



Interim Report 2005

Innovative Solutions in Medicine

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Medical Solutions plc Corporate Overview

Services

UK Diagnostic Pathology

A histopathology business, focused on the UK private and public healthcare sectors with laboratories in Nottingham.

Dubai Diagnostic Pathology

Medical Solutions Dubai offers a broad range of diagnostic services to local hospitals and healthcare providers. In early 2005, we formally completed the acquisitions of Dubai Medical Laboratory and Specialised Clinical Laboratory.

Drug Development Services

The Drug Development Services business unit offers diagnostic and therapeutic testing services to support drug discovery and development for pharmaceutical and biotechnology companies.

Technology

SurePath™ Liquid Based Cytology

SurePath™ is an FDA-approved Liquid Based Cytology system distributed by the Group under licences and intended for use in the screening and detection of cervical cancer.

Virtual Microscopy

The Group provides telepathology workstations and has a suite of dedicated histopathology software for virtual microscopy which is made up of three programmes: PathSight, PathScope and PathScan.

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

Financial Highlights

- Turnover from continuing operations up 56% to £5.0 million (H1 2004: £3.2 million)
- Gross profit margin improved to £1.9 million (39%) (H1 2004: £1.0 million (33%))
- Operating loss from continuing operations (excluding restructuring costs of £0.3 million) of £0.7 million (H1 2004: loss of £0.9 million)
- Loss for the period of £1.1 million (H1 2004: £1.5 million)
- Net cash of £2.7 million (30 June 2004: £1.7 million)

Operational Highlights

- Signed three Liquid Based Cytology ("LBC") agreements worth £7.1 million over five years
- LBC UK Distribution Agreement with Tripath Imaging Inc. renewed until 31 December 2008
- Acquisitions of Dubai Medical Laboratory and Specialised Clinical Laboratory formally completed, both earnings enhancing during period
- Certain intellectual property rights sold to Hamamatsu Photonics KK for initial consideration of £450,000
- Further steps taken to reduce costs including consolidation of UK diagnostic pathology in Nottingham, closure of Harley Street facility and significant reduction in UK headcount

Chairman's Statement

"We have seen strong progress during the first half of 2005. Medical Solutions has been awarded three significant LBC contracts and, in addition, we have seen good revenue growth in our Drug Development Services division and in our Dubai business."

Introduction

Following the successful Placing and Open Offer in January, the Board of Medical Solutions has implemented a number of initiatives aimed at improving the Group's performance at both the financial and operational level. Our financial performance for the first six months of 2005 has begun to reflect these changes and the Board is encouraged by the progress made to date.

Financial and operational review

Financial review

Turnover for the six months ended 30 June 2005 from continuing operations increased by 56% to £5.0 million compared with £3.2 million in the first half of 2004. The increase in turnover during the period has been driven by significant growth in our Liquid Based Cytology ("LBC") and Drug Development Services business streams in the UK and by strong growth in Dubai. Sales in our UK Diagnostic Pathology business have been flat compared to the same period in 2004. As expected, revenue from other Technology sales (excluding LBC) have declined vindicating the Board's decision to exit this area of our business.

Gross margins from continuing operations have improved significantly from £1.0 million (33%), for the first six months of 2004, to £1.9 million (39%) as a result of the increased efficiency of our operations during the period following headcount reductions in our UK workforce.

Operating losses from continuing operations (excluding restructuring costs of £0.3 million) for the six months ended 30 June 2005 were £0.7 million (H1 2004: £0.9 million). Operating expenses includes an exceptional restructuring charge of £287,000 (H1 2004: £nil) relating principally to the closure of the Harley Street facility. Operating expenses for the period also include a charge of £124,000 relating to a share option based compensation charge as required by IFRS 2 "Share-based Payment" (H1 2004: £158,000) (see Note ii in the Appendix).

Operating expenses excluding gains on sale of fixed assets and exceptional restructuring costs have increased to £3.1 million for the six months ended 30 June 2005 (H1 2004: £2.9 million). Operating expenses excluding gains on sale of fixed assets, impairment charges and exceptional restructuring costs for the year ended 31 December 2004 were £7.1 million. Management has made good progress on the identification and realisation of cost savings as set out at the time of the Placing and Open Offer, particularly within its UK business. During the period, we have terminated or restructured arrangements with our network of tissue banks

to reduce fixed costs whilst ensuring there is no impact upon our customers. In June, we announced our decision to consolidate our UK Diagnostic Pathology business in Nottingham and close the Harley Street site. We have moved rapidly to execute this decision and the Harley Street business has now been fully integrated into our Nottingham operation. As at 31 August 2005, we will have reduced UK headcount by 36% since 1 January 2005. We expect that the financial impact of these and other actions taken will become apparent over the full year and into 2006.

Net finance costs of £97,000 for the six months ended 30 June 2005 include £113,000 (H1 2004: £115,000) related to the unwinding of the discount applied to the contingent deferred consideration payable to Varkey Group (see Note i in the Appendix).

In May, we completed the sale of certain intellectual property assets in the area of virtual microscopy to Hamamatsu Photonics KK, generating a profit on disposal of £0.4 million.

"We remain focused on becoming a profitable business and the implementation of various cost reduction initiatives at the beginning of the year is yielding positive results."

Chairman's Statement cont...

“Our key objective for the second half of the year is to maintain this level of progress, continue to reduce costs and improve efficiency whilst positioning the business for organic growth in 2006 and beyond.”

Financial and operational review cont...

Financial review cont...

We have retained a non-exclusive licence, at no cost, to continue to utilise the intellectual property concerned within the Drug Development Services division.

In January 2005, the Company successfully raised £6.4 million before expenses (£5.7 million net of expenses), through a Placing and Open Offer. Net cash used in operating activities during the six months ended 30 June 2005 was £1.8 million (H1 2004: £1.6 million). Capital expenditure of £0.2 million was incurred during the period (H1 2004: £0.8 million) in connection with LBC machines and laboratory equipment in Dubai. The Group had a net cash balance of £2.7 million as at 30 June 2005 (30 June 2004: £1.7 million).

Operational review

The LBC division has performed strongly during the six months ended 30 June 2005. During the period we have announced agreements with the Lancashire & Cumbria Strategic Health Authority, the North East, Yorkshire and Humber regions, the Greater Lincolnshire Primary Care Trusts, Path Links Cytology Service and the Northern Lincolnshire and Goole NHS Trust, amounting to total revenues of £7.1 million over five years at full run rate. Together with the agreements announced in 2004, this brings the total value of LBC agreements signed to date to approximately £12.8 million over a five year period on a full run rate basis. We have now secured 29% of the LBC market in England and Wales. We expect to sign further LBC agreements and have revised our

targeted market share upwards from 35% to 40%. We have also signed an exclusive LBC distribution agreement for the UK and Ireland with Tripath Imaging Inc., extending the original agreement for a further three years until 31 December 2008.

Our Drug Development Services business has made solid progress. At the beginning of 2005, we invested in additional business development resource and operational management. In May, we announced an agreement worth approximately £300,000 to provide biomarker analysis in support of one of AstraZeneca's key therapeutic programmes. We have also signed smaller contracts with a number of other pharmaceutical and biotechnology companies during the period. Relationships with non-essential tissue banks have been restructured or terminated with no impact upon customers. We have now achieved Good Laboratory Practice (“GLP”) status, increasing the range of studies we are capable of carrying out for customers. Our research and development activities have been focused in the area of automated, high throughput quantitative protein expression.

In the UK Diagnostic Pathology business, revenue during the first half of 2005 has been in line with that during the same period in 2004. With our operations now successfully consolidated and integrated in Nottingham, the Board expects that Medical Solutions will play an important role in the outsourcing of pathology services which is expected to increase significantly over the next 12–24 months.

In Dubai, the Dubai Medical Laboratory ("DML") and Specialised Clinical Laboratories ("SCL") acquisitions have been integrated and both have been earnings enhancing during the period. Our business at Welcare Hospital and Histopathology & Speciality Laboratory ("HSL") performed in line with our expectations during the first half of 2005. The Board has decided not to consolidate all of its businesses onto a single site at this stage, but will be taking an administrative office on the Dubai Healthcare City site to establish a strategic position.

In line with our previously stated intention to exit the Virtual Microscopy equipment area of our business, we concluded the sale of certain intellectual property assets to Hamamatsu Photonics KK in May.

Board and management

Following this announcement, Mr Charles Green, Chief Executive Officer, intends to concentrate his efforts on the Group's Dubai business with a view to maximising shareholder value. In the interim, Dr Neil Johnston, Chief Financial Officer, will be assuming Mr Green's responsibilities in the UK.

Financial reporting

These interim results have been prepared under those International Financial Reporting Standards expected to be applicable at 31 December 2005 (see Appendix for further information). During the period PricewaterhouseCoopers have been appointed auditors to the Company.

Prospects

During the six months ended 30 June 2005, the Board believes significant progress has been made towards its main objective of creating a profitable and cash generative pathology-based services group. We have continued to focus our activities on those areas of our business capable of scalable, long-term growth. Where we have identified underperformance issues, we have taken decisive action based upon objective analysis and the results of our actions are beginning to positively impact.

Our key objective for the second half of the year is to maintain this level of progress, continue to reduce costs and improve efficiency whilst positioning the business for organic growth in 2006 and beyond.



Sir Gareth Roberts
Chairman
20 September 2005

Unaudited Consolidated Income Statement

For the six months ended 30 June 2005

	Note	6 months ended 30 June 2005 £'000	6 months ended 30 June 2004 (as restated*) £'000	Year ended 31 December 2004 (as restated*) £'000
Revenue from continuing operations		4,975	3,189	6,026
Cost of sales		(3,026)	(2,152)	(4,710)
Gross profit		1,949	1,037	1,316
Selling and distribution expenses		(458)	(456)	(866)
Administrative expenses:				
– normal		(2,380)	(2,252)	(5,609)
– share based compensation	ii	(124)	(158)	(320)
– restructuring costs	4	(287)	—	(181)
– aborted acquisition		—	—	(240)
– impairment of goodwill and development costs		—	—	(3,049)
Administrative expenses		(2,791)	(2,410)	(9,399)
Research and development		(109)	(77)	(103)
Gain on sale of fixed assets		383	1,000	607
Operating loss from continuing operations		(1,026)	(906)	(8,445)
Interest receivable		51	—	—
Interest payable and similar charges		(148)	(168)	(264)
Loss before tax from continuing operations		(1,123)	(1,074)	(8,709)
Taxation		—	—	(90)
Loss after tax but before loss from discontinued operations		(1,123)	(1,074)	(8,799)
Loss from discontinued operations		—	(456)	(636)
Loss for the period		(1,123)	(1,530)	(9,435)
Attributable to:				
Equity holders of the parent company		(1,141)	(1,530)	(9,435)
Minority interest		18	—	—
Loss for the period		(1,123)	(1,530)	(9,435)
Basic and diluted loss per ordinary share from continuing operations	5	(0.60)p	(1.20)p	(9.50)p
Basic and diluted total loss per ordinary share	5	(0.60)p	(1.71)p	(10.19)p

* See Note 6 for details of the restatement

Unaudited Consolidated Statement of Changes in Shareholders' Equity

As at 30 June 2005

	Attributable to equity holders of the Company						Total equity £'000
	Share capital £'000	Share premium £'000	Merger and other reserves £'000	Translation reserve £'000	Profit and loss reserve £'000	Minority interest £'000	
Balance at 1 January 2004	1,788	25,059	4,558	(136)	(13,157)	—	18,112
Currency translation adjustments	—	—	—	(20)	—	—	(20)
Net expense recognised directly to equity	—	—	—	(20)	—	—	(20)
Loss for the period	—	—	—	—	(1,530)	—	(1,530)
Total recognised expense for the period	—	—	—	—	(1,530)	—	(1,530)
Employee share option scheme: – value of services provided	—	—	—	—	158	—	158
Balance at 30 June 2004	1,788	25,059	4,558	(156)	(14,529)	—	16,720
Balance at 1 July 2004	1,788	25,059	4,558	(156)	(14,529)	—	16,720
Currency translation adjustments	—	—	—	(34)	—	—	(34)
Net expense recognised directly to equity	—	—	—	(34)	—	—	(34)
Loss for the period	—	—	—	—	(7,905)	—	(7,905)
Total recognised expense for the period	—	—	—	—	(7,905)	—	(7,905)
Shares issued	177	2,853	—	—	—	—	3,030
Shares in EBT	(5)	—	50	—	(45)	—	—
Employee share option scheme: – value of services provided	—	—	—	—	162	—	162
Balance at 31 December 2004	1,960	27,912	4,608	(190)	(22,317)	—	11,973
Balance at 1 January 2005	1,960	27,912	4,608	(190)	(22,317)	—	11,973
Currency translation adjustments	—	—	—	13	86	1	100
Net income recognised directly to equity	—	—	—	13	86	1	100
(Loss)/profit for the period	—	—	—	—	(1,141)	18	(1,123)
Total recognised (expense)/income for the period	—	—	—	—	(1,141)	18	(1,123)
Shares issued	2,044	4,170	—	—	—	—	6,214
Employee share option scheme: – value of services provided	—	—	—	—	124	—	124
Balance at 30 June 2005	4,004	32,082	4,608	(177)	(23,248)	19	17,288

Unaudited Consolidated Balance Sheet

As at 30 June 2005

	Note	As at 30 June 2005 £'000	As at 30 June 2004 (as restated*) £'000	As at 31 December 2004 (as restated*) £'000
Non-current assets				
Goodwill		14,348	13,070	11,131
Other intangible assets		273	1,363	339
Property, plant and equipment		2,484	3,271	2,679
		17,105	17,704	14,149
Current assets				
Inventories		749	1,419	878
Trade and other receivables		3,322	3,503	4,348
Financial assets – cash and cash equivalents		3,457	2,528	1,990
		7,528	7,450	7,216
Current liabilities				
Trade and other payables		3,349	2,672	3,790
Financial liabilities – borrowings		1,039	1,171	3,039
Provisions		2,533	1,464	1,197
		6,921	5,307	8,026
Net current assets/(liabilities)		607	2,143	(810)
Total assets less current liabilities		17,712	19,847	13,339
Non-current liabilities				
Financial liabilities – borrowings		424	2,354	540
Provisions		—	773	826
		424	3,127	1,366
Net assets		17,288	16,720	11,973
Equity				
Issued share capital	3	4,004	1,788	1,960
Share premium	3	32,082	25,059	27,912
Other reserves		4,431	4,402	4,418
Profit and loss reserve		(23,248)	(14,529)	(22,317)
Total equity attributable to equity holders of the parent company		17,269	16,720	11,973
Minority interest		19	—	—
Total equity		17,288	16,720	11,973

* See Note 6 for details of the restatement

Unaudited Consolidated Cash Flow Statement

For the six months ended 30 June 2005

	Note	Six months ended 30 June 2005 £'000	Six months ended 30 June 2004 (as restated) £'000	Year ended 31 December 2004 (as restated) £'000
Cash flows from operating activities				
Cash used in operations	7	(1,694)	(1,563)	(2,836)
Interest paid		(35)	(53)	(20)
Tax paid		(29)	—	(61)
Net cash used in operating activities		(1,758)	(1,616)	(2,917)
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired	2	(450)	—	(2,230)
Purchases of property, plant and equipment		(155)	(786)	(789)
Purchases of intangible assets		(30)	(172)	(248)
Proceeds from sale of property, plant and equipment		21	4,600	4,600
Proceeds from sale of intangible assets		225	—	—
Proceeds from sale of discontinued operations		—	450	555
Interest received		51	—	—
Net cash (used in)/generated from investing activities		(338)	4,092	1,888
Cash flows from financing activities				
Proceeds from the issue of share capital	3	6,365	—	3,030
Repayment of borrowings		(2,121)	(2,333)	(2,172)
Payment of transaction costs		(695)	—	—
Finance lease principal re-payments		(37)	—	(26)
Net cash generated from/(used in) financing activities		3,512	(2,333)	832
Net increase/(decrease) in cash and cash equivalents				
		1,416	143	(197)
Cash and cash equivalents at beginning of period		1,312	1,509	1,509
Exchange gains on cash and cash equivalents		9	—	—
Cash and cash equivalents at end of period		2,737	1,652*	1,312*

* including a £2 million restricted cash deposit

Notes to the Consolidated Interim Financial Statements

For the six months ended 30 June 2005

1. Basis of preparation

The consolidated interim financial statements have been prepared in accordance with the IFRS accounting policies that are set out below and are those that are expected to apply for the full year 2005 financial statements. A summary of these key accounting policies is set out in the Appendix to the interim financial statements.

In selecting the accounting policies, the Directors have made assumptions about the IFRS expected to be applied when the first annual IFRS financial statements are prepared for the year ending 31 December 2005.

Further standards and interpretations may be issued that could be applicable for financial years beginning on or after 1 January 2005 or that are applicable to later accounting periods but with the option for companies to adopt for earlier periods. The Group's first annual financial statements prepared under IFRS may, therefore, be prepared in accordance with different accounting policies to those used in the preparation of the financial information in this document. In addition, IFRS is currently being applied in the European Union and other countries for the first time and contains many new and revised standards. Therefore practice on which to draw in applying the standards may develop. At this preliminary stage, before the Group's first annual financial statements prepared under IFRS are completed, it should be noted that the financial information prepared under IFRS in this document could be subject to change.

These interim financial statements do not constitute statutory financial statements within the meaning of section 240 of the Companies Act 1985. Our previous auditors, Deloitte and Touche LLP have issued unqualified opinions on the Group's UK GAAP financial statements for the years ended 31 December 2003 and 31 December 2004 and did not include a statement under section 237(2) or (3) of the Companies Act 1985.

Restatement of prior period comparatives

As explained in Note 6 below, certain balances previously reported under UK GAAP have been restated prior to the application of IFRS. The Directors believe these adjustments were necessary to more accurately reflect the nature and substance of those transactions.

2. Acquisitions of subsidiaries

On 14 January 2005, the Group completed the acquisitions of Dubai Medical Laboratories ("DML") and Specialised Clinical Laboratories ("SCL"). The acquisitions were made by two newly established 100% subsidiaries of Medical Solutions FZ LLC, DML FZ LLC and SCL FZ LLC respectively. These subsidiaries entered into civil partnership agreements with the existing laboratory owners to effectively acquire 80% (DML) and 100% (SCL) of the existing laboratory businesses. Medical Solutions FZ LLC is a 100% owned subsidiary of the Company. Each of the acquisitions was deemed unconditional on 14 January 2005.

Dubai Medical Laboratories

DML FZ LLC acquired an 80% shareholding in DML, a clinical analytical and diagnostic services laboratory which operates as a civil partnership registered in the Emirate of Dubai. DML FZ LLC acquired the 80% holding in DML for total consideration of approximately £1.8 million. The total purchase consideration can be broken down into cash of £1.2 million and 3,887,853 new ordinary shares in Medical Solutions plc, with a fair value of £267,000 (based on the Company's share price at the date of acquisition). The Group incurred legal and professional costs of £261,000 in connection with the acquisition of DML. At the date of acquisition, DML had net assets of £77,000.

In the period between 14 January 2005 and 30 June 2005, DML contributed net profits of £73,000 to the consolidated net profit for the period.

2. Acquisitions of subsidiaries cont...

Specialised Clinical Laboratories

SCL FZ LLC acquired 100% of SCL, a provider of clinical laboratory services. SCL operates as a civil partnership registered in the Emirate of Dubai. SCL FZ LLC acquired the 100% holding in SCL for total consideration of approximately £1.2 million. The total purchase consideration can be broken down into cash of £0.9 million and 3,575,730 new ordinary shares in Medical Solutions plc, with a fair value of £246,000 (based on the Company's share price at the date of acquisition). The Group incurred legal and professional costs of £52,000 in connection with the acquisition of SCL. At the date of acquisition SCL had net assets of £18,000.

In the period between 14 January 2005 and 30 June 2005, SCL contributed net profits of £51,000 to the consolidated net profit for the period.

Had the acquisitions of DML and SCL occurred on 1 January 2005, Group revenues and net profit would have been £29,000 and £9,000 higher respectively.

Effect of acquisitions

The acquisition had the following effect on the Group's assets and liabilities.

Acquiree's net assets at date of acquisition

	DML Recognised value and carrying amount £'000	SCL Recognised value and carrying amount £'000
Property, plant and equipment	22	12
Inventories	55	6
Net identifiable assets and liabilities	77	18
Goodwill on acquisition	1,693	1,161
Satisfied in cash*	1,503	933
Satisfied in shares	267	246
Consideration paid	1,770	1,179

* Includes legal fees and costs amounting to £261,000 and £52,000 in respect of DML and SCL respectively.

In accordance with IFRS 3 "Business combinations" and IAS 38 "Intangible assets", the acquiring party is required to recognise separately an intangible asset of the acquiree if it meets the definition of an intangible asset and its fair value can be measured reliably. The Board has not identified any exchange transactions in respect of the same or similar non-contractual customer relationships which might otherwise have provided evidence of fair value or separability. As such, the Board does not believe it would be appropriate to recognise any intangible assets separately from goodwill at the date of acquisition.

Notes to the Consolidated Interim Financial Statements cont...

For the six months ended 30 June 2005

3. Fund raising

On 22 December 2004, the Group announced that it intended to raise £6.4 million before expenses through a Placing and Open Offer. The net proceeds of the Placing and Open Offer would be used to invest in specialist equipment required to drive future revenue growth within the Group's Drug Development Services and Liquid Based Cytology operations, reduce the Group's debt position, pay deferred consideration in respect of historic acquisitions and to fund the Group's general working capital requirements. At an Extraordinary General Meeting of the Company held on 14 January 2005, all resolutions necessary to approve the Placing and Open Offer together with certain other matters were duly passed and dealings in the new shares issued commenced on 19 January 2005. As a result of the Placing and Open Offer, the Group raised net proceeds of £5.7 million.

4. Consolidation of the Group's UK Diagnostic Pathology operations and other restructuring costs

As set out in the Chairman's Statement, the Board took the decision during the period to consolidate its UK Diagnostic Pathology operations in Nottingham and close its facility in Harley Street, London. The decision to transfer operations and make a number of staff redundant was implemented during July 2005 and the Group has provided a total of £220,000 during the six months ended 30 June 2005 in connection with the closure. In addition, the Group provided a further £67,000 in respect of redundancies made at its Nottingham and London operations during the six months ended 30 June 2005.

5. Earnings per share

The calculation of basic and diluted earnings per share for the six months ended 30 June 2005 was based on the loss attributable to ordinary shareholders of £1,141,000 (six months ended 30 June 2004: loss of £1,530,000; year ended 31 December 2004: loss of £9,435,000) and on 190,205,933 ordinary shares (30 June 2004: 89,403,240; 31 December 2004: 92,597,733) being the weighted average number of ordinary shares in issue.

IAS 33 "Earnings per share" requires presentation of diluted earnings per share when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. Net loss per share in a loss-making company would only be increased by the exercise of share options which were out-of-money. Assuming that option holders will not exercise out-of-money options, no adjustment has been made to the diluted loss per share for out-of-money share options.

6. Restatement of prior period comparatives

Grant income

In the interim financial statements for the six months ended 30 June 2004 the Group recognised grant income of £177,000 as a credit against administrative expenses for the period. At 31 December 2004, a review of the terms of the grant concerned concluded that it was inappropriate to recognise any income from the grant in the year then ended. In the financial statements for the year ended 31 December 2004, the Group's balance sheet included the full amount of the grant (£195,000) within creditors due within one year and no income was recognised during the period from the grant.

In accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors", the Group has corrected this error by restating its consolidated income statement for the six months ended 30 June 2004 and its consolidated balance sheet as at 30 June 2004.

For the six months ended 30 June 2004, this has resulted, under UK GAAP, in an increase in administrative expenses of £177,000 (from £2,651,000 to £2,828,000), an increased operating loss by the same amount (from £2,112,000 to £2,289,000) and an increased loss for the period (from £1,454,000 to £1,631,000).

At 30 June 2004 this resulted in an increase in trade and other creditors of £177,000 (from £2,495,000 to £2,672,000) and an increase in total liabilities (from £8,620,000 to £8,797,000).

6. Restatement of prior period comparatives cont...

Deferred consideration

In the interim financial statements for the six months ended 30 June 2004, the Group recognised £2.0 million of the total deferred consideration of £2.3 million in respect of the acquisition of Welcare as due after more than one year. Following a review of the amounts expected to become payable and in accordance with IAS 8, a sum of £1 million, previously categorised as falling due after one year, has been reclassified in current liabilities in the restated consolidated balance sheet as at 30 June 2004. The Group also notes that under UK GAAP, deferred contingent consideration of £2.5 million as at 30 June 2004 and £2.2 million as at 31 December 2004 payable in cash or shares at the Company's option[,] should have been reflected within Equity shareholders' funds rather than as a liability. However, under IFRS the correct treatment is to reflect such amounts within Liabilities and thus no net adjustment has been made to the financial statements concerned.

The adjustments to the interim financial statements for the six months ended 30 June 2004 in respect of these items can be shown as follows:

Consolidated income statement for the six months ended 30 June 2004

	Before restatement (UK GAAP) £'000	Correction of prior period errors £'000	As restated (UK GAAP) £'000
Administrative expenses	(2,651)	(177)	(2,828)
Operating loss	(2,112)	(177)	(2,289)
Loss for the period attributable to equity shareholders	(1,454)	(177)	(1,631)
Basic and diluted loss per ordinary share	(1.63)p	(0.19)p	(1.82)p

Consolidated balance sheet at 30 June 2004

	Before restatement (UK GAAP) £'000	Correction of prior period errors £'000	As restated (UK GAAP) £'000
Creditors: amounts falling due within one year	4,266	1,177	5,443
Creditors: amounts falling due after one year	4,354	(1,000)	3,354
Net assets	16,638	(177)	16,461
Equity			
Profit and loss reserve	(14,611)	(177)	(14,788)
Total equity	16,638	(177)	16,461

Notes to the Consolidated Interim Financial Statements cont..

For the six months ended 30 June 2005

7. Cash (used in)/generated from operations

	Six months ended 30 June 2005 £'000	Six months ended 30 June 2004 (as restated) £'000	Year ended 31 December 2004 (as restated) £'000
Loss for the period from operations	(1,123)	(1,530)	(9,435)
Taxation	—	—	90
Depreciation of tangible fixed assets	339	279	895
Impairment of goodwill	—	—	1,823
Amortisation of other intangible fixed assets	32	105	225
Impairment of development costs	—	—	1,226
Profit on sale of property, plant and equipment	(383)	(1,000)	(607)
Loss on sale of discontinued operations	—	289	469
Interest payable	148	168	264
Interest receivable	(51)	—	—
Share based payments – value of employee service	124	158	320
Decrease in inventories	195	42	272
(Increase)/decrease in trade and other receivables	(709)	(615)	467
(Decrease)/increase in creditors	(266)	541	1,155
Cash used in operations	(1,694)	(1,563)	(2,836)

All of the cash used in the six months ended 30 June 2005 was used in continuing operations. Cash used in continuing operations in the six months to 30 June 2004 and the year ended 31 December 2004 was £1,330,000 and £2,603,000 respectively.

8. Interim results

Copies of the interim results for the six months ended 30 June 2005 will be sent to all shareholders and will be posted on the Company's website, www.medical-solutions.co.uk. In addition, copies may be obtained the Company's registered office at 1 Orchard Place, Nottingham Business Park, Nottingham NG8 6PX.

Independent Review Report

to Medical Solutions plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2005 which comprises the consolidated balance sheet as at 30 June 2005, the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in shareholders' equity for the six months then ended and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority.

As disclosed in Note 1, the next annual financial statements of the Group will be prepared in accordance with accounting standards adopted for use in the European Union. This interim report has been prepared in accordance with the basis set out in Note 1.

The accounting policies are consistent with those that the Directors intend to use in the next annual financial statements. As explained in Note 1, there is, however, a possibility that the Directors may determine that some changes are necessary when preparing the full annual financial statements for the first time in accordance with the accounting standards adopted for use in the European Union. The IFRS standards and IFRIC interpretations that will be applicable and adopted for use in the European Union at 31 December 2005 are not known with certainty at the time of preparing this interim financial information.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the UK. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent Review Report cont...

to Medical Solutions plc

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

PricewaterhouseCoopers LLP

Chartered Accountants

East Midlands

20 September 2005

Notes:

- (a) The maintenance and integrity of the Medical Solutions plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the website.
- (b) Legislation in the UK governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Appendix

Reporting under International Financial Reporting Standards

For the year ended 31 December 2005, Medical Solutions plc will produce its consolidated financial statements in accordance with IFRS for the first time. The financial information presented in its interim financial statements for the six months ended 30 June 2005 has been prepared on the basis of the IFRS expected to be applicable at 31 December 2005. These standards are subject to ongoing review and endorsement by the EU or possible amendment by interpretative guidance from the International Accounting Standards Board and are therefore still subject to change. We will update our restated information for the year ended 31 December 2004 for any such changes if and when they are made.

The commentary below highlights the key changes that have arisen due to the transition from reporting under UK GAAP to reporting under IFRS. The Group's date of transition to IFRS is 1 January 2004 which is the beginning of the comparative period for the 2005 financial year. As such, the opening balance sheet for IFRS purposes is that reported at 1 January 2004 as amended for changes due to IFRS.

The UK GAAP financial information contained in this document does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. Our previous auditors, Deloitte & Touche LLP, have issued unqualified opinions on the Group's UK GAAP financial statements for the years ended 31 December 2003 and 31 December 2004 and did not include a statement under section 237(2) or (3) of the Companies Act 1985.

To help understand the impact of the likely transition to IFRS, reconciliations have been produced to show the changes made to statements previously reported under UK GAAP in arriving at the equivalent statements under IFRS. The following are the six unaudited reconciliations which are included in this Appendix:

- a) Consolidated balance sheet and equity at 1 January 2004
- b) Consolidated income statement for the six months ended 30 June 2004
- c) Consolidated balance sheet and equity at 30 June 2004
- d) Consolidated income statement for the year ended 31 December 2004
- e) Consolidated balance sheet at 31 December 2004
- f) Consolidated cash flows

The net effect of presenting the 2004 full year financial statements under IFRS rather than UK GAAP is to decrease the loss after tax reported from £9.5 million to £9.4 million and increase net assets from £11.6 million to £12.0 million. The key areas of change are outlined in the footnotes to the IFRS reconciliations below.

First time adoption

IFRS 1 "First time adoption of International Financial Reporting Standards" sets out the approach to be followed when IFRS are applied for the first time. In general, IFRS 1 requires that accounting policies be applied retrospectively although there are certain exceptions where the cost of compliance is deemed to exceed the benefits to users of financial statements. Where applicable, the options selected by management under IFRS 1 are set out in the footnotes to the IFRS reconciliations and later in this Appendix.

Appendix cont...

Reconciliation of previously reported UK GAAP to IFRS

a) Reconciliation of consolidated balance sheet and equity at 1 January 2004

	Footnote	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Non-current assets				
Goodwill	i	13,934	(478)	13,456
Other intangible assets		1,700	—	1,700
Property, plant and equipment		6,594	—	6,594
		22,228	(478)	21,750
Current assets				
Inventories		1,461	—	1,461
Trade and other receivables		2,783	—	2,783
Financial assets – cash and cash equivalents		3,250	—	3,250
		7,494	—	7,494
Current liabilities				
Trade and other payables		2,287	—	2,287
Financial liabilities – borrowings		2,678	—	2,678
Provisions	i	600	(30)	570
		5,565	(30)	5,535
Net current assets/(liabilities)		1,929	30	1,959
Total assets less current liabilities		24,157	(448)	23,709
Non-current liabilities				
Financial liabilities – borrowings		4,045	—	4,045
Provisions	i	2,000	(448)	1,552
		6,045	(448)	5,597
Net assets		18,112	—	18,112
Equity				
Issued share capital		1,788	—	1,788
Share premium		25,059	—	25,059
Other reserves		4,422	—	4,422
Profit and loss reserve	ii	(13,157)	—	(13,157)
Total equity attributable to equity holders of the parent company		18,112	—	18,112
Minority interest		—	—	—
Total equity		18,112	—	18,112

Reconciliation of previously reported UK GAAP to IFRS cont...

b) Reconciliation of the consolidated income statement for the six months ended 30 June 2004

	Footnote	UK GAAP (as restated*) £'000	Effect of transition to IFRS £'000	IFRS £'000
Revenue from continuing operations		3,749	(560)	3,189
Cost of sales		(2,575)	423	(2,152)
Gross profit		1,174	(137)	1,037
Selling and distribution expenses		(513)	57	(456)
Administrative expenses	i,ii	(2,828)	418	(2,410)
Research and development		(122)	45	(77)
Gain on sale of fixed assets		1,000	—	1,000
Operating loss		(1,289)	383	(906)
Interest receivable		—	—	—
Interest payable and similar charges	i	(53)	(115)	(168)
Loss before tax		(1,342)	268	(1,074)
Taxation		—	—	—
Loss after tax but before loss on sale of discontinued operations		(1,342)	268	(1,074)
Loss on sale of discontinued operations	iii	(289)	(167)	(456)
Loss for the period		(1,631)	101	(1,530)
Attributable to:				
Equity holders of the parent company		(1,631)	101	(1,530)
Minority interest		—	—	—
Loss for the period		(1,631)	101	(1,530)

* See Note 6 for details of the restatement

Appendix cont...

Reconciliation of previously reported UK GAAP to IFRS cont...

c) Reconciliation of consolidated balance sheet and equity at 30 June 2004

	Footnote	UK GAAP (as restated*) £'000	Effect of transition to IFRS £'000	IFRS £'000
Non-current assets				
Goodwill	i	13,174	(104)	13,070
Other intangible assets		1,363	—	1,363
Property, plant and equipment		3,271	—	3,271
		17,808	(104)	17,704
Current assets				
Inventories		1,419	—	1,419
Trade and other receivables		3,503	—	3,503
Financial assets				
– cash and cash equivalents		2,528	—	2,528
		7,450	—	7,450
Current liabilities				
Trade and other payables		2,672	—	2,672
Financial liabilities				
– borrowings		1,171	—	1,171
Provisions	i	1,600	(136)	1,464
		5,443	(136)	5,307
Net current assets/(liabilities)		2,007	136	2,143
Total assets less current liabilities		19,815	32	19,847
Non-current liabilities				
Financial liabilities				
– borrowings		2,354	—	2,354
Provisions	i	1,000	(227)	773
		3,354	(227)	3,127
Net assets		16,461	259	16,720
Equity				
Issued share capital		1,788	—	1,788
Share premium		25,059	—	25,059
Other reserves		4,402	—	4,402
Profit and loss reserve	i,ii	(14,788)	259	(14,529)
Total equity attributable to equity holders of the parent company		16,461	259	16,720
Minority interest		—	—	—
Total equity		16,461	259	16,720

* See Note 6 for details of the restatement

Reconciliation of previously reported UK GAAP to IFRS cont...

d) Reconciliation of the consolidated income statement for the year ended 31 December 2004

	Footnote	UK GAAP (as restated*) £'000	Effect of transition to IFRS £'000	IFRS £'000
Revenue from continuing operations		6,586	(560)	6,026
Cost of sales		(5,133)	423	(4,710)
Gross profit		1,453	(137)	1,316
Selling and distribution expenses		(923)	57	(866)
Administrative expenses	i,ii	(9,885)	486	(9,399)
Research and development		(148)	45	(103)
Gain on sale of fixed assets		607	—	607
Operating loss from continuing operations		(8,896)	451	(8,445)
Interest receivable		—	—	—
Interest payable and similar charges	i	(20)	(244)	(264)
Loss before tax from continuing operations		(8,916)	207	(8,709)
Taxation		(90)	—	(90)
Loss after tax but before loss on sale of discontinued operations		(9,006)	207	(8,799)
Loss on sale of discontinued operations	iii	(469)	(167)	(636)
Loss for the period		(9,475)	40	(9,435)
Attributable to:				
Equity holders of the parent company		(9,475)	40	(9,435)
Minority interest		—	—	—
Loss for the period		(9,475)	40	(9,435)

* See Note 6 for details of the restatement

Appendix cont...

Reconciliation of previously reported UK GAAP to IFRS cont...

e) Reconciliation of consolidated balance sheet and equity at 31 December 2004

	Footnote	UK GAAP (as restated*) £'000	Effect of transition to IFRS £'000	IFRS £'000
Non-current assets				
Goodwill	i	11,005	126	11,131
Other intangible assets		339	—	339
Property, plant and equipment		2,679	—	2,679
		14,023	126	14,149
Current assets				
Inventories		878	—	878
Trade and other receivables		4,348	—	4,348
Financial assets – cash and cash equivalents		1,990	—	1,990
		7,216	—	7,216
Current liabilities				
Trade and other payables		3,790	—	3,790
Financial liabilities – borrowings		3,039	—	3,039
Provisions	i	1,257	(60)	1,197
		8,086	(60)	8,026
Net current assets/(liabilities)		(870)	60	(810)
Total assets less current liabilities		13,153	186	13,339
Non-current liabilities				
Financial liabilities – borrowings		540	—	540
Provisions	i	1,000	(174)	826
		1,540	(174)	1,366
Net assets		11,613	360	11,973
Equity				
Issued share capital		1,960	—	1,960
Share premium		27,912	—	27,912
Other reserves		4,418	—	4,418
Profit and loss reserve	i,ii	(22,677)	360	(22,317)
Total equity attributable to equity holders of the parent company		11,613	360	11,973
Minority interest		—	—	—
Total equity		11,613	360	11,973

* See Note 6 for details of the restatement

Reconciliation of previously reported UK GAAP to IFRS cont...

f) Reconciliation of cash flows

There is no difference between the cash flows previously reported under UK GAAP and those reported under IFRS. Certain presentational differences between UK GAAP and IFRS have been reflected in the 30 June 2005 cash flow statement.

Footnotes to the reconciliation of equity

i) Business combinations and goodwill

The Directors have elected, under IFRS 1, not to apply IFRS 3 to acquisitions which occurred prior to 1 January 2004. The carrying value of goodwill at 1 January 2004 represents the £13.9 million recognised under UK GAAP at the date of transition subsequently adjusted for the impact of discounting the deferred consideration (see below). The Group has applied IFRS 3 to acquisitions that have occurred since 1 January 2004.

Goodwill on business combinations (from date of transition to IFRS) is not amortised under IFRS 3, but is tested annually for impairment. Goodwill amortisation charged under UK GAAP has been written back by:

- £374,000 for the six months ended 30 June 2004; and
- £715,000 for the year ended 31 December 2004.

Annual impairment reviews have resulted in the following adjustments to the carrying values of goodwill:

- £1.8 million as at 31 December 2004 – being the impairment required to reduce the goodwill to the carrying value indicated by the impairment reviews.

Further, under IFRS 39 “Financial instruments: recognition and measurement”, when settlement of a liability is deferred, the fair value of the deferred element payable is discounted to its fair value. Accordingly, the deferred consideration payable on the acquisition of the Welcare Laboratories (“Welcare”) and Histopathology and Speciality Laboratory (“HSL”) by the Group during 2003 has been discounted and classified as a current and non-current liability as appropriate. The cost of the discount is systematically charged to profit and loss as a finance cost over the period until the deferred consideration is settled.

The effect is to decrease goodwill at 1 January 2004, 30 June 2004 and 31 December 2004 by £478,000. The additional finance cost charged to profit and loss in respect of the discount is:

- £115,000 for the six months ended 30 June 2004; and
- £244,000 for the year ended 31 December 2004.

Summary

As a result of the above adjustments, the carrying value of goodwill has been:

- decreased by £478,000 at 1 January 2004, being the discount applied to the deferred consideration of which £30,000 is related to deferred consideration payable within one year and £448,000 to that payable after one year;
- decreased by £104,000 at 30 June 2004, being the net effect of the discount applied (£478,000) and the goodwill amortised during the period under UK GAAP being written back (£374,000); and
- increased by £126,000 at 31 December 2004, being the net effect of the discount applied (£478,000), the goodwill amortised during the period under UK GAAP written back (£715,000) and an additional impairment charge of £111,000 being that element of the £715,000 which relates to fully impaired goodwill at 31 December 2004.

Appendix cont...

Footnotes to the reconciliation of equity cont...

ii) Share based payment

Share-based payments included Executive and employee share option schemes. Fair value is determined at the date of grant and is calculated using the Black-Scholes option pricing model. Under UK GAAP an expense would have been recorded in respect of share options granted based upon their intrinsic value (which was considered to be nil as options were granted at market value). In restating the financial results of the Group, an expense has been recorded based upon the fair value of the share options granted.

IFRS 2 requires the fair value of all share-based payment to be charged against the income statement over the respective vesting periods. The Group has taken advantage of the transitional provisions of IFRS 1 not to recalculate equity settled awards granted before 7 November 2002.

The effect of accounting for equity-settled share-based payment transactions at fair value on the consolidated income statement is to increase administrative expenses by:

- £158,000 for the six months ended 30 June 2004 and
- £320,000 for the year ended 31 December 2004.

A charge of £124,000 has been recognised in respect of the six months ended 30 June 2005.

The effect of accounting for equity-settled share-based transactions at fair value on the consolidated balance sheet at 1 January 2004 is to increase the loss to that date by £248,000, but also to increase retained earnings by the same amount. The impact on equity of accounting for share based payments under IFRS is therefore neutral.

iii) Disclosure of continuing operations

The income statement is required to show the results of continuing operations. Accordingly, the income and expenditure relating to discontinued operations has been excluded and the net loss combined with the loss on disposal of discontinued operations.

The effect of the above adjustments on total equity is as follows:

	Footnote	1 January 2004 £'000	30 June 2004 £'000	31 December 2004 £'000
Goodwill – write back of amortisation	i	—	374	715
Goodwill – discounting of deferred consideration	i	(478)	—	—
Goodwill – impairment	i	—	—	(111)
Employee benefit costs	ii	—	(158)	(320)
Finance costs – discount on deferred consideration	i	478	(115)	(244)
Adjustment to the loss for the period		—	101	40
Reserve adjustments for share based payments	ii	—	158	320
Total adjustment to equity (attributable to equity holders of the parent company)		—	259	360

The effect of the above adjustments on net income is as follows:

	Footnote	30 June 2004 £'000	31 December 2004 £'000
Goodwill – write back of amortisation	i	374	715
Goodwill – impairment	i	—	(111)
Administrative expenses	ii	(158)	(320)
Finance costs	i	(115)	(244)
Adjustment to the loss for the period		101	40
Loss on discontinued operations		167	167
Adjustment to the loss before discontinued operations		268	207

Significant Accounting Policies

The significant accounting policies adopted in the preparation of the interim financial statements for the six months ended 30 June 2005 are set out below.

Basis of consolidation

The Group's consolidated financial statements include the results of the Parent Company and all its subsidiaries up to the relevant balance sheet date. The results of subsidiaries acquired or sold are included in the financial statements for the periods from or to the date on which the transaction became unconditional. Intra-group sales, profits and balances are eliminated fully on consolidation.

Intangible assets

Goodwill

Goodwill represents the excess of fair value of the purchase consideration over the Group's share of the fair value of the identifiable net assets acquired. Goodwill is recognised as an asset and reviewed for impairment at least annually and whenever there is an indicator of impairment. Goodwill is carried at cost less accumulated impairment losses. Any impairment is recognised in the period in which it is identified. On disposal, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Development costs and acquired computer software

Development costs are written off as incurred 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 or use of the product on a straight-line basis over the period during which the Group is expected to benefit, usually four years. Development costs on projects in progress are not amortised. Provision is made for any impairment in the carrying value of such development costs. Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring into use the specific software and are amortised over their operational lives.

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 at rates calculated to write off the cost less estimated residual value of each asset evenly over its expected operational life as follows:

- Leasehold improvements: lower of 10 years and remaining lease term
- Plant and machinery: 5–15 years
- Fixtures, fittings and computer software: 3–10 years
- Motor vehicles: 4 years

Impairment of assets

Assets that have an indefinite useful economic life are not subject to amortisation and are tested at least annually or whenever there is an indicator of impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. Impairment losses are recognised in the income statement.

Government grants

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

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 economic lives. The interest element of the rental obligation is charged to the income statement over the period of the lease and represents a constant proportion of the balance of the 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.

Inventories

Inventories 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 a normal level of activity. Net realisable value is the price at which inventory 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. The Group capitalises certain external costs in relation to processed human tissue. Such costs are averaged over the number of samples acquired and written off to the income statement as the samples are utilised within the business or after a period of three years from acquisition if not used during that period. Provision is made where necessary for obsolete, slow-moving and defective inventory.

Taxation

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

Deferred tax is accounted for using the balance sheet liability method in respect of temporary timing differences arising from differences between the carrying value of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against the temporary difference can be utilised. Their carrying amount is reviewed at each balance sheet date on the same basis.

Deferred tax is calculated at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, on a non-discounted basis, and is charged in the income statement, except where it relates to items charged or credited in the statement of recognised income and expense, in which case the deferred tax is also dealt with in equity and is shown in the statement of recognised income and expense.

Significant Accounting Policies cont...

Revenue recognition

Turnover (excluding VAT) comprises the value of sales of contract pathology services, processed human tissue, the sale of telepathology hardware systems and associated software, support services and the sales of LBC systems and consumables. Amounts received or receivable for services provided under contract pathology services are recognised as revenue when obligations are fulfilled. Revenue from sales of processed human tissue, LBC systems and consumables and telepathology hardware systems is recognised when goods are delivered. Revenue from LBC system rental and maintenance is recognised over the period in which the customer is expected to benefit from the provision of such items. Revenue for post contract support is recognised on a straight-line basis over the period for which support and maintenance is provided to the customer.

Employee benefits

Defined contribution pension plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Share-based payments

The Group operates a number of share option and share save schemes. For all grants of share options and awards, the fair value as at the date of grant is calculated using the Black-Scholes option pricing model and the corresponding expense is recognised over the vesting period.

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 income statement.

The results of overseas operations are translated at the closing rate of exchange at the end of the period and their balance sheets at the rate ruling at the balance sheet date. Exchange differences arising on the translation of opening net assets and results of overseas operations are reported in the foreign currency translation reserve.

Financial instruments

Borrowings are measured at amortised cost, except where they are hedged by an effective fair value hedge, in which case the carrying value is adjusted to reflect the fair value movements associated with the hedged risk.

Trade and other receivables are measured at amortised cost less any provision for impairment.

Trade and other receivables are discounted when the time value of money is considered material.

Directors, Officers and Advisors

Directors

Sir Gareth G Roberts
Non-Executive Chairman

C A Green
Executive Director

Dr N G Johnston
Executive Director

Prof K Sikora
Executive Director

Dr S Foden
Non-Executive Director (Senior Independent Director
and Chairman of the Remuneration Committee)

R Slinger
Non-Executive Director
(Chairman of the Audit Committee)

Company Secretary
Dr N G Johnston

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Lloyds TSB Registrars
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Medical and Scientific Advisory Board

Sir Gareth G Roberts (Chairman)

External Members

Prof N Wright
Imperial Cancer Research Fund

Dr H Danielsen
Radium Hospital, Oslo

Prof G Duff
University of Sheffield

Prof N Lemoine
Head of Molecular Oncology
at Imperial College, London

Prof G McVie
Cancer Intelligence and former Director General,
Cancer Research Campaign

Members on Boards of Medical Solutions' Companies

Dr N Clinch
Fairfield Imaging

Prof K Sikora
Medical Solutions plc

Prof I O Ellis
Medical Solutions plc
(resigned from the Board on 21 December 2004)





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