Medical Solutions plc Annual Report and Accounts 2003

Medical Solutions plc provides world leading services and technology for Cancer Diagnosis and Pathology, supporting the Healthcare, Pharmaceutical and Biotechnology sectors.

- **Turnover from continuing operations trebled to £7.3 million**
  (2002: £2.3 million)
- **Operating loss from continuing operations £1,798,000, before amortisation of goodwill and know-how, and termination costs**
  (2002: loss £1,759,000)*
- **Loss before tax £2,261,000**
  (2002: loss £10,195,000)
- **Loss after tax £135,000**
  (2002: loss £12,288,000)
- **Loss per share 0.16p**
  (2002: loss 15.51p)
- **Clear focus and strategy in place**
  - Cancer diagnosis and pathology
    - Acquisition of private laboratories in Dubai
    - Acquisition of private laboratory in London
  - Drug discovery services – Toolkit developed
- **Further strengthening of main Board**
- **Approval by NICE and DoH of Liquid Based Cytology for cervical cancer screening in UK**

* see note 2

In my last report I highlighted the transformation of Medical Solutions into a highly focussed business specialising in laboratory diagnosis and pathology for healthcare providers and support services for Drug Developers. I am pleased to report that the benefits of the change are apparent both in the financial development of the Company and the services it provides.

The necessary infrastructure is now in place, we have made three key acquisitions and have consolidated several major developments influencing our revenue streams in both the UK and abroad. The combination of world-renowned expertise, state of the art Reference Laboratory facilities and image analysis and innovative technology places Medical Solutions in a unique position to fully exploit the increasing demand internationally for outsourced support services, particularly in the fight against cancer.

Operational Highlights

The Service Division of the Company now has laboratories and a commercial infrastructure in Nottingham, Peterborough, London and Dubai, serving the Public and Private Healthcare Markets and the Drug Development industry worldwide. We can now clearly demonstrate the benefits of developing the new Nottingham facility into an international showpiece centre of excellence. Our investments in Dubai have enabled us to access new markets in the Gulf Region. The global shortage of expert pathologists will provide us with further international opportunities. Our expertise in the handling of technology for the analysis of human tissue is fully compliant with the new legislation proposed in the Human Tissue Act and forms the basis of our unique toolkit for translational cancer research. With virtually all the current cancer drugs becoming generic in 2009, there is a key role for the Company in helping to convert the thousands of chemical entities being explored by the major drug companies into effective, commercial drugs.

The Technology Division of Medical Solutions serves our healthcare market and provides leading imaging and bioinformatics platforms to support the Service Division's customers in their research activities and regulatory submissions. There have been two major developments this year. Firstly, we have established Kinetic Inc in the USA within the North Carolina Research Triangle Park, a thriving East Coast biomedical research community. This will continue to develop specialised software for image analysis and quantification as well as being our head office in the United States. Secondly, our Liquid Based Cytology system for the diagnosis of cervical and other cancers using needle biopsies has been given the green light by the National Health Service (NHS) in this country. This will enable us to create major in roads into this new marketplace whose value exceeds £12.0 million annually.

"With virtually all the current cancer drugs becoming generic in 2009, there is a key role for the Company in helping to convert the thousands of chemical entities being explored by the major drug companies into effective, commercial drugs."

Summary

- Nottingham laboratory facilities completed
- Acquisition of two laboratories in Dubai
- Acquisition of private laboratory in London
- Drug Discovery Services – toolkit developed
- Establishment of facility in Research Triangle Park, North Carolina, USA
- Approval by NICE and DoH of Liquid Based Cytology
- Further strengthening of main Board

Board Changes

Professor Ian Ellis was appointed to the main Board as Medical Director in March 2003. He has been instrumental in the development of PathLore, our pathology diagnosis business. We were also delighted to appoint Professor Karol Sikora as Scientific Director; he will have particular responsibility for leading our Drug Development Services. Karol joined the Group as a Non-Executive Director in April 2002. On his appointment as an Executive Director in September 2003, we announced the appointment of Dr Sue Foden as Non-Executive Director. She has immense experience and knowledge in the Biotechnology and Pharmaceutical Markets having been Chief Executive of Cancer Research Campaign Technology Limited (1987–2000) and Cancer Research Ventures Limited (1998–2000). She is a Trustee of The Institute of Cancer Research and a Founder Member of Cancer Research UK. Sue is currently a Consultant Investor Director for Merlin Biosciences Limited, the specialist life science venture capital company. We also welcome to the Medical Solutions' Advisory Board, Professor Nick Lemoine (Head of Molecular Oncology at Imperial College, London) and Professor Gordon McVie (Cancer Intelligence and former Director General, Cancer Research Campaign).

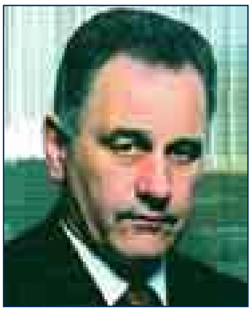
Prospects

There remains a global shortage of pathologists, an increasing requirement for specialist laboratories, a need for new technology and automation in pathology and an expanding market for private healthcare. The support services we can now offer in Drug Development represent a unique combination of services and technologies which allow us to aid drug target identification, design and run clinical trials, develop tests, and utilise those tests in expanding our service offering for healthcare providers.

Medical Solutions' revenue streams are clear, and now include Dubai, the UK private healthcare market, SurePath™ Liquid Based Cytology, and rapidly expanding orders for our Drug Development services. We have a clear focus, and the necessary infrastructure and strategic alliances, skills and technology to deliver our plans in the forthcoming year and build a substantial and profitable business.

Gareth Roberts

Sir Gareth Roberts FRS, FREng
Non-Executive Chairman



Financial Overview

Turnover for the year was £7.3 million. The Service Division grew from £1.1 million in 2002 to £5.1 million through the continued growth in our histopathology business in the UK public healthcare arena, together with the move into private healthcare in the UK and Internationally. We also achieved our first sales in the Drug Development market. The Technology Division's turnover increased from £1.2 million to £2.2 million through the first sales of Liquid Based Cytology, the establishment of Kinetic Inc in May 2003, and the sale of Liquid Based Cytology Systems to the Middle East.

Our laboratories in Dubai exceeded operating profit expectations by around 20%. The margins in the business are however in the region of 43% lowering the overall Group margin. We expect to see these rise as we achieve sales outside the Welcare Hospital, and from the growth in our Drug Development business.

Turnover from existing operations grew by 68% over 2002 and the operating loss from existing operations was £3.1 million in 2003. During the year we recruited 40 people in our Nottingham laboratories. Much of this expenditure was incurred in the second half, however we have now established the infrastructure for continued strong growth in 2004.

We have been able to release all of the tax provision of approximately £2.1 million created on the disposal of Adams, through the use of available losses brought forward and reinvestment of proceeds in assets qualifying for rollover relief.

At the end of 2002 we had £12.0 million cash available from the disposal of non-core businesses. In January 2003 we acquired the freehold of our new headquarters in Nottingham for £3.4 million. We have spent a further £1.2 million acquiring new laboratory equipment and fitting out the laboratories and offices, which we moved into on 5 January 2004. In addition during the second half of the year we spent around £0.7 million on SurePath™ Liquid Based Cytology systems which have now been installed in all the NHS Liquid Based Cytology Training Centres. We also capitalised £0.6 million of development costs in our imaging technology businesses. During the year we invested £7.2 million cash in acquiring the Welcare Laboratory and Histopathology & Speciality Laboratories in Dubai, and a private histopathology laboratory in Harley Street, London. With the operating cash outflow of £2.1 million we had a net debt at the end of 2003 of £3.5 million.

On 28 February 2004 we completed the sale and leaseback of our headquarters, for a consideration of £4.6 million and an annual operating lease payment of £400,000.

"Our results in 2003 demonstrate significant growth in turnover supported by the investment we believe is necessary to deliver our future plans."

Summary	
■	Turnover from continuing operations trebled
■	Turnover from existing activities up 68%
■	Dubai laboratory exceeded warranted profits by approximately 20%
■	Sale and leaseback of Nottingham building post year end for £4.6 million
■	Toolkit for Drug Development Services
■	Development of International Laboratories
■	Entry into UK private pathology market
■	New facilities in Research Triangle Park, North Carolina, USA
■	Approval in UK for Liquid Based Cytology for cervical cancer screening

The initial consideration for the Welcare Laboratory was £7.4 million comprising £5.0 million cash and the subscription for ten million Medical Solutions 2p ordinary shares with a market value of £2.4 million at completion. Consequently £2.2 million of Merger Reserve has been created during the year as a result of S131 Merger Relief.

Operational Development

Key to the development and delivery of our range of services is the consolidation of all activities at the new premises on the new business park in Nottingham. The building consists of 22,000 sq metres of office and laboratory space, with room for expansion, that has been kitted out to comply with all current Good Laboratory Practice (GLP) regulations. We relocated our imaging businesses from Liverpool and Tunbridge Wells, and moved our existing laboratories in Nottingham to the new site.

The Group's business is divided into two main areas:

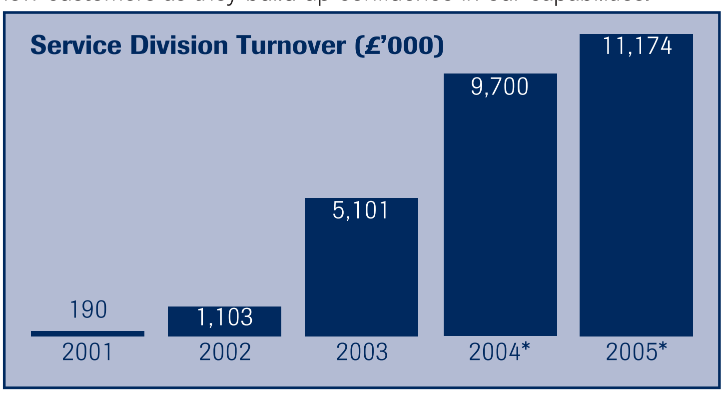
- the Service Division delivers a range of services including specialist pathology, biomaterials resources and expertise coupled with a number of its own laboratory facilities. These services are provided to the global Pharmaceutical and Biotechnology Industry as well as public and private healthcare providers. Through creating new support services for Drug Development we are able to develop new technologies and create a pipeline of products and services which we can offer to our healthcare customers; and
- the Technology Division's range includes specialist-imaging software for telemedicine, image analysis and quantification, and the SurePath™ system for preparing Liquid Based Cytology smear samples. This Division is also key in supporting the Service Division's offerings to both the Drug Development market and the healthcare market.

Service Division

The Service Division has seen the rapid development of its revenue streams in 2003, from its beginnings in June 2001. Sales for 2001 were £190,000, 2002 £1.1 million, and 2003 £5.1 million. Brokers' forecasts for 2004 and 2005 are £9.7 million and £11.2 million.

Toolkit for Drug Development Services

In 2003 we secured significant contracts with major Pharmaceutical companies and anticipate a growth in our interaction with existing and new customers as they build up confidence in our capabilities.



*Brokers' forecasts

Toolkit for Drug Development Services (continued)

Medical Solutions introduced tissue supply services for Pharmaceutical and Biotechnology companies using its first fully ethically consented tissue bank at Peterborough. It now has upward of 80 agreements in place for supplying normal and diseased tissue samples for drug discovery. Its network of 72 specialist pathologists is able to provide expert opinions on this tissue as well as being the largest private provider of histopathology services to Britain's NHS.

Medical Solutions introduced a quantitative immunohistology service to assess the dose response of human tissue biomarkers to escalating amounts of a new drug. By developing assays for a series of such markers the Company has created a novel toolkit for the global cancer pipeline. This produces vital early performance data on new compounds when first given to patients allowing better decision making on whether to take them forward to expensive pivotal studies for registration. The discovery of tightly linked biomarkers of molecular effect also provides response surrogates for patient selection so effectively personalising cancer medicine. Such molecular signatures will eventually be incorporated into diagnostics to select drugs for routine cancer care.

It is estimated that in 2003 there were about 500 oncology drugs being tested in clinical trials. Of these, around 300 were against specific molecular targets but this number is set to rise dramatically. 2,000 compounds will be available to enter clinical trials by 2006 and 5,000 by 2010. Many of these drug candidates will be directed at the same molecular targets and industry is racing to screen those most likely to make it through in the development process. Tremendous pressures are coming from the loss of patent protection from the majority of high cost chemotherapy drugs by 2008.

Already we are seeing the emergence of drugs targeted at a molecular level – Herceptin, directed at the HER2 protein, Glivec, which targets the Bcr-Abl tyrosine kinase, and Iressa and Tarceva, directed at EGFR tyrosine kinase. These therapies will be used across a range of cancers.

Therapies will emerge through our knowledge of the human genome and the use of sophisticated bioinformatics. Targeted imaging agents will be used to deliver therapy at screening or diagnosis. Monitoring cancer patients will also change as technology allows the disease process to be tracked much more closely. Treatment strategies will reflect this and drug resistance will become much more predictable. Biomarkers will allow those treating people with cancer to measure if a drug is working on its target. If it is not, an alternative treatment strategy will be sought. Tumour regression will become less important as clinicians look for molecular patterns of disease and its response.

"In 2003 we established the infrastructure to serve our four main revenue streams for the immediate future – Drug Discovery Services, Liquid Based Cytology, Histopathology in the UK's Private and Public Healthcare Markets and the development of our International Pathology Laboratories."

International Healthcare Laboratories

On 26 June 2003 we acquired a private laboratory in Dubai with annual post-tax profits of approximately £1.0 million, and have established Medical Solutions as a provider and partner in Dubai Healthcare City (DHCC), the $2 billion green-field development currently being constructed. The aim of the Dubai Healthcare City initiative is to provide the highest quality healthcare services through the creation of a world class cluster of healthcare professionals and service providers to satisfy the needs of the expanding private hospital market in Dubai, the Gulf, and its catchment area of two billion people. Other significant healthcare providers involved in the DHCC initiative include The Harvard Medical School, The Johns Hopkins Medical Institute and The Mayo Clinic. We are now well positioned to fulfil the laboratory needs, histopathogy expertise and telepathology of this exciting new opportunity, in addition to supporting its public health systems.

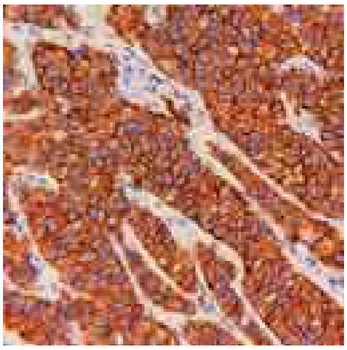
On 16 September 2003 we acquired Histopathology & Specialty Laboratory (HSL) in Dubai to provide additional histopathology capacity complementing Medical Solutions' existing laboratory in Dubai providing high quality services from state of the art laboratories for the rapidly expanding private healthcare market in the region.

On 8 March 2004 we entered into a strategic alliance with United Laboratories Company (ULC) a subsidiary of United Medical Services, a major investor in the healthcare sector in Kuwait. The key aim of the alliance is to enhance the delivery of reference and diagnostic laboratory services in Kuwait and Qatar. The intention is that through an exclusive partnering agreement, Medical Solutions will provide specialised laboratory services, in particular, histopathology, to enhance the technical capabilities of ULC. Utilising ULC contacts and operations in the health sector in Kuwait and elsewhere will accelerate the Company's plans for the region.

We are keen to utilise our expertise in expanding our international laboratory operations in key selected territories as the above activity demonstrates.

UK Private Pathology Market

On 4 July 2003 we acquired a private histopathology laboratory in London and formed a joint venture with Sonic Healthcare (Sonic), an Australian listed company, to provide histopathology and cytology services in London and in the private healthcare market in the UK. This acquisition is also an important



UK Private Pathology Market (continued)

step in creating the conduit through which we intend to offer Liquid Based Cytology services to UK healthcare providers.

Having established a strong presence in the provision of Cancer Pathology Services to the UK public market (the NHS), it is our belief that this acquisition provides the Group with the potential for rapid expansion into the expanding UK private sector.

This acquisition is an important piece of Medical Solution's long-term strategy and provides us with a strong first foothold into the very attractive private pathology market. The acquisition also provides the Group with a Clinical Pathology Accreditation (CPA) accredited laboratory facility in the heart of London.

Our London laboratory now operates from newly refurbished laboratories at 27 Harley Street.

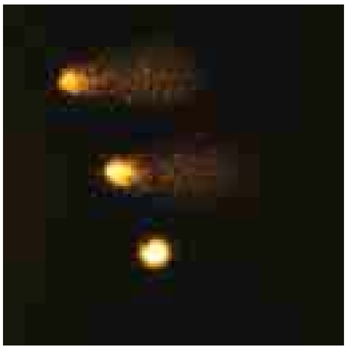
I am delighted that we have formed the relationship with Sonic who are one of the leading providers of medical diagnostics in the world with a particular expertise in pathology services.

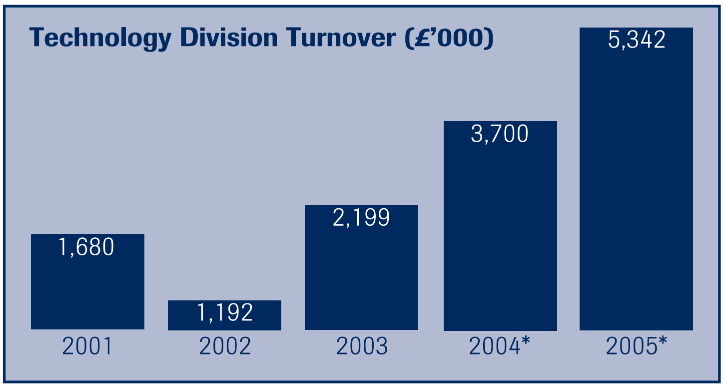
Sonic's principal UK operation The Doctors Laboratory, the leading provider of private cervical screening in the UK, has stated that they are adopting Medical Solutions' SurePath™ for their Liquid Based Cytology screening. The SurePath™ system will be supplied by Medical Solutions in the UK under licence from TriPath Imaging Inc. The Doctors Laboratory, who are, by far, the largest provider of private cervical screening in the UK, is a great endorsement for the SurePath™ system.

Technology

The Technology Division's growth in the future is forecast to come mainly from the sale of Liquid Based Cytology systems and consumables. Sales in 2001 were £1.7 million, 2002 £1.2 million and 2003 £2.2 million. Brokers' forecasts for 2004 and 2005 are £3.7 million and £5.3 million.

In May we established an operation in Research Triangle Park (RTP), North Carolina, USA, headed up by Dr Mark Browne, the founder of Kinetic Imaging to meet the demand centred around RTP for expert analysis using our imaging products to support drug discovery.





*Brokers' forecasts

On 14 August 2003 National Institute of Clinical Excellence (NICE) approved Liquid Based Cytology for Cervical Cancer Screening in the UK. SurePath™ is one of only two Food & Drug Agency (FDA) approved Liquid Based Cytology smear test systems which have been trialled by the NHS and reviewed by NICE, for implementation in the UK. There are currently 4.7 million smear tests performed each year in England and Wales. On 22 October 2003 the Department of Health accepted the decision by NICE that Liquid Based Cytology will replace the current cervical smear test in England and Wales.

Liquid Based Cytology is also a significant step towards the introduction of even more powerful detection tools in the future including automatic imaging and molecular markers. The SurePath™ Liquid Based Cytology system already has some of these systems approved in the US and trials are underway in the UK.

We are currently in late stage discussions with a major international company regarding the licensing of some of our imaging technologies. This licence would provide substantial royalty income in the future.

Summary

In 2003 we established the infrastructure to serve our four main revenue streams for the immediate future – Drug Discovery Services, Liquid Based Cytology, Histopathology in the UK's Private and Public Healthcare Markets and the development of our International Pathology Laboratories. Whilst these are primarily service based they are supported by the strength of our in house technology. Our results in 2003 demonstrate significant growth in turnover supported by the investment we believe is necessary to deliver our future plans.

Charles Green
Chief Executive Officer

Turnover for the year to 31 December 2003 was £7,300,000 (2002: £16,785,000).

On 31 December 2002 the Group sold the trade and assets of Adams Healthcare Limited to Ecolab Limited. On 13 December 2002 the Group sold its 100% interest in the ordinary share capital of Cellpath plc to Clinicare Limited. On 19 April 2002 the Group disposed of the trade and assets of Thackray Instruments and PracticePlus. The results of the businesses sold up to the dates of disposal are disclosed within the Group profit and loss account as discontinued operations.

Turnover from continuing operations was trebled from £2,295,000 in 2002. Our services, which originated from PathLore's remote locum business, grew from a turnover of £190,000, achieved in PathLore's first six months of operation in 2001 to £1,103,000 in 2002. From 2003 our services include our Reference Laboratory, Peterborough Cellular Pathology Services' existing tissue services, and our combined tissue, pathology and imaging services for the Pharmaceutical and Biotechnology sectors. On 26 June 2003 we also acquired the Welcare Laboratory in Dubai, to which we added the Histopathology & Speciality Laboratory in Dubai on 16 September 2003. These businesses operate as Medical Solutions FZ LLC. We also acquired a private laboratory in Harley Street, London on 4 July 2003.

Our Technology Division grew in the year through the first sales of Liquid Based Cytology, the establishment of Kinetic Inc in May 2003, and the sale of Liquid Based Cytology Systems to the Middle East.

Our laboratories in Dubai exceeded profit expectations by around 20%. The margins in the business are however in the region of 43% lowering the overall Group margin. We expect to see these rise as we achieve sales outside the Welcare Hospital, and from the growth in our Drug Development business. During the year we recruited 40 people in our Nottingham laboratories. Much of this expenditure was incurred in the second half, however we have now established the infrastructure for the continued strong growth in 2004.

The operating loss before amortisation of goodwill and know-how, and the termination costs for the year was £1,798,000* (2002: profit £43,000) and the loss before taxation was £2,261,000 (2002: loss £10,195,000). The 2002 loss includes a loss of £8,678,000 relating to the disposal of the trade and assets of Adams Healthcare Limited, Thackray Instruments and PracticePlus, and the whole of the share capital of CellPath plc. Operating costs include amortisation of goodwill and know-how on acquisitions of £435,000 (2002: £1,217,000).

The operating loss from continuing operations before amortisation of goodwill and know-how, and the termination costs for the year was £1,798,000+ (2002: loss £1,759,000).

The Group had net interest receivable in the year of £63,000 (2002: payable £201,000), making the loss before tax £2,261,000 (2001: loss £10,195,000).

Tax on the sale of discontinued activities of £2,128,000 in 2002 related to the disposal of the trade and assets of Adams Healthcare. We reserved the maximum charge and expected that the eventual charge would be substantially lower than this, even before the rollover of any of the gains made on the disposal into any acquisitions that we might make. During the year we have been able to release all of this tax provision offsetting nearly all of the pre-tax loss.

*see consolidated profit and loss account
+see note 2

Summary

- Service Division grown from start up in June 2001 to £5.1 million turnover
- Technology growth from first Liquid Based Cytology sales in UK and Middle East and establishment of US operation in June 2003
- Operating loss before amortisation £1,798,000 (2002: £1,759,000)
- Loss per share 0.16p (2002: loss 15.51p)
- Cash spent on acquisitions £7.2 million, and facilities £6.1 million
- Sale and leaseback of Nottingham facility, 28 February 2004, for £4.6 million

The Group had cash and short-term deposits at the end of the year of £3,250,000 (2002: £16,320,000) and borrowings of £6,723,000 (including overdraft, chattel mortgage and finance leases) (2002: £4,402,000). At the end of 2002 we had £12.0 million cash available from the disposal of non-core businesses. In January 2003 we acquired the freehold of our new headquarters in Nottingham for £3.4 million. We have spent a further £1.2 million acquiring new laboratory equipment and fitting out the laboratories and offices. We moved into the new laboratories on 5 January 2004. In addition during the second half of the year we spent around £700,000 on SurePath™ Liquid Based Cytology systems which have now been installed in all the NHS Liquid Based Cytology Training Centres. We also capitalised £0.6 million of development costs in our imaging technology businesses. During the year we invested £7.2 million cash in acquiring the Welcare Laboratory and Histopathology & Speciality Laboratories in Dubai, and a private histopathology laboratory in Harley Street, London. With the operating cash outflow of £2.1 million we had a net debt position at the end of 2003 of £3.5 million.

On 28 February we completed the sale and leaseback of our headquarters, for a consideration of £4.6 million and an annual operating lease payment of £400,000.

The initial consideration for the Welcare Laboratory was £7.4 million comprising £5.0 million cash and the subscription for ten million Medical Solutions 2p ordinary shares with a market value of £2.4 million at completion. Consequently £2.2 million of Merger Relief has been created during the year as a result of S131 Merger Relief.

In 2003 deferred consideration of £3,000,000 was provided for the Welcare acquisition as the business is expected to exceed relevant targets. During 2003, £650,000 of this deferred consideration was paid early for a discount. In addition deferred consideration of £250,000 has been provided for the acquisition of Histopathology & Speciality Laboratories, Dubai.

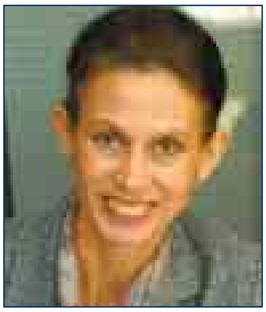
The cash resources, taken with the Group's operational cash flow and banking facilities, are sufficient to meet the Group's needs for the foreseeable future.

The net assets of the Group at the end of the year were £18,112,000 (2002: £16,028,000). Intangibles, including development costs and goodwill total £15,632,000 (2002: £4,010,000), and tangible assets were £6,594,000 (2001: £1,144,000). Net current assets at 31 December 2003 were £1,929,000 (2002: £13,229,000).

The Group had 89,403,240 ordinary shares in issue at 31 December 2003 (2002: 79,403,240). Ten million shares were issued at 24p, resulting in an increase in Merger Reserve of £2,200,000, in part consideration for the acquisition of the Welcare Hospital, Dubai. 250,000 ordinary 2p shares were bought back by the Company at a price of 18p, and warehoused for the Company's Employee Benefit Trust.

Andrew Longstaffe
Finance Director

Sir Gareth G Roberts (63)
Chairman

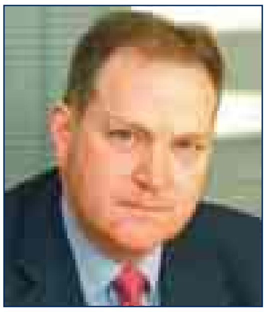


Dr Sue Foden (50)
Non-Executive Director

Charles A Green (50)
Chief Executive Officer

Professor Ian Ellis (48)
Medical Director

Professor Karol Sikora (54)
Scientific Director



Andrew D Longstaffe (45)
Finance Director and Company Secretary

Directors
C.A. Green
Executive Director

A.D. Longstaffe
Executive Director

R.H. Adams
Executive Director
(resigned 21 January 2003)

Professor I.O. Ellis
Executive Director
(appointed 24 March 2003)

Professor K. Sikora
Executive Director
(appointed 1 September 2003)

Sir Gareth G. Roberts
Non-Executive Chairman (Senior Independent Non-Executive Director)

Dr S. Foden
Non-Executive Director
(appointed 1 September 2003)

Company Secretary
A.D. Longstaffe

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Medical and Scientific Advisory Board
Sir Gareth G. Roberts (Chairman)

External Members
Professor Nick Wright
Imperial Cancer Research Fund

Dr Havaard Danielsen
Radium Hospital, Oslo

Professor Gordon Duff
University of Sheffield

Professor Nick Lemoine
Head of Molecular Oncology at Imperial College, London

Professor Gordon McVie
Cancer Intelligence and former Director General, Cancer Research Campaign

Members on Boards of Medical Solutions' Companies
Dr Noah Clinch
Fairfield Imaging

Professor Karol Sikora
Medical Solutions plc

Professor Ian Ellis
Medical Solutions plc

Sir Gareth G. Roberts (63)
Non-Executive Chairman
Sir Gareth FRS, FREng 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 elected a Fellow of The Royal Society in 1984. He is President of the Science Council and Chairs the Research Committee of the Higher Education Funding Council. He was elected President of Wolfson College, Oxford on 1 January 2001, is Proessor of Science Policy in the Saïd Business School and serves on the Board of ISIS Ltd. 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.

Dr Sue Foden (50)
Non-Executive Director
Sue, M.A., D.Phil read biochemistry at the University of Oxford and went on to obtain a D.Phil there in 1978.

After a brief spell in research at AERE Harwell (now AEA Technology), Sue joined the Academic Liaison Group at Celltech Limited (now Celltech-Chiroscience) and ran this function from 1984–1987. From Celltech, Sue went on to establish the technology transfer company of one of the UK's leading cancer research charities, the Cancer Research Campaign (now Cancer Research UK). The success of this company (Cancer Research Campaign Technology Limited (CRCT), led to the establishment of a second venture, Cancer Research Ventures (CRV) in 1998 which carried out technology transfer for cancer research organisations worldwide. Sue was Chief Executive of CRCT for 12 years and in the last two of these, was also Chief Executive of CRV. In September 2000, Sue joined the biosciences venture capital company Merlin Biosciences Limited as Director of Technology, subsequently becoming an Investment Director in 2001. In October 2003, Sue moved away from her management responsibilities in Merlin and became a consultant Investment Director with Merlin.

Sue is a member of the Wellcome Trust Technology Transfer Strategy Panel and of the Board of Trustees of the Institute of Cancer Research in London.

Professor Karol Sikora (54)
Scientific Director
Karol FRCR FRCP PhD, studied medical science and biochemistry at Cambridge, gaining a double first. He became Clinical Director for Cancer Services at Hammersmith in London where, during the following 12 years, he established a major Cancer Research Laboratory. Following a spell as Deputy Director (Clinical Research) of the Imperial Cancer Research Fund, he became Chief of the WHO Cancer Programme. From 1999 to 2001 he was Vice President, Global Clinical Research (Oncology) at Pharmacia Corporation. He is currently a Consultant to AstraZeneca and Special Adviser to HCA Healthcare, where he is to create and develop the largest UK cancer network outside the NHS. He is also Visiting Professor of Cancer Medicine and Honorary Consultant Oncologist at Imperial College School of Medicine, Hammersmith Hospital, London.

Charles A Green (50)
Chief Executive Officer
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.

Professor Ian Ellis (48)
Medical Director
Ian is Professor of Cancer Pathology at the University of Nottingham and Honorary Consultant Histopathologist at Nottingham City Hospital. He has an international reputation particularly in the classification of breast cancer and is regularly invited to speak at national and international meetings on aspects of breast pathology. He is the author of over 200 peer reviewed publications. He is a Fellow and a Speciality Advisor of The Royal College of Pathologists and sits on a range of committees specialising in breast pathology. He has acted as an advisor to the DoH, WHO and IARC.

Andrew D Longstaffe (45)
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.

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditors' report for the year ended 31 December 2003.

Results and Dividends

Turnover for the year amounted to £7,300,000 (2002: £16,785,000). The operating loss for the year was £2,233,000 compared to £1,392,000 in 2002. The loss for the year before taxation amounted to £2,261,000 compared to a loss of £10,195,000 in 2002. No dividend can be paid (2002: £nil).

A review of operations and future prospects is contained in the Chairman's Statement, Chief Executive's Review of Operations and Finance Director's Report.

Principal Activities

Medical Solutions plc is a holding Company.

PathLore Limited provides expert remote pathology services through over 70 consultant pathologists. PathLore Limited provides a comprehensive network of experts and includes some of the most experienced histopathologists in the UK. It was conceived in response to the overwhelming demand on pathology resources. Key services include primary and secondary specialist opinions, a Reference Laboratory preparing and analysing a comprehensive range of tests, prognostic profiling for selection of appropriate adjuvant therapy, tissue preparation and evaluation for drug development and clinical trial evaluation, and cervical screening and general cytology.

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.

Kinetic Imaging Limited is a leader in fluorescent imaging with its Komet product and Live Cell Imaging products, and has many major cancer research establishments as customers.

Second Opinion Solutions AS holds the intellectual property for PathSight, a Fairfield Imaging product.

Medical Solutions FZ LLC is the Group's operation in Dubai and includes the pathology laboratory currently in the Welcare Hospital and the Histopathology & Speciality Laboratory.

Medical Solutions (London) Limited is a histopathology laboratory in Harley Street, London.

New Property

To support our intention to develop a world-renowned centre of excellence for cancer diagnosis and drug discovery services in Nottingham over the next five years, in January 2003 the Company acquired the freehold to a new building, 1 Orchard Place, Nottingham Business Park, near Junction 26 of the M1. The new building houses Medical Solutions' head office, the Technology Division and new laboratories for the Services Division. Fairfield Imaging moved its operations from Tunbridge Wells to Nottingham on 28 February 2003. Kinetic Imaging moved from Bromborough, Merseyside on 30 June 2003, and PathLore moved its laboratories and operations on 5 January 2004. The freehold of the new building cost £3.4 million, and the cost of fit out and new laboratories was £1.2 million. On 28 February 2004 the freehold of the building was sold for £4,600,000 and leased back for a minimum period of 25 years at a starting rent of £400,000 per year.

Share Capital

At the year end a total of 89,403,240 ordinary shares of 2p were in issue (2002: 79,403,240), 250,000 of those shares were bought by the Company and warehoused for the Company's Employee Benefit Trust.

On 26 June 2003 ten million ordinary 2p shares were issued to the value of £2,400,000, in consideration for the acquisition of the Welcare Laboratory, Dubai.

Directors and their Interests

Mr R.H. Adams resigned as a Director on 21 January 2003 following the disposal of Adams Healthcare Limited. Professor I.O. Ellis was appointed as Medical Director on 24 March 2003. On 1 September 2003 Prof K. Sikora became an Executive Director. He was previously a Non-Executive Director. On the same day Dr S. Foden was appointed as a Non-Executive Director. Professor I.O. Ellis and Dr S. Foden who were appointed after the last Annual General Meeting offer themselves for re-appointment at the next Annual General Meeting. Mr C. A. Green and Mr A. D. Longstaffe retire by rotation and being eligible will offer themselves for re-election at the next Annual General Meeting. No contract existed during the year or at the year end in which any Director of the Company was interested, other than service contracts.

None of the Directors have a service contract with the Company requiring more than 12 months' notice of termination to be given. The details of the Directors' contracts are given in the Directors' Remuneration Report.

The Directors' interests in the ordinary shares of the Company at 31 December 2003 and at 1 January 2003 or the date of appointment were:

	Beneficial holdings	
	31 December 2003 Number of shares	1 January 2003 or date of appointment Number of shares
Sir Gareth G. Roberts	**210,223**	210,223
Mr C.A. Green	**288,422**	222,222
Mr A.D. Longstaffe	**755,238**	689,038
Prof I.O. Ellis	**61,166**	61,166
Prof K. Sikora	**215,000**	–
Dr S. Foden	**–**	–

On 17 March 2004 Charles Green bought 54,000 ordinary shares. On 18 March 2004, Mrs A Sikora, the wife of Prof K. Sikora purchased 40,500 ordinary shares.

Substantial Shareholders

On 4 April 2004 the Company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests of 3% or more in the Company's ordinary share capital:

	Number	Percentage of ordinary share capital
Mr S. Varkey	10,000,000	11.19%
M&G Investment Management	4,850,000	5.42%
Gartmore Investment Management	3,996,504	4.47%
Invesco Asset Management	3,798,166	4.25%
BWD Rensburg	3,241,658	3.63%
Cantor Fitzgerald	2,870,000	3.21%
Barclays Stockbrokers Limited	2,801,411	3.13%

Disabled Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should be, as far as possible, identical with that of other employees.

Employee Consultation

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group.

Charitable and Political Donations

The Group made no charitable or political donations during the year (2002: £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 2003 was 78 days (2002: 72 days).

Medical Solutions plc holds the investments in the Group companies, does not trade itself and does not have suppliers within the meaning of the Companies Act 1985.

Auditors

On 1 August 2003, Deloitte & Touche, the Company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Andrew Longstaffe
Company Secretary
1 Orchard Place
Nottingham Business Park
Nottingham
NG8 6PX
14 April 2004

Statement of Compliance with the Code of Best Practice

The Group continues to be committed to high standards of corporate governance and the Board believes that the Group has been in compliance with the Provisions of the Code of Best Practice set out in section 1 of the Hampel Code on corporate governance issued by the Financial Services Authority with the exception of:

- the Audit Committee has currently only two Non-Executive Directors and therefore does not comprise at least three Non-Executive Directors (D.3.1). This is due to the several months required to recruit new Non-Executive Directors. The Chairman is in the process of identifying and appointing one further Non-Executive Director with significant financial experience. The Chief Executive Officer is also a member of the Audit Committee; and
- the same Non-Executive Director is currently serving as the Senior Non-Executive Director and the Chairman. These duties should be separate (A.2.1). This is due to only two Non-Executive Directors currently being appointed, which limits the segregation of duties.

A revised Combined Code (2003 FRC Code) on corporate governance was published in July 2003. The Board believes that significant progress has already been made towards satisfying the requirements of the 2003 FRC Code. Although the Code is not applicable to the Group in the year under review, the Group has commenced the process of further formalising and developing its procedures. The Board will continue this process, which, it is anticipated, will enable it to report that it has operated in compliance with the majority of the Principles contained within the 2003 FRC Code during 2004.

Statement about Applying the Principles of Good Governance

The Group has applied the Principles of Good Governance set out in section 1 of the Hampel 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. The full composition of the Board is set out on page 13.

Remuneration and Audit Committee

The Remuneration and Audit Committees are both chaired by Sir Gareth G. Roberts. Dr S. Foden, the other Non-Executive Director, is also a member of the Remuneration Committee. The Audit Committee consists of the Chief Executive Officer, the Non-Executive Chairman and the other Non-Executive Director. The Finance Director acts as Secretary of the Committee. The Audit Committee is responsible for reviewing accounting policies, internal controls and the financial results of the Company.

Nomination Committee

Given the small size of the Group, the Directors consider it unnecessary to create a specific Nomination Committee. Therefore all Directors are involved in the appointment of new Directors. As required by the Hampel Code, all Directors are required to retire every three years by rotation.

Independence

Medical Solutions plc considers that its current Non-Executive Directors are independent for the purposes of the Combined Code.

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 Control

In applying the Principle D.2 of the Combined Code 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. The system of internal control is designed to manage rather than eliminate the risk of failure to observe business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The key features of the internal control system that operated during the year covered by the financial statements 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.

The following sets out the ongoing process for identifying, evaluating and managing significant risks found by the Company. This process has been in place for the year under review and up until the date of approving these statements and is reviewed regularly by the Board.

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 division 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 internal control system is continuously evaluated, regularly reviewed by the Board and accords with the Turnbull guidance.

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. During the year in compliance with provisions of the Code the Directors have undertaken a review of the effectiveness of the Group's system of internal controls. No significant previously unidentified risks were uncovered as part of this process. The Board has reviewed during the year under Principle D.2.2 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, at the time of approving the financial statements, that it is appropriate to continue to adopt the going concern basis in preparing these financial statements. This is based on the Directors' opinion that the Group has adequate financial resources to continue in operational existence for the foreseeable future.

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

Gareth Roberts

Sir Gareth Roberts
Non-Executive Chairman
14 April 2004

Introduction

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002, which introduced new statutory requirements for the disclosure of Directors' remuneration in respect of periods ending on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to Directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

The Regulations require the auditors to report to the Company's members on the "auditable part" of the Directors' Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited Information

Remuneration Committee

The Company has established a Remuneration Committee which is constituted in accordance with the recommendations of the Combined Code. The members of the Committee are Sir Gareth G. Roberts and Dr S. Foden, who are both independent Non-Executive Directors and the Committee is chaired by Sir Gareth G. Roberts.

None of the Committee has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-Directorships or day-to-day involvement in running the business. The Committee makes recommendations to the Board. No Director plays a part in any discussion about his or her own remuneration.

In determining the Directors' remuneration for the year, the Committee consulted Mr C.A. Green about its proposals.

Remuneration Policy

Executive remuneration packages are prudently designed to attract, motivate and retain Directors of the high calibre needed to maintain the Group's position and to reward them for enhancing value to shareholders. The performance measurement of the Executive Directors and key members of senior management and the determination of their annual remuneration packages are undertaken by the Committee. The remuneration of the Non-Executive Directors is determined by the Board within limits set out in the Articles of Association.

There are four main elements of the remuneration package for Executive Directors and senior management:

- basic annual salary (including Directors' fees) and benefits;
- annual discretionary bonus payments with no defined cap as awarded by the Remuneration Committee;
- share option incentives; and
- pension arrangements.

The Company's policy is that a substantial proportion of the remuneration of the Executive Directors should be performance related. Executive Directors may earn annual incentive payments at the discretion of the Remuneration Committee together with the benefits of participation in share option schemes.

Executive Directors are entitled to accept appointments outside the Company providing that the Chairman's permission is sought.

Unaudited Information (continued)

Basic Salary
An Executive Director's basic salary is determined by the Committee prior to the beginning of each year and when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the Group as a whole and relies on objective research which gives up-to-date information on a comparator Group of companies which comprises the top ten companies by capitalisation within the Pharmaceuticals and Biotech sector.

In addition to basic salary, the Executive Directors receive certain benefits-in-kind, principally cars and private healthcare.

Annual Bonus Payments
No bonuses were awarded during the year.

Share Options
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 and the unapproved executive share option scheme.

The Company's policy is to grant options at the discretion of the Committee taking into account individual performance up to a maximum of four times salary over a three year period. It is the Company's policy to phase the granting of share options rather than to award them in a single large block to any individual.

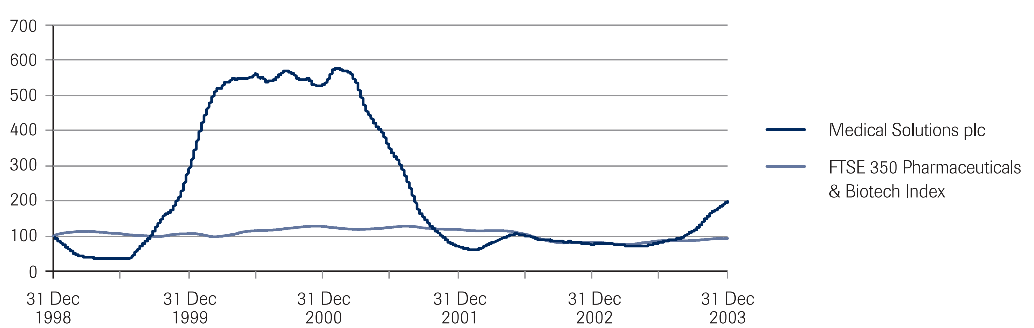
The exercise of options granted may be subject to performance conditions, at the discretion of the Remuneration Committee. There are no performance criteria applicable to grants made to date.

The exercise price of the options granted under the above schemes is equal to the market value of the Company's shares at the time when the options are granted. The Company operates a matching bonus scheme whereby cash bonuses invested in the Company's shares are matched by the issue of the Company's shares to the same value to the Director. These shares may come from the Company's Employee Benefit Trust.

The Company does not operate any long-term incentive schemes other than the share option schemes described above. No significant amendments are proposed to be made to the terms and conditions of any entitlement of a Director to share options.

Pension Arrangements
Executive Directors along with all employees are eligible to be members of the Company's defined contribution pension scheme. Members dependents are eligible for dependents' pensions and the payment of a lump sum in the event of death in service. Members of the pension fund are also covered by Permanent Health Insurance, providing 50% of salary after six months' absence from work due to a permanent disability.

Performance Graph
The following graph shows the Company's performance, measured by total shareholder return, compared with the performance of the FTSE 350 Pharmaceuticals and Biotech Index also measured by total shareholder return. The Directors are of the opinion that the FTSE 350 Pharmaceuticals and Biotech Index provides the most appropriate comparative, based on the Group's operations.



Unaudited Information (continued)

Directors' Contracts

It is the Company's policy that Executive Directors should have contracts with an indefinite term providing for a maximum of one year's notice. However, it may be necessary occasionally to offer long notice periods to new Directors. There are currently no Directors with service contracts with notice periods exceeding one year. In the event of early termination, the Directors' contracts provide for compensation up to a maximum of that payable for the notice period.

Non-Executive Directors

All Non-Executive Directors have specific terms of engagement and their remuneration is determined by the Board within the limits set by the Articles of Association and based on independent surveys of fees paid to Non-Executive Directors of similar companies. The Non-Executives receive further fees for additional work performed for the Company in respect of membership of the Remuneration Committee and Audit Committee. Non-Executive Directors cannot now participate in any of the Company's share option schemes and are not eligible to join the Company's pension scheme.

The Executive Directors and Non-Executive Directors have contracts with the notice periods shown in the table below:

	Date of contract	Notice period
Sir Gareth G. Roberts	27 Jul 1999	1 month rolling
Dr S. Foden	1 Sep 2003	6 months rolling
C.A. Green	27 Jul 1999	6 months rolling
Prof I.O. Ellis	28 Jun 2001	12 months rolling
Prof K. Sikora	1 Sep 2003	12 months rolling
A.D. Longstaffe	4 May 2000	12 months rolling

Audited Information

Directors' Emoluments and Compensation

	Fees/basic salary £'000	Bonus £'000	Taxable benefits in kind £'000	**Total 2003 £'000**	Total 2002 £'000	**Pension 2003 £'000**	Pension 2002 £'000
Executive Directors							
C.A. Green	147	–	–	**147**	152	**–**	–
A.D. Longstaffe	103	–	12	**115**	145	**5**	5
Prof I.O. Ellis (appointed 24 March 2003)	124	–	–	**124**	–	**1**	–
Prof K. Sikora (appointed 22 April 2002)	42	–	–	**42**	20	**–**	–
R.H. Adams (resigned 21 January 2003)	–	–	–	**–**	348	**–**	7
T.M. Twose (resigned 8 February 2002)	–	–	–	**–**	221	**–**	–
Non-Executive Directors							
Sir Gareth G. Roberts	44	–	14	**58**	40	**–**	–
Dr S. Foden	7	–	–	**7**	–	**–**	–
D.E. Seymour (resigned 22 April 2002)	–	–	–	**–**	6	**–**	–
	467	–	26	**493**	932	**6**	12
Money purchase pension contributions				**6**	12		
Aggregate remuneration				**499**	944		

Audited Information (continued)

Directors' Emoluments and Compensation (continued)

On 1 September 2003 Prof K. Sikora became an Executive Director. He was previously a Non-Executive Director. Of the £42,500 remuneration, £22,500 was related to Prof K. Sikora's services as a Non-Executive Director.

Of the amounts disclosed on page 21, £147,500 (2002: £152,450) was paid to a third party, Searby Farming Company, on behalf of Mr C.A. Green.

Bonuses of £160,000 in 2002 related to the successful completion of the disposal of Adams Healthcare Limited.

Mr T.M. Twose was paid £193,000 compensation and was reimbursed £12,500 in respect of his legal costs, for loss of office on his resignation as Director and Chief Executive Officer of the Company on 8 February 2002. In addition, the Company incurred £12,500 of related legal costs.

The Directors hold options under the Company's share option schemes as follows:

Notes	Director	1 January 2003	Granted	Lapsed	**31 December 2003**	Option price	First exercisable date	Last exercisable date
1	C.A. Green	416,667	–	–	**416,667**	48p	28 Sept 2002	28 Sept 2009
1	Sir Gareth G. Roberts	89,286	–	(89,286)	**–**	112p	1 Nov 2003	1 Nov 2010
1	A.D. Longstaffe	241,071	–	(241,071)	**–**	112p	1 Nov 2003	1 Nov 2010
1	A.D. Longstaffe	89,552	–	(89,552)	**–**	100.5p	27 Mar 2004	27 Mar 2011
1	Prof I.O. Ellis	–	2,535,824	–	**2,535,824**	22p	13 Jan 2006	13 Jan 2013
2	Sir Gareth G. Roberts	–	706,000	–	**706,000**	22p	13 Jan 2006	13 Jan 2013
2	A.D. Longstaffe	–	250,000	–	**250,000**	22p	13 Jan 2006	13 Jan 2013
2	Prof I.O. Ellis	–	373,267	–	**373,267**	22p	13 Jan 2006	13 Jan 2013
2	C.A. Green	–	500,000	–	**500,000**	32.5p	22 Sept 2006	22 Sept 2013
2	Prof K. Sikora	–	250,000	–	**250,000**	32.5p	22 Sept 2006	22 Sept 2013
2	A.D. Longstaffe	–	150,000	–	**150,000**	32.5p	22 Sept 2006	22 Sept 2013

Note 1: granted under the unapproved share option scheme
Note 2: granted under the 2001 approved share option scheme

No Directors exercised share options during the year.

There have been no variations to the terms and conditions or performance criteria for share options during the financial year. As described in this Remuneration Report there are no performance criteria attached to the options granted to date.

The market price of the ordinary shares at 31 December 2003 was 52.25p and the range during the year was 16.00p to 58.25p.

Audited Information (continued)

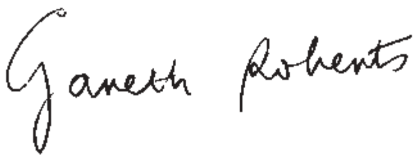
Directors' Pension Entitlements

Two Directors were members of money purchase schemes during the year. Contributions paid by the Company in respect of such Directors were as follows:

	2003 **£**	2002 £
A.D. Longstaffe	**5,000**	5,000
Prof I.O. Ellis	**1,000**	–

Approval

This report was approved by the Board of Directors on 14 April 2004 and signed on its behalf by:



Sir Gareth G. Roberts
Chairman of Remuneration Committee
14 April 2004

Statement of Directors' Responsibilities

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

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

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 financial statements 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.

To the Members of Medical Solutions plc

We have audited the financial statements of Medical Solutions plc for the year ended 31 December 2003 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses and the related notes numbered 1 to 31. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the Directors' Remuneration Report. Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the 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 regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of 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 Group's corporate governance procedures or its risk and control procedures.

We read the Directors' Report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the Directors' Remuneration Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

Basis of Audit Opinion (continued)

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 financial statements and the part of the Directors' Remuneration Report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report described as having been audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the loss of the Group for the year then ended; and
- the financial statements and part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Nottingham
22 April 2004

Consolidated Profit and Loss Account

For the year ended 31 December 2003

	Notes	**2003 £'000**	2002 £'000
Turnover			
Existing operations		**3,855**	2,295
Acquisitions		**3,445**	–
Continuing operations	2	**7,300**	2,295
Discontinued operations	2	**–**	14,490
	2	**7,300**	16,785
Operating profit/(loss)			
Existing operations		**(3,125)**	(2,113)
Acquisitions		**892**	–
Continuing operations	2	**(2,233)**	(2,113)
Discontinued operations		**–**	721
Operating (loss)/profit before goodwill and know-how amortisation and termination costs	2	**(1,798)**	43
Goodwill and know-how amortisation		**(435)**	(1,217)
Termination costs		**–**	(218)
Operating loss		**(2,233)**	(1,392)
Profit on disposal of fixed assets, discontinued operations	4	**–**	76
Loss on disposal of discontinued operations	5	**(91)**	(8,678)
Loss on ordinary activities before finance charges		**(2,324)**	(9,994)
Finance charges (net)	6	**63**	(201)
Loss on ordinary activities before taxation	7	**(2,261)**	(10,195)
Tax on loss on ordinary activities	9	**2,126**	(2,093)
Loss for the financial year		**(135)**	(12,288)
Loss per ordinary share	11	**(0.16)p**	(15.51)p
Diluted loss per ordinary share	11	**(0.16)p**	(15.51)p

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

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 December 2003

	2003 £'000	2002 £'000
Loss for the financial year	**(135)**	(12,288)
Currency translation difference on foreign currency net investments	**(136)**	–
Total losses recognised since the last report and financial statements	**(271)**	(12,288)

Balance Sheets

At 31 December 2003

	Notes	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Fixed assets					
Development costs and know-how	12	**1,698**	1,563	**–**	–
Goodwill	13	**13,934**	2,447	**–**	–
Intangible assets		**15,632**	4,010	**–**	–
Tangible assets	14	**6,594**	1,144	**4,220**	30
Investments	15	**2**	–	**23,073**	11,328
		22,228	5,154	**27,293**	11,358
Current assets					
Stocks	17	**1,461**	1,027	**–**	–
Debtors	18	**2,783**	1,302	**7,298**	3,840
Cash at bank and in hand		**3,250**	16,320	**3,007**	15,688
		7,494	18,649	**10,305**	19,528
Creditors: Amounts falling due within one year	19	**(5,565)**	(5,420)	**(14,676)**	(14,858)
Net current assets/(liabilities)		**1,929**	13,229	**(4,371)**	4,670
Total assets less current liabilities		**24,157**	18,383	**22,922**	16,028
Creditors: Amounts falling due after more than one year	20	**(6,045)**	(2,355)	**(5,271)**	–
Net assets		**18,112**	16,028	**17,651**	16,028
Capital and reserves					
Called-up share capital	22	**1,788**	1,588	**1,788**	1,588
Share premium account	23	**25,059**	25,059	**25,059**	25,059
Shares in Employee Benefit Trust	23	**(45)**	–	**(45)**	–
Merger Reserve	23	**3,467**	1,267	**3,467**	1,267
Other reserve	23	**1,136**	1,136	**1,136**	1,136
Translation reserve	23	**(136)**	–	**–**	–
Profit and loss account	23	**(13,157)**	(13,022)	**(13,754)**	(13,022)
Equity shareholders' funds		**18,112**	16,028	**17,651**	16,028

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

The financial statements were approved by the Board of Directors on 14 April 2004 and signed on its behalf by:

Andrew Longstaffe
Finance Director
14 April 2004

Consolidated Cash Flow Statement

For the year ended 31 December 2003

	Notes	**2003 £'000**	2002 £'000
Net outflow from operating activities	24	**(2,057)**	(36)
Returns on investments and servicing of finance	25	**63**	(198)
Capital expenditure and financial investment	25	**(6,074)**	(1,381)
Acquisitions and disposals	25	**(7,263)**	12,611
Cash (outflow)/inflow before management of liquid resources and financing		**(15,331)**	10,996
Financing	25	**2,068**	69
(Decrease)/increase in cash in the year	26	**(13,263)**	11,065

The accompanying notes are an integral part of this consolidated cash flow statement.

1 Statement of Accounting Policies

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

a) Accounting Convention

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

b) Basis of Consolidation

The consolidated financial statements include the Company and all its subsidiary undertakings drawn up to 31 December each year. 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. Acquisitions are accounted for under the acquisition method.

c) Intangible Assets – Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given 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, which is 20 years. Provision is made for any impairment.

d) Intangible Assets – Development Costs and Know-How

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. This is estimated to be four years for current projects. Development costs on projects in progress are not amortised. Provision is made for any impairment.

Know-how represents the industrial information and techniques bought by the management team which assists directly in the manufacturing of the products. This includes formulations, test reports, operating and testing procedures, instructions on use and information on operating conditions, whether human or in machine-readable form.

e) Tangible Assets

Tangible fixed assets are stated at cost, 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, fittings and computer software	– 3 – 10 years
Motor vehicles	– 4 years

f) 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.

g) 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 the shorter of the lease term and 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.

1 Statement of Accounting Policies (continued)

h) Stocks and Work in Progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost is determined on a first-in first-out basis and includes transport and handling costs. In the case of manufactured products, 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.

i) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

j) Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales-related taxes.

k) Foreign Currency

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.

The results of overseas operations are translated at the average rate of exchange during the period and their balance sheets at the rate ruling at the balance sheet date. Exchange difference arising on the translation of opening net assets and the results of overseas operations are reported in the statement of total recognised gains and losses. All other exchange differences are included in the profit and loss account.

l) Investments

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

m) Pensions

The Group operates defined contribution pension schemes for the benefit of the Directors and employees of the Group. The assets of the schemes are administered by trustees in funds independent from those of the Group.

The amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

2 Turnover and Segmental Analysis

	Continuing operations		Discontinued operations		Total	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000	**2003 £'000**	2002 £'000
Turnover	**7,300**	2,295	**–**	14,490	**7,300**	16,785
Cost of sales	**(3,870)**	(1,241)	**–**	(7,464)	**(3,870)**	(8,705)
Gross profit	**3,430**	1,054	**–**	7,026	**3,430**	8,080
Selling and distribution costs	**(832)**	(613)	**–**	(3,321)	**(832)**	(3,934)
Research and development costs	**(1,070)**	(474)	**–**	(419)	**(1,070)**	(893)
Administrative expenses excluding goodwill and know-how amortisation and termination costs	**(3,326)**	(1,726)	**–**	(1,484)	**(3,326)**	(3,210)
Operating (loss)/profit before goodwill and know-how amortisation and termination costs	**(1,798)**	(1,759)	**–**	1,802	**(1,798)**	43
Amortisation of goodwill and know-how	**(435)**	(136)	**–**	(1,081)	**(435)**	(1,217)
Termination costs	**–**	(218)	**–**	–	**–**	(218)
Operating (loss)/profit	**(2,233)**	(2,113)	**–**	721	**(2,233)**	(1,392)
Profit on sale of fixed assets	**–**	–	**–**	76	**–**	76
Loss on sale of discontinued operations	**(91)**	–	**–**	(8,678)	**(91)**	(8,678)
Loss on ordinary activities before finance charges and taxation	**(2,324)**	(2,113)	**–**	(7,881)	**(2,324)**	(9,994)
Finance charges (net)					**63**	(201)
Loss before taxation					**(2,261)**	(10,195)

The results of Medical Solutions FZ LLC, which was acquired during the year, are shown as "Dubai Operations" within the Geographical Analysis on page 33.

In 2001 the Directors reported two business segments, being the Pharmaceutical Division and the Cancer Diagnosis and Pathology Division. All of the Pharmaceutical Division was discontinued on 31 December 2002. In addition CellPath plc, which was disclosed with the Cancer Diagnosis and Pathology Division was discontinued. Discontinued operations shown above include the results for the Pharmaceutical Division and for CellPath plc.

The Directors consider that they now operate in two business segments, namely Services and Technology. The continuing operations can be analysed between those two segments as follows, with prior year comparative disclosed on a consistent basis.

2 Turnover and Segmental Analysis (continued)

	Technology		Services		Total	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000	**2003 £'000**	2002 £'000
Turnover	**2,199**	1,192	**5,101**	1,103	**7,300**	2,295
Gross profit	**1,196**	643	**2,234**	411	**3,430**	1,054
Operating profit/(loss) before goodwill and know-how amortisation and termination costs	**(1,448)**	(824)	**949**	(329)	**(499)**	(1,153)
Amortisation of goodwill and know-how	**(133)**	(125)	**(302)**	(11)	**(435)**	(136)
	(1,581)	(949)	**647**	(340)	**(934)**	(1,289)
Termination costs					**–**	(218)
Common costs					**(1,299)**	(606)
Operating loss on ordinary activities before finance charges and taxation					**(2,233)**	(2,113)
Segment net assets/(liabilities)	**4,263**	3,931	**13,418**	2,121	**17,681**	6,052
Unallocated net assets					**431**	9,976
Net assets					**18,112**	16,028

The 2002 comparative figures have been restated to reflect the allocation method used in 2003.

	Total	
	2003 £'000	2002 £'000
Turnover by destination		
United Kingdom and Republic of Ireland	**3,536**	14,170
Other European Union	**122**	835
Rest of Europe	**44**	206
The Americas	**315**	228
Africa	**–**	51
Asia	**3,281**	462
Other	**2**	833
	7,300	16,785

All turnover originated in the United Kingdom, Dubai, or USA.

2 Turnover and Segmental Analysis (continued)

Geographical Analysis by Origin

	United Kingdom operations		Dubai operations		USA operations		Total	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000	**2003 £'000**	2002 £'000	**2003 £'000**	2002 £'000
Turnover	**3,896**	16,785	**3,149**	–	**255**	–	**7,300**	16,785
Cost of sales	**(1,927)**	(8,705)	**(1,807)**	–	**(136)**	–	**(3,870)**	(8,705)
Gross profit	**1,969**	8,080	**1,342**	–	**119**	–	**3,430**	8,080
Selling and distribution costs	**(832)**	(3,934)	**–**	–	**–**	–	**(832)**	(3,934)
Research and development costs	**(1,070)**	(893)	**–**	–	**–**	–	**(1,070)**	(893)
Administrative expenses excluding goodwill and know-how amortisation and termination costs	**(3,086)**	(3,210)	**(119)**	–	**(121)**	–	**(3,326)**	(3,210)
Operating profit/(loss) before goodwill and know-how amortisation and termination costs	**(3,019)**	43	**1,223**	–	**(2)**	–	**(1,798)**	43
Amortisation of goodwill and know-how	**(144)**	(1,217)	**(291)**	–	**–**	–	**(435)**	(1,217)
Termination costs	**–**	(218)	**–**	–	**–**	–	**–**	(218)
Operating profit/(loss)	**(3,163)**	(1,392)	**932**	–	**(2)**	–	**(2,233)**	(1,392)
Profit on sale of fixed assets	**–**	76	**–**	–	**–**	–	**–**	76
Loss on sale of discontinued operations	**(91)**	(8,678)	**–**	–	**–**	–	**(91)**	(8,678)
(Loss)/profit on ordinary activities before finance charges and taxation	**(3,254)**	(9,994)	**932**	–	**(2)**	–	**(2,324)**	(9,994)
Finance charges (net)	**63**	(201)	**–**	–	**–**	–	**63**	(201)
Loss before taxation	**(3,191)**	(10,195)	**932**	–	**(2)**	–	**(2,261)**	(10,195)
Net assets	**16,953**	16,028	**1,172**	–	**(13)**	–	**18,112**	16,028

The Dubai operations column in the table above shows the contribution of the Medical Solutions FZ LLC acquisition to the results for the year.

The other acquisition in the year, Medical Solutions (London) Limited, contributed the following; turnover of £296,000, cost of sales of £253,000, administrative expenses of £79,000 and operating loss of £36,000.

Acquisitions

The analysis presented above includes the following amounts in respect of operations acquired during the year:

		Service Division £'000
Sales to third parties		
– by destination	United Kingdom	296
	Asia	3,149
		3,445
– by origin	United Kingdom operations	296
	Dubai operations	3,149
		3,445
Segment profit		892
Segment net assets		844

3 Other Operating Expenses (Net)

	Continuing operations		Discontinued operations		Total	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000	**2003 £'000**	2002 £'000
Selling and distribution costs	**832**	613	**–**	3,321	**832**	3,934
Research and development costs	**1,070**	474	**–**	419	**1,070**	893
Administrative expenses						
Amortisation of goodwill and know-how	**435**	136	**–**	1,081	**435**	1,217
Termination costs	**–**	218	**–**	–	**–**	218
Administration costs	**3,326**	1,726	**–**	1,484	**3,326**	3,210
	3,761	2,080	**–**	2,565	**3,761**	4,645
	5,663	3,167	**–**	6,305	**5,663**	9,472

In relation to the acquisition of Medical Solutions FZ LLC and Medical Solutions (London) Limited, continuing operations in 2003 include cost of sales £2,060,000, gross profit £1,385,000 and administration expenses £493,000.

4 Profit on Disposal of Fixed Assets, Discontinued Operations

During 2002 the Group sold a building for £140,000 realising a profit on disposal of £76,000. There was no tax impact.

5 Loss on Disposal of Discontinued Operations

£91,000 of the costs related to the raising of debt finance in the discontinued operations were written off when those loans were repaid following completion of the relevant disposals.

On 31 December 2002 the Group sold the trade and assets of Adams Healthcare Limited to Ecolab Limited for cash consideration of £14,678,000. The loss on disposal after costs and goodwill write off amounts to £7,735,000. On 13 December 2002 the Group sold 100% of the share capital of CellPath plc to Clinicare Limited for cash consideration of £1,559,000. After costs and goodwill write off the loss on disposal amounted to £1,271,000.

On 19 April 2002 the Group sold the trade and asses of the Thackray Instruments and PracticePlus businesses for consideration of £740,000, of which £190,000 was received by the Group and a further £550,000 receivable was sold as part of the CellPath plc disposal. After costs of £123,000 the profit and disposal amounts to £346,000.

6 Finance Charges (Net)

	2003 £'000	2002 £'000
Interest receivable and similar income	**134**	63
Bank loans and overdrafts	**(23)**	(241)
Finance leases and hire purchase contracts	**(48)**	(23)
Total interest payable	**(71)**	(264)
	63	(201)

7 Loss on Ordinary Activities before Taxation

Loss on ordinary activities before taxation is stated after charging/(crediting):

	2003 £'000	2002 £'000
Depreciation of tangible fixed assets		
– owned	**270**	432
– held under finance leases and hire purchase contracts	**103**	159
Amortisation of development costs	**316**	183
Amortisation of goodwill	**435**	1,067
Amortisation of know-how	**–**	150
Termination costs	**–**	218
Loss on sale of businesses	**91**	8,678
Profit on sale of fixed assets	**–**	(76)
Operating lease rentals		
– plant and machinery	**–**	9
– other	**162**	220
Auditors' remuneration		
– audit services charged	**39**	45
– tax compliance charged	**21**	21
– other services capitalised on acquisitions	**153**	88
Research and development costs expensed	**1,070**	710
Exchange gains		
– realised	**9**	–
– unrealised	**24**	–

The audit fee for the Company was £5,000 (2002: £5,000).

8 Staff Costs

The average monthly number of employees (including Executive Directors) during the year was:

	2003	2002
Management	**8**	11
Administration and finance	**25**	42
Production, development and technical	**52**	93
Sales and marketing	**17**	20
	102	166

Their aggregate remuneration comprised:

	2003 £'000	2002 £'000
Wages and salaries	**2,514**	4,871
Social security costs	**241**	451
Other pension costs	**51**	121
	2,806	5,443
Less amounts recharged to third parties	**–**	(66)
Less amounts capitalised	**(329)**	(289)
	2,477	5,088

Details of the Directors' remuneration are given in the Directors' Remuneration Report on page 21.

9 Tax on Loss on Ordinary Activities

The tax (credit)/charge comprises:

	2003 £'000	2002 £'000
UK corporation tax	–	2,093
Adjustments in respect of previous period		
– UK corporation tax	(2,126)	–
Total current tax	(2,126)	2,093
Deferred tax		
Origination and reversal of timing differences	–	–
Total tax on loss on ordinary activities	(2,126)	2,093

The tax credit in 2003 relates to the release of the provision made in 2002 for tax on the disposal of the trade and assets of Adams Healthcare. During the year tax losses have become available to cover the whole of the gain made on that disposal.

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

	2003 £'000	2002 £'000
Group loss on ordinary activities before tax	(2,261)	10,195
Tax on Group loss on ordinary activities at standard UK corporation tax rate of 30% (2002: 30%)	(678)	(3,059)
Effects of:		
Gain on businesses sold not taxable	–	(594)
Goodwill on businesses sold	–	4,886
Goodwill and know-how amortisation not deductible for tax purposes	–	365
Other expenses not deductible for tax	27	402
Capital allowances in excess of depreciation	(76)	93
Losses carried back/utilised	847	–
R&D tax relief	(44)	–
Consolidation adjustment on intercompany balances	(76)	–
Adjustments in respect of previous periods	(2,126)	–
Group current tax (credit)/charge for the year	(2,126)	2,093

Losses within the Parent Company and certain subsidiaries which are available for relief against future profits of the same trade are approximately £520,000 (2002: £1,300,000).

9 Tax on Loss on Ordinary Activities (continued)

Deferred Tax

Not provided deferred tax is as follows:

	2003 £'000	2002 £'000
Group		
Accelerated capital allowances	**131**	64
Other timing differences	**–**	(3)
Tax losses available	**(155)**	(390)
Potential deferred tax asset	**(24)**	(329)
Company		
Accelerated capital allowances	**(1)**	(1)
Tax losses available	**–**	(390)
Potential deferred tax asset	**(1)**	(391)

The deferred tax asset is not recognised as the Group does not anticipate taxable profits arising within the immediate future.

10 Loss Attributable to Members of the Parent Company

In accordance with the exemption allowed by section 230 of the Companies Act 1985 the Company has not presented its own profit and loss account. The loss after taxation dealt with in the financial statements of the Parent Company amounted to £732,000 (2002: £12,688,000).

11 (Loss)/Earnings per Ordinary Share

The calculations of loss per share are based on the following profits and numbers of shares:

	Basic		Diluted	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Loss for the financial year	**(135)**	(12,288)	**(135)**	(12,288)

	2003 Number of shares	2002 Number of shares
Weighted average number of shares:		
For basic earnings per share and diluted earnings per share	**84,303,925**	79,187,442

FRS 14 requires presentation of diluted earnings per share (EPS) when a Company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making Company with outstanding share options, net loss per share would only be increased by the exercise of out-of-the-money options. Since it seems inappropriate to assume that option holders would act irrationally and there are no other diluting future share issues, diluted EPS equals basic EPS.

12 Intangible Fixed Asset – Development Costs

	Development Total £'000
Cost	
At 1 January 2003	2,279
Additions	451
At 31 December 2003	**2,730**
Amortisation	
At 1 January 2003	716
Charge for the year	316
At 31 December 2003	**1,032**
Net book value	
At 31 December 2003	**1,698**
At 1 January 2003	1,563

13 Intangible Fixed Assets – Goodwill

Group	£'000
Cost	
At 1 January 2003	2,818
Additions	11,922
At 31 December 2003	**14,740**
Amortisation	
At 1 January 2003	371
Charge for the year	435
At 31 December 2003	**806**
Net book value	
At 31 December 2003	**13,934**
At 1 January 2003	2,447

14 Tangible Fixed Assets

Group	Freehold land and buildings £'000	Plant and machinery £'000	Computer software, fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2003	—	499	884	68	1,451
Additions	4,059	825	849	107	5,840
Disposals	—	—	(70)	—	(70)
Transfers	—	(623)	623	—	—
Translation	—	—	(4)	—	(4)
At 31 December 2003	**4,059**	**701**	**2,282**	**175**	**7,217**
Depreciation					
At 1 January 2003	—	28	244	35	307
Charge for the year	—	—	344	29	373
Disposals	—	—	(57)	—	(57)
Transfers	—	(28)	28	—	—
At 31 December 2003	**—**	**—**	**559**	**64**	**623**
Net book value					
At 31 December 2003	**4,059**	**701**	**1,723**	**111**	**6,594**
At 1 January 2003	—	471	640	33	1,144

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

The total net book value of fixed assets includes £57,000 (2002: £30,000) of assets held under finance leases and hire purchase contracts.

Company	Freehold land and buildings £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 January 2003	—	23	24	47
Additions	4,059	81	94	4,234
Disposals	—	(11)	—	(11)
At 31 December 2003	**4,059**	**93**	**118**	**4,270**
Depreciation				
At 1 January 2003	—	1	16	17
Charge for year	—	10	23	33
At 31 December 2003	**—**	**11**	**39**	**50**
Net book value				
At 31 December 2003	**4,059**	**82**	**79**	**4,220**
At 1 January 2003	—	22	8	30

15 Fixed Assets Investments

Group	£'000
Investment in associates	
Cost	
At 1 January 2003	11
Additions	2
At 31 December 2003	**13**
Provisions	
At 1 January 2003	(11)
Impairment	–
At 31 December 2003	**(11)**
Net book value	
At 31 December 2003	**2**
At 1 January 2003	–

Company	£'000
Unlisted investments in subsidiary undertakings	
Cost	
At 1 January 2003	22,291
Additions	11,745
At 31 December 2003	**34,036**
Provisions	
At 1 January 2003	10,963
Impairment	–
At 31 December 2003	**10,963**
Net book value	
At 31 December 2003	**23,073**
At 1 January 2003	11,328

On 26 June 2003 ten million ordinary 2p shares were issued to the value of £2,400,000 in consideration for the acquisition of the Welcare Laboratory, Dubai.

15 Fixed Assets Investments (continued)

The subsidiary undertakings of Medical Solutions plc and their respective activities were as follows at 31 December 2003:

	Country of incorporation	Principal activity	Percentage held
Fairfield Imaging Limited	England	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	Non-trading following sales of trade and assets on 31 December 2003	100%
Kinetic Imaging Limited	England	Provision of computerised systems and equipment together with consultancy services for medical research	100%
Quinoderm Limited	England	Dormant	100%
Second Opinion Solutions AS	Norway	Holds intellectual property	75.3%
PathLore Limited	England	Provision of pathology services	100%
Histological Solutions Limited	England	Dormant	100%
Medical Solutions FZ LLC	U.A.E.	Pathology laboratory	100%
Medical Solutions (London) Limited	England	Histopathology services	75%
TDL Cytology Limited	England	Cytopathology	25%

* held indirectly

16 Acquisition of Subsidiary Undertaking

Medical Solutions FZ LLC

The laboratory business of the Welcare Hospital was acquired by Medical Solutions plc on 26 June 2003 for a cash consideration of £5.0 million. On the same date the vendor subscribed for ten million 2p ordinary shares. The market price of those shares at issue on 26 June 2003 was 24p. The business was put into a newly incorporated Company, Medical Solutions FZ LLC, registered in the Dubai Health Care City freezone. The Company was capitalised with the issue of £84,000 share capital to Medical Solutions plc. Deferred consideration of £1.0 million per year is payable for each of the first three years should the business exceed profits after tax of £950,000. As the Company believes there to be a high level of certainty that this deferred consideration totalling £3.0 million will be payable, it has been provided for. As at 31 December 2003 £650,000 of this deferred consideration had been paid leaving £2,350,000 outstanding in the balance sheet at 31 December 2003. Further deferred consideration may be payable over the first three years of ownership to a maximum of £2.0 million if the business profits exceed £950,000 per year up to a maximum excess profit of £4.0 million.

On 16 September 2003 Medical Solutions FZ LLC purchased the business of Histopathology & Speciality Laboratories (HSL), Dubai for £100,000 cash. Deferred consideration of £175,000 in Medical Solutions plc shares and £75,000 cash is payable one year from acquisition should the business exceed targets of turnover of AED 1,300,000, and profits of AED 400,000. The relevant amounts regarding this transaction are included in the table below. It sets out the book values of the identifiable assets acquired and their fair value to the Group:

16 Acquisition of Subsidiary Undertaking (continued)

	Welcare laboratory £'000	HSL £'000	Total
Fixed assets	36	–	36
Cash	–	–	–
Net assets	**36**	**–**	**36**
Goodwill arising on acquisition	11,154	350	11,504
Consideration	**11,190**	**350**	**11,540**
Satisfied by:			
Cash payment	5,000	100	5,100
Shares issued	2,400	–	2,400
Deferred consideration	3,000	250	3,250
Professional fees incurred on acquisition	790	–	790
Total consideration	**11,190**	**350**	**11,540**
Net cash outflow in respect of the acquisition comprised:			
Cash consideration	5,000	100	5,100
Professional fees	790	–	790
	5,790	100	5,890

Medical Solutions FZ LLC did not trade prior to the acquisition of the Welcare Laboratory by Medical Solutions plc, and is a 100% subsidiary of Medical Solutions plc.

Medical Solutions FZ LLC (continued)

The summarised profit and loss account for the Welcare Laboratory for the eleven months ended 28 February 2003 is as follows:

	£'000
Turnover	2,312
Cost of sales	(805)
Gross profit	1,507
Administrative expenses	(103)
Net profit for the year	1,404

Medical Solutions plc's acquisition of the Welcare Laboratory is effective from 1 March 2003.

The Company has recorded the cost of investment at the fair value of the consideration plus the costs directly associated with the acquisition in accordance with FRS 7.

Medical Solutions (London) Limited

Medical Solutions (London) Limited did not trade prior to its acquisition of the histopatholgy business Farrer Brown Laboratories from Omnilabs Limited on 4 July 2003, for £450,000 cash.

The Company was capitalised with the issue of £10,000 share capital. The Company is owned 75% by Medical Solutions plc and 25% by The Doctors Laboratory Limited. The Company is currently making losses. The majority shareholder is responsible for all the losses of the Company.

On the same date TDL Cytology Limited acquired the cytology business of Farrer Brown. The Company was capitalised with the issue of £10,000 share capital. The Company is owned 25% by Medical Solutions plc and 75% by The Doctors Laboratory Limited. The Company is currently making losses. The majority shareholder is responsible for all the losses of the Company.

16 Acquisition of Subsidiary Undertaking (continued)

The following table sets out the book values of the identifiable assets acquired and their fair value to the Group:

	Book value and fair value to Group £'000
Fixed assets	180
Cash	10
Net assets	**190**
Goodwill arising on acquisition	409
Consideration	**599**

Satisfied by:	
Cash payment	450
Professional fees incurred on acquisition	149
Total consideration	**599**

Net cash outflow in respect of the acquisition comprised:	
Cash consideration	450
Professional fees	149
	599

The Company has recorded the cost of investment at the fair value of the consideration plus the costs directly associated with the acquisition in accordance with FRS 7.

No financial results are available for this business prior to acquisition.

17 Stocks

	Group	
	2003 £'000	2002 £'000
Raw materials and consumables	**1,083**	6
Work in progress	**1**	78
Finished goods and goods for resale	**377**	943
	1,461	1,027

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

18 Debtors: Amounts Falling Due Within One Year:

	Group		Company	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Trade debtors	**2,343**	744	**45**	–
Amounts owed by Group undertakings	**–**	–	**7,000**	3,701
VAT	**308**	229	**225**	114
Other debtors	**–**	299	**–**	–
Prepayments and accrued income	**132**	30	**28**	25
	2,783	1,302	**7,298**	3,840

19 Creditors: Amounts Falling Due Within One Year

	Group		Company	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Bank loans	**914**	550	**656**	–
Overdraft	**1,741**	1,488	**–**	–
Finance leases and hire purchase contracts	**23**	9	**14**	–
Trade creditors	**1,757**	634	**320**	–
Amounts owed to Group undertakings	**–**	–	**13,006**	14,825
Corporation tax	**–**	2,137	**–**	–
Other taxes and social security	**201**	65	**–**	33
Other creditors	**–**	34	**–**	–
Accruals and deferred income	**329**	503	**80**	–
Deferred consideration	**600**	–	**600**	–
	5,565	5,420	**14,676**	14,858

20 Creditors: Amounts Falling Due After One Year

	Group		Company	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Bank loans	**4,007**	2,334	**3,244**	–
Finance leases and hire purchase contracts	**38**	21	**27**	–
Deferred consideration	**2,000**	–	**2,000**	–
	6,045	2,355	**5,271**	–
Bank loans repayable				
Within one year or less or on demand	**914**	550	**656**	–
More than one year but not more than two years	**931**	550	**656**	–
More than two years but not more than five years	**3,076**	1,784	**2,588**	–
	4,921	2,884	**3,900**	–

Bank loans of £2,005,000 are secured by fixed and floating charges over the assets of the Company. Bank loans of £1,895,000, are secured on the Freehold of 1 Orchard Place, Nottingham. Bank loans of £1,021,000 represent chattel mortgages secured over certain assets of PathLore Limited.

	Group		Company	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Finance leases and hire purchase contracts repayable				
More than one year but not more than two years	**32**	11	**27**	–
More than two years but not more than five years	**6**	13	**–**	–
	38	24	**27**	–
Less finance charges allocated to future periods	**–**	(3)	**–**	–
	38	21	**27**	–

21 Derivatives and Other Financial Instruments

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in FRS 13 "Derivatives and Other Financial Instruments: Disclosures". 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 by ensuring that adequate facilities are in place.

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

There were no balances on short-term deposit at the year end (2002: £nil). Cash balances at the year end were completely offset by associated bank borrowings.

Borrowings

There was an overdraft of £1,741,000 at the year end (2002: £1,488,000). The overdraft is payable on demand.

The maturity profile of the Group's financial liabilities as at 31 December 2003 is given in notes 19 and 20.

The interest rates on bank borrowings are at 1.6% above Bank of Scotland base rate. The interest rate on chattel mortgages of £1,021,000 secured on certain fixed assets is fixed at 3.25% over a five year period.

Deferred consideration outstanding is non-interest bearing.

There are no un-drawn committed borrowing facilities available to the Group as at 31 December 2003.

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.

The table below shows the Group's currency exposure which gives rise to the currency gains and losses recognised in the profit and loss account. Such exposure comprise the monetary assets and liabilities of the Group that are not denominated in sterling. As at 31 December 2003 the net foreign currency monetary liabilities were as follows:

	Group	
	2003 £'000	2002 £'000
US dollar	**178**	–
Euro	**240**	–
	418	–

No hedging is used for either interest rate or currency exposures.

22 Share Capital

Group and Company

	2003		2002	
	Number	**£'000**	Number	£'000
Authorised				
Ordinary shares of 2p	**100,000,000**	**2,000**	100,000,000	2,000
Authorised, called-up and fully paid				
Ordinary shares of 2p	**89,403,240**	**1,788**	79,403,240	1,588

22 Share Capital (continued)

Group and Company

On 24 June 2003 the Company issued ten million ordinary 2p shares with a market value of £2.4 million at completion as part consideration for the acquisition of the Welcare Laboratory, Dubai. Please see note 16 for further details. Under the provisions of section 131 of the Companies Act 1985 no share premium was created and consequently a further Merger Reserve of £2,200,000 was established.

Details of the options are as follows:

Note	Ordinary shares at 31 December 2002	Granted during the year	Lapsed during the year	**Ordinary shares at 31 December 2003**	Exercise price	Date exercisable	Expiry date
1	75,000	–	(75,000)	**–**	44p	28.09.2002	28.09.2009
2	416,667	–	–	**416,667**	48p	28.09.2002	28.09.2009
2	68,750	–	(68,750)	**–**	132p	04.04.2003	04.04.2010
2	86,250	–	(83,750)	**2,500**	124p	09.05.2003	09.05.2010
2	733,835	–	(733,835)	**–**	133p	15.08.2003	15.08.2010
3	190,172	–	(190,172)	**–**	133p	30.09.2003	30.09.2010
2	892,857	–	(892,857)	**–**	112p	01.11.2003	01.11.2010
2	363,184	–	(363,184)	**–**	100.5p	27.03.2004	27.03.2011
2	463,868	–	(463,868)	**–**	52.5p	11.07.2004	11.07.2011
2	25,000	–	–	**25,000**	27.75p	25.03.2005	25.03.2012
2		3,335,824	–	**3,335,824**	22p	13.01.2006	13.01.2013
4		2,575,517	(46,250)	**2,529,267**	22p	13.01.2006	13.01.2013
4		1,480,000	–	**1,480,000**	32.5p	22.09.2006	22.09.2013
4		40,000	–	**40,000**	46p	27.10.2006	27.10.2013

Note 1: granted under the 1991 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: granted under the 2001 approved share option scheme

23 Reconciliation of Movement in Shareholders' Funds and Reserves

Group	Share capital £'000	Share premium account £'000	Shares in EBT £'000	Merger reserve £'000	Other reserve £'000	Translation reserve £'000	Profit and loss account £'000	Total shareholders' funds £'000
At 1 January 2003	1,588	25,059	–	1,267	1,136	–	(13,022)	16,028
Shares issued	200	–	–	2,200	–	–	–	2,400
Loss for the year	–	–	–	–	–	–	(135)	(135)
Shares in EBT	–	–	(45)	–	–	–	–	(45)
Translation adjustment	–	–	–	–	–	(136)	–	(136)
At 31 December 2003	**1,788**	**25,059**	**(45)**	**3,467**	**1,136**	**(136)**	**(13,157)**	**18,112**

Company	Share capital £'000	Share premium account £'000	Shares in EBT £'000	Merger reserve £'000	Other reserve £'000	Translation reserve £'000	Profit and loss account £'000	Total shareholders' funds £'000
At 1 January 2003	1,588	25,059	–	1,267	1,136	–	(13,022)	16,028
Shares issued	200	–	–	2,200	–	–	–	2,400
Loss for the year	–	–	–	–	–	–	(732)	(732)
Shares in EBT	–	–	(45)	–	–	–	–	(45)
At 31 December 2003	**1,788**	**25,059**	**(45)**	**3,467**	**1,136**	**–**	**(13,754)**	**17,651**

250,000 ordinary shares were bought by the Company during 2003 and were used for the Company's Employee Benefit Trust (EBT). The market value of those shares at 31 December 2003 was £130,625.

24 Reconciliation of Operating Loss to Operating Cash Outflow

	2003 £'000	2002 £'000
Operating loss	**(2,233)**	(1,392)
Goodwill amortisation	**435**	1,067
Depreciation charges	**372**	591
Amortisation of development costs and know-how	**316**	333
Increase in stocks	**(441)**	(732)
Increase in debtors	**(1,551)**	(737)
Increase in creditors	**1,045**	834
Net cash outflow from operating activities	**(2,057)**	(36)

25 Analysis of Cash Flows

	2003 £'000	2002 £'000
Returns on investments and servicing of finance		
Interest received	**134**	63
Interest paid	**(23)**	(238)
Interest element of finance leases and hire purchase rental payments	**(48)**	(23)
Net cash inflow/(outflow)	**63**	(198)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(5,623)**	(982)
Development costs	**(451)**	(539)
Sale of tangible fixed assets	**–**	140
Net cash outflow	**(6,074)**	(1,381)
Acquisitions and disposals		
Deferred consideration for acquisitions paid	**(650)**	(2,837)
Sale of businesses	**(78)**	15,448
Purchase of subsidiary undertakings	**(6,535)**	–
Net cash outflow	**(7,263)**	12,611
Financing		
Capital element of finance leases and hire purchase rental payments	**31**	(151)
Increase/(decrease) in short-term borrowings	**364**	21
Increase/(decrease) in long-term borrowings	**1,673**	199
Net cash inflow	**2,068**	69

Companies acquired in the year contributed £433,000 to the Group's net operating cash flows, paid no interest, paid no taxation, and utilised £17,000 for capital expenditure.

26 Analysis and Reconciliation of Net Funds

	At 1 January 2003 £'000	Cash flow £'000	Other non-cash changes £'000	Translation differences £'000	**At 31 December 2003 £'000**
Cash in hand and at bank	16,320	(13,010)	–	(60)	**3,250**
Overdrafts	(1,488)	(253)	–	–	**(1,741)**
	14,832	(13,263)	–	(60)	**1,509**
Debt due after one year	(2,334)	(1,673)	–	–	**(4,007)**
Debt due within one year	(550)	(364)	–	–	**(914)**
Finance leases	(30)	(31)	–	–	**(61)**
	(2,914)	(2,068)	–	–	**(4,982)**
Total	11,918	(15,331)	–	(60)	**(3,473)**

	2003 £'000	2002 £'000
(Decrease)/increase in cash in the year	**(13,263)**	11,065
Cash inflow from increase in debt and lease financing	**(2,068)**	(69)
Change in net debt funds resulting from cash flows	**(15,331)**	10,996
Finance leases disposed with subsidiaries	**–**	130
Translation differences	**(60)**	–
Movement in net funds in year	**(15,391)**	11,126
Net funds at 1 January	**11,918**	792
Net funds at 31 December	**(3,473)**	11,918

Major Non-Cash Transactions

On 24 June 2003 the Company issued ten million ordinary 2p shares as consideration for the acquisition of the Welcare Laboratory, Dubai. The market value of the shares issued was £2,400,000.

27 Financial Commitments

Group

Contracted, but not provided capital commitments as at 31 December 2003 were £nil (2002: £nil).

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

	2003		2002	
	Land and buildings £'000	**Motor vehicles and other £'000**	Land and buildings £'000	Motor vehicles and other £'000
Date of lease termination				
– within one year	**–**	**1**	–	–
– between two to five years	**92**	**151**	66	21

28 Pension Arrangements

The Group operates a defined contribution pension scheme for which pension costs charged for the year amounted to £51,000 (2002: £121,000).

29 Contingencies

Company

Under the terms of the Group's current bank facilities, the Company was liable for the repayment and discharge of all monies owing in respect of the bank borrowings of all subsidiary undertakings.

At 31 December 2003 this amounted to £4,921,000 (2002: £3,732,000).

There is deferred contingent consideration payable in respect of the PathLore Limited acquisition in 2000 up to a total of £400,000. In accordance to the deed dated 24 January 2001 between Medical Solutions plc and Prof I.O. Ellis containing the restrictive covenant and consideration, the first £200,000 payment shall be due when the operating profit of Medical Solutions plc and its subsidiaries (derived from turnover less cost of sales and other operating expenses only) as shown by the consolidated accounts of Medical Solutions plc (the Operating Profit) for any financial year ending prior to 31 December 2005 shall reach £300,000 with the second £200,000 when the Medical Solutions plc Operating Profits reach £600,000, for any financial year ending prior 31 December 2006. In the event of any sale of any business or subsidiary of the Medical Solutions plc Group during the period of the Deed or any change in the accounting reference date of Medical Solutions plc or any of its subsidiaries, the terms of the Deed shall be further adjusted so as to ensure that Prof I.O. Ellis is not prejudiced by the sale or the change in accounting reference date.

30 Subsequent Events

On 28 February 2004 the freehold of 1 Orchard Place, Nottingham was sold for £4,600,000 and leased back for a minimum period of 25 years at a starting rent of £400,000 per year.

31 Related Party

During the year Medical Solutions (London) Limited which is owned 75% by Medical Solutions plc supplied pathology services at a value of £60,000 to PathLore Limited, a wholly owned subsidiary.

Notice is hereby given that the ninety ninth Annual General Meeting of Medical Solutions plc will be held at the offices of Hammonds, 7 Devonshire Square, Cutlers Gardens, London EC2M 4YH on 20 May 2004 at 11.00 am for the following purposes:

Ordinary Business

1 To receive and adopt the financial statements for the year ended 31 December 2003 together with the last Directors' Report, the auditors' report on those financial statements and the auditable part of the Remuneration Report.

2 To re-elect as Director of the Company Dr Sue Foden who retires in accordance with the articles of association.

3 To re-elect as Director of the Company Professor Ian Ellis who retires in accordance with the articles of association.

4 To re-elect as Director of the Company Charles Green who retires in accordance with the articles of association.

5 To re-elect as Director of the Company Andrew Longstaffe who retires in accordance with the articles of association.

6 To re-appoint Deloitte & Touche LLP as auditors of the Company to hold office from the conclusion of the Meeting to the conclusion of the next Meeting at which the accounts are laid before the Company and to authorise the Directors to determine their remuneration.

Special Business

To consider and, if thought fit, to pass the following resolutions, of which resolutions 7 and 10 will be proposed as ordinary resolutions and resolution 8 and 9 will be proposed as special resolutions:

7 That the Directors be and they are generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 (the Act) to allot and issue relevant securities (as defined in that section) up to a maximum aggregate nominal amount of £211,935.20 provided that this authority shall expire on 20 May 2009 or such earlier date (if any) on which this authority is revoked save that the Company may prior to the expiry of such period make an offer or agreement which would or might require relevant securities to be allotted after the expiry of this period and the Directors may allot relevant securities in pursuance of any such offer or agreement notwithstanding the expiry of the authority given in this paragraph, so that all previous authorities of the Directors pursuant to section 80 of the Act be and they are revoked.

8 That subject to resolution 7 being passed the Directors be and they are empowered pursuant to section 95(I) of the Act to allot equity securities (as defined in section 94(2) of the Act) of the Company for cash or sell relevant securities (as defined in section 94 of the Act) pursuant to the authority of the Directors under section 80 of the Act conferred by the previous resolution as if section 89(I) of the Act did not apply to such allotment or sale and at any time prior to the expiry of such power conferred by this resolution to make an offer or agreement which would or might require equity securities to be allotted after the expiry of such power notwithstanding the expiry of such power provided that such power shall, subject as aforesaid, cease on 20 May 2009 or such earlier date (if any) on which the said authority is revoked, and provided that the power conferred by this resolution shall be limited to:

(a) the allotment of equity securities in connection with a rights issue in favour of the holders of ordinary shares where the equity securities attributable to the interests of all the holders of ordinary shares are proportionate (as nearly as may be convenient, having regard to the statutory and other regulatory requirements of any foreign territory or the requirements of any regulatory body or stock exchange) to the respective number of ordinary shares held by them but subject to such exclusions and other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements and any shares held by overseas shareholders; and

(b) the allotment of equity securities otherwise than as mentioned in sub-paragraph (a) up to a maximum aggregate nominal amount of £89,403.24 representing approximately 5% per cent of the nominal value of the current issued ordinary share capital of the Company.

Special Business (continued)

9 That in accordance with the Companies Act 1985, and subject to and in accordance with the power contained in Article 15 (A) of the Articles of association of the Company (as amended by the special resolution on 20 December 2002) the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) on the London Stock Exchange of ordinary shares in the Company on such terms and in such manner as the Directors of the Company may from time to time determine, but further provided that:

(a) the maximum number of ordinary shares hereby authorised to be purchased is 8,940,324 shares representing 10% of the nominal value of the current issued ordinary share capital of the Company;

(b) the minimum price which may be paid for an ordinary share is its nominal value (exclusive of expenses (if any) payable by the Company);

(c) the maximum price which may be paid for an ordinary share is an amount equal to 5% above the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange for the five business days immediately preceding the day on which the ordinary shares is contracted to be purchased (exclusive of expenses (if any) payable by the Company); and

(d) this authority, unless previously revoked or varied, shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2005 save that a contract of purchase may be concluded by the Company before such expiry which will or may be executed wholly or partly after such expiry, and the purchase of shares may be made in pursuance of any such contract.

10 That the Company's Remuneration Report set out in the 2003 Annual Report and Accounts be approved.

By order of the Board

Andrew D Longstaffe

Andrew Longstaffe
Secretary
14 April 2004

Registered office:
1 Orchard Place
Nottingham Business Park
Nottingham NG8 6PX

Notes

1 Only those shareholders registered in the register of members of the Company as at 11.00 am on 18 May 2004 shall be entitled to attend or vote at the aforesaid General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 18 May 2004 shall be disregarded in determining the rights of any person to attend or vote at the Meeting.

2 Members who are entitled to attend and vote at the Meeting are entitled to appoint one or more proxies to attend and, on a poll, to vote instead of them. A proxy need not be a member of the Company.

3 In the case of joint holders the signature of one holder on the form of proxy will be accepted but the vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of any other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of such joint holding.

4 In the case of a corporation the form of proxy must be executed under its common seal or signed on its behalf by a duly authorised attorney or a duly authorised officer of the corporation.

5 To be valid the form of proxy together with any power of attorney or other authority under which it is executed or a notarially certified copy thereof must be sent to the Company's registrars at Lloyds TSB, Registrar's Department, The Causeway, Worthing, West Sussex BN99 6ZL no later than 48 hours before the start of the Meeting.

6 Completion of the form of proxy will not affect the right of a member to attend and vote at the Meeting.

7 The register of Directors' share interests and copies of the Directors' services contracts will be available for inspection at the registered office of the Company during normal business hours on any weekday (public holidays excluded) from the date of this Notice until the Annual General Meeting and will be available for inspection at the place of the Annual General Meeting from 10.45 am on 20 May 2004 and during the Meeting.

Explanatory Notes to the Notice of Annual General Meeting

Item 1: Annual Report and Accounts

The Directors must present to shareholders at the Annual General Meeting the report of the Directors and the accounts of the Company for the year ended 31 December 2003. The report of the Directors, the accounts, the report of the Remuneration Committee and the report of the Company's auditors on the accounts, are contained within the 2003 Annual Report and Accounts.

Items 2–5: Re-election of Directors

The Annual Report at pages 13 and 15 give full biographical details of the Directors and the reasons for their re-election. The Company's Articles of Association state that any Director appointed since the previous Annual General Meeting shall hold office until the next Annual General Meeting and shall then be eligible for re-appointment. The Articles also state that one third of the Directors subject to retirement by rotation shall retire from at each Annual General Meeting. The Code of Best Practice of the Combined Code also requires Directors to submit themselves for re-election at intervals of no more than three years. Each re-election shall be considered separately at the Meeting.

Item 6: Re-appointment of Auditors

The auditors of a Company must be appointed at each General Meeting at which accounts are presented. Resolution 6 proposes the re-appointment of Deloitte & Touche LLP, to hold office until the conclusion of the next Annual General Meeting to be held in 2005. The resolution also gives authority to the Directors to determine the auditors' remuneration.

Item 7: Authority to Allot Shares

Resolution 7 proposes to seek renewal of the authority of the Directors to allot ordinary shares for a period of five years from the date of the resolution. The nominal amount of £211,935.20 of relevant securities to which this authority will relate represents approximately 11.8% of the nominal amount of the issued ordinary share capital of the Company at 31 March 2004. The Directors have no present intention of allotting ordinary shares. The authority will expire on 20 May 2009 but in accordance with previous practice the Directors intend to seek renewal of this authority at subsequent Annual General Meetings.

Resolution 7 will be proposed as an ordinary resolution.

Item 8: Disapplication of Pre-emption Rights

At the Annual General Meeting held on 20 June 2003, the Directors were empowered for a period of five years from the date of the resolution to make limited allotments of ordinary shares for cash other than according to the statutory pre-emption rights, which require a company to offer all allotments of ordinary shares for cash proportionately to existing shareholders first.

Resolution 8 proposes to seek renewal of this power of the Directors to continue to provide for the best interests of shareholders when opportunities arise, so that:

(a) the Company can follow normal practices in the event of a rights issue; and

(b) ordinary shares may be issued wholly for cash other than proportionately to existing ordinary shareholders up to a maximum nominal amount of £89,403.24, representing approximately 5% of the Company's issued ordinary share capital at 31 March 2004.

There are presently no plans to allot ordinary shares wholly for cash. Shares allotted under an employee share scheme are not subject to statutory pre-emption rights. This resolution also takes into account any sales by the Company of treasury shares which it may hold.

The authority sought by resolution 8 will last until 24 May 2009 but, in accordance with previous practice, the Directors intend to seek renewal of this authority at subsequent Annual General Meetings.

Resolution 8 will be proposed as a special resolution.

Item 9: Authority to Purchase Own Shares

In certain circumstances, it may be advantageous for the Company to purchase its own ordinary shares and resolution 9 seeks authority from shareholders to authorise the Directors to make such purchases in the market.

The Directors consider it desirable for this general authority to be available to provide additional flexibility in the management of the Company's capital resources. The Directors would only implement the authority when, in the light of market conditions prevailing at the time, they believe that the effect of any such purchases will enhance earnings per share in the medium to long-term and will be in the best interests of shareholders generally. Any shares purchased under this authority would ordinarily be cancelled and a number of shares in issue will be reduced accordingly. The purchase price will be paid out of distributable profits.

The total number of options to subscribe for ordinary shares that are outstanding at 31 March 2004 (being the latest practicable date prior to publication of this notice) is 7,829,258. The proportion of issued share capital that they represented at that time is 8.8% and the proportion of issued share capital that they will represent if the full authority to buy back shares (existing and being sought) is used is 10%.

Resolution 9 specifies the maximum number of shares which may be purchased (representing approximately 10% of the Company's issued ordinary share capital as at 31 March 2003) and the minimum and maximum prices at which they may be bought, reflecting the requirements of the Companies Act 1985. The Directors intend to seek renewal of this power at subsequent Annual General Meetings.

Resolution 9 will be proposed as a special resolution.

Item 10: Remuneration Report

Resolution 10 proposes the approval of the Company's remuneration report by shareholders at the Annual General Meeting.

The report, which is made on behalf of the full Board, explains the different elements which comprise Executive remuneration, including how base salaries and annual and long-term incentive remuneration are determined for Executive Directors of the Company.

Resolution 10 will be proposed as an ordinary resolution.

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