

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other professional adviser, duly authorised pursuant to the Financial Services and Markets Act 2000, who specialises in advising on the acquisition of shares and other securities.

If you have sold or otherwise transferred all of your Existing Ordinary Shares (other than ex-entitlement to participate in the Open Offer) please forward this document, together with the accompanying Application Form and Form of Proxy, as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee. If you have sold part of your holding of Existing Ordinary Shares, you should refer to the instructions regarding split applications set out in the Application Form. Documents should not be forwarded or transmitted in or into the United States of America, Canada, Australia, Japan, the Republic of Ireland or South Africa.

Notice has been given to the UK Listing Authority for the cancellation of the listing of the Existing Ordinary Shares on the Official List and for cancellation of admission to trading of the Existing Ordinary Shares on the London Stock Exchange's market for listed securities. Application has been made to the London Stock Exchange for the Reduced Ordinary Shares, the Consideration Shares and the New Ordinary Shares to be admitted to trading on the Alternative Investment Market of the London Stock Exchange ("AIM"). AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The rules of AIM are less demanding than those of the Official List. It is emphasised that no application is being made for admission of these securities to the Official List. The London Stock Exchange has not itself examined or approved the contents of this document. Save in relation to the Acquisition, the UK Listing Authority has not itself approved the contents of this document. Your attention is drawn to Part II of this document entitled "Risk Factors".

A copy of this document, which comprises a prospectus relating to Advanced Medical Solutions Group plc and has been prepared in accordance with the Public Offers of Securities Regulations 1995 as amended ("POS Regulations") and the AIM Rules, has been delivered to the Registrar of Companies in England and Wales for registration in accordance with regulation 4(2) of the POS Regulations.



(Incorporated in England and Wales under the Companies Act 1985 – Number 2867684)

**Proposed acquisition of MedLogic Global Holdings Limited
(and related intellectual property assets)**

**Proposed VCT placing of 25,882,352 new ordinary shares and placing and open offer
of 21,383,632 new ordinary shares at 8.5p per share**

by

Robert W. Baird Limited

Proposed capital reorganisation

Transfer from the Official List to the Alternative Investment Market

Notice of Extraordinary General Meeting

The VCT Placing and the Placing and Open Offer are not being made directly or indirectly in or into the United States, Canada, Australia, Japan, the Republic of Ireland or South Africa. The New Ordinary Shares have not been, nor will they be, registered under the United States Securities Act of 1933, as amended, or under the securities laws of any state of the United States or of any province or territory of Canada or Australia or under the relevant securities laws of Japan, the Republic of Ireland or South Africa. Subject to certain exceptions, the New Ordinary Shares may not be offered, sold, accepted, renounced or taken up or delivered, directly or indirectly, in or into the United States, Canada, Australia, Japan, the Republic of Ireland or South Africa. All overseas shareholders and any person (including, without limitation, nominees and trustees) who have a contractual or legal obligation to forward this document or an Application Form to a jurisdiction outside the United Kingdom should read the paragraph headed "Overseas shareholders" in Part III of this document.

Robert W. Baird Limited, which is a member of the London Stock Exchange and is regulated by The Financial Services Authority Limited, is acting, exclusively for Advanced Medical Solutions Group plc and no-one else in relation to the Acquisition, the VCT Placing, the Placing and Open Offer, the Transfer and the Capital Reorganisation and will not be responsible to anyone other than Advanced Medical Solutions Group plc for providing the protections afforded to customers of Robert W. Baird Limited nor for providing advice in relation to the Acquisition, the VCT Placing, the Placing and Open Offer, the Transfer and the Capital Reorganisation or any other matter referred to herein.

Robert W. Baird Limited has agreed to become the nominated adviser to the Company. Under the AIM Rules, the nominated adviser has certain responsibilities to the London Stock Exchange which are less onerous than the responsibilities of a sponsor of a company applying for its securities to be admitted to the Official List. In accordance with the AIM Rules, Robert W. Baird Limited has confirmed to the London Stock Exchange that it has satisfied itself that the Directors of the Company have received independent advice and guidance as to the nature of their responsibilities and obligations under the AIM Rules and that, to the best of its knowledge and belief, all relevant requirements of the AIM Rules (save for compliance with the general duty of disclosure contained in Regulation 9 of the POS Regulations, in respect of which the nominated adviser is not required to satisfy itself) have been complied with. In giving its confirmation to the London Stock Exchange, Robert W. Baird Limited has not made its own enquiries except as to matters which have come to its attention or on which it considers it necessary to satisfy itself.

The latest time for acceptance and payment in full in relation to the Open Offer is 3.00 p.m. on 23 April 2002. The procedure for acceptance and payment in full is set out in the letter from Robert W. Baird Limited in Part III of this document and in the accompanying Application Form.

Notice of an Extraordinary General Meeting of Advanced Medical Solutions Group plc, convened for 11.00 a.m. on 23 April 2002 at the Blue Cap, 520 Chester Road, Sandiway, Northwich, Cheshire CW8 2DN, is set out at the end of this document. Shareholders will find enclosed a Form of Proxy for use at the Extraordinary General Meeting. Forms of Proxy, completed in accordance with the instructions printed thereon, should be returned to Capita IRG Plc (Proxies), Balfour House, 390/398 High Road, Ilford, Essex IG1 1BR as soon as possible, but in any event so as to be received no later than 48 hours prior to the time of the Extraordinary General Meeting. Completion and return of a Form of Proxy will not preclude Shareholders from attending and voting at the Extraordinary General Meeting should they so wish.

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	2002
Record Date for the Open Offer	close of business on 22 March
Latest time and date for splitting of Application Forms (to satisfy <i>bona fide</i> market claims in relation to Existing Ordinary Shares)	3.00 p.m. on 19 April
Latest time and date for receipt of Forms of Proxy	11.00 a.m. on 21 April
Extraordinary General Meeting	11.00 a.m. on 23 April
Latest time and date for receipt of completed Application Forms and payment in full under the Open Offer	3.00 p.m. on 23 April
Record date for Capital Reorganisation	29 April
Existing Ordinary Shares de-listed from the Official List	close of business on 29 April
Dealings in the Reduced Ordinary Shares commence on AIM	30 April
Dealings in the VCT Shares commence on AIM	30 April
CREST stock accounts credited with VCT Shares	30 April
Completion of the Acquisition, dealings in the Open Offer Shares and the Consideration Shares commence on AIM	1 May
CREST stock accounts credited with Open Offer Shares	1 May
Despatch of definitive share certificates for the Reduced Ordinary Shares, the VCT Shares and the Open Offer Shares and the Consideration Shares where applicable	7 May

Directors

Dr Geoffrey Nicholas Vernon (Non-Executive Chairman)
Dr Donald William Evans (Group Chief Executive)
Mary Geraldine Tavener (Finance Director and Company Secretary)
Graeme Nigel Brookes (Sales and Marketing Director)
Ralph Stephen Harris (Non-Executive Director)

all of:

Road Three
Winsford Industrial Estate
Winsford
Cheshire CW7 3PD

Registered Office

Road Three
Winsford Industrial Estate
Winsford
Cheshire CW7 3PD

**Sponsor, Financial Adviser
and Stockbroker and,
following the Transfer,
Nominated Adviser and
Nominated Broker**

Robert W. Baird Limited
Mint House
77 Mansell Street
London E1 8AF

**Auditors and Reporting
Accountants**

HLB Kidsons
No. 1 Old Hall Street
Liverpool L3 9SX

Solicitors to the Company

Wragge & Co
55 Colmore Row
Birmingham B3 2AS

**Solicitors to the
Nominated Adviser**

Travers Smith Braithwaite
10 Snow Hill
London EC1A 2AL

Principal Bankers

National Westminster Bank PLC
PO Box No. 28
7 Winwick Street
Warrington WA1 1XU

Registrars

Capita IRG Plc
Balfour House
390/398 High Road
Ilford
Essex IG1 1NQ

Receiving Agents

Capita IRG Plc
New Issues Department
PO Box 166
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TH

The following definitions apply throughout this document, unless the context otherwise requires:

“Acquisition Agreement”	the conditional agreement, dated 28 March 2002, between the Company, MGC and Travelers pursuant to which the Company will acquire the entire issued share capital of MedLogic and associated IPR
“Acquisition”	the proposed acquisition of the entire issued share capital of MedLogic and associated IPR, pursuant to the Acquisition Agreement
“Act”	the Companies Act 1985, as amended
“Admission”	unless the context otherwise requires, in relation to the Reduced Ordinary Shares and the VCT Shares, First Admission, and in relation to the Open Offer Shares and the Consideration Shares, Second Admission
“AIM”	the Alternative Investment Market of the London Stock Exchange
“AIM Rules”	the London Stock Exchange rules for companies listed on AIM
“Application Form”	the application form, which accompanies this document, issued to Qualifying Shareholders in connection with the Open Offer
“Baird”	Robert W. Baird Limited
“Capital Reorganisation”	together the proposed sub-division and conversion of each Existing Ordinary Share into one Reduced Ordinary Share and one Deferred Share and the proposed sub-division of each unissued Ordinary Share of 10p into two Ordinary Shares of 5p each
“Company” or “AMS”	Advanced Medical Solutions Group plc
“Consideration Shares”	the 1,263,158 new Ordinary Shares each proposed to be issued, credited as fully paid, in partial satisfaction of the consideration due under the Acquisition Agreement
“CREST”	the relevant system (as defined in the CREST Regulations) in respect of which CRESTCo Limited is the operator (as defined in the CREST Regulations) in accordance with which securities may be held in uncertificated form
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001/3755)
“Deferred Shares”	the 93,553,394 non-voting deferred shares of 5p each to be created in connection with the Capital Reorganisation
“Directors” or “Board”	the directors of the Company, whose names are set out on page 4 of this document
“Enlarged Group”	the Group as enlarged by the Acquisition
“Executive Scheme”	the AMS Executive Share Option Scheme
“Existing Ordinary Shares”	ordinary shares of 10p each in the capital of the Company currently in issue and which shall be the subject of the Capital Reorganisation
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company convened for 11.00 a.m. on 23 April 2002 (or any adjournment of it), notice of which is set out at the end of this document
“First Admission”	the admission of the Reduced Ordinary Shares and the VCT Shares to trading on AIM becoming effective in accordance with the AIM Rules

"Form of Proxy"	a form of proxy for use in connection with the Extraordinary General Meeting
"FSMA"	the Financial Services and Markets Act 2000
"Group" or "AMS Group"	the Company and its subsidiaries
"IPR"	intellectual property rights such as patents, trade-marks, copyrights, design rights and know-how
"Issue Price"	8.5p per New Ordinary Share
"Listing Rules"	the listing rules of the UK Listing Authority, made under section 74 of FSMA
"London Stock Exchange"	London Stock Exchange plc
"MedLogic"	MedLogic Global Holdings Limited, a wholly owned subsidiary of MGC
"MedLogic Global"	MedLogic Global Limited, a wholly owned subsidiary of MedLogic
"MedLogic Group"	together MedLogic and MedLogic Global
"MGC"	MedLogic Global Corporation, a corporation incorporated in the State of Delaware, United States
"New Ordinary Shares"	the 47,265,984 new Ordinary Shares of 5p each to be issued by the Company pursuant to the VCT Placing and the Placing and Open Offer being respectively the VCT Shares and the Open Offer Shares
"Official List"	the Official List of the UK Listing Authority
"Open Offer"	the conditional invitation by Baird, as agent for the Company, to Qualifying Shareholders to subscribe for the Open Offer Shares, on the terms and subject to the conditions set out in the letter from Baird in Part III of this document and on the accompanying Application Form
"Open Offer Shares"	the 21,383,632 New Ordinary Shares which are the subject of the Placing and Open Offer
"Ordinary Shares"	ordinary shares of 10p each and, following the Capital Reorganisation, ordinary shares of 5p each in the share capital of the Company
"Placing"	the conditional placing by Baird of the Open Offer Shares on the terms and conditions set out in the Placing and Open Offer Agreement subject to clawback to satisfy valid applications from Qualifying Shareholders pursuant to the Open Offer
"Placing and Open Offer"	together the Placing and the Open Offer
"Placing and Open Offer Agreement"	the conditional agreement, dated 28 March 2002, between the Company, the Directors and Baird relating to the VCT Placing and the Placing and Open Offer; further details of which are set out in paragraph 7 of Part IX of this document
"POS Regulations"	the Public Offer of Securities Regulations 1995 (SI 1995/1537), as amended
"Proposals"	together the Acquisition, the VCT Placing, the Placing and Open Offer, the Capital Reorganisation and the Transfer

“Qualifying Shareholders”	holders of Existing Ordinary Shares on the Company's register of members on the Record Date (other than certain shareholders to whom the Open Offer is not being extended as described in Part III of this document)
“Receiving Agent”	Capita IRG Plc New Issues Department, PO Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH
“Record Date”	the record date for the Open Offer, being the close of business on 22 March 2002
“Reduced Ordinary Shares”	ordinary shares of 5p each in the share capital of the Company in issue immediately following the Capital Reorganisation
“Resolutions”	the resolutions set out in the notice of Extraordinary General Meeting at the end of this document
“SAYE Scheme”	the AMS Savings Related Share Option Scheme
“Second Admission”	subject to First Admission, the admission of the Open Offer Shares and Consideration Shares to trading on AIM becoming effective in accordance with the AIM Rules
“Shareholders”	holders of Ordinary Shares
“Share Option Schemes”	the Executive Scheme, the SAYE Scheme and the Unapproved Scheme
“Transfer”	the de-listing of the Existing Ordinary Shares from the Official List of the UKLA and the admission of the Reduced Ordinary Shares to trading on AIM
“Travelers”	The Travelers Insurance Company, a corporation incorporated in the State of Connecticut, USA, a secured creditor of MGC
“UK Listing Authority” or “UKLA”	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of FSMA
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland
“United States”, “US” or “USA”	the United States of America, its territories and possessions, any state of the United States of America and the district of Columbia and any other area subject to its jurisdiction
“Unapproved Scheme”	the AMS Unapproved Executive Share Option Scheme
“VCT Placing”	the conditional placing by Baird of the VCT Shares on the terms and conditions set out in the Placing and Open Offer Agreement
“VCT Shares”	the 25,882,352 New Ordinary Shares the subject of the VCT Placing which are to be placed firm with certain investors and are intended to be eligible for relief under the Enterprise Investment Scheme and under the Venture Capital Trust regime (as described at paragraph 7 of the Chairman's letter in Part I of this document)

Note:

In this document, except where otherwise indicated, \$ means US dollars. Where applicable US dollar amounts have been translated into pounds sterling at exchange rates at which amounts are contracted to be paid, otherwise US dollar amounts have been translated at \$1.427 to £1 based on the exchange rate published in the Financial Times on 27 March 2002.

"Active"	a component or additive of a wound care dressing which interacts with the wound to enhance or benefit the healing process
"Alginate"	a naturally occurring polymer derived from seaweed
"Anti-microbial"	an additive which acts to kill or suppress the growth of micro-organisms
"Biopolymer"	a polymer formed in or from a living organism as opposed to an inert chemical entity. Examples include Alginates
"Cyanoacrylate"	a family of adhesives which achieve their unique strength by polymerising in place through interacting with water. Cyanoacrylates are organic compounds formed by combining cyanoacetate and formaldehyde. Depending upon the conditions used, cyanoacrylates can be produced having different numbers of carbon atoms. These are referred to as either the methyl, butyl or octyl forms
"FDA"	the US Food and Drug Administration
"Hydrocolloid"	a colloid system in which water is the dispersive medium (colloid: a state of matter in which the matter is dispersed within a dispersion medium)
"Hydrogel"	a polymeric material that can absorb more than 20 per cent. of its weight in water while maintaining a distinct three-dimensional structure
"n-butyl"	a form of cyanoacrylate in which the unpolymerised chain is four carbon atoms long. The "n" refers to the position of the acrylate group along the carbon backbone
"Octyl"	a form of cyanoacrylate in which the unpolymerized chain is eight carbon atoms long
"Passive Dressing"	a wound dressing which does not contain a component or additive which interacts with the wound
"Plasticiser"	a chemical entity that is added to polymers to increase their plasticity and therefore decrease their brittleness. For surgical adhesives, this improves the physical properties of the film formed over the wound



Advanced Medical Solutions Group plc

(Incorporated in England and Wales under the Companies Act 1985 Number 2867684)

Directors:

Dr G N Vernon (*Non Executive Chairman*)
 Dr D W Evans (*Group Chief Executive*)
 M G Tavener (*Finance Director*)
 G N Brookes (*Sales and Marketing Director*)
 R S Harris (*Non Executive Director*)

Registered office:

Road Three
 Winsford Industrial Estate
 Winsford
 Cheshire
 CW7 3PD

28 March 2002

To Qualifying Shareholders, and for information only, to holders of options under the Share Option Schemes.

Dear Shareholder

Proposed Acquisition of MedLogic

Proposed VCT Placing of 25,882,352 New Ordinary Shares and Placing and Open Offer of 21,383,632 New Ordinary Shares at 8.5p per share

**Proposed Capital Reorganisation
 Transfer from the Official List to AIM**

1. Introduction

It was announced today that AMS has conditionally agreed to acquire the issued share capital of MedLogic, the holding company of MedLogic Global, a UK based company specialising in the development and manufacture of medical grade adhesives for the wound closure market, and associated IPR from Travelers for a consideration of \$3.5 million (£2.5 million). The consideration is payable as to \$3.3 million (£2.3 million) in cash on completion and by the issue of the Consideration Shares. The cash consideration is subject to a retention of \$425,000 (£297,828). Further details of the Acquisition are set out in paragraph 4 below and in Part IV of this document.

In addition, to finance the Acquisition and additional working capital, the Board has announced today the VCT Placing and the Placing and Open Offer to raise approximately £4.0 million by way of the issue of 47,265,984 New Ordinary Shares at a price of 8.5p per New Ordinary Share.

The Acquisition, the VCT Placing and the Placing and Open Offer are conditional upon, *inter alia*, the receipt of provisional assurances from the Inland Revenue that the VCT Shares will qualify for investment by Venture Capital Trusts and will be eligible for relief under the Enterprise Investment Scheme and the passing of the Resolutions at the Extraordinary General Meeting.

Pursuant to the Placing and Open Offer Agreement, Baird has conditionally agreed to place the New Ordinary Shares with institutional and other investors. The VCT Shares are being placed firm and the Open Offer Shares are being placed subject to clawback by Qualifying Shareholders under the Open Offer. The VCT Placing and the Placing and Open Offer have been fully underwritten by Baird.

As at the close of business on 27 March 2002, the price of an Existing Ordinary Share, as derived from the Official List, was 9.5p which is below its nominal value of 10p. In order to facilitate the VCT Placing and the Placing and Open Offer, the Board is proposing the Capital Reorganisation, pursuant to which each Existing Ordinary Share will be sub-divided and converted into one Ordinary Share of 5p and one Deferred Share of 5p subject to approval at the Extraordinary General Meeting. The Capital Reorganisation will not affect Shareholders' relative rights in the share capital of the Company. Further details of the Capital Reorganisation are set out in paragraph 10 of this Part I.

The Board also considers that, due to the size of the Company and the ability of AIM companies to attract investment from Venture Capital Trusts, the Company should move from the Official List and apply for its shares to be admitted to trading on AIM. Pursuant to the Listing Rules, the Company hereby gives notice of the intended

cancellation of the listing of the Existing Ordinary Shares on the Official List and of admission to trading of the Existing Ordinary Shares on the London Stock Exchange at the close of business on 29 April 2002. Application has been made to the London Stock Exchange for the admission of the Reduced Ordinary Shares, the New Ordinary Shares and the Consideration Shares to trading on AIM.

Also announced today were the audited results of the Company for the year ending 31 December 2001, showing a net loss of £1.5 million on turnover of £7.4 million and net funds of £6.0 million, in line with current market expectations. The text of the Chairman's statement from the preliminary announcement of the audited results has been set out in Part V of this document.

The purpose of this document is to provide you with details of the Proposals, to explain the benefits of the Proposals, and to recommend that you vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting, convened for 11.00 a.m. on 23 April 2002, notice of which is set out at the end of this document.

2. Information on AMS

The AMS business was established in 1991, primarily to utilise proprietary polymer technology in the development of a new generation of advanced wound dressings which addressed the growing acceptance by medical professionals of the concept of 'moist healing' – keeping a wound moist during the healing process rather than, as was traditional, exposing it to the air – which has been shown to reduce scarring and accelerate healing.

AMS has since developed a range of advanced wound dressings designed to manage wound fluids and maintain optimal levels of moisture to promote healing. The acquisition of related technologies and the incorporation of a wide range of materials such as alginate, film, foam, gel and hydrocolloids, has resulted in AMS' product portfolio covering the full spectrum of wounds, from cuts and grazes, to heavily exuding and bleeding wounds through to dry wounds such as burns.

Patents covering a range of materials, processes and applications protect AMS' product portfolio. Since its establishment the Company has committed substantial investment to its manufacturing operations and has developed the ability to process a broad range of materials using a wide variety of manufacturing techniques. The Directors believe that the manufacturing know-how gained by the Company, particularly in relation to fibre spinning, polymer processing and the combination and conversion of various materials into functional medical dressings provides significant additional protection to AMS' product range.

The Company operates on a business-to-business model, focusing on the development and manufacture of its dressings and selling them through marketing and distribution partners. Outlets for AMS' products range from hospitals and nursing homes to pharmacies and retail outlets.

The Company's research and development efforts have been focused on utilising its base technology platform to develop higher value-added products which can deliver active ingredients into a wound and accelerate tissue repair. The Directors believe that the products resulting from these efforts will allow the Company to extract a higher value from its product portfolio.

A number of grants have been awarded to assist the Company in financing its research efforts, most notably a SMART award in 2001. The SMART award scheme allows companies to reclaim up to one third of the cost of an approved development project and the Company received an award to assist in upgrading its alginate manufacturing facilities. In addition, AMS has sought to strengthen its technology base through acquisition. For example, in January 2002, AMS took an option to license a novel silver fibre technology that will act as a broad spectrum anti-microbial agent for infection control when incorporated into wound dressings.

AMS' strategy

Since January 2000, when the current executive management team was formed, the focus of the AMS Group has been on achieving profitability from its core woundcare business within existing cash resources and building a solid financial platform from which to grow a leading medical device company.

As part of this strategy AMS has established strategic partnerships with blue chip companies, such as Smith & Nephew, 3M, Johnson & Johnson, Novartis and Coloplast. These partnerships will allow the Company to bring

new products and technology to global markets in a timely fashion. The Directors believe that these relationships coupled with the Company's manufacturing expertise and technology pipeline form the basis for future growth and sustainable profitability for the AMS Group.

AMS' results

The preliminary statement of audited results for the year ended 31 December 2001, announced today, shows that AMS has made significant progress in reducing its losses and is on track to reach profitability and a cash generative position in line with current market expectations. During the year ended 31 December 2001 AMS generated a net loss before taxation of £1.5 million on turnover of £7.4 million and had net funds of £6.0 million at the period end. The text of the Chairman's statement from the preliminary announcement of audited results is set out in Part V of this document. The audited accounts for the year ended 31 December 2001 are incorporated in the accountants' report on AMS set out in Part VI of this document. Shareholders should read the whole of this document and not rely solely on the summary information in this paragraph.

3. Information on the MedLogic Group

Introduction

MedLogic Global, the trading subsidiary of the MedLogic Group, develops, manufactures and markets medical grade adhesives and sealants principally for topical wound closure and wound management. The wound closure products are designed to replace or supplement alternative methods of closure such as sutures, staples or adhesive strips. The sealants are intended to protect skin from infection and break-down due to friction, shear or the presence of moisture.

MGC, the parent company of MedLogic, was established in Colorado Springs, Colorado, United States, in 1991 where the initial development of the MedLogic Group's product portfolio was undertaken. In 1997, MGC acquired a medical device manufacturing facility in Plymouth, UK and the MedLogic Group was established. Subsequently, all of MGC's operations were consolidated onto the Plymouth site.

MGC no longer has any US based trading operations. Its two key assets, the share capital of MedLogic, the holding company of MedLogic Global, and the IPR portfolio relating to the MedLogic Group's business, are being acquired by AMS.

Technology

MGC developed its technology platform and IPR portfolio based on the optimisation and commercialisation of cyanoacrylate adhesive materials (commonly known as superglues), specifically n-butyl cyanoacrylate – an advanced version of the base material offering characteristics more favourable for clinical applications.

Cyanoacrylates were originally developed in the 1950s and the fundamental patents covering their use as basic tissue adhesives have already expired. MGC and MedLogic Global have pursued a strategy of developing special methods of use and protecting improvements made to the core formulation which enhance its performance as a wound closure or wound management material. In total, MGC has 76 patents either issued or pending.

For each of its products, MGC and the MedLogic Group has developed a unique and proprietary formulation of n-butyl cyanoacrylate, plasticisers (for flexibility) and inhibitors (for setting rate) to deliver a specific end product with suitable properties for its given application. The addition of specific anti-microbial compounds into the formulation of its wound sealant products without adversely affecting their properties is considered by the Directors to be a significant technological breakthrough that would enhance the current product range. MGC and MedLogic Global have a number of patents covering the use of anti-microbial agents in cyanoacrylates.

In addition, MGC has patented the use of low dose electron beams for the sterilisation of its formulations. This has advantages over alternative methods of sterilisation, such as heat or gamma radiation, as it is not as detrimental to the material properties of the compound, requires the incorporation of fewer stabilisers, allows for a longer "shelf life" and is relatively cost effective. The Directors believe that the patented electron beam sterilisation capability is an important ongoing competitive advantage for MedLogic Global.

MGC also has a portfolio of hydrogel patents, acquired in 1998, that covers materials that are influenced by body temperature such that they provide the potential for the delivery of "active" ingredients. The Directors believe

that some of these patents, when combined with AMS' own hydrogel technology, could have significant potential to advance the Enlarged Group's work on "active" tissue repair.

The IPR relating to all of the above technology is being acquired by AMS as part of the Acquisition.

Products and markets

The n-butyl cyanoacrylate technology developed by MGC and MedLogic Global provides a platform for entry into multiple healthcare markets. Specific products have been developed to address a number of these markets and a number of further products are in development. MedLogic Global's current active portfolio consists of two products:

- LiquiBand® – a tissue adhesive for wound closure.
- LiquiShield® (SuperSkin®) – a tissue barrier film for wound management.

These products are detailed below:

LiquiBand® – Wound closure

The world-wide wound closure market is widely estimated to be approximately US\$3.3 billion (£2.3 billion) at retail prices.

The market consists of four distinct segments:

- Sutures: the use of needle and thread.
- Staples: the use of metallic devices to hold the tissue edges together during healing.
- Adhesive strips: the use of small pieces of tape, often "butterfly" shaped.
- Tissue adhesives: the "glueing" together of the edges of wounds.

Tissue adhesives are a comparatively recent introduction and currently account for a relatively small but growing proportion of the market. It is generally estimated that as much as 40 per cent. of the global suture and staple market could eventually be accounted for by tissue adhesives and sealants. The perceived advantages of tissue adhesives over alternative methods include:

- ease and speed of application;
- reduced patient trauma (no anaesthetic or needles required);
- superior wound sealing;
- reduced infection potential;
- improved cosmetic outcome; and
- relatively low total treatment costs.

The Directors believe that tissue adhesives will account for an increasing share of the wound closure market, replacing adhesive strips, sutures and staples, as recognition of their competitive advantages within the healthcare environment increases.

LiquiBand® is MedLogic Global's disposable, single-use liquid adhesive device designed to close and seal the epidermal layer of a wide variety of traumatic and surgical wounds. MedLogic Global obtained a Class 2A device CE mark for LiquiBand® in the European Union in June 1998 and began commercialisation of the product in 1999, focusing on selling to Accident and Emergency ("A&E") units in the UK, where it is listed on the Drug Tariff. MedLogic Global has its own direct sales force to access the A&E market and also plans to distribute via NHS Logistics, the centralised supplier for the National Health Service. The LiquiBand® product has enjoyed widespread acceptance in the UK A&E unit market selling into almost 50 per cent. of hospitals.

LiquiBand® has three key competitors in the UK: Dermabond (Closure Medical); Indermil (Tyco); and Histacryl (Braun Aesculap). The Directors believe that LiquiBand® has a number of competitive advantages over its competitor's products, in terms of its physical properties and ease of use, and that these advantages have resulted in a wider acceptance of the LiquiBand® product. A comparative study of Indermil, Dermabond and LiquiBand® carried out by the School of Nursing and Midwifery at the University of Sheffield in October 2000, concluded

that "the LiquiBand® tissue adhesive produced the most consistent results, scoring higher on most categories when compared with the other tissue adhesives".

MedLogic Global has recently commenced the appointment of distributors in certain European countries to promote and sell LiquiBand® in these markets.

The Directors believe that the Dermabond product from Closure Medical (which is marketed by the Ethicon division of Johnson & Johnson) has by far the major share of the global tissue adhesives market as it is the only tissue adhesive to be approved for sale in the USA as of March 2002. The Directors believe that the successful sales and rapid growth of Dermabond in the USA demonstrate the potential for the tissue adhesive market and that this success will attract other major international woundcare players to this segment of the wound closure market. It is the intention of the Directors to progress the regulatory approval process required for LiquiBand® to enter the US market in due course.

LiquiShield® – Wound management

Wound management products range from traditional gauzes and adhesive plasters to the advanced moist woundcare dressings as currently sold by AMS. The use of medical adhesives as a barrier for the protection of skin is a relatively new concept. LiquiShield® is a topical, liquid barrier film that is painted onto the skin in a very thin layer in order to provide protection against skin damage caused by friction, shear and/or the presence of moisture which can lead to skin breakdown, particularly in radiation patients, amputees utilising prosthetic limbs, stoma patients, bedridden patients, paraplegics, quadraplegics and individuals with generally compromised skin integrity. LiquiShield® has potential applications in each of these areas.

LiquiShield® (original name SuperSkin®) was MedLogic Global's first commercial product. It received FDA clearance for sale in the USA in December 1997 and a CE mark for sales into Europe in April 1998. While it was renamed LiquiShield® for the US market, it continues to be sold under the name of SuperSkin® in the UK. LiquiShield® is sold through distributors in the USA and Europe, targeted mainly at the nursing home sector. The Directors believe that the formulation of the Liquishield® product provides a number of competitive advantages.

Future development

Future developments of the MedLogic Global product range will be aimed at improving delivery systems to make the products easier to use, enhancing formulations to achieve specific product properties for new markets and incorporating anti-microbial agents into the products.

Products currently in development include:

LiquiBand Surgical® – a product designed specifically to take the LiquiBand® product into operating theatres and thus expand its potential use within hospitals. An enhanced formulation of the cyanoacrylate makes this product suitable for closing surgical incisions in the sterile environment of the operating theatre. The Directors believe that this product will be ready for launch during 2002.

LiquiDrape® – a cyanoacrylate sealant designed to replace surgical incise drapes (sterile films that are applied to the skin prior to surgical incision to protect the wound from local infection) and enhance infection control at the site of a surgical incision. Incise drapes are used in procedures where a higher than normal risk of infection exists and are only used on relatively flat or uniform skin surfaces, as they are extremely difficult to apply over joints or variable skin surfaces. LiquiDrape®, a thin-film, liquid barrier, addresses this application problem as it is painted onto the operative site after it has been prepped. This product will be undergoing regulatory approval and the Directors believe it can be launched into selected European markets by the end of 2002.

Financial information

The financial information set out below has been extracted from the accountants' report on MedLogic in Part VII of this document. Shareholders should read the whole of this document and not rely solely on the information summarised below.

	Year to 30 June		
	1999 £'000	2000 £'000	2001 £'000
Turnover	12	166	508
Operating loss	(1,589)	(1,711)	(948)
Loss before tax	(1,618)	(1,739)	(981)
Net liabilities	(1,948)	(3,687)	(4,668)

The MedLogic Group recorded its first sales in January 1999 and overall sales have grown significantly since that time. The majority of turnover during the period was earned from the LiquiBand® product as it became more widely accepted in A&E units in the UK.

In order to establish products in their market places and to rapidly grow sales, the MedLogic Group sacrificed short-term profitability. Net losses in the periods to 30 June 1999, 2000 and 2001 were £1.6 million, £1.7 million and £1.0 million respectively. Much of these losses related to the sales and marketing function and the establishment of the product distribution channels.

Net liabilities as at 30 June 2001 were £4.7 million. The MedLogic Group has been financed to date by intercompany loans from MGC which are excluded from the Acquisition. As at 30 June 2001 the balance of these loans was £5.0 million.

4. Principal terms of the Acquisition

AMS has conditionally agreed to purchase the entire issued share capital of MedLogic together with related IPR. The \$3.5 million (£2.5 million) consideration payable by the Company for the Acquisition is to be satisfied by the payment of \$3.3 million (£2.3 million) in cash and by the issue of the Consideration Shares.

\$425,000 (£297,828) of the cash consideration is to be retained in an escrow account for a period of one year from completion of the Acquisition Agreement to provide security in the event of certain claims by AMS under the Acquisition Agreement.

Usual warranties and indemnities for a transaction of this nature have been given by MGC to AMS, its obligations being guaranteed in this regard by Travelers.

The Acquisition Agreement is conditional upon, *inter alia*, the following:

- Shareholders passing the ordinary resolution to be proposed at the EGM; and
- Second Admission.

Further terms of the Acquisition Agreement are set out in Part IV of this document.

5. Background to, and reasons for, the Proposals

The Board believes that the AMS Group's core woundcare operations have been developed to a point where it has become appropriate to seek synergistic external opportunities to accelerate growth and enhance Shareholder value. In evaluating selective acquisition opportunities the Board has used the following criteria:

- they should be a strong strategic fit with AMS' existing businesses;
- they should move the AMS Group into higher value products;
- they should leverage the AMS Group's current capabilities; and
- they should not delay break-even for the existing AMS businesses.

The Board is of the opinion that the Acquisition satisfies all of the above criteria and, as such, represents a significant opportunity to develop a larger, more attractive medical devices group.

The complementary nature of the MedLogic Group's product portfolio and technologies significantly increases the markets available to the Enlarged Group and assists in positioning the Enlarged Group into the 'higher end' tissue repair sector of the wound care market segment.

The Directors also believe that the Acquisition enables the Enlarged Group to:

- leverage existing distribution channels:
 - utilise AMS' blue-chip partners to offer new outlets for the MedLogic product range, and
 - utilise MedLogic's direct sales force in the UK to cross sell AMS' wound dressings into A&E units.
- leverage senior management and overheads in research and development, sales and marketing, finance and logistics.

The Directors believe that the Acquisition represents an exciting opportunity for the Enlarged Group to develop critical mass as a medical device company. They are confident that the Acquisition will not delay the Group achieving break-even in line with current market expectations and believe that the Acquisition could transform the prospects of AMS by accelerating growth in revenues and earnings beyond what can be achieved by organic growth alone.

The Company is proposing to raise £4.0 million by way of the VCT Placing and the Placing and Open Offer to finance the cash consideration of the Acquisition, the expenses of the VCT Placing, the Placing and Open Offer, the Capital Reorganisation and the Acquisition and to provide additional working capital for the MedLogic Group. The Directors believe that undertaking the VCT Placing and the Placing and Open Offer will allow AMS to maintain cash headroom for the ongoing development of the AMS Group's businesses and ensure that the financial integrity of the Enlarged Group is not compromised. The Transfer and the Capital Reorganisation are being proposed to facilitate the VCT Placing and the Placing and Open Offer.

6. Transfer to AIM

For the reasons set out in paragraph 1 of this letter, and following consultations with the Company's major Shareholders, the Board has decided that it is in the best interests of the Company and Shareholders for trading in the Company's shares to be transferred to AIM.

The AIM Rules require that the Company appoints a nominated adviser and broker before its Ordinary Shares are admitted to trading on AIM. Robert W. Baird Limited has agreed to act as nominated adviser and broker to the Company.

The Board is aware that circumstances may apply to certain Shareholders which may prohibit them from investing in AIM shares. For example, the shares of a company listed on AIM cannot be held in Personal Equity Plans or Individual Savings Accounts. Such Shareholders are advised to review their position in this respect as soon as possible.

Even if either of the Resolutions required to facilitate the Acquisition, the VCT Placing, the Placing and Open Offer and the Capital Reorganisation are not approved, the Company will transfer its listing to AIM. It is expected that the listing of the Existing Ordinary Shares on the Official List and trading of the Existing Ordinary Shares on the London Stock Exchange will be cancelled at the close of business on 29 April 2002. Assuming the approval of the Resolutions, it is expected that the Reduced Ordinary Shares will be admitted to trading on AIM and that dealings in the Reduced Ordinary Shares will commence on 30 April 2002. Share certificates in respect of Reduced Ordinary Shares which are currently held in certificated form are expected to be despatched by 7 May 2002 and share certificates in respect of Existing Ordinary Shares will remain valid until that time. If the Resolutions are not so approved, it is expected that the Existing Ordinary Shares will be admitted to trading on AIM on 30 April 2002.

7. Tax reliefs available to investors

Tax relief is available under both the Enterprise Investment Scheme ("EIS") and the Venture Capital Trust ("VCT") provisions on funds invested in a qualifying company and used in a qualifying business activity.

The Directors intend that the funds raised from the subscription of the VCT Shares will be applied in qualifying business activities. The Open Offer Shares will not qualify for EIS or VCT tax relief.

VCT investments

The Company has applied for provisional assurance from the Inland Revenue that the VCT Shares will be eligible for investments by Venture Capital Trusts (ie, they will constitute "qualifying holdings" and will be "eligible shares" under the relevant legislation). It is anticipated that such provisional assurance will be received by 29 April 2002. An announcement will be made by the Company following such receipt. Such provisional assurance should not be taken as giving investors any assurance that the VCT Shares will be eligible for investment by Venture Capital Trusts. Whether the VCT Shares will be eligible for investment by Venture Capital Trusts is a matter of fact which cannot be determined in advance. It is a condition of the VCT regime that the Company maintain its qualifying status throughout the period of investment by Venture Capital Trusts. The Directors give no undertaking or guarantee that the Company's affairs will be conducted in a manner that will ensure this qualifying status is maintained.

EIS

It is intended that subscription for VCT Shares will also qualify for relief under the EIS legislation. Advance provisional approval for the qualifying status of the Company has been applied for from the Inland Revenue. It is anticipated that such provisional assurance will be received by 29 April 2002. An announcement will be made by the Company following such receipt. Such provisional assurance should not be taken as giving investors assurance that relief under the EIS regime will be available. Whether the VCT Shares qualify for such relief is a matter of fact which cannot be determined in advance. A formal application for EIS qualification will only be made once the VCT Shares have been issued. The Directors have been advised that there is no reason to believe that such application will not be approved by the Inland Revenue.

The EIS is designed to encourage, through the availability of certain tax reliefs to investors, investment in qualifying, unquoted trading companies by subscription for ordinary shares in such companies.

The principal tax reliefs currently available to each individual are:

- income tax relief equal to 20 per cent. of the amount subscribed for the qualifying EIS investment (up to a maximum aggregate amount for all qualifying EIS investments made in any one year of £30,000, i.e. 20 per cent. of £150,000 or the actual income tax liability of the investor for the year if this is lower) may be set off, on a pound for pound basis, against the investors' income tax liability for the tax year in which those shares are issued to him, thus potentially reducing the effective initial cost of investment to 80 per cent. of the sum invested;
- provided a qualifying EIS investment is held for at least five years and income tax relief is not withdrawn or reduced, it is exempt from capital gains tax on its first disposal;
- a subscription for VCT Shares may also entitle the individual investors to capital gains tax deferral on gains from disposals of other assets (see below), in which case an individual investor paying tax at the higher rate may qualify for income tax relief of 20 per cent. and capital gains deferment of 40 per cent., totalling 60 per cent. of the investment; and
- if the qualifying EIS investment fails or is sold at less than cost, Loss Relief (see below) should be available on the net loss against the investor's taxable income or capital gains. For the purposes of such Loss Relief the loss incurred will be reduced by the amount of EIS income tax relief given which has not been withdrawn.

There are a number of conditions that the issuing company and the investor need to meet. The Company will take steps to achieve these and investors should take appropriate professional advice to ensure that the relevant conditions relating to them are met and continue to be met.

Availability of tax certificates

A formal application for EIS qualification will be made once the VCT Shares have been issued. Assuming this is approved by the Inland Revenue an EIS form will be issued by the Company to relevant investors to enable them to claim their tax relief. It is the Company's intention to remain a qualifying company, as defined, for the relevant

three year period, to ensure that any EIS relief given to Shareholders is not put at risk. Subject to the above, the Directors consider that qualifying individuals subscribing for VCT Shares should be able to obtain EIS income tax relief within the EIS limits in respect of the year ending 5 April 2003 on the amounts subscribed for the VCT Shares provided they continue to satisfy the statutory conditions and the Company continues to be a qualifying company. Eligibility for relief will depend on individual investors' circumstances. In addition, the VCT Shares must have been issued and registered in the name of the investors by 5 April 2003 to qualify for income tax relief in 2002/03.

Capital Gains Tax deferral

If the Company is a qualifying company for EIS purposes, the subscription for VCT Shares by an individual may qualify for CGT deferral on the gains irrespective of whether EIS income tax relief is claimed by the individual in respect of such subscription. Where individuals have made a chargeable gain on the disposal of any asset in the period of three years before and twelve months after investment in qualifying shares, they should be eligible to claim deferment of some or all of the gains against the subscription for the VCT Shares provided that the Company continues to satisfy the relevant statutory requirements.

The deferred gain would then crystallise when the VCT Shares were sold or when the Company ceased to satisfy the conditions for relief if earlier.

It should be noted that, for tax purposes, a subscription for shares in the Company cannot be used to defer a gain on the disposal of other shares in the Company.

This deferral relief, unlike EIS income tax relief, is available to trustees.

Loss Relief

If an investor is an individual or an investment company, relief for losses (in the case of individuals, after taking into account any EIS income tax relief given and not withdrawn) incurred by the investor on disposal of the qualifying shares should in principle be available under Section 573 to 576 of the Income and Corporation Taxes Act 1988, against income of the same or previous year.

This relief should be available provided the Company and the Investor satisfy the relevant statutory requirements.

Inheritance Tax – Business Property Relief

Unlisted ordinary shares (which includes shares listed on AIM) representing minority interests in trading companies such as the Company potentially qualify for business property relief which gives up to 100 per cent. exemption from Inheritance Tax. Investors need to take their own advice on whether the relief applies in their case.

Further information on relevant UK taxation is set out in paragraph 9 of Part IX of this document.

8. Current trading and prospects

The Company today announced its audited results for the year ended 31 December 2001 which showed good progress towards its goal of achieving profitability within its existing cash resources. The full text of the Chairman's statement from the audited results statement, including further comment on the current trading and prospects of the AMS Group, is set out in Part V of this document.

Since 30 June 2001, the date to which the latest audited financial statements of the MedLogic Group were prepared, MedLogic Global has experienced further growth in sales on an annualised basis. The majority of this growth has been generated by increased sales of the LiquiBand® product. The Directors believe that this has been driven by both an increase in the number of customers, and higher average volumes per customer as the product has gained wider acceptance and utilisation for wound closure within UK A&E units.

Gross profits have continued to improve as volumes through the Plymouth facility have increased. The facility, which is certified to ISO 9001 and EN 46001 standards and is designed to operate in accordance with the US FDA's Quality System Regulations, has the capacity to allow for further significant sales growth. In overall terms, gross margin has decreased principally because monomer, previously manufactured by MGC, is being sourced from third parties. This has resulted in a loss making distribution contract for LiquiShield® which may require renegotiation.

MedLogic continues to generate losses at the operating level which will have increased its balance sheet deficit and required further funding from MGC.

The Accountants' Report on MedLogic in Part VII of this document includes a going concern statement by HLB Kidsons that "the financial information (on MedLogic) has been prepared on a going concern basis, the validity of which depends upon the continued support from the ultimate parent undertaking being available". The ability of the MedLogic Group to continue operating and meet its liabilities as they fall due has therefore been dependent upon receipt of continuing finance from MGC. Whilst there has been significant uncertainty as to whether MGC is itself a going concern and therefore in a position to provide the necessary support to the MedLogic Group, the Directors believe that, since 30 June 2001, sufficient funding has been made available to the MedLogic Group to enable it to trade until completion of the Acquisition whereupon AMS will assume the funding responsibility. The Directors therefore believe that this does not constitute a matter of significance to Shareholders.

Following the acquisition of MedLogic, the market available to the Enlarged Group will increase significantly by the addition of the rapidly expanding tissue adhesive segment of the wound care market. This will move the Enlarged Group to higher value business and re-inforce its image as a tissue repair company rather than a contract manufacturer of "dressings".

AMS' established capability in partnering with blue-chip companies will be utilised to move the MedLogic product range into global markets. Additionally, key AMS products used for treating and dressing wounds will be sold into UK A&E departments by the MedLogic direct sales team.

The Directors believe that these synergies, together with operational efficiencies in overhead functions, will allow revenue and earnings growth of the Enlarged Group to be accelerated over and above that of the core AMS business. As a result, they are optimistic about the Enlarged Group's future prospects.

9. Details of the VCT Placing and the Placing and Open Offer

The Company is proposing to raise approximately £4.0 million pursuant to the VCT Placing and the Placing and Open Offer by the issue of 47,265,984 New Ordinary Shares at the Issue Price.

Baird, as agent for the Company, has conditionally agreed to place the VCT Shares and the Open Offer Shares at the Issue Price with institutional and other investors or failing which itself to subscribe for the New Ordinary Shares. The Open Offer Shares are subject to clawback to satisfy valid applications by Qualifying Shareholders under the Open Offer. The VCT Shares have been placed firm with certain institutional and other investors and venture capital trusts and are not subject to clawback under the Open Offer.

All of the Directors have irrevocably undertaken to the Company and Baird to take up their full entitlements of Open Offer Shares under the Open Offer. In addition to their full entitlements under the Open Offer and subject to compliance with the provisions of the model code of the Listing Rules, certain of the Directors also intend to subscribe for an aggregate of 516,410 VCT Shares.

Qualifying Shareholders are being given the opportunity to subscribe under the Open Offer for Open Offer Shares at 8.5p per share on the following basis:

8 Open Offer Shares for every 35 Existing Ordinary Shares

held by them on the Record Date, and so in proportion for any other number of Existing Ordinary Shares then held. Fractions of Open Offer Shares will not be allotted to Qualifying Shareholders but, together with Open Offer Shares attributable to those overseas Shareholders that are not eligible to participate in the Open Offer, will be aggregated and subscribers will be procured for them under the Placing and Open Offer Agreement and the proceeds will be retained for the benefit of the Company. Qualifying Shareholders may apply for any number of Open Offer Shares up to their maximum entitlement, as set out in their Application Form.

Qualifying Shareholders should be aware that the Open Offer is not a rights issue and that Open Offer Shares not applied for under the Open Offer will not be sold in the market or otherwise for the benefit of those who do not apply under the Open Offer. Any Open Offer Shares which are not applied for under the Open Offer will be subscribed for by placees in accordance with their

commitments under the Placing and Open Offer or, failing which, will be subscribed for by Baird and the net proceeds used by the Company to satisfy the cash consideration payable under the Acquisition Agreement and to finance additional working capital.

Further details of the Open Offer and the terms and conditions on which it is being made, including the procedure for acceptance and payment, are contained in the letter from Baird set out in Part III of this document and on the accompanying Application Form. To be valid, Application Forms must be received by the Receiving Agents, Capita IRG Plc, New Issues Department, PO Box 166, Bourne House, Beckenham, Kent BR3 4TH no later than 3.00 p.m. on 23 April 2002.

The Open Offer is not being made to certain overseas Shareholders, whose attention is drawn to the paragraph headed "Overseas shareholders" in Part III of this document.

The VCT Placing and the Placing and Open Offer are conditional, *inter alia*, upon the passing by Shareholders at the EGM of the Resolutions, upon the Placing and Open Offer Agreement and the Acquisition Agreement having become unconditional and not having been terminated in accordance with their terms, upon receipt of provisional assurances from the Inland Revenue that the VCT Shares will qualify for investment by Venture Capital Trusts, and will be eligible for relief under the Enterprise Investment Scheme and upon Admission.

It should be noted that the VCT Placing is not conditional upon Second Admission and it is therefore possible that the VCT Placing will proceed but that the Acquisition and the Placing and Open Offer will not become unconditional.

If the conditions of the Placing and Open Offer Agreement are not fulfilled or waived on or before 1 May 2002 (or such later time and date as the Company and Baird may agree, being no later than 8 May 2002) or if the conditions of the Acquisition Agreement are not fulfilled or waived on or before 1 May 2002 (or such later time as the Company and Travelers and MGC may agree), the Placing and Open Offer will not become unconditional and application monies will be returned to applicants, without interest, as soon as practicable thereafter.

For Shareholders who do not elect to have their New Ordinary Shares credited to their relevant CREST stock account (if any), definitive share certificates in respect of the New Ordinary Shares are expected to be despatched on or before 7 May 2002. For those Shareholders who validly elect to hold their New Ordinary Shares in a CREST stock account, the relevant account will be credited on the day of Admission.

Temporary documents of title will not be issued pending the despatch by post of definitive certificates for the New Ordinary Shares (other than in respect of those shares held in CREST). Pending the dispatch of definitive certificates for the New Ordinary Shares (other than in respect of those shares held in CREST), transfers will be certified against the register held by Capita IRG Plc.

The New Ordinary Shares will, when issued, rank in full for all dividends and other distributions declared, made or paid on or after Admission and otherwise *pari passu*, in all respects with the Reduced Ordinary Shares.

10. Capital Reorganisation

At the close of business on 27 March 2002, the price of an Existing Ordinary Share, as derived from the Official List was 9.5p which is below its nominal value of 10p. Pursuant to the Act, a company is prohibited from issuing shares at a price below their nominal value and therefore, in order to facilitate the VCT Placing and the Placing and Open Offer, it is proposed that the Capital Reorganisation be implemented.

Pursuant to the Capital Reorganisation, each Existing Ordinary Share with a nominal value of 10p will be subdivided into one Reduced Ordinary Share and one Deferred Share, each with a nominal value of 5p. Each unissued Existing Ordinary Shares of 10p will be sub-divided into two Ordinary Shares of 5p each.

Each Reduced Ordinary Share will, after allowing for the effect of the Capital Reorganisation, carry the same rights including voting, dividend and capital repayment rights as an Existing Ordinary Share. Each Deferred Share will carry no voting rights, will not rank for dividends and will only participate on a winding up of the Company after the sum of £1,000,000 has been paid in respect of each Reduced Ordinary Share. No listing or quotation on any stock exchange will be sought for the Deferred Shares and no share certificates will be issued. The value

of a Deferred Share will therefore be minimal and the value of the Existing Ordinary Shares will be reflected in the Reduced Ordinary Shares.

Share certificates for Existing Ordinary Shares held in certificated form will remain valid until the share certificates for the Reduced Ordinary Shares are despatched. Share certificates for the Reduced Ordinary Shares are expected to be despatched by 7 May 2002.

The Capital Reorganisation will have no effect on the Group's net assets and will not affect the value of each Shareholder's investment in the Company. Subject to the passing of Resolution 2, the Company intends in due course to apply to the courts to cancel the Deferred Shares or to purchase them without payment.

For the purposes of United Kingdom taxation of capital gains, the Reduced Ordinary Shares and the Deferred Shares arising on the Capital Reorganisation will be treated as if they had been acquired at the same time as the Existing Ordinary Shares. The value of Deferred Shares will be minimal and therefore the original base cost of the Existing Ordinary Shares held by a Shareholder should be apportioned to the Reduced Ordinary Shares. Further details of applicable UK tax legislation is set out in paragraph 9 of Part IX of this document.

11. Extraordinary General Meeting

A notice convening the Extraordinary General Meeting, to be held at the Blue Cap, 520 Chester Road, Sandiway, Northwich, Cheshire CW8 2DN at 11.00 a.m. on 23 April 2002, is set out at the end of this document.

At the Extraordinary General Meeting, resolutions will be proposed to:

- (a) approve the Acquisition;
- (b)
 - (i) implement the Capital Reorganisation;
 - (ii) increase the Company's authorised share capital from £12,000,000 to £15,000,000 by the creation of an additional 60,000,000 new Ordinary Shares;
 - (iii) authorise the Directors to allot up to £4,767,659.75 in nominal value of relevant securities (being sufficient authority to allot the New Ordinary Shares and the Consideration Shares, to grant the option in favour of Baird referred to in paragraph 7.1(b) of Part IX of this document and to give the Directors authority (such authority to expire on the fifth anniversary of the date of passing of this Resolution) to allot further shares up to an amount equal to approximately one third of the issued share capital of the Company following Admission);
 - (iv) disapply Shareholders' statutory pre-emption rights in relation to the New Ordinary Shares, certain future issues of Ordinary Shares and other issues of Ordinary Shares for cash, such other issues up to an aggregate nominal amount representing approximately 5.0 per cent. of the issued share capital of the Company following Admission.

Under the Listing Rules, Shareholders are required to approve the Acquisition Agreement because of its significance. The other resolution to be proposed at the Extraordinary General Meeting will effect the Capital Reorganisation and facilitate the issue of the New Ordinary Shares, pursuant to the VCT Placing and the Placing and Open Offer, and the issue of the Consideration Shares.

Save for the issue of the Consideration Shares, the New Ordinary Shares pursuant to the VCT Placing and the Placing and Open Offer, and to satisfy the exercise of options pursuant to the Share Option Schemes and the exercise of the option granted to Baird pursuant to the Placing and Open Offer Agreement, the Directors have no present intention to exercise the authority to allot the unissued share capital referred to above. The proposed increase in the authorised share capital represents an increase of 25 per cent. of the current authorised share capital of the Company.

Subject to the passing of the Resolutions at the Extraordinary General Meeting, following completion of the VCT Placing and the Placing and Open Offer, the allotment of the Consideration Shares and after taking account of shares reserved for issue on the exercise of options under the Share Option Schemes and of the option in favour of Baird referred to above, 60,164,477 Ordinary Shares in the Company will remain authorised but unissued and

unreserved, representing approximately 42.3 per cent. of the enlarged issued Ordinary Share capital of the Company.

12. Action to be taken

(a) Form of Proxy

A Form of Proxy for use at the Extraordinary General Meeting is enclosed. The Form of Proxy should be completed in accordance with its instructions and returned to the Company's registrars, Capita IRG Plc (Proxies), Balfour House, 390/398 High Road, Ilford, Essex, IG1 1BR as soon as possible but in any event so as to be received by no later than 11.00 a.m. on 21 April 2002. The completion and return of a Form of Proxy will not preclude you from attending the Extraordinary General Meeting and voting in person, if you so wish.

(b) Application Form

The action to be taken by Qualifying Shareholders to apply for Open Offer Shares is set out under "Procedure for application" in the letter from Baird set out in Part III of this document and on the accompanying Application Form. The attention of overseas shareholders is drawn to the relevant paragraph headed "Overseas shareholders" in Part III of this document and to the warranty concerning overseas shareholders on the Application Form.

13. Further information

Your attention is drawn to the further information set out in Parts II to IX of this document relating to the Company and the Proposals.

14. Recommendation

Your Board, which has been advised by Baird, consider the Proposals to be in the best interests of the Company and Shareholders as a whole. In providing advice to the Board, Baird has taken into account the Directors' commercial assessment of the Proposals.

Accordingly, your Directors unanimously recommend that Shareholders vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting as they intend to do in respect of their own beneficial and connected shareholdings, which amount to 588,014 Existing Ordinary Shares (representing 0.6 per cent. of the Ordinary Shares in issue as at the date of this document).

Yours sincerely

Dr GN Vernon
Chairman

An investment in New Ordinary Shares is subject to a number of risks. Accordingly, prospective investors should consider carefully all of the information set out in this document and the risks attaching to an investment in the Enlarged Group, including, in particular, the risks described below, prior to making any investment decision. The information below does not purport to be an exhaustive list or summary of the risks which the Enlarged Group may encounter. Investors and prospective investors should consider carefully whether an investment in the Enlarged Group is suitable for them in light of the information in this document and the financial resources available to them.

The Enlarged Group's business, financial condition or results of operations could be materially and adversely affected by any of the risks described below. In such case, the market price of the Ordinary Shares may decline due to any of these risks and investors may lose all or part of their investment. Additional risks and uncertainties not presently known to the Directors, or that the Directors currently deem immaterial, may also have an adverse effect on the Enlarged Group.

Competition

The Directors intend to continue to invest in developing competitive and market-leading products. However, the wound care market may become increasingly competitive in the UK and elsewhere. The development of new technologies could give rise to significant new competitors which may have a material effect on the Enlarged Group's business.

The Enlarged Group may face significant competition, including from competitors who have much greater capital resources and who may be able to provide alternative products.

Technological change

The technology upon which the Enlarged Group's products are based may become obsolete or may not achieve sufficient market acceptance to create adequate demand for them. In order to compete successfully, the Enlarged Group will need to continue to improve its products and to develop and market new products that keep pace with technological change.

No guarantee on the Enlarged Group's products and services

There can be no assurance that the Enlarged Group will successfully develop new products and services and/or market any such products or services, or that, if it does, the Enlarged Group's proposed operations will be profitable or produce a reasonable return, if any, on its investment.

Regulatory environment

Given the market in which the Enlarged Group operates, many of the products developed will require varying levels of regulatory approvals, including clinical trials before they can be marketed. There is no guarantee that the products developed by the Enlarged Group will successfully obtain the required approvals.

The need for additional capital in the future

The Enlarged Group's capital requirements depend on numerous factors, including the rate of market acceptance of its products, its ability to maintain and expand its customer base and potential acquisitions. It is difficult for the Directors to predict the timing and amount of the Enlarged Group's capital requirements with accuracy. If its capital requirements vary materially from its plans, the Enlarged Group may require further financing in addition to amounts raised in the VCT Placing and the Placing and Open Offer. Any additional equity financing may be dilutive to Shareholders, and debt financing, if available, may involve restrictions on financing and operating activities. If the Enlarged Group is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion.

Intellectual property rights

The Enlarged Group relies and will rely on intellectual property laws and third party non-disclosure agreements to protect its intellectual property rights. Despite precautions which may be taken by the Enlarged Group to protect its products, unauthorised parties may attempt to copy, or obtain and use its products and other

technology incorporated in its products. Alternative technological solutions to the development of products similar to the Enlarged Group's products are available to competitors or prospective competitors of the Enlarged Group. To the extent that the Enlarged Group's products are protected by intellectual property rights, litigation may be necessary to protect such rights and could result in substantial costs to, and diversion of effort by, the Enlarged Group with no guarantee of success. The failure of the Enlarged Group to protect its proprietary information, and the expense of doing so, could have a material adverse effect on its operating results and financial condition.

Alliance partnerships

Part of the Enlarged Group's strategy is to leverage its relationships with partners. There can be no guarantee that the Enlarged Group will be able to enter into strategic alliances, or that potential and existing partners will not enter into exclusive relationships with the Enlarged Group's competitors. The Enlarged Group's failure to establish further strategic alliances or the loss of existing partners could have a material adverse effect on its business, financial condition or results of operations.

Dependence on key executives and personnel

The Enlarged Group's future success is substantially dependent on its senior management and certain key employees. The Enlarged Group provides certain key members of its senior management and its employees with a bonus scheme to incentivise them to continue to improve the Enlarged Group's performance and to encourage them to remain with the Enlarged Group.

Foreign currency exchange rate risk

Changes in currency exchange rates may harm the financial condition of the Enlarged Group through both transaction and translation risks. Although only a small part of the Enlarged Group's business is based outside the UK, foreign markets are expected to be increasingly important to the Enlarged Group. The Enlarged Group may be affected by currency fluctuations and, in particular, changes in the dollar – sterling exchange rate will affect the translation into sterling of the Enlarged Group's dollar based earnings.

Volatility of share price

The share price of publicly traded companies can be highly volatile. The price at which the New Ordinary Shares will be issued and the price which investors may realise for their Ordinary Shares will be influenced by a large number of factors, some specific to AMS and its operations and some which may affect the healthcare sector, or quoted companies generally. These factors could include the performance of AMS' development programmes, large purchases or sales of shares, currency fluctuations, legislative changes in the healthcare sector and general economic conditions.

Transfer to AIM

Application has been made for the Reduced Ordinary Shares, the New Ordinary Shares and the Consideration Shares to be admitted to AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk than that associated with established companies tends to be attached. The market for shares traded on AIM may be less liquid than the market for shares which are listed on the Official List and traded on the London Stock Exchange's main market.



28 March 2002

To Qualifying Shareholders and for information only to holders of options under the Share Option Schemes

Dear Sir or Madam

Proposed Open Offer to Qualifying Shareholders

Introduction

As explained in the letter from your Chairman set out in Part I of this document, the Company proposes to raise approximately £3.2 million (net of expenses) by the issue of the New Ordinary Shares at 8.5p per share pursuant to the VCT Placing and Placing and Open Offer. The net proceeds of the VCT Placing and the Placing and Open Offer are to be used to finance the cash consideration payable to Travelers under the terms of the Acquisition Agreement and the ongoing working capital requirements of the MedLogic Group.

All of the Directors have irrevocably undertaken to the Company and Baird to take up their full entitlements of Open Offer Shares under the Open Offer. In addition to their full entitlements under the Open Offer and subject to compliance with the provisions of the model code set out in the Listing Rules, certain of the Directors also intend to subscribe for an aggregate of 516,410 VCT Shares.

This letter, together with the accompanying Application Form, contains the formal terms and conditions of the Open Offer pursuant to which Qualifying Shareholders are being invited to apply for their proportional entitlement of the Open Offer Shares at the Issue Price.

The Open Offer

Subject to the terms and conditions set out in this letter and on the accompanying Application Form, Baird, as agent for the Company, hereby invites Qualifying Shareholders to apply for the Open Offer Shares, at a price of 8.5p per share (free of all expenses and stamp duty) payable in full, in cash on application, on the following basis:

8 Open Offer Shares for every 35 Existing Ordinary Shares

held by them and registered in their names on the Record Date and so in proportion for any other number of Existing Ordinary Shares then held, rounded down to the nearest whole number of Open Offer Shares. Fractions of Open Offer Shares will not be allotted to Qualifying Shareholders under the Open Offer but will be aggregated with the Open Offer Shares attributable to certain overseas shareholders not eligible to participate in the Open Offer and subscribers will be procured for these under the Placing and Open Offer Agreement and the proceeds thereof will be retained for the benefit of the Company. Qualifying Shareholders may apply for any number of Open Offer Shares up to their maximum entitlement, as indicated on their personalised Application Form.

No application in excess of the maximum entitlement will be met and any Qualifying Shareholder so applying will be deemed to have applied only for its maximum entitlement. Any monies paid in excess of the amount due in respect of an application will be returned to the applicant (at the applicant's risk and without interest). Completed Application Forms, accompanied with payment in full must be received by Capita IRG Plc, New Issues Department, PO Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH no later than 3.00 p.m. on 23 April 2002.

Robert W. Baird Limited
Mint House
77 Mansell Street
London E1 8AF

Registered office as above

UK France Germany USA

Robert W. Baird Limited is regulated by the FSA and a member of The London Stock Exchange

Registered Number
1745463 England

If valid applications are not received for all the Open Offer Shares such number of Open Offer Shares as are not validly applied for will be subscribed for at the Issue Price by subscribers procured by Baird, as agent for the Company pursuant to the terms of the Placing and Open Offer Agreement. To the extent that subscribers cannot so be procured, Baird will, as underwriter, subscribe for such shares itself.

The Open Offer is conditional upon the Placing and Open Offer Agreement becoming unconditional in all respects by 8.00 a.m. on 1 May 2002 (or such later date and/or time as the Company and Baird may agree, being not later than 8.00 a.m. on 8 May 2002) and upon it not having been terminated in accordance with its terms. The Placing and Open Offer Agreement is conditional, *inter alia*, upon the following:

- (i) the receipt of provisional assurance from the Inland Revenue that the VCT Shares will qualify for investments by Venture Capital Trusts and will be eligible for relief under the Enterprise Investment Scheme;
- (ii) the passing of the resolutions set out in the notice of Extraordinary General Meeting at the end of this document;
- (iii) the Acquisition Agreement becoming unconditional in all respects (save for any condition relating to the Second Admission on or before 1 May 2002); and
- (iv) First Admission and Second Admission having become effective on or before 8.00 a.m. on 1 May 2002 (or such later date and/or time as the Company and Baird may agree being no later than 8.00 a.m. on 8 May 2002).

Further details of the Placing and Open Offer Agreement are set out in paragraph 7(b) of Part IX of this document.

Application has been made to the London Stock Exchange for the New Ordinary Shares, Consideration Shares and the Reduced Ordinary Shares to be admitted to trading on AIM. The New Ordinary Shares will be allotted, fully paid or credited as fully paid and will, when issued, rank in full for all dividends and other distributions declared, made or paid on or after Admission and otherwise *pari passu* in all respects with the Ordinary Shares already in issue.

Qualifying Shareholders should be aware that the Open Offer is not a rights issue and that Open Offer Shares not applied for under the Open Offer will not be sold in the market or otherwise for the benefit of those who do not apply under the Open Offer. Any Open Offer Shares which are not applied for under the Open Offer will be subscribed for by placees in accordance with their commitments under the Placing and Open Offer or, failing which, will be subscribed for by Baird and the net proceeds used by the Company towards satisfaction of the cash consideration payable under the Acquisition Agreement and to finance additional working capital.

Procedure for application

The enclosed Application Form shows the number of Existing Ordinary Shares registered in your name on the Record Date. It also shows your maximum entitlement to Open Offer Shares under the Open Offer. The instructions and other terms set out on the Application Form constitute part of the terms of the Open Offer.

If you wish to apply for all or any of the Open Offer Shares to which you are entitled under the Open Offer, you should complete and sign the Application Form in accordance with the instructions on it and return it in the reply paid envelope provided, or by hand (during normal business hours) to Capita IRG Plc, New Issues Department, PO Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH together with a remittance for the full amount payable, so as to arrive as soon as possible, but in any event not later than 3.00 p.m. on 23 April 2002, after which time, subject as set out below, applications will not be accepted.

The Company and Baird reserve the right (but shall not be obliged) to accept applications accompanied by the required remittances which are received after 3.00 p.m. on 23 April 2002, but no later than 9.00 a.m. on 24 April

2002, provided that the cover bears a legible postmark no later than 3.00 p.m. on 23 April 2002, or applications in respect of which remittances are received prior to 3.00 p.m. on 23 April 2002 from an authorised person (as defined in the Financial Services and Markets Act 2000) specifying the Open Offer Shares concerned and undertaking to lodge the relevant Application Form in due course but, in any event, within two days. Applications will be irrevocable and will not be acknowledged and receipts will not be issued for amounts paid on application. The Company and Baird reserve the right (but shall not be obliged) to treat any application not strictly complying with the terms and conditions of application as nevertheless valid. If you post your Application Form within the United Kingdom by first class post you are recommended to allow at least three business days for delivery.

Applications may only be made on the enclosed Application Form (and not via the CREST settlement system) which is personal to the Qualifying Shareholder(s) named therein and may not be assigned or transferred except in the circumstances described below. The Application Form represents the right to apply for Open Offer Shares and is not a document of title and cannot be traded. It is transferable only to satisfy *bona fide* market claims in relation to purchases of Existing Ordinary Shares in the market pursuant to the rules of the London Stock Exchange prior to the Existing Ordinary Shares being marked "ex" the Open Offer. In those circumstances Box H on the Application Form should be completed and the Application Form sent to the stockbroker, bank or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee (save that Application Forms should not be submitted to or otherwise transmitted to the United States of America, Canada, Australia, the Republic of Ireland, Japan or South Africa). Applications may be split, but only to satisfy *bona fide* market claims, up to 3.00 p.m. on 19 April 2002. Any Qualifying Shareholder who has sold or transferred all or part of his holding of Existing Ordinary Shares is advised to consult his stockbroker or other professional adviser authorised under the Financial Services and Markets Act 2000 as soon as possible since the invitation to acquire Open Offer Shares may represent a benefit which can be claimed from him by the purchaser or transferee under the rules of the London Stock Exchange or otherwise.

Payment must be made by cheque or banker's draft, which should be made to "Capita IRG Plc – A/C Advanced Medical Solutions Group plc" and crossed A/C payee only, and which should be drawn in sterling on an account at a branch (which must be in the United Kingdom, the Channel Islands or the Isle of Man) of a bank or building society which is either a settlement member of the Cheque & Credit Clearing Company Limited or the CHAPS and Town Clearing Company Limited or a member of either of the committees of the Scottish or Belfast Clearing Houses or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by either of those companies or those committees (and must bear the appropriate sorting code number in the top right hand corner). An application may be rejected unless these requirements are fulfilled. The Company and Baird reserve the right to have any remittance presented upon receipt and to instruct Capita IRG Plc to seek special clearance of cheques so as to allow value to be obtained for remittances at the earliest opportunity. Return of an Application Form with an appropriate remittance will constitute a warranty that the remittance will be honoured on first presentation. Such warranty will constitute a term of the application. If this term is not met the application may be rejected.

Application monies will be kept in a separate bank account pending fulfillment of the conditions of the Placing and Open Offer. If these conditions are not fulfilled on or before 8.00 a.m. on 1 May 2002 (or such later date and/or time as the Company and Baird may agree, being not later than 8.00 a.m. on 8 May 2002) the Open Offer will lapse and all application monies will be refunded to applicants by cheque by post within fourteen days thereafter at the applicant's risk and without interest. Any interest earned on the monies in the separate bank account will be retained for the benefit of the Company.

If you are in any doubt about the action you should take, you should immediately consult your stockbroker or other independent financial adviser authorised under the Financial Securities and Markets Act 2000. If you do not wish to apply for any of the Open Offer Shares you should not complete or return the Application Form. You are nevertheless requested to complete and return the accompanying Form of Proxy for use at the Extraordinary General Meeting.

Overseas shareholders

(i) General

The making of the Open Offer to Shareholders who are resident in, or citizens of, or which are corporations, partnerships or other entities created or organised under the laws of countries other than the United Kingdom ("Overseas Shareholders") may be affected by the laws or regulatory requirements of the relevant jurisdiction. Overseas Shareholders who are in any doubt in this respect should consult their professional advisers. No person receiving a copy of this document and/or an Application Form in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him, nor should he in any event use such Application Form, unless, in the relevant territory, such an invitation or offer could lawfully be made to him or such Application Form could lawfully be used without contravention of any legislation or other local regulatory requirements. Receipt of this document and/or an Application Form does not constitute an invitation or offer to Overseas Shareholders in the territories in which it would be unlawful to make an invitation or offer and in such circumstances this document and/or any Application Forms are sent for information only. It is the responsibility of any person receiving a copy of this document and/or an Application Form outside the United Kingdom and wishing to make an application for any Open Offer Shares to satisfy himself as to the full observance of the laws and regulatory requirements of the relevant territory in connection therewith, including obtaining any governmental or other consents which may be required or observing any other formalities required to be observed in such territory and paying any issue, transfer or other taxes due in such other territory.

Persons (including, without limitation, nominees and trustees) receiving an Application Form should not, in connection with the Open Offer, distribute or send it into any jurisdiction when to do so would or might contravene local securities laws or regulations. If an Application Form is received by any person in any such jurisdiction or by the agent or nominees of such person, he or she must not seek to take up the Open Offer Shares except pursuant to an express agreement with the Company. Any person who does forward an Application Form into any such jurisdiction, whether pursuant to a contractual or legal obligation or otherwise, should draw the attention of the recipient to the contents of this paragraph. The Company and Baird reserve the right to reject an Application Form from or in favour of Shareholders in any such jurisdiction or persons who are acquiring Open Offer Shares for resale in any such jurisdiction.

The Company and Baird reserve the right in their absolute discretion to treat as invalid any application for Open Offer Shares under the Open Offer if it appears to the Company and Baird and their agents that such application or acceptance thereof may involve a breach of the laws or regulations of any jurisdiction or if in respect of such application the Company and Baird have not been given the relevant warranty concerning overseas jurisdictions set out in the Application Form. All payments under the Open Offer must be made in pounds sterling.

(ii) United States and Canada

Neither the Application Form nor the Open Offer Shares have been or will be registered under the United States Securities Act of 1933, as amended, or any applicable securities laws of any state of the United States, nor have they been, nor will they, be qualified for sale under the securities laws of any province or territory of Canada and the relevant exemptions are not being obtained from the Securities Commission of any province of Canada. Except in a transaction which is exempt from the registration requirements of such laws, the Open Offer Shares may not be, directly or indirectly, offered, sold, taken up or delivered in North America, or to or for the benefit of a North American Person (as defined below). Application Forms are not being sent to any Shareholder with a registered address in North America or who is known or believed by the Company to be a North American Person, unless such Shareholder satisfies the Company (in its sole discretion) that an allotment is permitted under an exemption from the securities laws referred to above. Accordingly, this document and the Application Form will not be issued to Shareholders with registered addresses in, or to residents of, North America.

In this letter "North America" means the United States of America and Canada, their respective territories and possessions and all areas subject to their respective jurisdictions and any political subdivision thereof and "North American Person" means any person who is in North America, or any citizen or resident of North America, who receives any Application Form in North America or who executes, authorises the execution of or sends in any Application Form from within North America and shall include the estate of any such person or any corporation,

partnership or other entity created or organized under the laws of North America. References in this letter to "in North America" shall mean at the time the Open Offer is received and at the time any relevant Application Form is executed or authorised to be executed and returned.

(iii) *Australia*

No prospectus in relation to the Open Offer Shares has been lodged with, or registered by, the Australian Securities and Investments Commission. A person may not:

- (a) directly or indirectly offer for subscription or purchase, or issue an invitation to subscribe for or buy or sell, the Open Offer Shares; or
- (b) distribute any draft or definitive document in relation to any such offer, invitation or sale in the Commonwealth of Australia, its states, territories or possessions ("Australia") or to any resident of Australia (including corporations and other entities organised under the laws of Australia but not including a permanent establishment of such a corporation or entity located outside Australia).

Accordingly, this document and the Application Form will not be issued to Shareholders with registered addresses in, or to residents of, Australia.

(iv) *Japan*

The relevant clearances have not been, and will not be, obtained from the Ministry of Finance of Japan and no document in relation to the Open Offer has been or will be lodged with or registered by the Ministry of Finance of Japan and no steps have been taken to enable the Open Offer Shares to be offered, sold, accepted, or otherwise delivered in Japan, its territories and possessions and any areas subject to its jurisdiction ("Japan") in compliance with applicable laws of Japan. The Open Offer Shares may not therefore be offered, sold or accepted or otherwise delivered directly, or indirectly, in or into Japan. Accordingly, Application Forms are not being sent to Qualifying Shareholders who have registered addresses in Japan.

(v) *Republic of Ireland*

No document in relation to the Open Offer Shares has been or will be lodged for registration with the Registrar of Companies in the Republic of Ireland and all subscribers for Open Offer Shares must provide an address outside the Republic of Ireland for the receipt of certificates for Open Offer Shares. Persons will be deemed to have made an invalid application if their Application Form appears to the Company and Baird or their agents to have been executed in or dispatched from the Republic of Ireland, or if they provide an address in the Republic of Ireland for registration, or if they are unable to make the representations and warranties set out in the Application Form. No Application Forms will be sent to holders of Existing Ordinary Shares with registered or mailing addresses in the Republic of Ireland. This document is being sent to such Shareholders for information purposes only and does not constitute an offer or invitation to apply for Open Offer Shares.

(vi) *South Africa*

Shareholders resident in South Africa may require the approval of the South African Exchange Control Authorities if they wish to take up their entitlements under the Open Offer.

(vii) *Other overseas territories*

Shareholders resident in other overseas territories should consult their professional adviser as to whether any other governmental or other consents are required, or other formalities need to be observed, to enable them to apply for Open Offer Shares under the Open Offer.

United Kingdom taxation

Your attention is drawn to the summary of United Kingdom taxation issues set out in paragraph 9 of Part IX of this document.

If you are in any doubt about your tax position you should immediately consult your independent professional adviser.

Money Laundering Regulations 1993

It is a term of the VCT Placing and Placing and Open Offer that, to ensure compliance with the Money Laundering Regulations 1993, Capita IRG Plc may require, in its absolute discretion, verification of the identity of the person by whom or on whose behalf an Application Form is lodged.

Further information regarding the circumstances in which such verification may be required and the consequences of failure to supply such verification are set out in paragraph 12 of Part IX of this document.

Settlement and dealings

Application has been made to the London Stock Exchange for the Open Offer Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the Open Offer Shares will commence on AIM on 1 May 2002, subject to the Placing and Open Offer Agreement having become unconditional in all respects and not having been terminated by that time. For those Qualifying Shareholders who do not hold their Existing Ordinary Shares in uncertificated form in the CREST settlement system or do not elect to have Open Offer Shares credited to their relevant CREST stock account, definitive share certificates in respect of the Open Offer Shares for which they validly apply, which will be in certificated form, are expected to be despatched on or before 7 May 2002. For those Qualifying Shareholders who validly elect to hold their Open Offer Shares in a CREST stock account by completing Box J on the Application Form, the relevant CREST stock account will be credited on the day of Admission.

Notwithstanding any provision within this document, the Company reserves the right to allot and/or issue any Open Offer Shares in certificated form. In normal circumstances, this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST, or of any part of CREST, or on the part of the facilities and/or system operated by Capita IRG Plc in connection with CREST. This right may be also exercised if correct details (such as member account ID and participant's ID details) are not provided as requested on the Application Form.

No temporary documents of title will be issued to Qualifying Shareholders who elect to hold their Open Offer Shares in certificated form (outside CREST) and, pending receipt of definitive share certificates, transfers of certificated shares will be certified against the register held by Capita IRG Plc. The Open Offer Shares will be registered in the name of applicants free of stamp duty. All documents or remittances sent by or to applicants or as they may direct, will be sent through the post at their own risk.

Further information

Your attention is drawn to the further information set out in this document and to the terms and conditions set out on the Application Form.

Yours faithfully
for and on behalf of Robert W. Baird Limited

Shaun Dobson
Director – Investment Banking

Summarised below are the principal terms of the Acquisition Agreement.

1. Travelers agrees to sell to AMS all MGC's right, title and interest in and to the shares of MedLogic and related IPR assets pursuant to Article 9 of the US Uniform Commercial Code.

Travelers is the senior secured creditor of MGC and, as such, has the right under US law, because of default by MGC in relation to its obligations to Travelers, to cause MGC to sell the shares of MedLogic and the related IPR assets which are the subject of its security.
2. The total consideration payable by AMS pursuant to the Acquisition Agreement is \$3.5 million (£2.5 million). The Consideration Shares are to be issued in part satisfaction of the consideration attributable to the acquisition of the shares in MedLogic. The balance of the consideration attributable to the shares in MedLogic and the consideration attributable to the IPR is to be satisfied by the payment of \$3.3 million (£2.3 million) in cash.
3. \$425,000 (£297,828) of the purchase price is to be retained in an escrow account for a period of one year from completion of the Acquisition Agreement when it will be paid to Travelers, less the amount of any successful warranty or indemnity claims pursuant to the Acquisition Agreement.
4. Usual warranties and indemnities for a transaction of this nature have been given by MGC to AMS subject to agreed limitations. In particular, warranty claims must be notified to MGC within 18 months of completion of the Acquisition Agreement (six years if relating to tax). All obligations of MGC are guaranteed by Travelers, but it should be noted that its liability, in relation to claims under the Acquisition Agreement, is limited to \$3.0 million (£2.1 million).
5. The Acquisition Agreement is conditional *inter alia* upon:
 - (a) Shareholders passing the ordinary resolution to approve it to be proposed at the EGM; and
 - (b) Second Admission.
6. AMS is not entitled to recover total payments referred to in paragraph 7.1(d) and 7.1(e) of Part IX of this document which it has made, or is obliged to make, to MGC in return for exclusivity. Negotiations on an exclusive basis began on 21 February 2002.
7. The inter group debt owed by the MedLogic Group to MGC will not be assumed by AMS.

Set out below is the full text of the Chairman's statement extracted from the Company's preliminary announcement of its audited results for the year ended 31 December 2001, which was released on 28 March 2002.

“Chairman's Statement

I am pleased to report that our results for 2001 show the continued progress of the Group toward profitability within current cash. The Shareholders' decision at the recent extraordinary general meeting not to invite offers for the share capital of the Company, I believe confirms the support of the majority of our shareholders of the Company's strategy to focus on taking the core woundcare business to break-even and thus provide a solid financial platform from which to grow a leading medical device company.

As I outlined in my letter accompanying the extraordinary general meeting circular, management has demonstrated an ability to control costs and manage cash. The Board feels that it is now appropriate and opportune to accelerate growth through selective corporate activity. Following a review of potential acquisition candidates, the Board feels that the proposed acquisition of MedLogic which was announced today, will increase the market available to the Group and assist in positioning the Group within the “higher end” tissue repair sector of the woundcare market.

Financial Performance

AMS has made significant progress in reducing its losses and is on track to reach profitability and a cash generative position in line with current market expectations.

The continuing focus of the management team during 2001 on reducing losses and cash burn has resulted in a 45 per cent. reduction in net loss to £1.5 million (2000: £2.7 million) on turnover of £7.4 million, while the operating cash outflow position improved by 55 per cent. to £0.8 million. This, together with continued tight control of working capital, leaves the Group with sufficient net funds, £6.0 million, to get the existing business to sustainable profitability and to implement the strategy to acquire complementary technologies that will drive growth and increase shareholder value.

Gross margins improved from 6 per cent. to 18 per cent. despite a reduction in turnover as low margin Consumer sales were shed as part of a re-focusing of the business on higher value Professional woundcare products.

Partnerships

Existing partnerships with blue chip firms such as Smith & Nephew, 3M, Coloplast and Molnlycke were further strengthened during 2001, which contributed to a 24 per cent. increase in sales for Professional woundcare. Our strategy of focusing on fewer partners continues to prove successful, allowing a streamlining of the business at all levels. As a result of a major review of the Consumer business, a significant amount of unprofitable business was shed to ensure that higher margins could be achieved going forward. Although this had an impact on revenues, it did not reduce the bottom line.

The relationship with Novartis Consumer Health Europe was broadened with the launch of our new proprietary scar reduction product into the Spanish market under their Trofolastin® brand. This is an important step in moving our Consumer range upmarket from the price sensitive Retail end to the higher value Pharmacy market. Johnson & Johnson Consumer Product Company's Band-Aid® product employing our alginate material is also now on sale in pharmacies across the United States.

Technology

The Group continues to progress its R & D activities to move from passive wound dressings to higher value active delivery and tissue repair and engineering. At the simplest level, our blister dressings routinely contain homeopathic/antiseptic agents such as tea tree oil.

Our collaboration with Noble Fiber Technologies allows us to incorporate silver fibres into our alginate material, thus producing dressings that provide silver (a broad spectrum antimicrobial) at the wound site whilst maintaining the fluid handling and haemostatic features of alginate. Products arising out of this technology collaboration are being reviewed with potential partners for development and clinical and regulatory approval for a launch in early 2003.

The granting of two new patents, announced in September 2001, has strengthened our hydrogel technology platform. Our new anti-bleed gel, which is based on one of these patents, forms the basis of a development agreement with a major pharmaceutical partner. This involves the development of a product under a leading antibiotic brand.

Our tissue engineering programme based around the use of biopolymer fibres as scaffolds for cell growth was progressed with the support of external grant funding.

Prospects

The operational performance during the last two years has provided a firmer financial footing for the future. This has allowed us to look at ways of accelerating growth. In addition, a number of external opportunities to increase the Group's product range and broaden its technology base are being investigated. The Board believes that the proposed acquisition of MedLogic is a strong strategic fit with the Company's current business and that it will not delay break-even in line with current market expectations.

Dr G N Vernon

Chairman"

Set out below is an accountants' report on Advanced Medical Solutions Group plc by HLB Kidsons, reporting accountants.



The Directors
Advanced Medical Solutions Group plc
Road Three
Winsford Industrial Estate
Winsford
Cheshire
CW7 3PD

The Directors
Robert W. Baird Limited
Mint House
77 Mansell Street
London
E1 8AF

28 March 2002

Dear Sirs

Advanced Medical Solutions Group plc (“the Company”) and its subsidiaries (together “the Group”)

We report on the financial information set out below. This financial information has been prepared on the Group for inclusion in the Prospectus dated 28 March 2002 relating to the acquisition by the Company of MedLogic Global Holdings plc and related intellectual property rights and the associated VCT Placing and Placing and Open Offer.

The Company was incorporated and registered in England on 1 November 1993 as Ingleby (715) Limited with the registered number 2867684 as a private company limited by shares under the Companies Act 1985. The Company re-registered as a public company limited by shares and changed its name to Innovative Technologies Group plc on 1 December 1994, and then changed its name to Advanced Medical Solutions Group plc on 12 November 1998.

The financial information in this report has been based on the sources set out herein and on the “Basis of preparation” below, after making such adjustments as we consider necessary.

Basis of preparation

The financial information set out in this report has been prepared for the three years ended 31 December 2001. The financial information has been prepared from the audited group financial statements for the three years ended 31 December 2001.

No significant adjustments to the financial statements of the Group were considered necessary for the purpose of this report.

Responsibility

The financial statements of the Group are the responsibility of the respective directors of the Group, who approved their issue.

The directors of Advanced Medical Solutions Group plc are responsible for the contents of the Prospectus dated 28 March 2002 in which this report is included.

It is our responsibility to compile the financial information set out in our report, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained during the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which are considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information set out below, gives for the purposes of the Prospectus, a true and fair view of the state of affairs of the Group as at the dates stated and of their losses, cash flows and recognised gains and losses for the years then ended.

Consent

We consent to the inclusion of this report in the Prospectus and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

Consolidated profit and loss accounts

	Note	Year ended 31 December 1999 £'000	Year ended 31 December 2000 £'000	Year ended 31 December 2001 £'000
Turnover	2	6,221	7,815	7,373
Cost of sales		(7,029)	(7,373)	(6,075)
Gross profit		(808)	442	1,298
Distribution costs		(274)	(262)	(136)
Administration costs		(4,782)	(3,701)	(3,322)
Other operating income	3	564	402	222
Operating loss	4	(5,300)	(3,119)	(1,938)
Interest receivable and similar income	7	221	470	369
Interest payable and similar charges	8	(77)	(37)	(30)
Loss on ordinary activities before taxation		(5,156)	(2,686)	(1,599)
Taxation	9	—	—	129
Retained loss for the year	10	(5,156)	(2,686)	(1,470)
Basic loss per share: restated including effect of rights issue	11	(7.3)p	(2.9)p	(1.6)p

Statement of total recognised gains and losses

	Year ended 31 December 1999 £'000	Year ended 31 December 2000 £'000	Year ended 31 December 2001 £'000
Loss for the financial year	(5,156)	(2,686)	(1,470)
Currency translation differences on foreign currency net investments	14	24	10
Total losses recognised since last annual report	(5,142)	(2,662)	(1,460)

Reconciliation of movements in shareholders' funds

	Year ended 31 December 1999 £'000	Year ended 31 December 2000 £'000	Year ended 31 December 2001 £'000
Opening shareholders' funds	14,732	9,590	13,454
Loss for the financial year	(5,156)	(2,686)	(1,470)
Currency translation differences on foreign currency net investments	14	24	10
New share capital subscribed	—	3,184	—
Premium on issue of shares during the year	—	3,822	—
Costs of share issue	—	(480)	—
Closing shareholders' funds	9,590	13,454	11,994

Balance sheets

	Note	As at 31 December 1999 £'000	As at 31 December 2000 £'000	As at 31 December 2001 £'000
Fixed assets				
Tangible assets	12	5,606	5,403	4,809
Current assets				
Stocks	13	1,803	1,021	887
Debtors – due within one year	14	2,091	2,385	1,844
– due after more than one year	14	–	200	200
Cash at bank and in hand		2,723	7,013	6,238
		6,617	10,619	9,169
Creditors: amounts falling due within one year	15	(2,306)	(2,228)	(1,778)
Net current assets		4,311	8,391	7,391
Total assets less current liabilities		9,917	13,794	12,200
Creditors: amounts falling due after more than one year	16	(327)	(340)	(206)
Provisions for liabilities and charges	20	–	–	–
		9,590	13,454	11,994
Capital and reserves				
Called up share capital	21	6,171	9,355	9,355
Share premium account	22	33,568	36,910	36,910
Other reserve	22	1,531	1,531	1,531
Profit and loss account	22	(31,680)	(34,342)	(35,802)
Equity shareholders' funds		9,590	13,454	11,994

Consolidated cash flow statement

	Note	Year ended 31 December 1999 £'000	Year ended 31 December 2000 £'000	Year ended 31 December 2001 £'000
Net cash outflow from operating activities	25	(3,600)	(1,705)	(764)
Returns on investments and servicing of finance				
Interest paid		(1)	—	—
Interest received		170	452	395
Interest element of finance lease rental and hire purchase payments		(76)	(37)	(30)
Net cash inflow from returns on investments and servicing of finance		93	415	365
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(704)	(660)	(353)
Sale of tangible fixed assets		6	6	204
Net cash outflow before use of liquid resources and financing		(4,205)	(1,944)	(548)
Management of liquid resources				
Sales of term deposits		4,223	—	805
Purchase of term deposits		—	(4,362)	—
Financing				
Share issues by parent company	21/22	—	7,006	—
Share issue expenses	22	—	(480)	—
Repayment of promissory note		(49)	—	—
Net movement of capital element of finance lease rental and hire purchase payments	27	(409)	(316)	(237)
Net cash (outflow)/inflow from financing		(458)	6,210	(237)
Increase/(decrease) in cash	26	(440)	(96)	20

Notes

1. Accounting policies

The financial information in this report has been prepared in accordance with applicable Accounting Standards in the United Kingdom and under the historical cost convention. A summary of the more important Group accounting policies, which have been applied consistently, is set out below.

Basis of consolidation

The consolidated accounts include the financial statements of Advanced Medical Solutions Group plc and all of its subsidiary undertakings for the three years ended 31 December 2001. The Group uses both the acquisition and the merger method of accounting to consolidate the results of subsidiary undertakings. Intra - group sales and profits are eliminated fully on consolidation.

Merger accounting

Where merger accounting is used, the investment is recorded in the Company's balance sheet at the nominal value of the shares issued together with the fair value of any additional consideration paid.

In the Group accounts, merged subsidiary undertakings are treated as if they had always been a member of the Group. The results of such a subsidiary in the year it joins the Group are included for the whole period. Any difference between the nominal value of the shares acquired by the Group and those issued by the Group to acquire them is taken to reserves. Share premium attributable to the subsidiary is included as Other Reserve.

Acquisition accounting

The results of the subsidiary undertakings are included from the date control passes. On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses that arise after the group has gained control are charged to the post acquisition profit and loss account. Goodwill arising on the acquisition of subsidiaries in previous years has been written off immediately against reserves and has not been reinstated on the introduction of Financial Reporting Standard (FRS) 10.

Goodwill

Goodwill arising on acquisitions made after 1 April 1998 is capitalised and amortised over the estimated useful economic life of 20 years. Goodwill previously eliminated against reserves has not been reinstated, but will be charged to the profit and loss account on subsequent disposal of the businesses to which it relates.

Turnover

Turnover represents sales and royalties income received under licence agreements, received from external customers at invoiced amounts less value added tax. In previous years, (including 1999), royalty income was included under other operating income. A prior year adjustment has not been made as the amount is immaterial.

Other operating income

Operating income represents non-refundable up-front licence payments received for the grant of rights for the development and marketing of products, contributions received to research and development, Government grants of a revenue nature and other sundry income.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets, over their expected useful lives from the date that the asset is brought into use. It is calculated at the following rates:

Leasehold improvements	– over the length of the lease
Motor vehicles	– 25 per cent. per annum on cost
Plant and machinery	– 10 to 33.3 per cent. per annum on cost
Fixtures and fittings	– 15 to 20 per cent. per annum on cost
Computers	– 33.3 per cent. per annum on cost

Amortisation

Licence fees capitalised are amortised on a straight line basis over the term of the licence.

Stock

Stocks are valued at the lower of cost or net realisable value. Cost is calculated as follows:

Raw materials	– cost of purchase on first in, first out basis
Work in progress and finished goods	– cost of raw materials and labour and attributable overheads.

Net realisable value is based on estimated selling price less further costs to completion and disposal.

Research and development

Expenditure on pure and applied research is charged to the profit and loss account in the period in which it is incurred.

Development costs are also charged to the profit and loss account in the period of expenditure.

Deferred taxation

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes, to the extent that it is probable that a liability or asset will crystallise.

Government grants

Grants relating to expenditure on tangible fixed assets are credited to the profit and loss account at the same rate as the depreciation on the assets to which the grants relate. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are credited to the profit and loss account in the period to which they relate.

Leases

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor. All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Pensions

The Group operates a money purchase pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged against the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Foreign currency

Assets, liabilities and transactions of subsidiaries in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. Differences on exchange arising from the translation of the opening net investment in subsidiary companies are taken to reserves and are reported in the statement of total recognised gains and losses. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Liquid resources

Liquid resources comprise of variable term deposits that are accessible with less than 12 months' notice.

2. Segmental information

Turnover by geographical customers:

	1999 £'000	2000 £'000	2001 £'000
United States of America	2,249	3,382	2,399
Rest of Europe	2,688	3,465	4,145
United Kingdom	1,220	945	825
Rest of World	64	23	4
	6,221	7,815	7,373

Turnover by business unit:

	1999 £'000	2000 £'000	2001 £'000
Consumer	2,132	3,380	1,887
Professional	4,089	4,435	5,486
	6,221	7,815	7,373

It is not possible to identify loss before taxation and net asset by business unit because of the use of common services.

2. Segmental information (continued)

Turnover, loss before tax and net assets by origin:

	United Kingdom £'000	United States £'000	Group £'000
1999			
Turnover	6,194	27	6,221
Loss	(4,663)	(493)	(5,156)
Net assets	9,512	78	9,590
2000			
Turnover	7,682	133	7,815
Loss	(2,600)	(86)	(2,686)
Net assets	13,380	74	13,454
2001			
Turnover	7,373	—	7,373
Loss	(1,436)	(163)	(1,599)
Net assets	11,975	19	11,994

The turnover and loss before taxation is wholly attributable to the principal activity of the Group.

3. Other operating income

	Year ended 31 December 1999 £'000	Year ended 31 December 2000 £'000	Year ended 31 December 2001 £'000
Licence fees	503	365	187
Grants received	61	37	35
	564	402	222

4. Operating loss

	Year ended 31 December 1999 £'000	Year ended 31 December 2000 £'000	Year ended 31 December 2001 £'000
Operating loss arrived at after charging/(crediting):			
Government grants	(61)	(37)	(35)
Depreciation (see (a) below)	904	957	934
Loss/(profit) on disposal of fixed assets	181	(6)	36
Operating lease rentals			
— plant and machinery	27	50	59
— land and buildings	303	347	328
Auditors' remuneration			
— audit services	30	18	20
— non audit services	4	6	23
Research and development	468	706	748

(a) Depreciation includes £88,000 (2000: £121,000, 1999: £103,000) charged on assets held under finance leases and hire purchase contracts.

5. Employees

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

	Year ended 31 December 1999 Number	Year ended 31 December 2000 Number	Year ended 31 December 2001 Number
Production	125	119	112
Research and development	12	16	15
Sales and marketing	13	9	6
Administration	17	15	17
	167	159	150

Sales and marketing includes 1 person (2000: 1, 1999: 1) employed in the United States.

	Year ended 31 December 1999 £'000	Year ended 31 December 2000 £'000	Year ended 31 December 2001 £'000
Staff costs for all employees, including executive directors consists of:			
Wages and salaries	3,552	3,392	3,089
Social Security costs	312	313	274
Pension costs	161	163	152
	4,025	3,868	3,515

6. Directors' emoluments

	Year ended 31 December 1999 £'000	Year ended 31 December 2000 £'000	Year ended 31 December 2001 £'000
Fees as directors	31	8	—
Remuneration for management services	441	446	414
Pension	42	34	32
Amounts paid to third parties	81	63	64
Compensation for loss of office	48	31	—
	643	582	510
Retirement benefits are accruing to the following number of directors under money purchase schemes	4	3	3
Emoluments of highest paid director (including benefits)	141	180	185
Pension contribution in respect of highest paid director	14	14	14

7. Interest receivable and similar interest

	Year ended 31 December 1999 £'000	Year ended 31 December 2000 £'000	Year ended 31 December 2001 £'000
Bank interest	219	462	359
Rent deposit interest	2	8	10
	<u>221</u>	<u>470</u>	<u>369</u>

8. Interest payable and similar charges

	Year ended 31 December 1999 £'000	Year ended 31 December 2000 £'000	Year ended 31 December 2001 £'000
Bank interest	1	—	—
Finance leases and hire purchase contracts	76	37	30
	<u>77</u>	<u>37</u>	<u>30</u>

9. Taxation on loss on ordinary activities

	Year ended 31 December 1999 £'000	Year ended 31 December 2000 £'000	Year ended 31 December 2001 £'000
Research and development tax credit	—	—	129

10. Loss for the financial year

	Year ended 31 December 1999 £'000	Year ended 31 December 2000 £'000	Year ended 31 December 2001 £'000
Loss dealt with in the accounts of the parent company	(26,232)	(2,809)	(4,928)
Loss retained by subsidiary undertakings	(5,236)	(3,103)	(5,145)
Consolidation adjustment	26,312	3,226	8,603
	<u>(5,156)</u>	<u>(2,686)</u>	<u>(1,470)</u>

11. Loss per share

The basic loss per share has been calculated on a weighted average number of shares in issue during the year, namely 93,553,394 (2000: 93,181,925, 1999: 70,893,769 after adjusting for the effect of the rights issue) and loss of £1,470,000 (2000: £2,686,000, 1999: £5,156,000). The comparative loss per share as disclosed in the previous financial statements has been adjusted for the effects of the right issue.

12. Tangible assets

	Short-term Leasehold Improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 1999	1,233	6,750	453	48	8,484
Additions	5	693	30	–	728
Disposals	(10)	(169)	(41)	(48)	(268)
At 31 December 1999	1,228	7,274	442	–	8,944
Additions	–	741	–	13	754
At 31 December 2000	1,228	8,015	442	13	9,698
Additions	–	352	–	31	383
Disposals	–	(386)	–	–	(386)
At 31 December 2001	1,228	7,981	442	44	9,695
Depreciation					
At 1 January 1999	543	1,608	316	48	2,515
Provided for the year	64	814	26	–	904
Disposals	(4)	(12)	(17)	(48)	(81)
At 31 December 1999	603	2,410	325	–	3,338
Provided for the year	26	910	21	–	957
At 31 December 2000	629	3,320	346	–	4,295
Provided for the year	27	893	11	3	934
Disposals	–	(343)	–	–	(343)
At 31 December 2001	656	3,870	357	3	4,886
Net book value					
At 31 December 2001	572	4,111	85	41	4,809
At 31 December 2000	599	4,695	96	13	5,403
At 31 December 1999	625	4,864	117	–	5,606

The net book value of tangible fixed assets includes an amount of £388,000 (2000: £996,000, 1999: £764,000) in respect of assets held under finance leases and hire purchase contracts. The related depreciation charge for the year was £88,000 (2000: £121,000, 1999: £103,000)

	1999 £'000	2000 £'000	2001 £'000
Commitments for capital expenditure			
Contracts placed for future capital expenditure and not provided in the financial statements	216	204	38

13. Stocks

	1999 £'000	2000 £'000	2001 £'000
Raw materials	854	531	395
Work in progress	651	440	265
Finished goods	298	50	227
	<u>1,803</u>	<u>1,021</u>	<u>887</u>

14. Debtors

	1999 £'000	2000 £'000	2001 £'000
Due within one year			
Trade debtors	1,604	1,787	1,458
Corporation tax	—	—	129
Other debtors	342	342	65
Prepayments and accrued income	145	256	192
	<u>2,091</u>	<u>2,385</u>	<u>1,844</u>
Due after more than one year			
Other debtors - leasehold rental deposit	—	200	200

15. Creditors: amounts falling due within one year

	1999 £'000	2000 £'000	2001 £'000
Trade creditors	1,292	1,105	880
Taxation and social security	104	84	166
Obligations under finance leases and hire purchase contracts	291	230	118
Accruals and deferred income	619	809	614
	<u>2,306</u>	<u>2,228</u>	<u>1,778</u>

16. Creditors: amounts falling due after more than one year

	1999 £'000	2000 £'000	2001 £'000
Obligations under finance leases and hire purchase contracts	147	183	88
Deferred income	180	157	118
	<u>327</u>	<u>340</u>	<u>206</u>

The maturity profile of the Group's financial liabilities, all of which are less than 5 years are described in note 18(a).

17. Analysis of borrowings

The maturity by currency of total borrowings comprised:

	1999 £'000	2000 £'000	Less than 1 year £'000	2 - 5 years £'000	2001 £'000
Sterling	438	413	118	88	206

Borrowings comprised obligations under finance leases and hire purchase contracts.

18. Derivatives and other financial instruments

The information below deals with the financial assets and liabilities. Short-term debtors and creditors have been excluded from the analysis as permitted by FRS 13. The carrying value of the Group's financial assets and liabilities equals its fair value.

(a) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities, all of which are at fixed rates and denominated in sterling, is as follows:

	On demand or within one year £'000	Between one and two years £'000	Between two and five years £'000	Total medium/ long-term £'000	Total financial liabilities £'000	Interest Rate %
Deferred income	60	75	105	180	240	—
Finance lease creditors and hire purchase contracts	291	141	6	147	438	13.5
At 31 December 1999	351	216	111	327	678	—
Deferred income	60	75	82	157	217	—
Finance lease creditors and hire purchase contracts	230	106	77	183	413	12.4
At 31 December 2000	290	181	159	340	630	—
Deferred income	60	60	58	118	178	—
Finance lease creditors and hire purchase contracts	118	88	—	88	206	11.3
At 31 December 2001	178	148	58	206	384	—

(b) Interest rate and currency of financial assets

The currency and interest rate profile of the financial assets of the Group

	Total £'000	Floating £'000	Fixed £'000	Non interest bearing £'000	Fixed rate weighted average interest rate %
Currency					
Sterling	2,505	128	2,277	100	4.9
US Dollar	218	218	—	—	—
At 31 December 1999	2,723	346	2,277	100	
Sterling	6,874	20	6,640	214	6.1
US Dollar	139	139	—	—	—
At 31 December 2000	7,013	159	6,640	214	
Sterling	6,115	125	5,836	154	4.2
US Dollar	123	114	—	9	—
At 31 December 2001	6,238	239	5,836	163	

The floating rate financial assets comprise bank deposits bearing interest at commercial rates.

The financial assets all mature within one year.

(c) Currency exposures

At 31 December 2001 the Group had unhedged dollar currency exposures of £446,000 (2000: £132,000, 1999: £218,000).

(d) Hedges of future transactions

Gains and losses on instruments used for hedging currency and interest rate exposures are not recognised until the exposure that is being hedged is itself recognised.

	1999 £'000	2000 £'000	2001 £'000
Gain expected to be recognised in 2002 or later	—	13	—

19. Foreign exchange rates

	Average rate			Closing rate			Percentage change			
	1999	2000	2001	1999	2000	2001	Average % 2000	2001	Closing % 2000	2001
Currency										
US Dollar	1.60	1.515	1.442	1.65	1.495	1.426	(5.3)	(4.8)	(9.4)	(4.6)

20. Provision for liabilities and charges**Deferred taxation**

The amount of unprovided deferred taxation and the amount provided are as follows:

	1999		2000		2001	
	Unprovided £'000	Provided in accounts £'000	Unprovided £'000	Provided in accounts £'000	Unprovided £'000	Provided in accounts £'000
Group						
Capital allowances	—	1,076	—	1,050	—	991
Sundry timing differences	—	—	—	—	—	—
Unutilised tax losses	—	(1,076)	—	(1,050)	—	(991)
	—	—	—	—	—	—

At 31 December 2001 the group had tax losses, in excess of the amount disclosed above, worth approximately £7.3 million (2000: £7.3 million, 1999: £6.7 million), at future rates of taxation.

21. Share capital

	1999 £'000	2000 £'000	2001 £'000
Authorised			
120,000,000 (2000: 120,000,000, 1999: 80,000,000) ordinary shares of 10p each	8,000	12,000	12,000
Allotted, called up and fully paid			
93,553,394 (2000: 93,553,394, 1999: 61,705,779) ordinary shares of 10p each	6,171	9,355	9,355

21. Share capital (continued)

Shares to be issued

Options have been granted over the following number of ordinary shares which were outstanding for the three years ended 31 December 2001.

Date of Grant	Option price	Number of Options				At 31 December 1999
		At 1 January 1999	Issued	Lapsed	Cancelled	
Unapproved Executive Share Option Scheme						
*31.10.97	133.35p	645,719	—	—	645,719	—
*19.2.98	103.57p	419,484	—	63,746	355,738	—
*27.3.98	103.57p	33,746	—	—	33,746	—
*27.3.98	102.68p	196,851	—	—	196,851	—
*15.4.98	99.12p	196,850	—	—	196,850	—
26.10.98	41.35p	1,900,000	—	30,000	—	1,870,000
1.12.98	36.56p	455,000	—	—	—	455,000
17.12.98	36.56p	280,098	—	60,000	—	220,098
19.5.99	28.29p	—	80,000	—	—	80,000
21.6.99	25.68p	—	355,000	—	—	355,000
15.7.99	26.99p	—	500,000	—	—	500,000
19.7.99	38.30p	—	1,309,029	—	—	1,309,029
25.1.00	25.50p	—	—	—	—	—
26.5.00	13.50p	—	—	—	—	—
Executive Share Option Scheme						
*5.12.94	91.57p	130,866	—	—	130,866	—
*9.12.94	91.57p	87,788	—	23,992	63,796	—
*28.4.95	91.57p	96,515	—	—	96,515	—
*26.11.96	137.8p	69,439	—	2,250	67,189	—
*1.8.97	240.03p	12,498	—	—	12,498	—
19.7.99	38.30p	—	291,650	151,965	—	139,685
19.1.00	25.50p	—	—	—	—	—
8.5.01	18.25p	—	—	—	—	—
5.9.01	13.00p	—	—	—	—	—
Savings Related Share Option Scheme						
5 Year 30.6.95	52.62p	71,895	—	—	42,225	29,670
5 Year 22.11.96	95.97p	45,681	—	—	24,409	21,272
3 Year 22.11.96	95.97p	20,690	—	—	11,853	8,837
		4,663,120	2,535,679	331,953	1,878,255	4,988,591

Number of Options									
Date of Grant	Option price	At 31 December 1999	Issued	Lapsed	Rights Adjust-ment	At 31 December 2000	Issued	Lapsed	At 31 December 2001
Unapproved Executive Share Option Scheme									
*31.10.97	133.35p	—	—	—	—	—	—	—	—
*19.2.98	103.57p	—	—	—	—	—	—	—	—
*27.3.98	103.57p	—	—	—	—	—	—	—	—
*27.3.98	102.68p	—	—	—	—	—	—	—	—
*15.4.98	99.12p	—	—	—	—	—	—	—	—
26.10.98	41.35p	1,870,000	—	1,068,298	278,084	1,079,786	—	—	1,079,786
1.12.98	36.56p	455,000	—	252,715	67,661	269,946	—	—	269,946
17.12.98	36.56p	220,098	—	114,869	32,726	137,955	—	11,487	126,468
19.5.99	28.29p	80,000	—	34,461	11,896	57,435	—	34,461	22,974
21.6.99	25.68p	355,000	—	—	52,790	407,790	—	63,178	344,612
15.7.99	26.99p	500,000	—	—	74,354	574,354	—	—	574,354
19.7.99	38.30p	1,309,029	—	620,722	194,656	882,963	—	134,557	748,406
25.1.00	25.50p	—	604,635	83,191	—	521,444	—	132,547	388,897
26.5.00	13.50p	—	1,263,037	10,000	—	1,253,037	—	—	1,253,037
Executive Share Option Scheme									
*5.12.94	91.57p	—	—	—	—	—	—	—	—
*9.12.94	91.57p	—	—	—	—	—	—	—	—
*28.4.95	91.57p	—	—	—	—	—	—	—	—
*26.11.96	137.8p	—	—	—	—	—	—	—	—
*1.8.97	240.03p	—	—	—	—	—	—	—	—
19.7.99	38.30p	139,685	—	14,356	20,768	146,097	—	52,590	93,507
19.1.00	25.50p	—	194,500	18,500	—	176,000	—	10,500	165,500
8.5.01	18.25p	—	—	—	—	—	271,000	25,000	246,000
5.9.01	13.00p	—	—	—	—	—	45,000	—	45,000
Savings Related Share Option Scheme									
5 Year 30.6.95	52.62p	29,670	—	34,079	4,409	—	—	—	—
5 Year 22.11.96	95.97p	21,272	—	—	3,159	24,431	—	—	24,431
3 Year 22.11.96	95.97p	8,837	—	10,148	1,311	—	—	—	—
		4,988,591	2,062,172	2,261,339	741,814	5,531,238	316,000	464,320	5,382,918

*Following the Extraordinary General Meeting that was held on 29 June 1999 these options were cancelled and subsequently reissued.

Option price is restated to take account of the rights issue on 6 January 2000, except for those options issued after the announcement of the rights issue on 17 November 1999.

In normal circumstances, the options granted under the Unapproved Executive Share Option Scheme and the Executive Share Option Scheme are exercisable subject to the satisfaction of the relevant performance criteria, not earlier than 3 and not later than 7 years after the date of the grant. Options granted under the Savings Related Share Option Scheme are exercisable in normal circumstances within 6 months after the end of the option period.

22. Share premium account and reserves

	Profit Premium account £'000	Other reserve £'000	Profit and Loss account £'000
As at 1 January 1999	33,568	1,531	(26,538)
Loss for the year	—	—	(5,156)
Currency translation differences on foreign currency net investments	—	—	14
As at 31 December 1999	33,568	1,531	(31,680)
Loss for the year	—	—	(2,686)
Premium on issue of shares during the year	3,822	—	—
Costs of share issues	(480)	—	—
Currency translation differences on foreign currency net investments	—	—	24
As at 31 December 2000	36,910	1,531	(34,342)
Loss for the year	—	—	(1,470)
Currency translation differences on foreign currency net investments	—	—	10
As at 31 December 2001	36,910	1,531	(35,802)

The Other reserve represents Advanced Medical Solutions Limited's share premium account arising from merger accounting (see note 1)

The cumulative goodwill written off to reserves is £5,586,000 (2000: £5,586,000).

23. Commitments under operating leases

As at 31 December 2001, the Group had annual commitments under non cancellable operating leases as set out below:

	1999		2000		2001	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:						
Within one year	192	—	15	4	—	3
In two to five years	90	—	60	12	—	17
Greater than five years	—	—	192	—	259	—
	282	—	267	16	259	20

24. Post balance sheet events

Since 31 December 2001 the Group has entered into an agreement to acquire the entire issued share capital of MedLogic Global Holdings Limited and associated intellectual property rights. It is proposed that this will be funded through a placing and open offer of shares as set out in the Prospectus.

The Company intends to transfer the listing of its share capital from the Official List of the UK Listing Authority to the Alternative Investment Market of the London Stock Exchange plc.

25. Reconciliation of operating loss to net cash outflow from operating activities

	Year ended 31 December 1999 £'000	Year ended 31 December 2000 £'000	Year ended 31 December 2001 £'000
Operating loss	(5,300)	(3,119)	(1,938)
Depreciation	904	957	934
Loss/(profit) on sale of fixed assets	181	(6)	36
Decrease in stocks	617	782	134
Decrease/(increase) in debtors	(2)	(280)	447
Decrease in creditors	—	(39)	(377)
Net cash outflow from operating activities	(3,600)	(1,705)	(764)

26. Reconciliation of net cash flow to movement in net funds (note 26)

	Year ended 31 December 1999 £'000	Year ended 31 December 2000 £'000	Year ended 31 December 2001 £'000
Increase/(decrease) in cash in year	(440)	(96)	20
Cash outflow to repay finance leases	409	316	237
Cash (inflow)/outflow to (decrease)/increase liquid resources	(4,223)	4,362	(805)
Change in net funds resulting from cash flows	(4,254)	4,582	(548)
New finance leases	(24)	(291)	(30)
Translation difference	14	24	10
Movement in net funds in year	(4,264)	4,315	(568)
Net funds at 1 January 2001	6,549	2,285	6,600
Net funds at 31 December 2001	2,285	6,600	6,032

27. Analysis of net funds

	Cash £'000	Term deposits £'000	Finance leases £'000	Total £'000
As at 1 January 1999	871	6,501	(823)	6,549
Cash flows	(440)	(4,223)	409	(4,254)
Other changes	—	—	(24)	(24)
Exchange movements	14	—	—	14
As at 31 December 1999	445	2,278	(438)	2,285
Cash flows	(96)	4,362	316	4,582
Other changes	—	—	(291)	(291)
Exchange movements	24	—	—	24
As at 31 December 2000	373	6,640	(413)	6,600
Cash flows	20	(805)	237	(548)
Other changes	—	—	(30)	(30)
Exchange movements	10	—	—	10
As at 31 December 2001	403	5,835	(206)	6,032

Yours faithfully

HLB Kidsons

Set out below is an accountants' report on MedLogic Global Holdings Limited and its subsidiary MedLogic Global Limited by HLB Kidsons, reporting accountants.



Chartered Accountants
1 Old Hall Street
Liverpool
L3 9SX

The Directors
Advanced Medical Solutions Group plc
Road Three
Winsford Industrial Estate
Winsford
Cheshire
CW7 3PD

28 March 2002

The Directors
Robert W. Baird Limited
Mint House
77 Mansell Street
London
E1 8AF

Dear Sirs

MedLogic Global Holdings Limited ("the Company") and its subsidiary (together "the Group")

We report on the financial information set out below. This financial information has been prepared on the Group for inclusion in the Prospectus dated 28 March 2002 relating to the issue of ordinary shares in Advanced Medical Solutions Group plc and the acquisition of the entire share capital of the Company ("the Prospectus").

The Company was incorporated and registered in England on 12 September 1997 as Bondco 655 Limited with the registered number 3433441 as a private company limited by shares under the Companies Act 1985. The Company changed its name to MedLogic Global Holdings Limited on 15 December 1997. The Company has not traded since incorporation. MedLogic Global Limited, the wholly owned subsidiary company and principal trading vehicle with the registered number 3433544 commenced trading on 1 December 1997.

The financial information in this report has been based on the sources set out herein and on the "Basis of preparation" below, after making such adjustments as we consider necessary.

Basis of preparation

The financial information set out in this report has been prepared for the three years ended 30 June 2001. The financial information has been prepared from the audited financial statements of each company within the Group for the three years ended 30 June 2001. Consolidated statutory accounts of the Group have not been prepared for the three years ended 30 June 2001 but for the purposes of this report the financial information of the Group has been consolidated.

No significant adjustments to the financial statements of the Group were considered necessary for the purpose of this report.

Responsibility

The financial statements of the Group are the responsibility of the respective directors of the Group, who approved their issue.

The directors of Advanced Medical Solutions Group plc are responsible for the contents of the Prospectus dated 28 March 2002 in which this report is included.

It is our responsibility to compile the financial information set out in our report, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amount and disclosures in the financial information. The evidence included that previously obtained during the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which are considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Going concern

In forming our opinion we have considered the adequacy of the disclosures made in note 1 of the report concerning the uncertainty as to whether the ultimate parent undertaking, MedLogic Global Corporation, will be able to raise sufficient funds to enable it to provide continued financial support to the Group. The financial information has been prepared on a going concern basis, the validity of which depends upon continued support from the ultimate parent undertaking being available. The report does not include any adjustments that would result from a failure to obtain such financial support. Our opinion is not qualified in this respect.

Opinion

In our opinion, the financial information set out below, gives for the purposes of the Prospectus, a true and fair view of the state of affairs of the Group as at the dates stated and of their losses, cash flows and recognised gains and losses for the years then ended.

Consent

We consent to the inclusion of this report in the Prospectus and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

Profit and loss accounts

	Note	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000	Year ended 30 June 2001 £'000
Turnover	2	12	166	508
Cost of sales		(3)	(32)	(289)
Gross profit		9	134	219
Research and development and regulatory affairs		(235)	(230)	(185)
Other distribution and administrative costs		(1,363)	(1,615)	(982)
Operating loss	3	(1,589)	(1,711)	(948)
Interest receivable		5	1	—
Interest payable and similar charges	5	(34)	(29)	(33)
Loss on ordinary activities before taxation		(1,618)	(1,739)	(981)
Tax on loss on ordinary activities	6	(13)	—	—
Retained loss for the year	15	(1,631)	(1,739)	(981)

Statement of total recognised gains and losses

There are no recognised gains or losses other than those stated above and therefore no separate statement of total recognised gains and losses has been presented.

Balance sheets

	Note	As at 30 June 1999 £'000	As at 30 June 2000 £'000	As at 30 June 2001 £'000
Fixed assets				
Tangible fixed assets	7	941	841	713
Current assets				
Stocks	8	33	55	95
Debtors	9	73	74	144
Cash at bank		33	4	27
		139	133	266
Creditors: amounts falling due within one year	10	(226)	(249)	(334)
Net current liabilities		(87)	(116)	(68)
Total assets less current liabilities		854	725	645
Creditors: amounts falling due after one year	11	(2,802)	(4,412)	(5,313)
Net liabilities		(1,948)	(3,687)	(4,668)
Capital and reserves				
Called up share capital	14	—	—	—
Profit and loss account	15	(1,963)	(3,702)	(4,683)
Revaluation reserve	15	15	15	15
Equity shareholders' deficit	15	(1,948)	(3,687)	(4,668)

I Principal accounting policies

Fundamental accounting concepts and uncertainty related to the going concern concept

The Group is dependant on continuing finance being made available by its ultimate parent undertaking, MedLogic Global Corporation to enable it to continue operating and meet its liabilities as they fall due. At the balance sheet date amounts advanced to the Group by the ultimate parent amounted to £4,953,000.

However, there exists significant uncertainty as to whether the ultimate parent undertaking is itself a going concern, and therefore whether it is in a position to provide ongoing support to the company. As at 30 June 2001, the ultimate parent undertaking had a working capital deficit of approximately US\$• million. In addition, it was not in compliance with certain of the covenants required under its debt agreements and is currently seeking to address this through negotiations with the lenders in the short-term, and through a possible recapitalisation or other financing alternatives in the long-term.

The report has been prepared on a going concern basis, the validity of which is dependent on the continued financial support of the ultimate parent undertaking being made available.

Should the going concern basis prove to be inappropriate, a reassessment of the carrying value of assets and liabilities would have to be undertaken. Under such a reassessment the value of assets would need to be reduced to their realisable amount, further liabilities provided for and fixed assets and long-term liabilities reclassified as current assets and liabilities. The report does not include any adjustments that would result if continuing financial support from the ultimate parent undertaking is not made available.

Accounting convention

The financial information in this report has been prepared under the historical cost convention modified to include the revaluation of freehold property and in accordance with applicable United Kingdom accounting standards. The following accounting policies have been applied consistently to the financial information set out below.

Basis of consolidation

The consolidated accounts incorporate the financial statements of the Company and of its subsidiary undertaking for the three years ended 30 June 2001. The Group uses the acquisition method of accounting to consolidate the results of subsidiary undertakings from the date of acquisition.

Fixed assets

All fixed assets are initially recorded at cost. Freehold property was revalued as at 30 June 1999 with the revaluation being taken to the revaluation reserve.

Depreciation of tangible fixed assets

Depreciation is provided on all tangible fixed assets in use at the year end on a straight line basis calculated to write off the value of the relevant assets over their anticipated useful lives. The rates used are:

Freehold property	4 per cent. per annum
Property improvements	20 per cent. per annum
Motor vehicles	33⅓ per cent. per annum
Equipment	15 per cent. to 33⅓ per cent. per annum

Deferred government grants

Grants of a revenue nature are credited to income on a straight line basis over the period to which they relate.

Stocks

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition, and net realisable value as follows:

Raw material, consumables	—	purchase costs
Work in progress and finished goods	—	cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Deferred taxation

A deferred taxation provision, calculated using the liability method, is made only where the effects of timing differences between losses as stated in the accounts and as computed for taxation purposes are likely to reverse in the foreseeable future and result in a tax payment.

Research and development

Research and development costs are written off to the profit and loss account when incurred.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Assets and liabilities in foreign currencies are translated into sterling at balance sheet date exchange rates.

Leasing and hire purchase commitment

Assets, held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the assets have passed to the company, are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Pension

The Company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

2 Turnover

Turnover is attributable to the sale of proprietary wound closure products. Turnover is shown net of VAT.

An analysis of turnover by geographical market is given below:

	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000	Year ended 30 June 2001 £'000
United Kingdom	5	129	427
Rest of the world	7	37	81
	<u>12</u>	<u>166</u>	<u>508</u>

3 Operating loss

Operating loss is stated after charging:

	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000	Year ended 30 June 2001 £'000
Operating lease rentals	66	68	63
Depreciation of tangible fixed assets – owned	108	135	137
Auditor's remuneration – audit services	9	9	9
– non audit fees	—	—	—
Foreign exchange loss	51	357	217

4 Directors and employees

Staff costs:

	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000	Year ended 30 June 2001 £'000
Wages and salaries	636	684	602
Social security costs	60	66	60
Pension costs	9	9	7
	<u>705</u>	<u>759</u>	<u>669</u>

The directors received no remuneration for their services in the three years ended 30 June 2001.

Average number of employees, including the directors:

	Year ended 30 June 1999 No.	Year ended 30 June 2000 No.	Year ended 30 June 2001 No.
Manufacturing	—	—	6
Administration	34	33	21
	<u>34</u>	<u>33</u>	<u>27</u>

5 Interest payable and similar charges

	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000	Year ended 30 June 2001 £'000
Interest on other loans	34	29	33

6 Tax on loss on ordinary activities

	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000	Year ended 30 June 2001 £'000
UK Corporation tax underprovided in prior year	13	—	—

7. Tangible fixed assets

At 30 June 1999, 2000 and 2001, the tangible fixed assets of the Group comprised:

	Freehold property and improvements £'000	Owned equipment, machinery and motor vehicles £'000	Owned fixtures and fittings £'000	Total £'000
Cost				
At 1 July 1998	508	210	19	737
Additions	4	153	178	335
Disposals	(3)	(8)	(8)	(19)
Revaluation	(9)	—	—	(9)
At 30 June 1999	500	355	189	1,044
Additions	—	32	3	35
At 30 June 2000	500	387	192	1,079
Additions	—	7	3	10
Disposals	—	(2)	—	(2)
At 30 June 2001	500	392	195	1,087
Depreciation				
At 1 July 1998	8	14	1	23
Charge for the year	16	68	24	108
Disposals	—	(3)	(1)	(4)
Revaluation	(24)	—	—	(24)
At 30 June 1999	—	79	24	103
Charge for the year	16	90	29	135
At 30 June 2000	16	169	53	238
Charge for the year	16	91	30	137
Disposals	—	(1)	—	(1)
At 30 June 2001	32	259	83	374
Net book value				
At 30 June 1999	500	276	165	941
At 30 June 2000	484	218	139	841
At 30 June 2001	468	133	112	713

Included within freehold property and improvements is land valued at £192,000 which is not depreciated.

Freehold property was revalued at its open market value for existing use on 27 May 1999 by Stratton Creber, commercial property consultants.

The directors have reviewed the valuation in 2001 in accordance with FRS 15 and have concluded that no revision is required.

No deferred tax has been provided on the revalued freehold property as it is not considered any liability will crystallise in the foreseeable future.

8 Stocks

	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000	Year ended 30 June 2001 £'000
Raw materials	32	44	50
Work in progress	—	—	22
Finished goods	1	11	23
	<u>33</u>	<u>55</u>	<u>95</u>

The difference between purchase price or production cost of stock and their replacement cost is not

material.

9 Debtors

	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000	Year ended 30 June 2001 £'000
Trade debtors	3	42	118
Other debtors	12	2	10
Prepayments	58	30	16
	<u>73</u>	<u>74</u>	<u>144</u>

10 Creditors: amounts falling due within one year

	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000	Year ended 30 June 2001 £'000
Current instalments due on loan (note 12)	14	8	13
Bank overdraft	—	—	9
Trade creditors	106	97	147
Social Security and other taxes	22	31	37
Accruals	84	108	118
Other creditors	—	5	10
	<u>226</u>	<u>249</u>	<u>334</u>

11 Creditors: amounts falling due after more than one year

	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000	Year ended 30 June 2001 £'000
Loan (note 12)	377	370	360
Amount owed to parent company	2,425	4,042	4,953
	<u>2,802</u>	<u>4,412</u>	<u>5,313</u>

The intercompany loan is provided by the ultimate parent company to fund the trading and development activities of the company. There are no fixed repayment dates.

12 Loan

Amount due at 30 June 2001 is repayable as follows:

	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000	Year ended 30 June 2001 £'000
Loans not wholly repayable by instalments within five years	391	378	373
Less: included in creditors: amounts falling due within one year (note 10)	(14)	(8)	(13)
	<u>377</u>	<u>370</u>	<u>360</u>

Amounts repayable by instalments:

	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000	Year ended 30 June 2001 £'000
Within one year	14	8	13
2-5 years	40	44	45
After five years	337	326	315
	<u>391</u>	<u>378</u>	<u>373</u>

The loan is secured by a fixed charge on the freehold property. Interest is being charged at 8½ per cent. fixed rate.

13 Other financial commitments

At 30 June 2001 the company had annual commitments under non-cancellable operating leases as set out below:

	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000	Year ended 30 June 2001 £'000
Operating leases which expire:			
within one year	12	8	26
within two to five years	36	33	23

14 Share capital

	1999	Authorised 2000	2001	Allotted, called up and fully paid		
				1999	2000	2001
£1 ordinary shares	100	100	100	1	1	1

15 Reconciliation of shareholders' deficit and movements on reserves

Reconciliation of movements in the Group's funds for the three years ended 30 June 2001.

	Share capital £	Revaluation reserve £'000	Profit & loss £'000	Total £'000
At 1 July 1998	1	—	(332)	(332)
Loss for the year	—	—	(1,631)	(1,631)
Surplus on revaluation	—	15	—	15
At 30 June 1999	1	15	(1,963)	(1,948)
Loss for the year	—	—	(1,739)	(1,739)
At 30 June 2000	1	15	(3,702)	(3,687)
Loss for the year	—	—	(981)	(981)
At 30 June 2001	1	15	(4,683)	(4,668)

All the shareholders' deficit is considered to be equity.

16 Cash flow statements

(a) Reconciliation of operating loss to net cash outflow from operations

	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000	Year ended 30 June 2001 £'000
Operating loss	(1,589)	(1,711)	(948)
Depreciation	108	135	137
Loss on disposal of fixed assets	10	—	—
Increase in stocks	(2)	(22)	(40)
Increase in debtors	(24)	(1)	(70)
Increase in creditors	51	29	72
Net cash outflow from operations	(1,446)	(1,570)	(849)

(b) Reconciliation of net cash flow to movement in net debt

	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000	Year ended 30 June 2001 £'000
Increase/(decrease) in cash in the year	(20)	(30)	15
Cash inflow from increase in debt	(1,796)	(1,603)	(907)
Changes in net debt resulting from cash flows	(1,816)	(1,633)	(892)
Net debt brought forward	(967)	(2,783)	(4,416)
Net debt carried forward	(2,783)	(4,416)	(5,308)

(c) Analysis of changes in net debt

	Bank overdraft £'000	Cash at bank £'000	Short term loans £'000	Long term loans £'000	Total £'000
As at 1 July 1998	—	55	(14)	(1,008)	(967)
Cash flows	—	(22)	—	(1,794)	(1,816)
As at 30 June 1999	—	33	(14)	(2,802)	(2,783)
Cash flows	—	(29)	6	(1,610)	(1,633)
As at 30 June 2000	—	4	(8)	(4,412)	(4,416)
Cash flows	(9)	23	(5)	(901)	(892)
As at 30 June 2001	(9)	27	(13)	(5,313)	(5,308)

17 Derivatives and other financial instruments

The information below deals with the financial assets and liabilities. Short term debtors and creditors have been excluded from the analysis as permitted by FRS13.

(a) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities is disclosed in notes 11 and 12 of this report.

(b) Interest rate and currency of financial assets and liabilities

Financial assets comprise bank deposits bearing interest at commercial rates and are denominated in sterling. The financial assets all mature within one year.

Financial liabilities comprise a mortgage loan denominated in sterling and an intercompany loan with MedLogic Global Corporation denominated in United States dollars.

(c) Currency exposure

At 30 June 2001 the Group had an unhedged dollar currency exposure of £4,953,000 (2000: £4,042,000, 1999: £2,425,000).

(d) Hedges of future transactions

The Group does not hedge against movements in its foreign currency loan.

(e) Foreign exchange rates

Currency	Average rate			Closing rate			Percentage change			
	1999	2000	2001	1999	2000	2001	Average % 2000	2001	Closing % 2000	2001
US Dollar	1.64	1.59	1.45	1.58	1.52	1.41	(3.0)	(8.8)	(4.0)	(7.2)

18 Pension commitments

The company operates a defined contributions pension scheme for its employees. The assets of the scheme are held separately from those of the company in an administered fund. There was outstanding contributions at the year end of £678 (2000: £Nil, 1999: £Nil).

19 Capital commitments

At the balance sheet date the company had entered into contracts for future capital expenditure amounting to £Nil.

20 Related party transactions

The company has taken advantage of the exemption in paragraph 3(c) of Financial Reporting Standard No 8 'Related Party Disclosures' from disclosing transactions with related parties.

21 Parent company

The parent undertaking of the largest and smallest group of undertakings for which group accounts are prepared and of which the company is a member of is MedLogic Global Corporation, incorporated in the United States.

Yours faithfully

HLB Kidsons

The following unaudited pro forma statement of net assets of the Enlarged Group has been prepared to reflect the acquisition of MedLogic. The statement is based on the audited consolidated balance sheet of the Company as at 31 December 2001 shown in Part VI of this document, and the audited balance sheet of MedLogic as at 30 June 2001 shown in Part VII of this document, and then adjusted to take account of the funds received from the VCT Placing and the Placing and Open Offer and required for the Acquisition in accordance with the notes set out below. No account has been taken of the trading results of AMS since 31 December 2001 and of MedLogic since 30 June 2001.

The unaudited pro forma statement of net assets is prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position of the Enlarged Group.

	Adjustments					
	AMS at 31 December 2001 £'000 Note 1	MedLogic at 30 June 2001 £'000 Note 2	VCT Placing and Placing and Open Offer £'000 Note 3	Acquisition £'000 Note 4	Share Issue £'000 Note 5	Pro Forma £'000
Fixed assets						
Intangible assets	—	—	—	2,700	120	2,820
Tangible assets	4,809	713	—	—	—	5,522
	4,809	713	—	2,700	120	8,342
Current assets						
Stocks	887	95	—	—	—	982
Debtors	2,044	144	—	—	—	2,188
Cash at bank and in hand	6,238	27	3,600	(2,985)	—	6,880
	9,169	266	3,600	(2,985)	—	10,050
Creditors: Amounts falling due within one year	(1,778)	(334)	—	—	—	(2,112)
Net current assets	7,391	(68)	3,600	(2,985)	—	7,938
Total assets less current liabilities	12,200	645	3,600	(285)	120	16,280
Creditors: Amounts falling due after more than one year	(206)	(5,313)	—	4,953	—	(566)
Provisions for liabilities and charges	—	—	—	—	—	—
Net assets	11,994	(4,668)	3,600	4,668	120	15,714

Notes:

1. The net assets of AMS are extracted without material adjustments from the consolidated balance sheet of the Group as at 31 December 2001, as set out in Part VI of this document.
2. The net assets of MedLogic are extracted without material adjustments from the audited balance sheet of MedLogic as at 30 June 2001 as set out in the accountants' report in Part VII of this document.
3. The transactions connected to the VCT Placing and the Placing and Open Offer may be summarised as:

	£'000
Gross proceeds from the VCT Placing and Placing and Open Offer	4,000
Costs of VCT Placing and Placing and Open Offer	(400)
Net proceeds from the VCT Placing and Placing and Open Offer	3,600

4. The transactions connected to the Acquisition may be summarised as:

	£'000
(a) Cash consideration	2,585
Costs of the Acquisition	400
	2,985
Net assets acquired	(285)
	2,700
Non cash consideration (note 5)	120
Goodwill	2,820
(b) The cash consideration consists of \$3,329,600 (£2,345,000)* and the exclusivity payment of £240,000	
(c) Net assets of MedLogic at 30 June 2001 adjusted to eliminate the intercompany loan of £4,953,000	

*Note: Exchange Rate £: US\$1.42.

5. Non cash consideration of \$170,400 (£120,000)* represents shares in AMS to be issued in partial satisfaction of the consideration due under the Acquisition Agreement.



Chartered Accountants
1 Old Hall Street
Liverpool
L3 9SX

28 March 2002

The Directors
Advanced Medical Solutions Group plc
Road Three
Winsford Industrial Estate
Winsford, Cheshire
CW7 3PD

The Directors
Robert W Baird Limited
Mint House
77 Mansell Street
London
E1 8AF

Dear Sirs

ADVANCED MEDICAL SOLUTIONS GROUP PLC

We report on the pro forma statement of net assets set out in Part VIII of the Prospectus issued by the Company dated 28 March 2002, which has been prepared for illustrative purposes only, to provide information about how the Acquisition and the associated VCT Placing and Placing and Open Offer might have affected the consolidated net assets of the Company.

Responsibility

It is the responsibility solely of the directors of the Company to prepare the pro forma statement of net assets in accordance with paragraph 12.29 of the Listing Rules of the UK Listing Authority.

It is our responsibility to form an opinion, as required by the Listing Rules of the UK Listing Authority, on the pro forma statement of net assets and to report our opinion to you. We do not accept any responsibility for reports previously given by us on any financial information used in the compilation of the pro forma statement of net assets beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our work in accordance with the Statements of Investments Circular Reporting Standards and the Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma statement of net assets with the directors of the Company.

Opinion

In our opinion:

- (a) the pro forma statement of net assets has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Company; and
- (c) the adjustments are appropriate for the purposes of the pro forma statement of net assets as disclosed pursuant to paragraph 12.29 of the Listing Rules of the UK Listing Authority.

Yours faithfully

HLB Kidsons

1. Responsibility

The Directors of the Company, whose names appear on page 4 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. The Group

The Company was incorporated and registered in England and Wales on 1 November 1993 under the Act as a private company limited by shares with registered number 2867684. On 1 December 1994 the Company was re-registered as a public company. The Existing Ordinary Shares are currently listed on the Official List.

The Company is the holding company of the following subsidiaries, all of which are wholly owned:

Name	Registered Office and Country of Incorporation	Principal Activity
Advanced Medical Solutions Limited	Road Three, Winsford Industrial Estate, Winsford, Cheshire CW7 3PD, England	Design, development and supply of medical products
Advanced Medical Solutions Inc.	1013 Centre Road, Wilmington, Delaware, USA	Non-trading
Advanced Medical Solutions (US) Inc.	1013 Centre Road, Wilmington, Delaware, USA	Design, development and supply of medical products
Flowers Park Limited	Road Three, Winsford Industrial Estate, Winsford, Cheshire CW7 3PD, England	Non-trading
Advanced Medical Solutions Group Limited	Road Three, Winsford Industrial Estate, Winsford, Cheshire CW7 3PD, England	Non-trading
Advanced Healthcare Systems Limited	Road Three, Winsford Industrial Estate, Winsford, Cheshire CW7 3PD, England	Non-trading
Innovative Technologies Limited	Road Three, Winsford Industrial Estate, Winsford, Cheshire CW7 3PD, England	Non-trading

3. Share Capital

- 3.1 As at the date of this document the Company has an authorised share capital of £12,000,000 divided into 120,000,000 Ordinary Shares of 10p each of which 93,553,394 are issued fully paid up or credited as fully paid up.
- 3.2 Section 89 of the Act, to the extent not disapplied, confers on holders of Ordinary Shares preferential subscription rights in respect of equity securities (as defined in section 94(2) of the Act) of the Company issued for cash.
- 3.3 The Directors are empowered pursuant to and in accordance with section 95 of the Act to allot equity securities as if section 89(1) of the Act did not (in so far as it would otherwise do) apply to any such allotment, provided that:
 - (a) this power will expire on the date 15 months after 29 May 2001 (date of the annual general meeting of the Company at which the resolution was passed) or at the conclusion of the next annual general meeting of the Company, whichever is the earlier, save that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if this power had not expired and provided further that such allotments would have fallen within the limit hereinafter mentioned if made before such expiry;
 - (b) equity securities allotted otherwise than in connection with a *Pro Rata Offer* (as defined below) or a scrip dividend alternative offered in accordance with article 151 of the Company's articles of association or pursuant to the terms of any share option scheme for employees approved by the

members in general meeting shall not exceed an aggregate nominal value of £467,767 and for this purpose an issue of securities convertible into ordinary shares shall be deemed to be an allotment of the number of shares which would be required to satisfy the conversion rights attached to those securities in full at the initial conversion price provided for in the terms and conditions of the issue;

- (c) the expression "*Pro Rata Offer*" means an offer of equity securities open for acceptance for a period fixed by the directors to holders of ordinary shares on the register on a fixed record date in proportion (or as nearly as may be) to their then holdings of such ordinary shares (but subject to such exclusion or other arrangements as the directors may consider necessary or expedient in relation to fractional entitlements or on account either of legal problems under the laws of any territory or the requirements of any recognised regulatory body or any other stock exchange).

3.4 At the Extraordinary General Meeting, a special resolution (Resolution No. 2) will be proposed:

- (a) to implement the Capital Reorganisation by the subdivision of each Existing Ordinary Share into one Reduced Ordinary Share and one Deferred Share and to sub-divide each unissued Ordinary Share of 10p into two Ordinary Shares of 5p each;
- (b) to increase the authorised share capital of the Company from £12,000,000 to £15,000,000 by the creation of 60,000,000 new Ordinary Shares of 5p each;
- (c) to authorise the Directors to allot relevant securities (within the meaning of the Act) up to an aggregate nominal amount of £4,767,659.75 such authority being stated to expire on 23 April 2007. This authority will *inter alia* permit the allotment of the New Ordinary Shares and the Consideration Shares and the grant of the Option in favour of Baird referred to in paragraph 7.1(b) of Part IX of this document; and
- (d) to disapply the statutory pre-emption rights in connection with the VCT Placing, the Placing and Open Offer and in connection with the issue for cash of equity securities limited to an aggregate nominal amount of £355,206.30 (representing 5 per cent. of the issued share capital assuming completion of the Acquisition, the VCT Placing and the Placing and Open Offer), such authority being stated to expire on the date fifteen months from the date of the passing of the resolution, or at the next Annual General Meeting of the Company, whichever is the earlier.

3.5 Of the Company's authorised share capital after the Capital Reorganisation, the Acquisition, the VCT Placing and the Placing and Open Offer 142,082,536 Ordinary Shares (now of 5p each) and 93,553,394 Deferred Shares will be in issue fully paid or credited as fully paid. Of the balance of the authorised but unissued ordinary shares of the Company amounting to 64,364,070 Ordinary Shares (representing approximately 21.4 per cent. of the authorised ordinary share capital), up to 4,199,293 Ordinary Shares will be reserved for issue on the exercise of options granted under the Share Option Schemes and of the Option in favour of Baird referred to above, and 60,164,477 Ordinary Shares will remain unissued and unreserved.

3.6 The New Ordinary Shares have neither been sold nor are they available in whole or part to the public otherwise than pursuant to or in connection with the VCT Placing and the Placing and Open Offer.

3.7 In addition to the options granted to certain of the Directors and referred to in paragraph 5.1 below, the following options to subscribe for Ordinary Shares of 10p each have been granted to certain employees under the terms of the Share Option Schemes.

	Number of Ordinary Shares subject to option	Date granted	Exercisable from	Exercisable until	Exercise Price (p)
Executive Scheme	93,507	19.07.99	19.07.02	19.07.10	38.3
	165,500	19.01.00	19.01.03	19.01.10	25.5
	216,000	08.05.01	08.05.04	08.05.10	18.25
	45,000	05.09.01	05.09.04	05.09.10	13.0
Unapproved Scheme	126,468	17.12.98	17.12.01	17.12.08	36.56
	22,974	19.05.99	19.05.02	19.05.09	28.29
	132,101	21.06.99	21.06.02	21.06.09	25.68
	154,024	19.07.99	19.07.02	19.07.09	38.30
	327,638	25.01.00	25.01.03	25.01.10	25.50
	50,000	26.05.00	26.05.03	26.05.10	13.50
SAYE Scheme	24,431	22.11.96	01.02.02	01.08.02	95.97

4. Memorandum and Articles of Association

4.1 The Memorandum of Association of the Company provides that the objects for which the Company is established are, *inter alia*, to act as and carry on the business of a holding company and to carry on any other trade or business whatsoever. The objects of the Company are set out fully in clause 4 of the Memorandum of Association. The liability of the members is limited.

4.2 The Articles of Association of the Company ("the Articles") contain provisions, *inter alia*, to the following effect:

(a) *Dividends*

Subject to the provisions of the Act and the Articles, the Company may by ordinary resolution declare dividends but no such dividend shall exceed the amount recommended by the Board. Subject to the provisions of the Act, the Board may declare and pay such interim dividends as appear to the Board to be justified by the profits of the Company. All dividends unclaimed for 12 years after having become due for payment shall (if the Board so resolves) be forfeited and shall revert to the Company.

(b) *Restrictions on Share Transfers*

Each member may transfer all or any of his Ordinary Shares by instrument of transfer in writing in any usual form or any form approved by the Board. Such instrument shall be executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid up) by or on behalf of the transferee. The transferor shall be deemed to remain the holder of such shares until the name of the transferee is entered in the register in respect of it.

The Board may refuse to register any share transfer unless it is:

- (i) in respect of a share which is fully paid up;
- (ii) in respect of a share on which the Company has no lien;
- (iii) in respect of only one class of shares;
- (iv) in favour of a single transferee or not more than four joint transferees;
- (v) duly stamped (if required); and
- (vi) delivered to the Company for registration accompanied by the relevant share certificates and such other evidence as the Board may require to prove the title of the transferor and the due execution of the transfer.

(c) *Variation of Class Rights*

Whenever the share capital of the Company is divided into different classes of shares any of the rights attached to any class of share may, subject to the provisions of the Act, be varied or abrogated either with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the issued shares of that class. At any such separate general meeting (other than an adjourned meeting) the necessary quorum is two persons personally present and holding or representing either by proxy or as the duly authorised representative of a corporate member one-third of the capital paid up on the issued shares of the class in question.

(d) *Distribution of Assets on a Winding Up*

If the Company is wound up the liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by law, divide among the members *in specie* the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members. Any such division may be otherwise than in accordance with the existing rights of the members, but if any division is resolved otherwise than in accordance with such rights, the members shall have the same right of dissent and consequential rights as if such resolution were a special resolution passed pursuant to section 110 of the Insolvency Act 1986. The liquidator may, with the like sanction, vest the whole or any part of the whole of the assets in trustees of such trusts for the benefit of the members as he with the like sanction shall determine, but no member shall be compelled to accept any assets on which there is a liability.

(e) *Voting rights*

Subject to the provisions of the Act, to any special terms as to voting on which any shares may have been issued or may for the time being be held and subject to any suspension or abrogation of voting rights pursuant to the Articles at any general meeting every member who is present in person shall on a show of hands have one vote and every member present in person or by proxy shall on a poll have one vote for each share of which he is the holder.

4.3 At the Extraordinary General Meeting a special resolution will be proposed to alter the Articles by the insertion of a new article setting out the rights attaching to the Deferred Shares as follows:

(a) *Dividends*

The Deferred Shares shall carry no right to receive any dividend in respect of any financial year or other period of the Company.

(b) *Voting*

The holders of the Deferred Shares shall have no right to receive a certificate in respect of their holding or to receive notice of, or to attend, speak or vote either in person or by proxy at, any general meeting by virtue of their holdings of such Deferred Shares.

(c) *Variation of Class Rights*

Neither the passing by the Company of any special resolution for the cancellation of the Deferred Shares for no consideration by means of a reduction of capital requiring the confirmation of the High Court nor the obtaining by the Company nor the making by the High Court of an order confirming any such reduction of capital nor the making effective of such an order shall constitute a modification or abrogation of the rights or privileges attaching to the Deferred Shares and accordingly the Deferred Shares may at any time be cancelled for no consideration by means of a reduction of capital effected in accordance with the Act without any sanction required on the part of the holders of the Deferred Shares. The special rights conferred by the Deferred Shares shall not be deemed to be modified or abrogated by the creation or issue of further shares ranking *pari passu* with or in priority to the Deferred Shares.

(d) *Transfer*

The creation or issue of Deferred Shares shall be deemed to confer irrevocable authority on the Company at any time thereafter to appoint any person to execute on behalf of the holders of such shares a transfer thereof and/or an agreement to transfer the same, without making any payments to the holder thereof, to such persons as the Company may determine as custodian thereof and to cancel the same (in accordance with provisions of the Act) without making any payment to or obtaining the sanction of the holder thereof and pending such transfer and/or cancellation to retain the certificate for such shares.

(e) *Distribution of Assets on a Winding Up*

On any return of capital on a winding up or otherwise, the holders of the Deferred Shares shall be entitled to receive the amount paid up or credited as paid up on their respective holdings of Deferred Shares, provided that any such payment shall be made only after a minimum aggregate amount of £1,000,000 has been paid in respect of each Ordinary Share, but the holders of the Deferred Shares shall not be entitled to participate further in any distribution of the assets of the Company.

5. Directors' and Other Interests

- 5.1 The interests of (a) the Directors as notified under sections 324 or 328 of the Act or required pursuant to section 325 of the Act to be referred to in the register referred to therein and (b) any person connected with a Director within the meaning of section 346 of the Act which would be required to be disclosed under (a) above if such persons were Directors and the existence of which is known or could with reasonable diligence be ascertained by that Director in the issued share capital of the Company (all of which are, unless otherwise stated, beneficial) as at 27 March 2002, the latest practicable date prior to the publication of this document, were as follows:

Director	Number of Ordinary Shares	Percentage of issued share capital before the VCT Placing and the Placing and Open Offer	Percentage of issued share capital after the VCT Placing, the Placing and Open Offer and allotment of the Consideration Shares***
G N Vernon*	240,483	0.25	0.21
D W Evans**	197,531	0.21	0.17
M G Tavener	30,000	0.03	0.03
G N Brookes	30,000	0.03	0.03
R S Harris	100,000	0.11	0.09

Note: * G N Vernon's holding includes 60,000 Ordinary Shares registered in the name of Julie Vernon, his wife.

** D W Evans' holding includes 50,000 Ordinary Shares registered in the name of Pamela Evans, his wife.

*** Assuming that all Directors only take up their full entitlements under the Open Offer.

In addition, the following Directors have been granted options for Ordinary Shares under the terms of the Share Option Schemes.

Name	Number of Ordinary Shares subject to option	Date Granted	Exercisable from	Exercisable until	Exercise price (p)
G N Brookes	298,664	26.10.98	26.10.01	26.10.08	41.35
	74,666	01.12.98	01.12.01	01.12.08	36.56
	201,024	01.06.99	01.06.02	01.06.09	25.68
	226,123	19.07.99	01.07.02	01.07.09	38.30
	249,523	26.05.00	26.05.03	26.05.10	13.50
D W Evans	781,122	26.10.98	26.10.01	26.10.08	41.35
	195,280	01.12.98	01.12.01	01.12.08	36.56
	290,730	19.07.99	01.07.02	01.07.09	38.30
	582,868	26.05.00	26.05.03	26.05.10	13.50
M G Tavener	574,354	15.07.99	15.07.02	15.07.09	26.99
	325,646	26.05.00	26.05.03	26.05.10	13.50

No other persons connected (within the meaning of section 346 of the Act) with the Directors have any interest in the ordinary share capital of the Company.

- 5.2 No Director has or has had any interest (direct or indirect) in any transaction which is or was unusual in its nature or conditions or significant to the business of any member of the Group and which has been effected by any member of the Group during the current or immediately preceding financial year or during any earlier financial year and which remains in any respect outstanding or unperformed.
- 5.3 No loans or guarantees have been granted or provided to, or for the benefit of, any of the Directors by any member of the Group which remain outstanding.
- 5.4 Save as set out in this paragraph 5.4, as at 27 March 2002, the latest practicable date prior to the publication of this document, the Directors were not aware of any interest (directly or indirectly) which represents three per cent. or more of the issued share capital of the Company:

	Number of Ordinary Shares	Percentage before the VCT Placing and Open Offer	Percentage after the VCT Placing, Placing and Open Offer and allotment of Consideration Shares*
Newton Investment Management	14,226,450	15.20	12.30
Cavendish Asset Management	10,333,894	11.04	8.94
Invesco	9,522,125	10.17	8.23
Hermes Pension Management	5,905,376	6.31	5.11
Close Finsbury Asset Management	5,492,199	5.87	4.79
Royal London Asset Management	5,441,867	5.81	4.71
Dresdner RCM Global Investors	3,946,870	4.21	3.41
Aerion Fund Management	3,787,054	4.04	3.27

*Assuming that all entitlements under the Open Offer are subscribed.

6. Directors

- 6.1 On 26 August 1997, D W Evans entered into a service agreement with the Company. On 1 January 2000, D W Evans entered into a new service agreement with the Company pursuant to which he receives an annual salary, currently £138,375. The service agreement provides that D W Evans shall be entitled to receive an annual bonus to be determined by the Remuneration Committee. Details of the current arrangements are set out in paragraph 6.4 below. The agreement was for a fixed term of two years and,

now that the fixed term has expired, is terminable by either party giving to the other not less than 12 months' prior notice in writing.

- 6.2 On 14 April 1998, G N Brookes entered into a service agreement with the Company pursuant to which he receives an annual salary, currently £92,250. The service agreement provides that G N Brookes shall be entitled to receive an annual bonus to be determined by the Remuneration Committee. Details of the current arrangements are set out in paragraph 6.4 below. The agreement was for a fixed term of two years and, now that the fixed term has expired, is terminable by either party giving to the other not less than 12 months' prior notice in writing.
- 6.3 On 28 June 1999, M G Tavener entered into a service agreement with the Company pursuant to which she receives an annual salary, currently £92,250. The service agreement provides that M G Tavener shall be entitled to receive an annual bonus to be determined by the Remuneration Committee. Details of the current arrangements are set out in paragraph 6.4 below. The agreement was for a fixed term of one year and, now that the fixed term has expired, is terminable by either party giving to the other not less than 12 months' prior notice in writing.
- 6.4 Each of the above directors is entitled to membership of the Company's health and life insurance schemes, coverage under the Company's permanent health scheme, and participation in the Company's car purchase scheme and Share Option Schemes.

The Remuneration Committee has specified that each of the executive Directors, in common with selected executive management, shall in respect of calendar years beginning 1 January 1999 be entitled to participate in a bonus scheme under which each participant may receive up to 30 per cent. of his or her salary dependent upon performance measured against certain targets tailored on an individual basis resulting from the completion of the Group's current business plan, as follows:

Performance Against Target	Bonus (expressed as a percentage of salary)
Below 75 per cent.	Nil
75 per cent. to 100 per cent.	Nil – 20 pro rated
100 per cent.	20
101 per cent. to 105 per cent.	22.5
106 per cent. to 110 per cent.	25
111 per cent. to 115 per cent.	27.5
116 per cent. and above	30 (maximum bonus)

- 6.5 On 20 July 1998, the Company appointed G N Vernon as a non-executive director at a fee of £20,000 per annum for a fixed term of two years. Now that the fixed term has expired his appointment is terminable by 6 months' notice in writing. Upon being appointed Chairman, his fee was increased and he currently receives £43,050 per annum.
- 6.6 On 16 January 2001, the Company appointed R S Harris as a non-executive director at a fee of £22,000 for a fixed term of 1 year. Now that the fixed term has expired, the agreement is terminable by either party giving the other not less than 3 months' prior notice in writing.
- 6.7 Save as disclosed above, there are no service agreements existing or proposed between any Director and any member of the Group which are not terminable by the employing company without payment of compensation (other than statutory compensation) within one year, nor have any such service agreements been amended within the past six months.
- 6.8 The aggregate emoluments of the Directors (including the value of benefits in kind) paid during the year ended 31 December 2001 were £496,000. The aggregate emoluments of the Directors (including the value of benefits in kind) to be paid during the current financial year under the arrangements in force at the date of this document are estimated to be £520,000.

6.9 Following the Aquisition, it is expected that the emoluments receivable by the Directors will be reviewed by the Remuneration Committee of the Board, consisting of G N Vernon and R S Harris, the two independent Non-Executive Directors.

6.10 The Directors of the Group are as follows:

Dr. Geoffrey Vernon, Non-Executive Chairman
B.Pharm, PhD, MBA (aged 50)

Dr.Vernon is a former executive director of Rothschild Asset Management and partner of the venture capital group Advent Limited. He joined AMS as a Non-Executive Director in July 1998 and became Chairman in January 2001. He has over 20 years experience in healthcare and life sciences. He is a non-executive chairman and director of a number of quoted and privately owned companies. He is a chartered director of the Institute of Directors.

Dr. Don Evans, Group Chief Executive
B Chem. Eng. MAsC, PhD (aged 52)

After completing a degree in Chemical Engineering at the University of Queensland and a PhD in Biomedical Engineering at the University of Toronto, Dr Evans joined Johnson & Johnson UK where he worked for 19 years in Research & Development and Manufacturing. He was subsequently appointed as Vice President of European Operations for Johnson & Johnson Professional. Dr Evans joined AMS in 1997 as Operations Director and was appointed Managing Director of Advanced Woundcare in January 1999. He became Group Chief Executive in January 2000.

Mary Tavener, Finance Director
ACMA, MCT, BA (Hons) Chem (aged 40)

Ms Tavener joined AMS as Finance Director in 1999. Prior to this she was the Group Financial Controller at BTP plc during a period of considerable corporate activity and was involved in the acquisition and disposal of several businesses that re-positioned BTP plc as a fine chemical company. Her experience has been gained in manufacturing and she has held financial positions with Cadburys Ltd and Parker Hannifin, a US Engineering Corporation. Prior to BTP plc, she was the finance director of Churchill Tableware Ltd.

Graeme Brookes, Sales & Marketing Director
Bsc (Hons) (aged 39)

Prior to joining AMS in 1998, Mr Brookes worked at Johnson & Johnson for nine years in Sales & Marketing where he was appointed to the European Board of Johnson & Johnson Professional, assuming responsibilities for licensing and acquisition activities in Europe. Before joining Johnson & Johnson, he worked for Amersham International for five years in manufacturing, product development and marketing.

Stephen Harris, Non-Executive Director
B.Pharm., FR.Pharm.S. (aged 59)

Mr Harris was appointed as a Non-Executive Director of AMS in January 2001. His career has been in both prescription and consumer healthcare sectors, with sales, marketing and general management experience with MSD, Lilly, Boots and Reckitt & Colman before becoming a main Board Director of Medeva plc. He resigned as a director of Medeva in 1995 to set up his own consultancy business. He now holds a number of non-executive appointments including SkyePharma plc, Proteome Sciences plc, Prophilian plc, Microscience Limited, and Sinclair Pharmaceuticals. He is also currently a part-time executive director of Trigen Limited.

The business address of each of the Directors is the registered office of the Company.

6.11 Other than the directorship of companies within the Group, the directorships held by the Directors or partnerships which any of the Directors are or were partners of over the previous five years (all of which are current and incorporated in the United Kingdom unless stated otherwise) are as follows:

G N Vernon	Ark Therapeutics Limited Arrow Therapeutics Limited Bionex Investments plc Bioniche Pharma Group Limited Drug Abuse Sciences Inc. Intercell Ag MorphoSys Ag Peptor Ltd Talia Technology Limited XTL Biopharmaceuticals Limited Ziggus Holdings Limited Bion Inc (Resigned) Biotrin Holdings Limited (Resigned) Biovector Therapeutics SA (Resigned) Capteur Sensors & Analysers Limited (Resigned) Contec Medical Limited (Resigned) DeveloGen Ag (Resigned) Intelligene Limited (Resigned) Microbio Group Limited (Resigned) Morphochem Ag (Resigned) Oxford GlycoSciences Limited (Resigned) Rothschild Asset Management Limited (Resigned) Synomics Limited (Resigned)
M G Tavener	BTP India Limited (India) (Resigned) Churchill Tableware Ltd (Resigned)
G N Brookes	Novarticulate Holdings Limited (Resigned)
R S Harris	Proteome Sciences plc SkyPharma plc Steve Harris Associates Ltd Pharmaceutical Profiles Ltd Prophilian plc Microscience Ltd Trigen Ltd London Capital Ltd Sinclair Pharmaceuticals Ltd

6.12 No Director has:

- (a) any unspent convictions in relation to indictable offences;
- (b) had a bankruptcy order made against him or has entered into an individual voluntary arrangement;
- (c) been a director of a company with an executive function or partner in a partnership which has been placed in receivership, administration, voluntary arrangement, composition or arrangement with its creditors or liquidation whilst he was an executive director of that company or partner in that partnership or within the twelve months after he ceased to be a director of that company or partner in that partnership;
- (d) had a receiver appointed over any of his assets or over any assets of a partnership of which he was a partner either at that time or within the 12 months preceding such receivership; or

- (e) been publicly criticised by any statutory or regulatory authority (including recognised professional bodies), or disqualified by a court from acting as a director of a company or from acting in the management or conduct of affairs of a company.

7. Material Contracts

7.1 The following are contracts (not being contracts entered into in the ordinary course of business) which have been entered into by members of the Group, either within the two years immediately preceding the date of this document and are or may be material or which contain any provision under which any member of the Group has any obligation or entitlement which are or may be material to the Group as at 28 March 2002;

- (a) a nominated adviser and broker agreement dated 28 March 2002 and made between the Company, the Directors and Baird pursuant to which Baird has agreed to act as the Company's nominated adviser and broker as required by the AIM Rules. Under the terms of the agreement, the Company will pay a fee of £36,000 per annum plus V.A.T.;
- (b) an agreement (the "Placing and Open Offer Agreement") dated 28 March 2002 and made between (1) the Company, (2) Baird and (3) the Directors of the Company, whereby Baird has agreed as agent for the Company conditionally *inter alia* on the passing of the Resolutions at the EGM, on the receipt of provisional assurances from the Inland Revenue that the VCT Shares will qualify for investment by Venture Capital Trusts, and will be eligible for relief under the Enterprise Investment Scheme, and Admission to use its reasonable endeavours to procure subscribers or failing which itself to subscribe for the VCT Shares and the Open Offer Shares, save for those for which valid applications are received under the Open Offer at the Issue Price. The Placing and Open Offer Agreement contains representations and warranties by the Company and the Directors in favour of Baird and indemnities given by the Company and the Directors in favour of Baird and it permits Baird to terminate its obligations prior to Admission becoming effective in the event of, *inter alia*, any material breach of such warranties. In consideration of its services under the Placing and Open Offer Agreement, the Company has agreed to pay Baird a corporate finance fee and a commission of 2.0 per cent. on the New Ordinary Shares and to grant to it an option to subscribe for 2.0 per cent. of the enlarged Ordinary Share capital of the Company following implementation of the Proposals. The Company has agreed to pay all other proper and reasonable costs, charges and expenses of or incidental to the VCT Placing and the Placing and Open Offer;
- (c) the Acquisition Agreement described in Part IV of this document; and
- (d) the deed (the "Deed of Exclusivity") dated 21 February 2002 and made between (1) the Company (2) MGC, MedLogic and MedLogic Global and (3) Citicorp and Travelers whereby in consideration for an exclusive negotiation period in relation to the proposed acquisition of MedLogic the Company paid the sum of £150,000; and
- (e) the deed (the "Second Deed of Exclusivity") dated 28 March 2002 and made between (1) the Company (2) MGC, MedLogic and MedLogic Global and (3) Citicorp and Travelers whereby in consideration for an extension to the exclusive negotiation period in relation to the proposed acquisition of MedLogic the Company paid the sum of £90,000.

7.2 The following are contracts (not being contracts entered into in the ordinary course of business) which have been entered into by members of the MedLogic Group, either within the two years immediately preceding the date of this document and are or may be material or which contain any provision under which any member of the MedLogic Group has any obligation or entitlement which are or may be material to the MedLogic Group as at 28 March 2002:

- (a) the Deed of Exclusivity;
- (b) the Acquisition Agreement described in Part IV of this document; and
- (c) the Second Deed of Exclusivity.

8. Litigation

- 8.1 No member of the Group is, or has been, involved in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the Group's financial position, and so far as the Company is aware no such proceedings are pending or threatened by or against any member of the Group.
- 8.2 No member of the MedLogic Group is, or has been, involved in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the MedLogic Group's financial position, and so far as the Directors are aware no such proceedings are pending or threatened by or against any member of the MedLogic Group.

9. United Kingdom Taxation

9.1 General

The following statements are intended as a general guide only and are based on current UK laws and Inland Revenue practice. They are intended to apply only to holders of Ordinary Shares who are resident for tax purposes in the United Kingdom (except insofar as express reference is made to the treatment of non-United Kingdom residents), who are the beneficial owners of their Ordinary Shares and who hold their Ordinary Shares as an investment. The summary does not purport to be a complete analysis or listing of all the potential tax consequences of holding Ordinary Shares. The taxation position of discretionary trusts and certain other Shareholders who are subject to special rules, such as dealers in securities, broker-dealers, insurance companies and collective investment schemes, is not considered. Persons who are in any doubt about their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside the UK, should consult their own professional advisers.

9.2 United Kingdom Taxation of Dividends

AMS will not be required to withhold tax at source when paying a dividend.

An individual holder of Ordinary Shares who is resident for tax purposes in the United Kingdom (a "UK Individual Shareholder") and who receives a dividend from AMS will be entitled to a tax credit equal to one-ninth of the dividend.

A UK Individual Shareholder who is liable to income tax at the lower or basic rate will be subject to tax on the dividend at the rate of 10 per cent. of the aggregate of the dividend and the tax credit (the "gross dividend"), so that the tax credit will satisfy in full such holder's liability to income tax on the dividend. A UK Individual Shareholder who is not liable to income tax in respect of the gross dividend will not generally be entitled to repayment of the tax credit.

The rate of income tax applied to UK company dividends received by UK resident individuals liable to income tax at the higher rate is 32.5 per cent. In the case of a UK Individual Shareholder who is liable to income tax at the higher rate, the tax credit will be set against but not fully match his tax liability on the gross dividend and such Shareholder will have to account for additional tax equal to 22.5 per cent. of the gross dividend to the extent that the gross dividend, when treated as the top slice of his income, falls above the threshold for higher rate income tax.

Most United Kingdom resident Shareholders who are not liable to the United Kingdom tax on dividends received from AMS will not be entitled to claim repayment of the tax credit in respect of those dividends, although charities will generally be entitled to limited compensation in lieu of repayable tax credits until 5 April 2004.

Tax credits on dividends paid by AMS in respect of Ordinary Shares held in Personal Equity Plans ("PEPs") or Individual Savings Accounts ("ISAs") will generally be repayable to the PEPs or ISAs on dividends paid on or before 5 April 2004.

United Kingdom resident corporate holders of Ordinary Shares will generally not be subject to corporation tax on dividends paid by AMS. Such holders of Ordinary Shares will not be able to claim repayment of tax credits attaching to dividends.

Non-United Kingdom resident holders of Ordinary Shares will not generally be able to claim repayment from the Inland Revenue of any part of the tax credit attaching to dividends paid by AMS. A holder of Ordinary Shares resident outside the United Kingdom may also be subject to foreign taxation on dividend income under local law. A holder of Ordinary Shares who is not resident for tax purposes in the United Kingdom should consult his own tax adviser concerning his tax liabilities on dividends received from AMS.

9.3 *United Kingdom Taxation of Capital Gains*

A disposal or deemed disposal of Ordinary Shares by a shareholder who is resident or ordinarily resident in the United Kingdom for UK tax purposes, or by a shareholder who carries on a trade, profession or vocation in the United Kingdom through a branch or agency in a case where those Ordinary Shares are used or held or have been acquired for use by or for the purposes of that trade, profession or vocation or branch or agency, may give rise to a chargeable gain or an allowable loss for the purpose of UK taxation of capital gains.

If an individual shareholder, who was resident or ordinarily resident in the United Kingdom becomes neither resident nor ordinarily resident in the United Kingdom on or after 17 March 1998, any chargeable gains accruing to that shareholder on a disposal of Ordinary Shares that occurs while he or she is neither resident nor ordinarily resident in the United Kingdom may in some circumstances be treated as arising to that shareholder in the tax year in which he or she becomes resident or ordinarily resident in the United Kingdom again. For this purpose, a "tax year" begins on 6 April and ends on 5 April in the following calendar year. Such a shareholder may, therefore, be liable to UK tax in respect of such a chargeable gain (subject to any available exemptions or reliefs).

9.4 *United Kingdom Inheritance Tax*

Ordinary Shares will be assets situated in the UK for the purposes of UK inheritance tax. A gift of such assets by, or the death of, an individual holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax even if the holder is neither domiciled nor deemed to be domiciled in the UK under certain rules relating to long residence or previous domicile. For inheritance tax purposes a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. Special rules also apply to close companies and to trustees of settlements who hold shares bringing them within the charge to inheritance tax. Shareholders should consult an appropriate professional adviser if they make a gift of any kind or intend to hold any Ordinary Shares through trust arrangements.

9.5 *United Kingdom Stamp Duty and Stamp Duty Reserve Tax ("SDRT")*

Stamp duty calculated at the rate of 0.5 per cent. of the actual consideration paid (but rounded up to the next multiple of £5) will be payable on an instrument transferring Ordinary Shares pursuant to a sale thereof. A charge to SDRT will also arise on an unconditional agreement to transfer Ordinary Shares (at the rate of 0.5 per cent. of the consideration paid), although the liability will be cancelled and any SDRT already paid will be repaid, generally with interest, provided that the instrument transferring the Ordinary Shares is executed and duly stamped within six years of the date on which the liability to SDRT arises.

No stamp duty or SDRT will arise on a transfer of Ordinary Shares into CREST unless the transfer is made for a consideration in money or money's worth, in which case a liability to SDRT at a rate of 0.5 per cent. of the value of the consideration given will arise. Paperless transfers of Ordinary Shares within CREST will attract SDRT rather than stamp duty.

The statements in this United Kingdom Stamp Duty and SDRT paragraph summarise the current position and are intended as a general guide only.

10. **Working Capital**

- 10.1 The Company is of the opinion that, taking into account the estimated net proceeds of the VCT Placing and the Placing and Open Offer receivable by the Company and available bank and other facilities, the Enlarged Group has sufficient working capital for its present requirements, that is for at least the 12 month period commencing on the date of publication of this document.

- 10.2 The Directors, having made due and careful enquiry, are of the opinion that, taking into account the estimated net proceeds of the VCT Placing and the Placing and Open Offer receivable by the Company and available bank and other facilities the Enlarged Group has sufficient working capital for its present requirements, that is for at least the 12 month period commencing on the date of Second Admission.

11. Consents

- 11.1 Baird has given and not withdrawn its written consent to the inclusion of its letter set out in Part III of this document and its name in the form and context in which they are included and has authorised the contents of its letter for the purpose of paragraph 13(1) of Schedule 1 of the POS Regulations.
- 11.2 HLB Kidsons has given and has not withdrawn its written consent to the inclusion in this document of its reports set out in Parts VI and VII of this document and its letter set out in Part VIII of this document and the references to the reports and letter and to its name in the form and context in which they are included. HLB Kidsons has accepted responsibility for its reports for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 of the POS Regulations and for its reports and letters for the purposes of paragraph 10(2) of Part VII of Schedule 1 of the POS Regulations.

12. Money Laundering

The verification of identity requirements of the Money Laundering Regulations 1993 will apply to applications for New Ordinary Shares with a value of €15,000 or greater; or to one of a series of linked applications whose aggregate value exceeds that amount, which are to be settled by way of a third party payment and verification of the identity of applicant(s) for New Ordinary Shares may be required. Failure to provide the necessary evidence of identity within a reasonable period of time following a request for verification of identity and in any event by no later than 3.00 p.m. on 23 April 2002 may result in an application being treated as invalid.

In order to avoid this, payment should be made by means of a cheque by the applicant named in the enclosed Application Form or (where an Application Form has been transferred and/or split to satisfy *bona fide* market claims in relation to transfers of Existing Ordinary Shares through the market prior to 3.00 p.m. on 19 April 2002), by the person named in Boxes G or J on the Application Form. If this is not practicable, and an applicant uses a cheque drawn by a third party, a building society cheque or bankers' draft the applicant should:

- (a) write the name and address of the applicant named in the Application Form or as the case may be, the name of the person named in Boxes G or J on the Application Form on the back of the cheque, building society or bankers' draft and record the date of birth of that person;
- (b) if a building society cheque or bankers' draft is used, ask the building society or bank to endorse on the cheque or draft the name and account number of the person whose building society or bank account is being debited;
- (c) if you are making the application as agent for one or more persons, indicate on the Application Form whether you are a United Kingdom or EU regulated person or institution (e.g. a bank or broker) and specify your status. If you are not a United Kingdom or EU regulated person or institution, you should contact Capita IRG Plc, the Company's receiving agent and seek guidance; and
- (d) if you deliver the Application Form by hand, bring appropriate photographic evidence of identity, such as a passport or driver's licence.

In any event, if it appears to Capita IRG plc that an applicant is acting on behalf of some other person, further verification of the identity of any person on whose behalf the applicant appears to be acting will be required. In relation to any applicant in respect of which the necessary verification of the identity of the applicant named in the Application Form or, as the case may be, the person named in Boxes G or J on the Application Form or the person on whose behalf any such applicant appears to be acting has not been received on or before 3.00 p.m. on 23 April 2002 the Company will treat the relevant application as invalid and application monies will be returned (without interest).

13. Significant Change

- 13.1 There has been no significant change in the financial or trading position of the AMS Group since 31 December 2001, the date to which the last published audited financial statements of the Group were prepared.
- 13.2 Save as disclosed in paragraph 8 of Part I of this document, there has been no significant change in the financial or trading position of the MedLogic Group since 30 June 2001, the date to which the financial information contained in the accountants' report on MedLogic in Part VII of this document was made up.

14. General

- 14.1 The expenses of, and incidental to, the Acquisition, the VCT Placing, the Placing and Open Offer and the Capital Reorganisation (including the AIM admission fee, professional fees and the cost of the preparation and circulation of this document, related printing and other incidental expenses) which are payable by the Company are estimated to amount to approximately £0.8 million (excluding recoverable VAT).
- 14.2 The New Ordinary Shares, which will not be marketed, or made available in whole or in part to the public other than pursuant to the VCT Placing and the Placing and Open Offer will be issued fully paid at 8.5p per Ordinary Share, a premium of 3.5p over the par value of 5p per Ordinary Share. The New Ordinary Shares and Consideration Shares will be in registered form but capable of being in certificated or uncertificated form and will rank *pari passu* in all respects with the Reduced Ordinary Shares. It is expected that definitive share certificates for the New Ordinary Shares and Consideration Shares will be despatched by 7 May 2002.
- 14.3 Baird is regulated by The Financial Services Authority Limited and is a member of the London Stock Exchange. Baird is registered in England with Company Number 1745463 and has its registered office at Mint House, 77 Mansell Street, London, E1 8AF.
- 14.4 Statutory accounts of the Company relating to the years ended 31 December 1999 and 31 December 2000 have been delivered to the Registrar of Companies. The accounts for the year ended 31 December 1999 were audited by PricewaterhouseCoopers, Chartered Accountants and Registered Auditors of 101 Barbirolli Square, Lower Mosley Street, Manchester, M2 3PW. The accounts of the years ended 31 December 2000 and 31 December 2001 were audited by HLB Kidsons, Registered Auditors and Chartered Accountants, of Number One, Old Hall Street, Liverpool, L3 9SX. An unqualified audit report within the meaning of section 235 of the Act has been given in respect of each of such accounts and did not contain a statement within the meaning of sections 237(2) or (3) of the Act.
- 14.5 Save as otherwise disclosed in paragraphs 1, 2 and 3 in Part I of this document, the Company has no significant investments in progress.
- 14.6 For the purpose of the POS Regulations, there is no minimum amount which in the opinion of the Directors must be raised by the VCT Placing and the Placing and Open Offer to provide for the following:
- (a) purchase of property;
 - (b) preliminary expenses in respect of the VCT Placing, the Placing and Open Offer, the Acquisition and the Capital Reorganisation;
 - (c) repayment of monies borrowed in respect of (a) or (b) above; and
 - (d) working capital.

15. Documents Available for Inspection

Copies of the following documents will be available for inspection at the offices of Baird at Mint House, 77 Mansell Street, London, E1 8AF and Wragge & Co, 55 Colmore Row, Birmingham, B3 2AS during normal business hours and on any weekday (Saturdays and public holidays excepted) so long as the Open Offer remains open for acceptance:

- 15.1 the Memorandum and Articles of Association of the Company;
- 15.2 the audited accounts of the Group for the three years ended 31 December 2001;
- 15.3 the rules of the Share Option Schemes;
- 15.4 the Directors' service agreements and letters of appointment referred to in paragraph 6 above;
- 15.5 the material contracts referred to in paragraph 7 above;
- 15.6 the letters of consent referred to in paragraph 11 above;
- 15.7 the letter from HLB Kidsons set out in Part VIII of this document; and
- 15.8 the accountant's reports set out in Part VI and VII of this document.

28 March 2002

Notice of Extraordinary General Meeting

NOTICE IS HEREBY GIVEN THAT an Extraordinary General Meeting of Advanced Medical Solutions Group plc will be held at the offices of Advanced Medical Solutions Group plc, Road Three, Winsford Industrial Estate, Winsford CW7 3PD at 11.00 a.m. on 23 April 2002 for the purpose of considering and, if thought fit, passing the following resolutions, the first as an ordinary resolution and the second as a special resolution:

Ordinary Resolution

1. THAT the proposed acquisition by the Company of the entire issued share capital of MedLogic Global Holdings Limited and related intellectual property assets on the terms and subject to the conditions set out in the conditional acquisition agreement dated 28 March 2002 between (1) the Company, (2) MedLogic Global Corporation and (3) The Travelers Insurance Company (the "Acquisition Agreement"), being the Acquisition Agreement described in Part IV of the circular to shareholders of the Company dated 28 March 2002, a copy of which agreement has been produced to the meeting and initialled by the Chairman for the purpose of identification, be and is hereby approved and that the Directors be and are hereby authorised to do, approve and execute all such acts, things and documents as may be necessary or desirable to complete and give effect to the transactions and arrangements contemplated by the Acquisition Agreement.

Special Resolution

2. THAT:
 - (a) each of the unissued ordinary shares of 10p each in the capital of the Company be and are hereby subdivided into two Ordinary Shares of 5p each and each of the issued ordinary shares of 10p each in the capital of the Company be and is hereby sub-divided and converted into one ordinary share of 5p and one Deferred Share of 5p, such Deferred Shares having attached thereto the rights and being subject to the restrictions set out in the Articles of Association of the Company as altered by this Resolution;
 - (b) the authorised share capital of the Company be and is hereby increased from £12,000,000 to £15,000,000 by the creation of an additional 60,000,000 ordinary shares of 5p each, ranking *pari passu* in all respects with the ordinary shares of 5p each created by paragraph (a) of this Resolution;
 - (c) the Articles of Association of the Company be and are hereby altered by deleting the existing Article 4 and substituting therefor the following new Article 4:

"4 At the date of the adoption of this Article, the authorised share capital of the Company is £15,000,000 divided into 206,446,606 Ordinary Shares of 5p each and 93,553,394 Deferred Shares of 5p each"

and by inserting the following words after the word "issued" where it first appears in Articles 49.1: "and subject further to the provisions of Article 4A";
 - (d) the Articles of Association of the Company be and are hereby further altered by including therein the following new Article 4A:

"4A The rights and privileges attached to the Deferred Shares are as follows:

4A1 As regards income
The Deferred Shares shall carry no right to receive any dividend in respect of any financial year or other period of the Company.

4A2 As regards capital
On any return of capital on a winding up or otherwise, the holders of the Deferred Shares shall be entitled to receive the amount paid up or credited as paid up on their respective holdings of Deferred Shares, provided that any such payment shall be made only after a minimum aggregate amount of £1,000,000 has been paid in respect of each of the

Ordinary Shares, but the holders of the Deferred Shares shall not be entitled to participate further in any distribution of the assets of the Company.

4A3 *As regards voting*

The holders of the Deferred Shares shall have no right to receive a certificate in respect of their holding or to receive notice of, or to attend, speak or vote either in person or by proxy at, any general meeting by virtue of their holdings of such Deferred Shares.

4A4 *As regards modification of rights*

Neither the passing by the Company of any special resolution for the cancellation of the Deferred Shares for no consideration by means of a reduction of capital requiring the confirmation of the High Court nor the obtaining by the Company nor the making by the High Court of an order confirming any such reduction of capital nor the making effective of such an order shall constitute a modification or abrogation of the rights or privileges attaching to the Deferred Shares and accordingly the Deferred Shares may at any time be cancelled for no consideration by means of a reduction of capital effected in accordance with the Act without any sanction required on the part of the holders of the Deferred Shares.

4A5 *As regards further issues*

The special rights conferred by the Deferred Shares shall not be deemed to be modified or abrogated by the creation or issue of further shares ranking *pari passu* with or in priority to the Deferred Shares.

4A6 *As regards transfer*

The creation or issue of Deferred Shares shall be deemed to confer irrevocable authority on the Company at any time thereafter to appoint any person to execute on behalf of the holders of such shares a transfer thereof and/or an agreement to transfer the same, without making any payments to the holder thereof, to such persons as the Company may determine as custodian thereof and to cancel the same (in accordance with the provisions of the Act) without making any payment to or obtaining the sanction of the holder thereof and pending such transfer and/or cancellation to retain the certificate for such shares";

- (e) the Directors be and are hereby generally and unconditionally authorised in accordance with section 80 of the Act in substitution for any existing authority (to the extent that the same has not already been exercised) to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of (if the Placing and Open Offer shall become unconditional in all respects, save as regards any condition relating to the passing of this Resolution) £4,767,659.75 or (if First Admission occurs but Second Admission does not) £1,859,418.35 during the period commencing on the date of the passing of this Resolution and expiring on 23 April 2007 (both dates inclusive) but so that this authority shall allow the Company to make before the expiry of this authority offers and arrangements which would or might require relevant securities to be allotted after such expiry and notwithstanding such expiry the Directors may allot relevant securities in pursuance of such offers or agreements; and
- (f) the Directors be and are hereby given power in accordance with section 95 of the Act, in substitution for any such authority previously conferred, to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to the authority conferred by paragraph (e) above as if section 89(1) of the Act did not apply to the allotment, provided that this power is limited to:
 - (i) the allotment of ordinary shares of 5p each in the capital of the Company in connection with the VCT Placing and the Placing and Open Offer as described in the circular to shareholders dated 28 March 2002;

- (ii) the allotment of equity securities in connection with any other offer (whether by way of rights issue, open offer or otherwise) to the holders of ordinary shares of 5p each in the capital of the Company in proportion (as nearly as may be) to their existing holdings of such shares, subject only to any exclusions or other arrangements which the Directors may deem necessary or expedient to deal with fractional entitlements, legal or practical problems arising in any overseas territory or the requirements of any regulatory body or stock exchange in any territory; and
- (iii) the allotment (otherwise than pursuant to sub-paragraphs (i) or (ii) above) of equity securities for cash up to an aggregate nominal amount of (if the Placing and Open Offer shall become unconditional in all respects, save as regards any condition relating to the passing of this Resolution) £355,206.30 or (if First Admission occurs but Second Admission does not) £298,589;

and will (unless renewed, renounced, varied or revoked) expire fifteen months after the date of the passing of this resolution or at the conclusion of the next Annual General Meeting of the Company, whichever first occurs, but the Company may, before this power expires, make an offer or an agreement which would or might require equity securities to be allotted after this power expires and the Directors may allot equity securities pursuant to any such offer or agreement as if this power had not expired.

By order of the Board
Mary Tavener
Secretary

Registered Office
Road Three
Winsford Industrial Estate
Winsford
Cheshire, CW7 3PD

28 March 2002

Notes:

- 1 A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and on a poll vote instead of him. A proxy need not be a member of the Company.
- 2 A Form of Proxy is enclosed which, to be effective, must be completed and lodged at the offices of the Company's registrars, Capita IRG Plc (Proxies), 390/398 High Road, Ilford, Essex IG1 1BR not less than 48 hours before the time appointed for the meeting.
- 3 Completion and return of the Form of Proxy does not preclude members from attending and voting in person.
- 4 Unless the context otherwise requires, words and expressions in this Notice and in the accompanying Form of Proxy bear the meanings ascribed thereto in the circular to shareholders dated 28 March 2002 of which this Notice forms part.
- 5 The Company pursuant to Regulation 41 of the CREST Regulations specifies that only those Shareholders registered in the Register of Members of the Company as at 6.00 p.m. on 21 April 2002 shall be entitled to attend and vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time. Changes to entries in the Register of Members after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

END OF DOCUMENT

PERFECT INFORMATION LTD
MICHAEL HOUSE
35 CHISWELL STREET
LONDON EC1Y 4SE

TELEPHONE 020 7892 4200
FAX: 020 7892 4201
WEBSITE: www.perfectinfo.com