts (note 19)	**178**	11	–	–
Bank loans (note 20)	**1,336**	39	–	–
Deferred consideration	–	430	–	430
	1,514	480	–	430

Deferred consideration at 31 December 1999 included £180,000 relating to the acquisition of Fairfield Imaging Ltd, which is now shown as current (note 17), and £250,000 relating to the acquisition of Cellpath Plc, which was settled in full during the year.

19 Finance leases and hire purchase contracts

	Group 2000 £'000	1999 £'000
Amounts payable:		
- within one year	**119**	30
- within one to two years	**86**	3
- within two to five years	**111**	9
	316	42
Less: finance charges allocated to future periods	**(41)**	(3)
	275	39
Finance leases are analysed as follows:		
- amounts falling due within one year	**97**	28
- amounts falling due after more than one year	**178**	11
	275	39

20 Borrowings

	Group 2000 £'000	1999 £'000
Bank overdrafts	**217**	37
Bank loans repayable within one year (see below)	**616**	15
	833	52
Bank loans	**1,952**	54
Analysis of bank loan repayments:		
- within one year	**616**	15
- within one to two years	**1,217**	15
- within two to five years	**119**	24
	1,952	54

The bank overdraft and loans are secured by fixed and floating charges over Adams Healthcare Ltd assets.

21 Derivatives and other financial instruments

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in Financial Reporting Standard 13 *Derivatives and Other Financial Instruments: Disclosures (FRS 13)*. Certain financial assets such as investments in subsidiary and associated companies are excluded from the scope of these disclosures.

As permitted by FRS 13, short term debtors and creditors have been excluded from the disclosures, other than the currency disclosures.

Liquidity
The Group's overall objective is to ensure that it is, at all times, able to meet its financial commitments as and when they fall due.

Interest rate profile
The Group's exposure to interest rate fluctuations is managed by fixing interest rates in the short to medium term on borrowings. The interest rate profiles on cash and borrowings are shown below. The fair value of financial assets and liabilities is not materially different from their carrying values.

Cash
Sterling balances on short term deposit at the year end were as follows:

		Interest rate
	£'000	**%**
	5,500	5.8125
	114	3.00

The balance of £171,000 is deposited in non-interest bearing current accounts.

Borrowings
Bank overdrafts in subsidiary undertakings totalled £217,000 at 31 December 2000.

Currency exposure
Where possible the group invoices in sterling to mitigate currency exposure. In situations where invoices are raised in other currencies, the group seeks to minimise its risk by its pricing policy.

22 Provision for liabilities and charges

The amount of deferred tax provided in the financial statements is:

	Provided		Not Provided	
Group	**2000 £'000**	1999 £'000	**2000 £'000**	1999 £'000
Accelerated capital allowances	**338**	40	–	–
Other timing differences	–	8	–	–
Tax losses available	**(39)**	(48)	**(621)**	(672)
	299	–	**(621)**	(672)

No provision has been made for deferred taxation on revalued properties since no liability is expected to arise. There is no deferred tax provision in respect of the company.

23 Share capital

Group and company	**Number of shares 2000**	**Authorised 2000 £'000**	Number of shares 1999	Authorised 1999 £'000
Ordinary shares of 2p (1999 – 0.5p)	**85,000**	**1,700**	340,000	1,700
Deferred shares of 4.5p (1999 – 4.5p)	**40,000**	**1,800**	40,000	1,800
	125,000	**3,500**	380,000	3,500

Group and company	**Number of Shares 2000**	**Allotted and fully-paid 2000 £'000**	Number of shares 1999	Allotted and fully-paid 1999 £'000
Ordinary shares of 2p (1999 – 0.5p)	**78,958**	**1,579**	197,158	986
Deferred shares of 4.5p (1999 – 4.5p)	**25,238**	**1,136**	25,238	1,136
	104,196	**2,715**	222,396	2,122

On 5 April 2000 the company issued 277,775 new ordinary shares of 0.5p at an issue price of 45p in full and final settlement of the deferred consideration pursuant to the acquisition of Cellpath Plc.

Pursuant to the acquisition agreement of Adams Healthcare Limited, 12,354,079 new ordinary shares of 0.5p were issued on 4 May 2000 at an issue price of 16p each, and 6,451,613 warrants of 0.5p were granted to Granville Private Equity at 16p. The company's share price was 16p when agreement was reached with the vendors of Adams for the sale of its share capital to Medical Solutions plc. On the same date 69,989,488 new ordinary shares of 0.5p were issued pursuant to a placing and open offer at an issue price of 30p.

On 4 May 2000 the company issued 6,451,613 shares at 16p each to Granville Private Equity on exercise of warrants held.

On 21 June 2000 the company issued 2,324,400 ordinary shares of 0.5p shares at 2.25p each to Bradmount on exercise of warrants held.

On 31 August 2000 the company issued 28,000 ordinary shares of 0.5p shares at 2.25p each to Texas Holdings Limited on exercise of warrants held.

By an ordinary resolution of the company passed on 11 October 2000 every four ordinary shares of 0.5p in the capital of the company were consolidated into one ordinary share of 2p each. This consolidation was effected in order to achieve an appropriate share price and to reduce volatility experienced in the Company's share price in the summer of 2000.

69,405 ordinary shares of 2p were issued to Sheffield University on 27 November 2000 as part consideration for the collaboration agreement.

At the year end a total of 78,958,232 ordinary shares of 2p and 25,238,390 deferred shares were in issue.

23 Share capital *(continued)*

The share options in issue at 31 December 2000 were as follows:

Note	Ordinary shares at 31 December 1999	Granted during the year	Lapsed during the year	**Ordinary shares at 31 December 2000**	Exercise price	Date exercisable	Expiry date
1)	100,000	–	25,000	**75,000**	44p	28.09.2002	28.09.2009
2)	416,667	–	–	**416,667**	48p	28.09.2002	28.09.2009
2)	–	87,500	18,750	**68,750**	132p	4.04.2003	4.04.2010
2)	–	878,835	–	**878,835**	133p	15.8.2003	15.08.2010
3)	–	190,172	–	**190,172**	133p	30.9.2003	30.9.2010
2)	–	892,857	–	**892,857**	112p	1.11.2003	1.11.2010

note 1) - granted under the approved share option scheme

note 2) - granted under the unapproved share option scheme

note 3) - granted under the approved SAYE share option scheme

note 4) - prior year numbers have been re-stated to reflect the 4 for 1 share consolidation approved on 11 October 2000

24 Reconciliation of movement in shareholders' funds and reserves

Group	Share capital £'000	Share premium account £'000	Merger reserve £'000	Profit and loss account £'000	Total shareholders' funds £'000
At 1 January 1999	2,122	4,606	1,267	(3,556)	4,439
Share issues	593	23,954	–	–	24,547
Expenses of equity share issues	–	(33)	–	–	(33)
Profit/(Loss) for the year	–	–	–	364	364
At 31 December 2000	**2,715**	**28,527**	**1,267**	**(3,192)**	**29,317**
Company					
At 1 January 1999	2,122	4,606	1,267	(3,267)	4,728
Share issues	593	23,954	–	–	24,547
Expenses of equity share issues	–	(33)	–	–	(33)
Loss for the year	–	–	–	(68)	(68)
At 31 December 2000	**2,715**	**28,527**	**1,267**	**(3,335)**	**29,174**

25 Notes to the consolidated cash flow statement

a) Reconciliation of operating loss to net cash outflow from operating activities

	2000 £'000	1999 £'000
Operating profit/(loss)	**327**	(1,116)
Goodwill amortisation	**730**	41
Goodwill impairment	**–**	14
Depreciation charges	**279**	42
Amortisation of development costs	**67**	47
Profit on sale of fixed assets	**100**	1
(Increase) in stocks	**(644)**	(79)
(Increase) in debtors	**(1,712)**	(1,161)
(Decrease)/increase in creditors	**(228)**	814
Net cash outflow from operating activities	**(1,081)**	(1,397)

b) Analysis of cash flows for headings netted in the cash flow statement

	2000 £'000	1999 £'000
Returns on investments and servicing of finance		
Interest received	**239**	20
Interest paid	**(103)**	(41)
Interest element of finance leases and hire purchase rental payments	**(35)**	(7)
Net cash inflow (outflow) for returns on investments and servicing of finance	**101**	(28)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(476)**	(405)
Capitalisation of development costs	**(444)**	–
Sale of tangible fixed assets	**230**	6
Net cash outflow for capital expenditure and financial investment	**(690)**	(399)
Acquisitions		
Purchase of subsidiary undertakings	**(14,281)**	(602)
Acquisition expenses	**(1,404)**	(463)
Net overdrafts acquired with businesses	**95**	(137)
Net cash outflow for acquisitions	**(15,590)**	(1,202)

25 Notes to the consolidated cash flow statement (continued)

b) Analysis of cash flows for headings netted in the cash flow statement (continued)

	2000 £'000	1999 £'000
Disposals		
Sale of subsidiary undertaking (see d)	–	753
Overdraft disposed of	–	64
Net cash inflow from disposals	–	817
Financing		
Issue of ordinary share capital	**22,570**	3,739
Share issue expenses	**(33)**	(162)
	22,537	3,577
Capital element of finance leases and hire purchase rental payments	**(66)**	(18)
Debt due within one year	**(39)**	1,420
Debt due after one year	**(470)**	(227)
	(575)	1,175
Net cash inflow from financing	**21,962**	4,752

c) Analysis of net debt	At 31 December 1999 £'000	Cash flow £'000	Acquisition £'000	Other non-cash Changes £'000	**At 31 December 2000 £'000**
Cash in hand and at bank	941	4,844	–	–	**5,785**
Overdrafts	(37)	(180)	–	–	**(217)**
	904	4,664	–	–	**5,568**
Debt due after one year	(15)	470	(1,791)	–	**(1,336)**
Debt due within one year	(39)	39	(616)	–	**(616)**
Finance leases	(18)	66	(302)	(21)	**(275)**
	(72)	575	(2,709)	(21)	**(2,227)**
Total	832	5,239	(2,709)	(21)	**3,341**

d) Major non-cash transactions

The acquisition of Quinoderm Ltd included the issue of £2,771,000 Loan Notes which have been included within the balance of deferred consideration payable. Deferred consideration brought forward of £250,000 relating to Cellpath plc has been settled during the financial year and the remaining balance on the account of £180,000 relates to Fairfield Imaging Limited.

Details of cash flows relating to the acquisitions and disposals during the year are included in note 14.

26 Commitments under operating leases

The group is committed to making the following payments during the next year under non-cancellable operating leases:

	2000		1999	
		Motor		Motor
	Land and	**vehicles and**	Land and	vehicles and
	buildings	**other**	buildings	other
Group	**£'000**	**£'000**	£'000	£'000
Date of lease termination - within two to five years	**156**	**15**	33	2

27 Directors' interests

Sir G.G. Roberts was, until 31 December 2000, the Vice Chancellor of Sheffield University with which Fairfield Imaging Limited has a collaboration agreement. Under the terms of the Sheffield Agreement, the company and Sheffield University shall identify areas of mutual interest, particularly in the field of medical instrumentation and work together to research, evaluate and commercialise any suitable resulting products. Sir G.G. Roberts has agreed that his annual Non-Executive Director's fee is paid to Sheffield University so long as he is the Vice Chancellor of the University.

A charge of £100,000 was made to Texas Holdings Limited in the period for C.A. Green's work in placing the company's shares held by Texas Holdings Limited.

A.M. McDonald is interested in the shares held by Texas Holdings Limited, a company in which he, his wife, brother and family trust together hold a major shareholding.

28 Contingencies

Company

Under the terms of the group's current bank facilities, the company is liable for the repayment and discharge of all monies owing in respect of the bank borrowings of all subsidiary undertakings. At 31 December 2000 this amounted to £2,169,000 (1999 - £ nil).

29 Capital commitments

	Group		Company	
		Motor		Motor
	Land and	vehicles and	Land and	vehicles and
	buildings	other	buildings	other
	£'000	£'000	£'000	£'000
Contracted for but not provided for	–	**117**	–	–

30 Related party transactions

Related Party transactions of the directors of Medical Solutions plc are disclosed in notes 7 and 27. There were no other related party transactions in the year.

shareholders notes

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Medical
Solutions plc