

Medical Solutions plc Investor presentation September 2006



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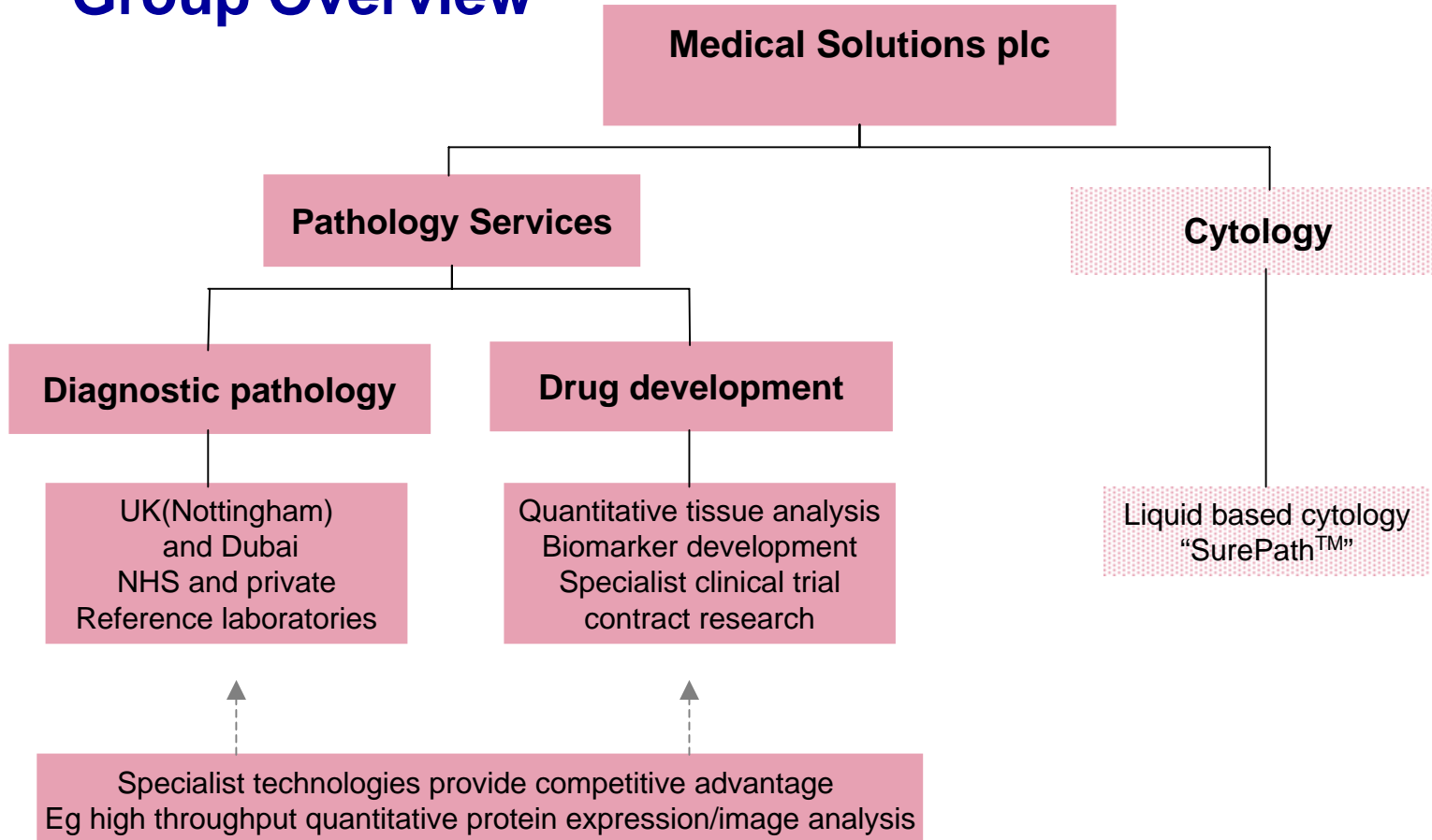


About Medical Solutions

- Focused business operating in the healthcare sector specialising in Pathology Services and Cytology
- **Pathology Services (UK/Dubai)**
 - UK - diagnostic histopathology service (wet and pre-prepared)
 - drug development services
 - specialist reference lab testing
 - Dubai - full service pathology operation (Welcare Hospital)
 - 3 smaller pathology operations (SCL, DML, HSL)
- **Cytology**
 - distribution of Liquid Based Cytology equipment and consumables (SurePath™)



Group Overview





Highlights – year to date

Financial

- Turnover up 36% to £6.8 million
- Gross margins improved to 41% (2005:38%)
- Maiden operating profits of £66,000 (H1 2005: operating loss of £1.0 million)
- Positive cash flows during period (£0.4 million)
- Net cash balance of £2.7 million (31 December 2005: £2.3 million)



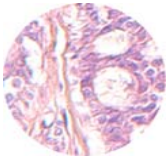
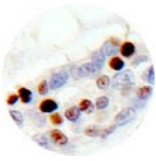
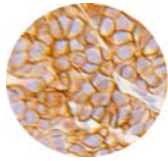
Highlights – year to date

Operational

- Late stage discussions concerning sale of Dubai business
- Exclusive distribution agreement with Tripath Imaging Inc. extended to 31 December 2010
- LBC market share expected to reach 47%
- New products launched in UK Diagnostic Pathology and Drug Development Services
- Key initiative in automated cervical smear testing

Board changes

- Charles Green steps down as CEO; Dr Neil Johnston appointed
- Dr Nick Ash appointed as CFO



Financial review



Financial performance

- Maiden profitability for Group achieved as targeted
- Revenue from continuing operations up 36%
 - Significant growth from LBC (up 90%) and Dubai (up 55%)
- Continued focus on efficiency drives gross profit margin growth
- Overheads base now stable
- Further sales and marketing investment likely

Continuing operations

Sales

Cost of sales

Gross profit

Gross profit %

Selling and distribution

Research and development

Administrative expenses - normal

Administrative expenses - share based comp

Total Administrative expenses excl other administrative expenses

Pro-forma operating profit/(loss)

Other administrative expenses (incl restructuring)

Gain on sale of fixed assets

Reported operating (loss)/profit

	Y/e 31 Dec 2004	Y/e 31 Dec 2005	6 m/e 30 June 2006
	£'000	£'000	£'000
Sales	6,026	10,672	6,761
Cost of sales	(4,710)	(6,536)	(3,959)
Gross profit	1,316	4,136	2,802
Gross profit %	22%	39%	41%
Selling and distribution	(866)	(833)	(341)
Research and development	(103)	(207)	(100)
Administrative expenses - normal	(5,609)	(4,460)	(2,214)
Administrative expenses - share based comp	(320)	(304)	(83)
Total Administrative expenses excl other administrative expenses	(5,929)	(4,764)	(2,297)
Pro-forma operating profit/(loss)	(5,582)	(1,668)	64
Other administrative expenses (incl restructuring)	(3,470)	(411)	0
Gain on sale of fixed assets	607	383	2
Reported operating (loss)/profit	(8,445)	(1,696)	66

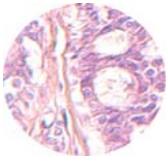
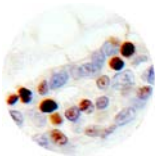
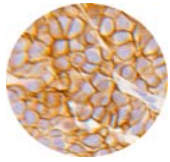


Balance sheets

- Maiden cash generation achieved as targeted
- Capital expenditure of £0.2 million (2005: £0.3 million)
- Current assets
 - Inventory/debtor levels controlled given sales increase
 - Net cash of £2.7 million (31 December 2005: £2.3 million)
- Total liabilities reduced by £3.3 million in year
 - Trade creditors up, but below growth in cost of sales
 - Borrowings at manageable levels
 - Agreement reached to settle Welcare deferred consideration (£2.5 million)

Balance sheet

	31 Dec 2004	31 Dec 2005	30 June 2006
	£'000	£'000	£'000
Goodwill	11,131	14,808	14,641
Other fixed/intangible assets	3,018	2,222	2,137
Non-current assets	14,149	17,030	16,778
Inventory	878	773	726
Trade and other receivables	4,348	3,212	3,287
Cash	1,990	2,313	2,688
Current assets	7,216	6,298	6,701
Trade and other payables	3,790	3,058	3,429
Borrowings (current and non-current)	3,579	594	527
Provisions (current and non-current)	2,023	2,443	2,489
Total liabilities	9,392	6,095	6,445
Net assets	11,973	17,233	17,034
Equity attributable to equity holders	11,973	17,181	17,014
Minority interest	0	52	20
Total equity	11,973	17,233	17,034



Review of Operations



Diagnostic pathology - Dubai

	Y/e 31 Dec 2004	Y/e 31 Dec 2005	6 m/e June 2006
	£'000	£'000	£'000
Sales	2,832	5,017	3,604
Operating result	<u>602</u>	<u>1,617</u>	<u>1,262</u>

Current position and recent developments

- Dubai business comprises Welcare, HSL, DML and SCL (DML/SCL acquired in Jan 2005)
- SCL performance drives recent Dubai growth; other parts of business performing in line with internal expectations
- Settlement of outstanding deferred consideration agreed (£2.5m) in exchange for 16.6% stake in MedSol FZ; repayment of £0.9 million owed to Medical Solutions plc
- Late stage discussions to divest this part of the business



Cytology

	Y/e 31 Dec 2004	Y/e 31 Dec 2005	6 m/e 30 June 2006
	£'000	£'000	£'000
Sales	258*	2,467	1,712
Operating result	<u>(672)</u>	<u>183</u>	<u>262</u>

* Excluding inter-segment sales

Current position and recent developments

- c.4 - 4.5 million cervical smears per annum in England/Wales (NICE decision to move to LBC in October 2003)
- Now confident of winning c. 47% of LBC market
- Extended exclusive distribution agreement with Tripath Imaging Inc.
- Now investing in automated screening UK trials – major growth area with potential to revolutionise UK testing programmes



Diagnostic pathology - UK

	Y/e 31 Dec 2004	Y/e 31 Dec 2005	6 m/e 30 June 2006
	£'000	£'000	£'000
Sales	2,244	2,415	1,289
Operating result	<u>(2,178)</u>	<u>121</u>	<u>337</u>

Current position and recent developments

- Histopathology market in UK estimated to be worth £150-£200 million (90% within NHS); major shortage of qualified pathologists in UK
- Looking to develop strategic alliances as route into wider pathology services (£2bn+ market within NHS)
- New product roll-out, initial focus on oncology testing profiles
- Molecular diagnostic testing likely to be major growth area



Drug development services

	Y/e 31 Dec 2004	Y/e 31 Dec 2005	6 m/e 30 June 2006
	£'000	£'000	£'000
Sales	692	773	156
Operating result	<u>(888)</u>	<u>(740)</u>	<u>(293)</u>

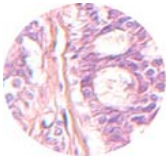
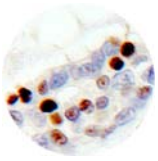
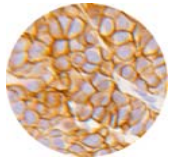
Current position and recent developments

- Focus on development and application of novel biomarkers for use in clinical trials, primarily based on immunohistochemistry/high throughput quantitative protein expression/image analysis techniques
- Disappointing sales to date
- Introduction of Circulating Tumour Cell technology; 1 contract already signed
- Strategic value to business



Summary

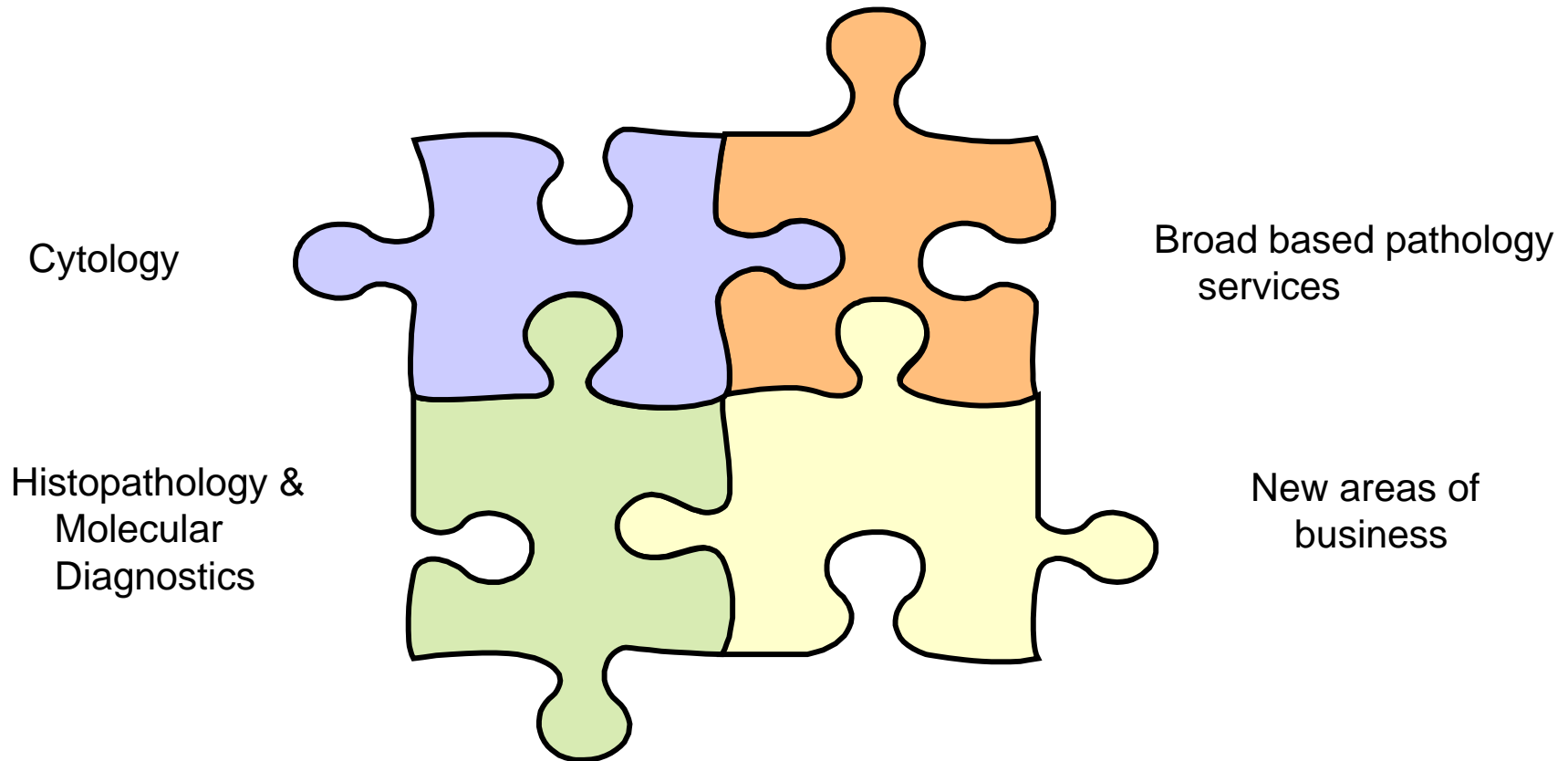
- Key targets of profitability and cash generation achieved during first half of 2006
- Late stage discussions on sale of Dubai business
- Board changes
- Cash raised will fund investment and growth in UK business
- Significant opportunities for growth going forward

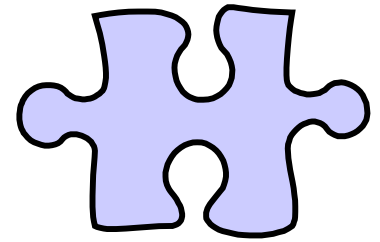


Post-disposal Strategy



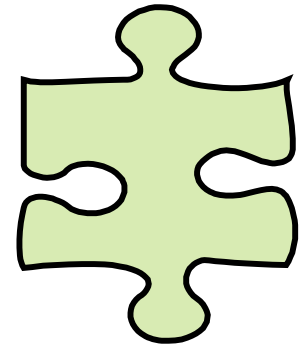
Post disposal strategy – growth driven by building upon core areas of expertise combined with major market opportunities





Cytology – cervical screening

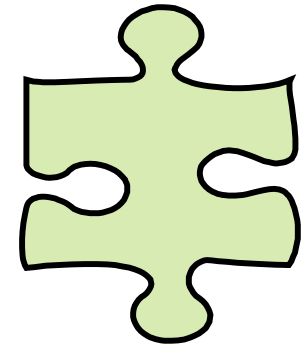
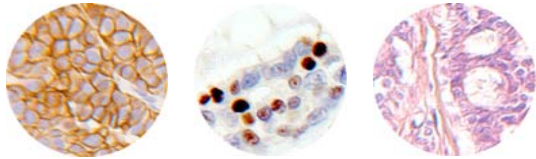
- Approximately 4 million cervical smear tests conducted on 3.7 million women in 2004/5 (England only); Annual cost of £157 million (including cost of treating cervical abnormalities)
- Liquid based cytology widely adopted; full roll-out expected by 2008; inadequate rate expected to fall; retain focus on core business
- Key issues facing NHS Screening Programme
 - compliance levels
 - turnaround times
 - national shortage of screeners
- Automated screening technology will play major role in addressing these issues
- Well positioned to assist private sector/NHS in dealing with these critical issues
- Molecular diagnostic markers for cervical cancer



Histopathology and Molecular Diagnostics

Histopathology

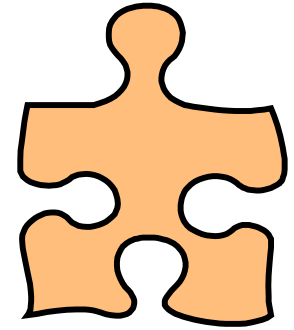
- UK histopathology market estimated to be worth around £200-300 million; 90% of this market within the NHS
- Medical Solutions has developed a profitable business in this area over last 18 months; platform for growth
- Actively looking to develop current offerings through:
 - investment in automated technology to reduce cost and improve turnaround times whilst maintaining high quality of diagnosis
 - introduction of new products and services (Oncology profiles likely to be the first)
 - investment in additional sales and marketing capability
- Encouragement from Lord Carter review – issues in histopathology mentioned specifically



Histopathology and Molecular Diagnostics

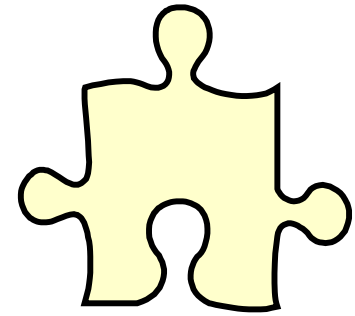
Molecular Diagnostics

- Molecular diagnostics market estimated to be worth around \$4.4 billion and growing rapidly
- Diagnosis based on genomic/proteomic analysis offers opportunities for earlier and more accurate disease diagnosis.
- Benefits include more effective treatments, highly targeted treatments and less risk of adverse reactions
- Medical Solutions is well positioned to act as “partner of choice” to international companies looking to introduce new molecular diagnostic products and maximise UK market share
- Significant experience brings key sources of competitive advantage



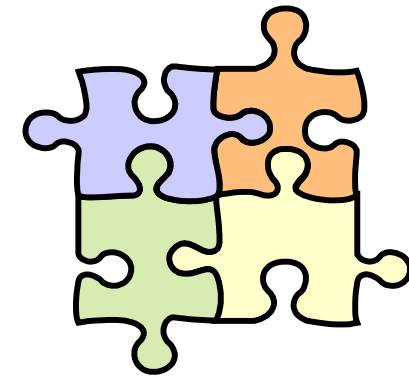
Broad based pathology services

- Non-histopathology UK Pathology market estimated to be worth around £2.2-£2.3 billion
- 90% of this market within the NHS
- Tends to be less labour intensive than histopathology; major economies of scale possible with appropriate investment
- Likelihood of significant change within the NHS over next few years
- Conclusions from Lord Carter's review of NHS Pathology Services in England:
 - Greater involvement of the private sector
 - Commissioning based model with "tariff unbundling"
 - Pilot projects
- Currently evaluating strategic approaches to enter this market



New business areas

- Looking at planned and opportunistic ways to reach critical mass
- Potential business add-ons to be judged by key value-based criteria
- Potential areas of interest could include:
 - Clinical chemistry
 - DNA based testing
 - Environmental testing
 - Gene/genomic based products
 - Diagnostic test providers
 - Drugs of abuse testing



Summary

- Clear strategy for growth based on building upon recent successes, core expertise and current and future market opportunities:
 - introduction of automated screening in cervical screening
 - maximise efficiency of histopathology-based service through investment in automation
 - be the “partner of choice” for molecular diagnostics companies
 - strategic approach to entering broad-based pathology services
 - planned and opportunistic approach to complementary business areas
- Planned sale of Dubai will free up required resources to implement our strategy
- Financial disciplines to be maintained and strengthened
- New skill sets required in certain areas
- We have delivered on phases I and II of our turnaround plan, phase III to come!