

Interim Results - For the six months ending 31st October 2003

Highlights

- First full six month period of trading for the newly transformed well-funded medical devices Group with a solid revenue base and an exciting new product pipeline.
- OPTI revenue generation exceeds expectations, with sales of £3,457,000.
- Group loss substantially reduced to £465,000 (six months ended 31 October 2002: £1,924,000) and reduction in cashburn.
- New OPTI products set for worldwide launch within the next 12 months.
- Continued good progress with development of integrated vaginal infection product scheduled for 2005 launch.
- £2,000,000 placing strengthens financial position.

James White, Chief Executive of Osmetech plc said,

'Over the past six months we have seen a dramatic improvement in the performance of Osmetech and considerable progress in the Group's short and medium term potential to deliver revenue growth.

'To date the OPTI business has proved to have been an outstanding acquisition at a strategic, operational and financial level.

'The Group has been transformed into a well-funded, point of care medical devices business with a strong product pipeline, an established international distribution network and a robust, high quality revenue stream.

'OPTI provides us with a very solid, profitable and cash generative business base that has enabled us to accelerate our new product development and broaden the opportunity for profitable growth. OPTI will launch a number of new products over the next 12 months and we expect to release our integrated vaginal infection diagnostic device, incorporating our proprietary electronic nose technology, in 2005.'

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Chairman's Statement

Introduction and New Business Structure

In April 2003 Osmetech acquired the OPTI product line of blood gas analyzers from Roche. This acquisition has transformed the Group from a pre-revenue research and development based entity with an exciting platform technology to a well-funded point of care based medical devices business with a solid revenue base, strong product pipeline and a high quality international distribution network.

The performance of the US based OPTI business has been both profitable and cash generative since acquisition, significantly exceeding expectations, and this has enabled us to accelerate investment in a new range of OPTI products. OPTI has been successfully integrated into the Group and is providing major strategic, operational and financial benefits for Osmetech.

At the strategic level, we have established an important presence in the US point of care diagnostics market and continue to build a customer base in the Emergency Room setting along with other near patient testing markets throughout the world.

The acquisition of OPTI has enabled us to create a more efficient operational structure for the Group's activities. Operations have been consolidated onto the Atlanta site, with the UK facility in Crewe being closed in May 2003 and key R&D personnel being transferred to the US. This has been completed and the Company's important vaginal infection product programme, now entering its final phases, is benefiting from the considerable experience that the OPTI personnel have in bringing new products successfully through to market. The sensor manufacturing process has also been refined, enabling higher quality production and enhancing the scalability of the operation.

OPTI Acquisition and Trading

The total consideration for the acquired assets has been finalised at \$2,745,000, with the final instalment of \$395,000 payable on 31 March 2004. Upon completion, Roche subscribed \$1,000,000 in cash for 21,821,422 new Osmetech shares, resulting in a net cash outflow of \$1,745,000 for the acquisition as a whole.

During the first half of the year, OPTI sales exceeded expectations at \$5,582,000 (£3,457,000), benefiting from approximately \$1m of SARS-related sales to China early in the period and initial 'pipeline filling' sales to distributors. Although sales in the second half are not expected to continue to benefit from these factors, the underlying sales level for the full year should exceed expectations.

Our international distributor network has successfully transferred the OPTI business from the respective Roche affiliates ensuring a seamless supply of product to the end customer. Osmetech's brand name is becoming firmly established in the marketplace.

New OPTI Products

The excellent trading performance to date has enabled us to accelerate investment in the development of the next generation of OPTI products. We have clear growth plans for OPTI that will see key new product introductions within the next 12 months. These products have been previewed with the principal distributors, including Sysmex in Japan, the number [one healthcare](#) diagnostics company [in Asia](#), with which Osmetech has recently signed a four year distribution agreement. Their reaction has been very positive and we are confident that these products will generate profitable sales growth in these important market sectors.

Integrated Vaginal Infection Product

During 2003, Osmetech secured FDA approval for its bacterial vaginosis (BV) test based upon its proprietary electronic nose technology. During the last six months the Company has successfully demonstrated that its laboratory based FDA-approved BV test works equally as effectively in a point of care environment.

Following extensive market research, Osmetech's BV test is being combined with other third party tests for diagnosing and differentiating between five of the most prevalent and clinically important vaginal infections. The US annual market size alone is estimated to be between US\$1.4 billion and US\$1.9 billion.

The simple to use integrated device will be capable of providing objective results within the timeframe of a normal patient consultation. The critical appeal of the device in delivering rapid results will be the automation of many of the relatively complex manual testing procedures currently required in order to perform these tests. The individual tests to be integrated have been adapted to facilitate this simple automated process. Four of the five elements have been successfully tested in-house using clinical samples on an automated fixture that will form part of the final device. The fifth element is anticipated to be satisfactorily concluded within the next month. The testing process we have developed will be patented and should have broad appeal for the automation of the large number of manually performed immunoassay tests currently undertaken.

Following on from this successful in-house work, we have started pre-clinical trials in the US at the University of Alabama Hospital at Birmingham and the Johns Hopkins Hospital, Baltimore, with all immunoassay elements in process by March 2004. We then expect to open a dialogue with the FDA in order to agree a structure for our submission for regulatory approval later in 2004 following clinical trials. Product launch is planned for 2005.

Funding

In October 2003, Osmetech raised £2,000,000 through a placing to institutional shareholders. The funds raised have enabled Osmetech to advance the product development programmes for the OPTI business described above. The Company

should also have sufficient funds to fully support its existing operations through to the launch of the integrated vaginal infection device.

Financial Review

Total sales of £3,457,000 comprised 33% direct US sales with the remainder through the third party international distributor network. New instrument sales accounted for 40% of total sales, with the majority of the remainder comprising highly reliable repeat sales of proprietary reagents to the active installed base of approximately 4,000 instruments.

Gross profit margins were abnormally high at 61.5% reflecting the successful utilisation of slow moving inventory acquired as part of the purchase of the OPTI business. Typically we would expect overall gross margins to be in the region of 50% given a representative sales revenue split of one-third new instrument business and two-thirds consumables sales.

The loss for the half year was substantially reduced to £465,000 (2002 - £1,924,000), reflecting the profitable trading of OPTI together with the restructuring of the Company's cost base over the past 12-18 months.

Development costs on both the new OPTI products and the integrated vaginal infection product will increase in the second half of the year as these projects are accelerated. This new product investment and lower second half sales, for the reasons already highlighted, will result in a higher loss for the second half compared to the first half, but will nevertheless represent a significant improvement over the corresponding period last year.

The cash balance increased during the period by £367,000 to £3,606,000 at 31 October 2003 including the £2m placing referred to above. Cash outflows before financing in the six month period of £1,618,000 included a total of £891,000 relating to outflows unlikely to be repeated. These included a £207,000 acquisition stage payment to Roche, £197,000 of costs incurred in relation to the restructuring of the business fully provided for last year and an increase in trade debtors of £487,000 from a low opening position.

Outlook

The OPTI acquisition and restructuring of the Group's operations have significantly strengthened the Company. The Group's cost base has been re-aligned and the operating infrastructure is both efficient and yet capable of supporting the anticipated short to medium term organic growth opportunities for the business, underpinned by a strengthened financial position.

Osmetech is now an established medical devices company in the fast growing near patient testing and point of care markets with a robust and high quality revenue stream providing a solid base for the business. On the back of the strong performance in the first half we have invested significantly in new product development providing significant upside potential for the business. This should be achieved through the commercialisation of our proprietary electronic nose technology, initially through the

launch of our integrated vaginal infection device, and by the broadening of the OPTI range.

Osmetech will continue to search for opportunities to grow the business through acquisition. The primary goal is to extend our product portfolio with potential targets typically representing non-core product lines or divisions of multi-national companies, or where financing constraints may be preventing commercial success.

Finally, I would like to thank all Osmetech employees, past and present, who have worked diligently in integrating the OPTI business and transferring our UK activities so effectively to the US. We have made considerable progress again on all fronts and I look forward to reporting further progress and commercial success in the future.

Gordon Hall
Chairman
29 January 2004

Group Profit and Loss Account

For the six months ended 31 October 2003

	Notes	Six months to 31 st October 2003 £'000	Six months to 31 st October 2002 £'000	Year Ended 30 th April 2003 £'000
Turnover		3,457	10	686
Cost of sales		(1,328)	-	(315)
Gross profit		<u>2,129</u>	<u>10</u>	<u>371</u>
Administrative expenses		(2,717)	(2,041)	(3,470)
Operating loss		<u>(588)</u>	<u>(2,031)</u>	<u>(3,099)</u>
Exceptional cost of fundamental restructuring of continuing operations		-	-	(863)
Net interest receivable		40	47	131
Loss on ordinary activities before tax		(548)	(1,984)	(3,831)
Taxation		<u>83</u>	<u>60</u>	<u>164</u>
Loss for the period transferred from reserves		<u>(465)</u>	<u>(1,924)</u>	<u>(3,667)</u>
Basic and Diluted Loss per share	2	<u>(0.09p)</u>	<u>(0.68p)</u>	<u>(0.94p)</u>

Group Statement of Total Recognised Gains and Losses

For the six months ended 31 October 2003

	Six months to 31 st October 2003 £'000	Six months to 31 st October 2002 £'000	Year Ended 30 th April 2003 £'000
Loss for the period after taxation	(465)	(1,924)	(3,667)
Exchange (loss) / gain on consolidation	(142)	(1)	3
Total recognised losses for the period	<u>(607)</u>	<u>(1,925)</u>	<u>(3,664)</u>

Group Balance Sheet

As at 31 October 2003

	31 st October 2003 £'000	31 st October 2002 £'000	30 th April 2003 £'000
Fixed assets			
Intangible assets	1,047	896	1,075
Tangible assets	413	194	412
	<u>1,460</u>	<u>1,090</u>	<u>1,487</u>
Current assets			
Stocks	1,201	37	966
Debtors	1,505	266	1,116
Investments – Term Deposits	3,300	4,720	2,720
Cash at bank and in hand	306	881	519
	<u>6,312</u>	<u>5,904</u>	<u>5,321</u>
<i>Less:</i>			
Creditors: amounts falling due within one year	1,159	675	1,573
	<u>5,153</u>	<u>5,229</u>	<u>3,748</u>
Net current assets			
	<u>6,613</u>	<u>6,319</u>	<u>5,235</u>
Total assets less current liabilities	<u><u>6,613</u></u>	<u><u>6,319</u></u>	<u><u>5,235</u></u>
Capital and reserves			
Called up share capital	5,870	4,922	5,162
Share premium account	29,316	27,624	28,039
Profit and loss account	(28,573)	(26,227)	(27,966)
	<u>6,613</u>	<u>6,319</u>	<u>5,235</u>
	<u><u>6,613</u></u>	<u><u>6,319</u></u>	<u><u>5,235</u></u>
Reconciliation of movement in shareholders' funds			
Opening shareholders' funds	5,235	4,004	4,004
Loss for the period	(465)	(1,924)	(3,667)
New share capital subscribed (including premium)	2,085	4,914	5,563
Issue expenses	(100)	(674)	(668)
Exchange differences	(142)	(1)	3
	<u>6,613</u>	<u>6,319</u>	<u>5,235</u>
	<u><u>6,613</u></u>	<u><u>6,319</u></u>	<u><u>5,235</u></u>

Group Cash Flow Statement

For the six months ended 31 October 2003

	Six months to 31 st October 2003 £'000	Six months to 31 st October 2002 £'000	Year Ended 30 th April 2003 £'000
Net cash outflow from operating activities	(1,357)	(1,790)	(3,442)
Returns on investments and servicing of finance			
Interest received	42	35	127
Net cash inflow from returns on investment and servicing of finance	42	35	127
Taxation			
Research and Development tax credit	-	450	450
Capital expenditure and financial investments			
Payments to acquire intangible assets	(10)	(41)	(79)
Payments to acquire tangible assets	(80)	(9)	(88)
Net cash outflow from investing activities	(90)	(50)	(167)
Acquisitions and disposals	(207)	-	(1,340)
Management of liquid resources	(580)	(2,620)	(620)
Net cash outflow before financing	(2,192)	(3,975)	(4,992)
Financing			
Shares issued by parent company	2,085	4,914	5,563
Issue expenses	(100)	(674)	(668)
Net cash inflow from financing	1,985	4,240	4,895
(Decrease)/increase in cash	(207)	265	(97)

Group Cash Flow Statement (continued)

For the six months ended 31 October 2003

	Six months to 31 st October 2003 £'000	Six months to 31 st October 2002 £'000	Year Ended 30 th April 2003 £'000
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash	(207)	265	(97)
Increase in liquid resources	580	2,620	620
Exchange differences	(6)	-	-
Change in net funds	<u>367</u>	<u>2,885</u>	<u>523</u>
Net funds at beginning of period	3,239	2,716	2,716
Net funds at end of period	<u><u>3,606</u></u>	<u><u>5,601</u></u>	<u><u>3,239</u></u>

Reconciliation of operating loss to operating cash flow

Operating loss	(588)	(2,031)	(3,099)
Depreciation and amortisation of fixed assets	77	58	127
(Increase)/decrease in stocks	(358)	46	64
(Increase)/decrease in debtors	(388)	33	(726)
Increase in creditors	97	60	400
Loss on disposal of fixed assets	-	44	55
Cash impact of fundamental restructuring of continuing operations	(197)	-	(263)
	<u>(1,357)</u>	<u>(1,790)</u>	<u>(3,442)</u>

Notes

1. The Interim Statement, which is unaudited, has been prepared on the basis of the accounting policies set out in the statutory accounts to 30th April 2003. The directors do not recommend the payment of an interim dividend. The balance sheet as at 30th April 2003 and the results for the year there ended have been abridged from the statutory accounts which have been filed with the Registrar of Companies. The auditors' opinion on those accounts was unqualified.
2. The calculation of loss per share for the six months to 31st October 2003 is based upon a loss of £464,557; (31st October 2002: loss of £1,924,067; 30th April 2003: loss of £3,667,283) and on the weighted average number of shares in issue for the period, namely 525,730,032; (31st October 2002: 284,993,492 and 30th April 2003: 389,690,248).