MEDICAL SOLUTIONS PLC

Preliminary Results for the year to 31 December 2001

Medical Solutions, the specialist healthcare company, announces preliminary results for the year to 31 December 2001. The Company operates two divisions the Pharmaceutical, which includes Adams Healthcare, and Cancer Diagnosis & Pathology, which includes Fairfield Imaging and PathLore.

- **Turnover increased 64 percent to £16.1 million (2000: £9.8 million)**
- **Operating loss £258,000, before amortisation (2000: Profit £469,000 before amortisation)**
- **Establishment of centralised sales & marketing – much improved results**
- **Group re-organised into two divisional structure**
- **PathLore successfully launched**
- **Quinoderm acquired – product re-launched into all major pharmacy chains**
- **Trading in the current year is in line with expectations, order books are strong**

Sir Gareth Roberts, Chairman, Medical Solutions plc, commented:

"The re-organisation into two operating divisions has enabled the Company to consolidate the businesses acquired during the previous year and capitalise on the opportunities for synergy between the various units.

"The cash resources, taken with the group's operational cash flow and banking facilities, are sufficient for the foreseeable future. As well as being able to progress essential development work Medical Solutions has increased substantially its investment in sales and marketing in both its divisions.

"Expectations of our health system in the UK are at an all time high, placing enormous pressure on the National Health Service which provides us with great opportunities to offer cost-effective solutions. Trading in the current financial year is going well; PathLore's services have been well received, the re-launch of Quinoderm has proved very successful and Fairfield Imaging is showing signs of strong growth. The Board is confident regarding the prospects for the Group."

ENQUIRIES: **28 February 2002**

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Rod Adams, Acting Chief Executive
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Chairman's Statement

A key activity during 2001 has been the re-organisation of Medical Solutions into two operating divisions; Pharmaceuticals and Cancer Diagnosis and Pathology. This has enabled the Company to consolidate the businesses acquired during the previous year and capitalise on the opportunities for synergy between the various units. An exciting development was the creation of PathLore, a company designed to improve the detection and diagnosis of cancer. Another important venture in the Pharmaceutical Division was the rebranding and relaunching of the Quinoderm range.

Turnover for the year was £16,100,000 (2000: £9,820,000). On a like for like basis, the Pharmaceutical Division turnover increased 13 percent, CellPath's increased 3 percent, Kinetic's increased 32 percent and Fairfield's turnover more than doubled. PathLore achieved sales of £189,000 in its first six months of operation. The operating loss before amortisation for the year was £258,000 (2000: £469,000 profit). The loss before taxation for the group was £1,608,000 (2000: £428,000 profit). Operating costs include amortisation of goodwill arising on acquisitions of £918,000 (2000: £533,000) and amortisation of goodwill and know-how in Adams of £296,000 (2000: £197,000). The previous year's profit included £588,000 profit on the sale of fixed assets.

The group had cash and short term deposits at the end of the year of £4,276,000 (2000: £5,785,000) and borrowings of £3,174,000 (including bank overdraft) (2000: £2,169,000). The borrowings are those of Adams and are repayable in equal instalments over the next seven years. £2,771,000 of loan notes issued to the vendors of Quinoderm Limited are also outstanding and are repayable on demand. The cash resources, taken with the Group's operational cash flow and banking facilities, are sufficient for the foreseeable future.

As well as being able to progress essential development work, Medical Solutions has increased substantially its investment in sales and marketing in both its divisions. This has provided us with a platform from which to leverage the acquisition of the Quinoderm and Hydromol brands and also to commercialise Fairfield's digital imaging equipment, Kinetic's image analysis products, CellPath's Autocyte liquid based cytology equipment and PathLore's services.

Expectations of our health system in the UK are at an all time high, placing enormous pressure on the National Health Service. This provides us with great opportunities to offer cost-effective solutions, particularly in the areas of cancer diagnosis and prognosis and the prevention of hospital acquired infections.

The Pharmaceutical Division has, as expected, experienced significant change during the year, mainly on account of the acquisition of Quinoderm and the subsequent relocation of production from Oldham to Leeds. The relaunch of an expanded range of Quinoderm products has been taken up by all the major pharmacy chains giving us access to over 2,500 outlets in the UK. During 2002 we will further establish the Pharmaceutical Division as a major player in dermatology.

The overall strength of Adams in the infection control business was confirmed by the success of its manufactured product 'Spirigel' in a controlled study into hand hygiene in hospitals. Its leading position in the relatively new market of contamination control has been consolidated by the signing of a joint sales and marketing agreement in France and Italy with the Steris Corporation of Ohio, USA.

The Cancer Diagnosis and Pathology Division has continued to expand and develop its services. The Department of Health has been supportive of the establishment of PathLore, which facilitates and co-ordinates the work of 40 of the UK's leading Pathologists, thus helping to solve the chronic undermanning in certain hospitals. Another illustration of our partnership with hospitals is the NHS implementation trial of Liquid Based Cytology being trialled at the Newcastle Royal Victoria Infirmary using CellPath’s Autocyte equipment.

In March 2001, Medical Solutions received the Technology Company of the Year Award in recognition of the excellence of the telepathology and diagnostic tools developed by Fairfield Imaging. It has been pleasing to see the technological expertise of this part of the Company being utilised to good effect in PathLore. During the coming year we will be placing increased emphasis on ensuring that we are at the forefront of changes in cancer diagnosis and pathology, with the best experts and leading edge technology.

Trevor Twose joined the Board in January 2001 and resigned by mutual agreement in February 2002. Rod Adams has stepped up to Acting Chief Executive pending the appointment of a new Chief Executive. Charles Green will continue as a Non-Executive Director with a particular emphasis on business development.

There will no doubt be opportunities during the year for further partnerships and acquisitions to help achieve a critical mass and improve profitability levels. Our focus will be to deliver against realistic targets within existing resources and controlling costs while capitalising on our new effective selling and marketing organisation.

Current trading is in line with expectations and order books are strong.

We wish to thank all our employees for their contributions to the success of Medical Solutions.

Sir Gareth Roberts
Chairman

Pharmaceutical Division Review

The Pharmaceutical Division has seen significant change during the year. We have significantly increased the Group's exposure to dermatology, where we have built on the acquisition of Quinoderm.

Turnover in the Pharmaceutical Division amounted to £11,131,000 (2000: £6,530,000); an increase of 71.0 percent and operating profit for the year was £1,138,000 (2000: £904,000). On a like for like basis, without Thackray Instruments and Practice Plus, which are now reported in the Cancer Diagnosis and Pathology Division, the Pharmaceutical Division's sales rose by 13.0 percent, and its operating profits by 20.0 percent. Overall, gross margins for the division remained the same, and a temporary reduction in margin in the contamination control business caused by production technicalities were offset by the higher margins achieved on the Quinoderm brands once production transferred to Leeds in October 2001. Selling and distribution expenses increased from 17.3 percent of sales to 20.5 percent of sales as a result of increased investment in the selling and distribution in dermatology and consumer healthcare.

The Division has made further investment in the product range and successfully re-launched Quinoderm. All the major pharmacy chains have taken the product, thereby giving us access to over 2,500 outlets in the UK. The closure of Quinoderm's plant in Oldham was completed in October and manufacturing has now been transferred to the Adams plant in Leeds, with further savings of approximately £300,000 per annum.

We have also recently agreed a long term licensing agreement with Ferndale Laboratories Inc. to register and market Ferndales' dermatology range in the UK and Eire. The range includes exciting new technology in the control of facial oil and acne and significant enhancements in topical pain relief and anaesthesia.

Adams has a fundamental strength in its infection control business with its products enjoying market shares of 50 percent or more in their sectors. We are currently focusing on the reduction of hospital acquired infections ("HAI"). The results of the University Hospital Lewisham's study into hand hygiene in hospitals, published in the Journal of Hospital Infection in January 2002, confirmed that using Spirigel®, developed and manufactured by Adams, significantly reduced hospital acquired infections, including methicillin-resistant *Staphylococcus aureaus* (MRSA), the 'super-bug', and produced estimated cost savings of over £200,000 per annum within the hospital. This is a major new opportunity; Hospital Acquired Infections cost the NHS £1 billion per annum. The recent National Audit Office report on the increasing incidence of HAI in the NHS, and the letter from the Chief Medical Officer to Chief Executives of hospitals to improve infection control standards, highlight that this is a national issue. Ideally, Spirigel® should be made available at the end of every hospital bed in the UK.

Adams has built a leading position in the relatively new market of contamination control. Adams products are used in the clean rooms of the major pharmaceutical companies of the world, with more than 200 regular customers. The latter market is believed to be worth £52 million in Europe alone.

Also during the year, Glaxo SmithKline, Barnard Castle, approved Adams' Spiriclens® product; their report was circulated to all Glaxo SmithKline plants worldwide; and we have also recently announced the signing of a joint sales and marketing agreement in France and Italy with Steris Corporation of Ohio, USA.

The Pharmaceutical Division is currently in the process of re-launching the Hydromol brand which should result in increased awareness and improved sales. In addition, for the year to date, Quinoderm sales and profitability are ahead of expectations and thus, together with the improved gross margins in the dermatology sector, should help to drive profitability of the Division forward.

Cancer Diagnosis and Pathology Division Review

The reorganisation of Fairfield Imaging, Kinetic Imaging, PathLore and CellPath into an integrated Cancer Diagnosis and Pathology Division has enabled us to focus our sales resources and to begin to realise synergies between these businesses. The Board believes that the prospects for the Division are excellent.

The Cancer Diagnosis and Pathology Division's sales were £4,969,000 (2000: £3,290,000) an increase of 51 percent; 34 percent on a like for like basis. Operating loss (before amortisation) was £734,000 (2000: £28,000 loss). Selling expenses in the division rose from 14.0 percent of sales in 2000 to 19.7 percent in 2001, with the establishment of a full sales and marketing infrastructure for the division, including £100,000 of additional salaries and £100,000 of additional promotion and advertising costs. Administration expenses in the division rose from 17.5 percent in 2000 to 24.9 percent of sales in 2001 as a result of start-up costs for PathLore and re-organisation costs within the Division.

Research and development costs fell from 12.8 percent of sales in 2000 to 9.4 percent of sales in 2001, although the absolute amount spent increased by £44,000.

Fairfield and PathLore are both in the process of developing new markets and as a result this has made it difficult to predict the rate of sales growth. However the Board believes that prospects are good and both businesses are showing signs of strong short term growth. Customers are positive about our innovative products and services, as evidenced by the good initial take up of offerings from Fairfield and PathLore and the benefits of the new integrated sales organisation are now coming through.

Pathology is of key importance to the early diagnosis of cancer and the selection of the correct treatment for the patient. There is a significant shortfall in the NHS complement of pathologists and our products and services are ideally positioned to meet the increasing need.

Fairfield's sales growth was slower than expected, but nevertheless, sales totalling over £1.2 million have been made since August 2000 despite sales in the second half being hampered by the latest NHS reorganisation and the consequent uncertainty in expenditure plans. Fairfield has presently over £2 million sales prospects for its telepathology workstation, Pathsight, and launched its first Virtual Microscope application at the end of 2001, and has already achieved several early sales.

The results of a successful Automated DNA Ploidy clinical trial in the assessment of oral cancer risk were published in the prestigious New England Journal of Medicine recently, and following an encouraging economic review of the use of Fairfield Ploidy in early prostate cancer carried out by Scharr (Sheffield University School of Health and Related Research). Trials are ongoing in early ovarian and prostate cases to confirm positive results obtained with this system in clinical trials at the Radium Hospital, Oslo. The Fairfield Nucleotyping system, a completely new test based on analysis of the compact form of DNA chromotin in tumour cells, is currently well advanced in development, is undergoing initial trials in several major cancers and has the potential to be a sizeable product with a strong proprietary position. Fairfield's automated DNA Ploidy and Nucleotyping open the door for the first time to the practicality of universal screening for common cancers, including prostate carsinoma.

PathLore currently has a team of 40 leading consultants, many of whom enjoy world renown. They are opinion leaders who help move forward the way pathology is delivered in the UK and are involved in the improvement in early detection and appropriate treatment of cancer. The business model itself is supported by the Department of Health and the National Health Service.

PathLore, led by Dr Ian Ellis and Professor M Wells, began to accept work in June 2001 and is already making a contribution to its clients and patients' welfare by improving backlogs, providing holiday cover and in some cases full pathology cover. Initial revenues are from the provision of specialist diagnostic services, which address a new market opportunity created by the significant shortage of pathologists in the NHS. PathLore losses were higher than expected, due to us holding back on actively marketing the Remote Locum Services, while we completed development of the infrastructure and the bespoke IT system. Sales continue to grow, with the consultants being increasingly asked to provide a second opinion service. PathLore is now fully established and we are ready for rapid sales growth.

Kinetic Imaging's Komet product line has established the company as a world leader in certain areas of safety and toxicological testing used by biomedical, pharmaceutical and environmental research and development and testing organisations to look for and measure DNA damage. We expect that its launch of a Good Laboratory Practice ("GLP") compliant Komet system, designed for use in regulated drug approval studies, will expand its markets. Kinetic is also active in the area of Live-Cell Imaging and supplied a system to the laboratory of Professor Paul Nurse, a 2001 Nobel Prize Winner, and several to the Institute of Cancer Research Fund. This is an exciting and high growth area.

It is widely expected that Liquid Based Cytology will become the standard of care in the UK following trial completion in July 2002. We are currently working with the eight NHS training centres that will carry out the training once the trail is complete. Over the next 9 months, CellPath with the assistance of PathLore, will be producing 60,000 training slides using its licensed product Autocyte covering some 15,000 cases for use in the NHS training programme. Autocyte has been installed at 3 NHS hospitals, ahead of the results of the trial, for use in non-gynaecological work and for their Private Healthcare services.

The Cancer Diagnosis and Pathology Division has a programme of product launches and a number of trials underway which will benefit the Company in both the current and future years. Medical Solutions is extremely well positioned to capitalise from the public-private partnership approach currently being expounded by Government.

Consolidated profit and loss account
For the year ended 31 December 2001

	Notes	2001 £'000	2000 £'000
Turnover			
Existing operations	2	16,100	9,820
Cost of sales		(9,193)	(5,478)
Gross profit		6,907	4,342
Other operational expenses (net)			
Sales and distribution costs		(3,255)	(1,591)
Research and development		(739)	(594)
Administration expenses		(3,171)	(1,688)
Amortisation		(1,214)	(730)
Operating loss		(1,472)	(261)
Profit on sale of fixed assets		-	588
(Loss)/profit on ordinary activities before interest and taxation		(1,472)	327
Interest charges (net)		(136)	101
(Loss)/profit before taxation		(1,608)	428
Tax on (loss)/profit on ordinary activities		509	(64)
(Loss)/profit for the financial year		**(1,099)**	**364**
(Loss)/earnings per ordinary share	3	(1.39p)	0.55p
Diluted (loss)/earnings per ordinary share		(1.34p)	0.53p

Balance Sheet
31 December 2001

	Notes	Group 2001 £'000	Group 2000 £'000	Company 2001 £'000	Company 2000 £'000
Fixed assets					
Development costs and know-how		3,219	3,085	-	-
Goodwill		19,695	20,250	-	-
Intangible assets		22,914	23,335	-	-
Tangible assets		3,851	2,669	44	4
Investments		11	12	23,746	23,181
		26,776	**26,016**	**23,790**	**23,185**
Current assets					
Stocks		2,238	2,173	-	-
Debtors		3,450	4,209	4,274	3,977
Cash at bank and in hand		4,276	5,785	3,412	5,614
		9,964	**12,167**	**7,686**	**9,591**
Creditors: Amounts falling due within one year		(6,102)	(7,053)	(2,858)	(3,602)
Net current assets		3,862	5,114	4,828	5,989
Total assets less current liabilities		30,638	31,130	28,618	29,174
Creditors: Amounts falling due after more than one year		(2,421)	(1,514)	-	-
Provisions for liabilities and charges		-	(299)	-	-
Net assets		**28,217**	**29,317**	**28,618**	**29,174**
Capital and reserves					
Called-up share capital		1,579	2,715	1,579	2,715
Share premium account		24,970	28,527	24,970	28,527
Merger reserve		1,267	1,267	1,267	1,267
Other reserves		1,136	-	1,136	-
Profit and loss account		(735)	(3,192)	(334)	(3,335)
Equity shareholders' funds		**28,217**	**29,317**	**28,618**	**29,174**

Consolidated cash flow statement
For the year ended 31 December 2001

	Notes	2001 £'000	2001 £'000	2000 £'000	2000 £'000
Net cash outflow from operating activities		(24)		(1,081)	
Returns on investments and servicing of finance		(136)		101	
Taxation		-		(38)	
Capital expenditure and financial investment		(2,040)		(690)	
Acquisitions		(508)		(15,590)	
Cash outflow before management of liquid resources and financing			(2,708)		(17,298)
Financing			907		21,962
(Decrease) increase in cash in the year			(1,801)		4,664

Reconciliation of net cash flow to movement in net funds
For the year ended 31 December 2001

	Notes	2001 £'000	2001 £'000	2000 £'000	2000 £'000
Increase in cash in the year		(1,801)		4,664	
Cash (inflow) outflow from (increase) decrease in debt and lease financing		(745)		575	
			(2,546)		5,239
Loans and finance leases acquired with subsidiary undertakings			-		(2,709)
New finance leases			-		(21)
Movement in net funds in the year			(2,546)		2,509
Net funds (debt) at 1 January			3,341		832
Net funds (debt) at 31 December			795		3,341

NOTES

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

1. Accounting policies

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

Basis of consolidation

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

2. Turnover and segmental analysis

Turnover from continuing activities represents amounts invoiced to third parties for medical equipment and consumables, net of value added tax.

	2001				2000			
	Pharma -ceutical Division £'000	Cancer Diagnostic and Pathology Division £'000	Central Cost £'000	Group £'000	Pharma -ceutial Division £'000	Cancer Diagnosis and Pathology Division £'000	Central Costs £'000	Group £'000
Turnover	11,131	4,969		16,100	6,530	3,290		9,820
Gross Profit	4,960	1,947		6,907	2,911	1,431		4,342
Selling and distribution expenses	(2,277)	(978)		(3,255)	(1,129)	(462)		(1,591)
Research and development	(273)	(466)		(739)	(172)	(422)		(594)
Administrative expenses	(1,272)	(1,237)	(662)	(3,171)	(706)	(575)	(407)	(1,688)
Operating profit/(loss) before amortisation	1,138	(734)	(662)	(258)	904	(28)	(407)	469

Turnover by destination:

	2001 Total £'000	2000 Total £'000
United Kingdom and Republic of Ireland	13,716	8,026
Other European Union	941	519
Rest of Europe	372	254
The Americas	122	121
Africa	84	261
Asia	281	505
Other	584	134
	16,100	9,820

3. Loss per ordinary share

The loss per ordinary 2p share calculated on the group loss after taxation of £1,099,000 (2000: £364,000) and a weighted average number of shares in issue during the year of 78,958,232 (2000: 66,437,959) is 1.39p (2000: 0.55p earnings).