INNOVATIVE TECHNOLOGIES GROUP PLC

Annual report and financial statements

Period ended

31 December 1994

INNOVATIVE TECHNOLOGIES GROUP PLC

Annual report and financial statements for the period ended 31 December 1994

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Directors and Advisors

Directors

R.D.N. Somerville (Chairman)
W.E. Christie (Non Executive Deputy Chairman)
D.K. Gilding (Managing Director)
D.J. Mitchell (Director)
D.R. Chellingsworth (Financial Director)
J.D. Berry (Non Executive)

Corporate Governance Standing Committees

Risk Management Committee

W.E. Christie
D.J. Mitchell
J.D. Berry

Audit Committee

R.D.N. Somerville
W.E. Christie
J.D.Berry

Remuneration Committee

R.D.N. Somerville
W.E. Christie
J.D. Berry

Secretary

D.R. Chellingsworth

Registered office

Road Three
Winsford Industrial Estate
Winsford
Cheshire. CW7 3PD

Registered number

2867684

Financial Adviser

Allied Provincial Corporate Services
(A division of Allied Provincial Securities Limited)
Beaufort House
94/96 Newhall Street
Birmingham B3 1PE

Stockbrokers

Allied Provincial Securities Limited
Beaufort House
94/96 Newhall Street
Birmingham. B3 1PE

Auditors

BDO Stoy Hayward
Peter House
St. Peter's Square
Manchester M B

Solicitors

Wragge & Co
55 Colmore Row
Birmingham. B3 2AS

Registrars and Transfer Office

Independent Registrars Group Limited
Balfour House
390/398 High Road
Ilford
Essex. IG1 1NQ

Principal bankers

Lloyds Bank plc
P.O. Box 349
St. James Court
30 Brown Street
Manchester. M60 2LE

INNOVATIVE TECHNOLOGIES GROUP PLC

Chairman's Statement

During the fourteen month period ended 31 December 1994, the Group made solid progress in the development of the product base, whilst recruiting key individuals in strengthening the management team.

The Group's mission is to be a world leader in the supply of a range of advanced wound care and other medical products based on leading edge polymer science and strict manufacturing standards. The Group will also deploy this technology for other end uses to include gloves, performance textiles and condoms.

The Group's rapid advance culminated in the successful flotation on the USM in December, and I thank the shareholders for their support.

The financial results for the period reflect the costs of research and development which, in accordance with Group policy, have been charged to revenue.

One of the major achievements during the period was the establishment of an advanced fibre facility for spinning and processing alginates, which has been commissioned and is now fully operational.

A range of alginate based fibres, which are polysaccharides extracted from seaweed and are used in nature to regulate water content, are converted to dressings used on high exudation and deep cavity wounds. The sale of these fibres will commence in the second half of 1995 and all indications suggest that thereafter the Group will be a leading supplier of competitive alginate products in this rapidly growing world market. Other product developments included medical films and tubing with enhanced properties. The Group's abilities to offer a full range of products covering a variety of medical needs are its important competitive strengths.

The period end cash balances were £4,444,538 and the Group had borrowings of £99,693.

Appropriate controls have been introduced and in accordance with the Cadbury guidelines, Audit and Remuneration Committees have been established. The Board is also supported by a Risk Management Committee which will monitor quality assurance, product liability, medical safety and regulatory procedures.

A partnership with a major multinational woundcare company has been established and it is expected that the first of our alginate dressings will reach hospitals this summer. We are in the later stages of negotiation with a number of other companies (including most of the 'majors') who have requested alginate dressings for launch later in the year.

Major emphasis is now being placed on establishing Good Manufacturing Practice and Quality Assurance to form the basis for achieving a rapid growth in sales of fibre and film products. Meanwhile there is concentration on establishing additional products with substantial sales potential in the foreseeable future.

The Group has a staff of outstanding talent and dedication, and I would like to thank them for their commitment and hard work.

The Directors are confident that the Group's technology, its existing range of products (both medical and non medical) and products under development will place it in a strong trading position.

R.D.N. Somerville
Chairman

21 March 1995

INNOVATIVE TECHNOLOGIES GROUP PLC

Managing Director's review

The flotation has provided the Group with funds to implement its plans to become a hi-tech medical manufacturer with ISO 9000 status.

The Group has the potential to become the lowest cost producer of finished advanced wound care products because of its fully vertically integrated process for the in house manufacture of films and alginates. These woundcare products can be marketed under private labels by different multinationals.

There is continued extension of the Group's base polymer and process technology both in-house and by strategic alliance and will be commercialised in non-woundcare markets through four newly formed divisions.

The planned structure for the Group's subsidiary, Innovative Technologies Limited ("IT"), will by mid 1995 be as follows:

- IT
  - Woundcare
    - IT private labels
    - Custom Conversion 3rd party products
  - Non-woundcare
    - Biomaterials
    - Tubing products
    - Textiles
    - Dipped products

WOUNDCARE

The Group has committed to invest £365,000 in a new coating line with adhesive printing capability which will allow it to capitalise on its advanced intelligent film technology and deliver to the market the next generation of film, alginate, hydrocolloid and hydrogel dressings each with superior performance and cost effectiveness.

The Group's conversion equipment offers great flexibility for producing not only woundcare products but also a variety of high volume disposables for other markets, such as medical electrodes, drug delivery and diagnostic kits. Each of these new future business opportunities can exploit the Group's already established polymer, coating and membrane technology to provide unique high value products.

The Group's strategy is to deliver its products to world-wide markets by forming alliances with leading woundcare companies. . The first alginate will be amongst a group of products to be launched through a multi-national in Europe in mid 1995, followed by a number of other products extending to North America. Negotiations for the Group's full range of woundcare products are at an advanced stage with a number of other leading national and multi-national companies.

The first commercial sales of the Group's unique range of polyurethane films are expected this year. The film's intelligent nature allows it to react to the presence of wound fluid and help keep a wound moist (an ideal healing environment) whilst avoiding fluid build up and the tissue becoming macerated and dying. The films also maintain a complete barrier to wound infection.

The current worldwide concern about cost-effective health care offers the Group a major opportunity. Using proprietary technology in wound fluid control, the Group is able to make unusually cost-effective alginate and film dressings. If wound fluid is better managed, dressings can be changed less frequently, resulting in major savings in materials and nursing time, especially where treatment is carried out in the community, an increasing world-wide trend.

However, the most cost-effective use of these dressings can be obtained by combining the Group's products into a proprietary fluid control system. Wound models have shown that this type of dressing system can be left for 7 days without any leakage (the industry norm is 3 days).

Human clinical trials are currently underway in the United Kingdom to generate the data necessary to support the claim for changing dressings every 6-7 days.

NON-WOUNDCARE

Biomaterials

This division has been established to sell or licence materials and process technology that was developed for in-house products to other markets.

The range of products offered will include polyurethanes in solution, pellets, films, tubing and potentially polysaccharide fibre and powder blends as well as proprietary polymer matrices loaded with active agents for controlled and sustained release.

Bulk urethane polymerisation technology has been licenced for in-house production. Grades specially developed for extrusion, injection and blow moulding will be offered to the industry together with equipment optimised specially for processing these materials and maximising the quality of products.

A number of strategic alliances with process equipment manufacturers have been established to offer additional value to customers utilising the Group's technology and minimise the need for trouble shooting in the field.

FDA (US Federal Food, Drug and Cosmetic Administration) master files on performance and toxicological data are being compiled to assist medical device manufacturers with their Regulatory needs for the Group's new polymers.

Tubing Products

The Pharma-Plast AS, Nycomed AS and Portex Limited partnerships have been placed into this division to allow a concerted development of disposable tubing products such as catheters:

- Optimised polymers for special mechanical features.
- Bonding technology and methods for assembly of complex structures.
- Special coatings and coating technology to reduce biolayer formation.
- Specialised components (eg balloons) for catheters.

Textiles

This division has been formed as a preliminary to the proposed joint venture with Advanced Materials Group Incorporated ("AMG") later in the year.

The Group's purchase of the small scale coater means that the purchase of a full scale coating line can be deferred 9-12 months. This will allow prototype waterproof breathable textiles to undergo extensive field trials by leading garment manufacturers.

Dipped Products

This division has been formed to commercialise the business opportunity presented to the Group by combining its polymer and dipping technology. (The products include medical gloves, NBC gloves, waterproof breathable gloves and condoms.)

The Group is working closely with ACC Automation of Akron ("ACC"), Ohio, to build turnkey dipping plants involving on-site polyurethane production, dipping, solvent recovery and testing capability. These plants, the first of which is planned for Winsford, Cheshire, are self-contained and can be located anywhere in the world.

Wilshire Technologies Incorporated is exploiting the technology for producing powder-free breathable gloves for the cleanroom market.

Freudenberg Non-wovens UK Limited are currently testing similar components in field trials with US and European armed forces for Nuclear Biological-Chemical Warfare applications.

Sensitisation to latex rubber is becoming a recognised major problem in the hospital and the home because of the increased use of gloves and condoms. A number of major hospitals in the USA and Europe have already banned the use of latex gloves, particularly in paediatric wards, and the trend is expected to accelerate.

The Group has therefore opened negotiations with major medical suppliers to establish its own full size dipping plant in Winsford, offering to sell partial capacity to each partner to allow full marketing trials prior to licensing a similar turnkey operation from the Group/ACC. The Group's prototype robotic dipping plant is currently supplying a variety of samples to these potential partners to carry out test marketing on the final product. Process data from this prototype plant allows the full design and economics of the manufacturing plant to be identified.

The Group's comprehensive materials and processing technology base developed over the past three years is able to be applied synergistically through commercial partnerships into multiple fields of application. I am confident that 1995 will see significant progress by the Group towards becoming a leading hi-tech manufacturing organisation serving world markets.

D.K. Gilding
Managing Director

21 March 1995

INNOVATIVE TECHNOLOGIES GROUP PLC

Report of the directors for the period ended 31 December 1994

The directors submit their report together with the audited financial statements for the fourteen month period ended 31 December 1994.

The Company was incorporated in England on 1 November 1993 under the name of Ingleby (715) Limited as a private company and was reregistered as a public company under the Companies Act with the name of Innovative Technologies Group plc on 1 December 1994.

Results and dividends

The results of the Group for the period are set out on page 11.

The directors do not recommend the payment of a dividend.

It is proposed that the loss for the period is transferred to accumulated losses carried forward.

Principal activities, trading review and future developments

The principal activity of the Group comprises the design, development and production of novel high performance polymers (both natural and synthetic) for the healthcare and specialised non-medical markets. A review of the operations for the period are covered in the Chairman's statement and Managing Director's review on pages 1 to 4.

Research and development

The Group spent £994,832 in the period ended 31 December 1994 on research and development all of which has been written off to the profit and loss account. Investment in research and development is essential to the future of the Group.

Events since the end of the period

There have been no events since the balance sheet date which materially affect the position of the Group.

Fixed assets

The movements in fixed assets are set out in notes 10 and 11 to the financial statements.

Charitable and political contributions

The Group did not make any charitable or political contributions during the period.

Insurance

The Group maintains directors' and officers' liability insurance.

Directors

The directors of the Company during the period and their interests (beneficial unless stated otherwise) in the share capital of the holding company were:

		Ordinary shares of 10p each			
		31 December 1994		At date of appointment	
		Options	Shares	Options	Shares
Ingleby Holdings Limited	(Appointed on incorporation, resigned 18 November 1994)	-	-	-	-
R.D.N. Somerville	(Appointed 5 December 1994)	-	21,000	-	21,000
W.E. Christie	(Appointed 5 December 1994)	-	-	-	-
D.K. Gilding	(Appointed 18 November 1994)	-	2,262,358	-	294,540 *
D.J. Mitchell	(Appointed 18 November 1994)	-	1,372,301	-	212,101 *
D.R. Chellingsworth	(Appointed 18 November 1994)	100,000	76,810	-	-
J.D. Berry	(Appointed 5 December 1994)	-	153,620	-	153,620

* Represents shareholding in Innovative Technologies Limited at the date of appointment.

There have been no changes in directors' interests between the end of the financial period and 8 March 1995, being less than one month prior to the date of notice of the Annual General Meeting.

All of the directors in office are offering themselves for election at the forthcoming Annual General Meeting. The expiry date of the existing service contracts for the executive directors is 5 December 1996. None of the other directors has a service contract with a duration of greater than one year.

Profiles of the non-executive directors

R D N Somerville

Ronald Somerville held senior positions with Courtaulds in fibre and textile operations; he was a director of British Cellophane with responsibilities for the plastic films division and chairman of Bonded Fibre Fabrics. He was a director of T & N plc (1978-1988), his positions included deputy chief executive; he held responsibilities for businesses in speciality chemicals, fibres and polymers; and for central research and engineering and the development of new businesses. On retirement from T & N plc he became a director of Brown and Root Limited and chairman of Eternit Limited. Ronald is currently a non-executive director and chairman of Hydro International plc and a non-executive director of Eternit Limited and Unidare plc. He is a Governor of Ashridge Management College and serves on the board of the North British Housing Association.

W E Christie

Walter Christie had over 30 years management experience within the SGS Group (Société General de Surveillance S.A. Geneva) and was managing director of SGS Redwood Limited, the largest subsidiary of SGS UK Limited, from 1966 to 1990. In 1990 Walter retired but remained as non-executive chairman of SGS Redwood Limited until 1994. During his service with SGS, Walter was also director of many of their other companies. Walter is currently also a director of the UK Industrial Recovery Fund Limited.

Profiles of the non-executive directors

J D Berry

From 1979 to 1989, whilst at ICI, John Berry gained management experience in sales and marketing both in the UK and Australia and was responsible for marketing established products and the pre-launch development of several new compounds. In 1990 he formed Complete Medical Communications Limited to provide communications, training, market research and public relations services to international pharmaceutical companies.

Directors' interests in contracts

No director was, or is, materially interested in any contract subsisting during, or at the end of the financial period which was significant in relation to the business of the Group.

Substantial shareholdings

In addition to the directors' shareholdings shown above, the directors have been notified of the following interest in 3 per cent or more of the issued ordinary shares of the Company at 8 March 1995:

Shareholder	Number of Shares	Per cent
Cedar Investments Limited	3,231,219	15.51
Advanced Materials Group Incorporated	2,554,504	12.26
Dominion Capital Incorporated	2,205,389	10.59
Bank of Scotland Nominees (Stenhouse) Limited	1,047,012	5.03
The Equitable Life Assurance Society	1,005,526	4.83
Barings Nominees Limited	1,001,804	4.81
British Gas Staff Pension Scheme	678,353	3.26

Close company status

In the opinion of the directors, the Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988.

Corporate Governance

Cadbury Committee's Recommendations Code of Best Practice ("the Code")

The directors fully support the recommendation of the Cadbury Committee's Code of Best Practice on the financial aspects of corporate governance and, given the size of the Company, have complied with it as far as practical since the Company became listed on the Unlisted Securities Market.

A Remuneration Committee and Audit Committee have both been formally established with appropriate terms of reference. The Audit Committee consisted of two non-executive directors at 31 December 1994 which did not comply with paragraph 4.3 of the Code. However, J.D. Berry was appointed as a member of the Audit Committee on 24 February 1995.

After making enquiries, the Directors have reasonable expectations that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Until the guidance for directors on statements relating to a company's effectiveness of internal control comes into effect, the directors will not report in relation to paragraph 4.5 of the Code which relates to these matters.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

BDO Stoy Hayward were appointed as auditors during the period by the directors and have expressed their willingness to continue in office. A resolution to re-appoint them will be proposed at the Annual General Meeting.

Special business at the Annual General Meeting

The effect of Resolution No. 9 to be proposed at the Meeting would be to disapply the statutory pre-emption rights conferred by Section 89 of the Companies Act 1985 to a limited extent, that is to say:

- in connection with generally pre-emptive issues; or
- in respect of shares having an aggregate nominal value of £104,167 representing approximately 5 per cent of the nominal value of the Company's current issued ordinary share capital.

The resolution will cease to have effect on 15 August 1996 or at the conclusion of the Company's Annual General Meeting to be held in 1996, whichever is the sooner.

By order of the Board

D.R. Chellingsworth
Secretary

21 March 1995

To the shareholders of Innovative Technologies Group plc

We have audited the financial statements on pages 11 to 31 which have been prepared under the accounting policies set out on pages 15 to 17.

Respective responsibilities of directors and auditors

As described on page 8 the Group's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Group's and Company's affairs as at 31 December 1994 and of the Group's loss and cash flows for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Corporate Governance matters

In addition to our audit of the financial statements we have reviewed the directors statement on page 7 concerning the Company's compliance with the Code of Best Practice, in so far as it relates to the paragraphs of the Code which the London Stock Exchange has specified for our review. We carried out our review having regard to the Bulletin 'Disclosures relating to corporate governance' issued by the Auditing Practices Board.

The purpose of the directors' statement is to give readers information which assists them in forming their own views regarding the governance of the Company. In respect of the paragraphs of the Code specified for our consideration, we are required to draw attention to any aspects of the Company's non-compliance with the Code which the directors have not properly disclosed. We are not required to review, and have not reviewed, the effectiveness of the Company's corporate governance procedures.

Corporate Governance matters (continued)

As part of our review of the Statement of Compliance with the Code, we considered the directors comments on page 7 on the adoption of the going concern basis for the financial statements which set out their judgement, at the date of preparation of their statements, that the Group has adequate resources to continue in operational existence for the foreseeable future. The guidance for directors "Going concern and financial reporting" notes that it is not possible to give any certainty in relation to going concern because a judgement properly made at a particular date can be overtaken by subsequent events. We confirm that the directors comments comply with the guidance issued to directors on reporting on going concern in accordance with the Code and are consistent with the information of which we are aware based on our normal audit work on the financial statements.

Through enquiry of certain directors and officers of the Company, and examination of relevant documents, we have satisfied ourselves that the directors' statement appropriately reflects the Company's compliance with the specified paragraphs of the Code.

BDO Stoy Hayward

BDO STOY HAYWARD
Chartered Accountants
and Registered Auditors
Manchester

21 March 1995

INNOVATIVE TECHNOLOGIES GROUP PLC

Consolidated profit and loss account for the period ended 31 December 1994

	Note		Fourteen month period ended 31 December 1994
		£	£
Turnover			32,443
Cost of sales			5,743
Gross profit			27,700
Administrative expenses			1,882,594
			(1,854,894)
Other operating income			204,414
Operating loss	3		(1,650,480)
Profit on disposal of fixed assets			8,358
Loss on ordinary activities before interest and other income			(1,642,122)
Interest receivable and similar income		32,112	
Interest payable and similar charges	6	126,036	
			(93,924)
Loss on ordinary activities before taxation			(1,736,046)
Taxation	7		-
Accumulated loss for the period			(1,736,046)
Loss per ordinary share - basic	9		10.2p

The Group profit and loss account has been presented as if Innovative Technologies Group plc owned Innovative Technologies Limited throughout the period and accordingly the groups activities relate to continuing operations. All recognised gains and losses are included above in the profit and loss account.

The notes on pages 15 to 31 form part of these financial statements.

INNOVATIVE TECHNOLOGIES GROUP PLC

Consolidated balance sheet at 31 December 1994

	Note	1994 £	1994 £
Fixed assets			
Tangible assets	10		1,067,610
Current assets			
Stocks	12	36,233	
Debtors - due within one year	13	319,374	
Cash at bank and in hand		4,444,538	
		4,800,145	
Creditors: amounts falling due within one year	14	795,636	
Net current assets			4,004,509
Total assets less current liabilities			5,072,119
Creditors: amounts falling due after more than one year	15	28,076	
Provisions for liabilities and charges			
Deferred taxation	16	-	
			28,076
			5,044,043
Capital and reserves			
Called up share capital	17		2,083,330
Share premium account	18		4,025,896
Other reserve	18		1,531,045
Profit and loss account	18		(2,596,228)
Shareholders' funds			5,044,043

All items under capital and reserves are equity except where shown.

The notes on pages 15 to 31 form part of these financial statements

INNOVATIVE TECHNOLOGIES GROUP PLC

Balance sheet at 31 December 1994

	Note	£	1994 £
Fixed assets			
Investments	11		1,670,002
Current assets			
Debtors - due within one year	13	75,887	
- due after more than one year	13	1,091,942	
Cash at bank and in hand		3,344,078	
		4,511,907	
Creditors: amounts falling due within one year	14	54,039	
Net current assets			4,457,868
Shareholders' funds			6,127,870
Capital and reserves			
Called up share capital	17		2,083,330
Share premium account	18		4,025,896
Profit and loss account	18		18,644
Shareholders' funds			6,127,870

All items under capital and reserves are equity except where shown

These financial statements were approved by the Board on 21 March 1995

D K Gilding

D K Gilding
Director

The notes on pages 15 to 31 form part of these financial statements

INNOVATIVE TECHNOLOGIES GROUP PLC

Consolidated cash flow statement for the period ended 31 December 1994

	Note		1994
		£	£
Net cash outflow from operating activities	21		(1,286,676)
Returns on investments and servicing of finance			
Interest paid		(3,881)	
Interest received		23,275	
Interest element of finance lease rental payments		(1,853)	
Net cash inflow from returns on investments and servicing of finance			17,541
Investing activities			
Purchase of tangible fixed assets		(829,898)	
Sale of tangible fixed assets		16,599	
Net cash outflow from investing activities			(813,299)
Net cash outflow before financing			(2,082,434)
Financing			
Share issues by parent company		4,959,960	
Share issues by subsidiary undertaking prior to merger		2,976,847	
Share issue expenses		(766,785)	
Loans		(620,725)	
Capital element of finance lease rental payments		(11,132)	
Net cash inflow from financing	23		6,538,165
Increase in cash and cash equivalents	22		4,455,731

The notes on pages 15 to 31 form part of these financial statements

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The company has taken advantage of the exemption from presenting its own profit and loss account. The following accounting policies, which have not changed in the period, have been applied.

Basis of consolidation

The consolidated accounts incorporate the financial statements of Innovative Technologies Group plc and all of its subsidiary undertakings made up to 31 December 1994. The group uses both the acquisition and the merger method of accounting to consolidate the results of subsidiary undertakings. Where the acquisition method of accounting is used, the results of subsidiary undertakings are included from the date of acquisition.

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.

Turnover

Turnover represents sales to external customers at invoiced amount less value added tax. Turnover also includes royalty income received under licence agreements.

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 fixed assets, over their expected useful lives. It is calculated at the following rates:

Leasehold properties	- over the length of the lease (currently 20% per annum on cost)
Vehicles	- 25% per annum on cost
Plant, machinery and equipment	- 15 to 20% per annum on cost
Fixtures, fittings and furniture	- 15 to 20% per annum on cost
Computers	- 33.3% per annum on cost

1 **Accounting policies *(continued)***

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 of 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 and hire purchase contracts

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.

Hire purchase contracts are treated identically to finance leases.

1 Accounting policies ***(continued)***

Foreign currency

Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Any differences are taken to the profit and loss account.

2 Turnover

Turnover and loss before taxation originate from net assets situated in the United Kingdom and derive from external customers principally located in the United Kingdom.

3 Operating loss

This is arrived at after charging/(crediting):

		Fourteen month period ended 31 December 1994 £
Depreciation (see (a) below)		154,180
Operating lease rentals	- plant and machinery	15,522
	- land and buildings	62,490
Auditors' remuneration	- audit services	16,000
	- non-audit services	3,300
Research and development		994,832
Exceptional income (see (b) below)		(90,000)

(a) Depreciation includes £10,546 charged on assets held under finance leases and hire purchase contracts.

(b) On the 25 June 1994 the company suffered a fire at its premises. The assets damaged were covered by insurance and of the proceeds £90,000 related to compensation for business interruption as a result of the fire.

During the period the Group paid its auditors £208,500 for non-audit services, in connection with the Stock Exchange Listing on the Unlisted Securities Market which was charged to the share premium account.

4 Employees

	Fourteen month period ended 31 December 1994 £
Staff costs for all employees, including executive directors, consist of:	
Wages and salaries	769,709
Social security costs	76,165
	845,874

The average weekly number of employees of the group during the period, including executive directors, was as follows:

	Number
Full time	34

5 Directors

	Fourteen month period ended 31 December 1994 £
Emoluments:	
Fees as directors	5,000
Remuneration for management services	138,200
Amounts paid to third parties	3,308
	146,508
Emoluments (excluding pension contributions) of:	
Chairman	3,308
Highest paid director	66,649

5 Directors *(continued)*

	Number
Other directors emoluments fell within the ranges:	
£0 - £5,000	2
£15,001 - £20,000	1
£45,001 - £50,000	1

6 Interest payable

	Fourteen month period ended 31 December 1994 £
Loans repayable wholly or in part within five years	120,302
Bank interest	3,881
Finance leases and hire purchase contracts	1,853
	126,036

7 Taxation on loss on ordinary activities

No provision for taxation is required due to the availability of losses.

8 Loss for the financial period

	Fourteen month period ended 31 December 1994 £
Dealt with in the accounts of the parent company	18,644
Retained by Innovative Technologies Limited	
Pre merger	(1,581,124)
Post merger	(173,566)
	(1,736,046)

As detailed in note 11, on 30 November 1994 the whole issued share capital of Innovative Technologies Limited was acquired and the transaction has been accounted for using merger accounting principles.

9 Loss per share

The basic loss per share has been calculated on the weighted average number of shares in issue during the period, namely 16,995,236, assuming that the 16,700,000 ordinary shares issued to acquire the subsidiary undertaking have been in issue throughout the period, and losses of £1,736,036.

The fully diluted loss per share has not been given as the dilution is not material.

10 Tangible assets

Group	Leasehold improvements £	Plant and machinery £	Fixtures and fittings £	Motor vehicles £	Total £
Cost					
Acquired on merger of subsidiary undertaking	95,982	296,474	58,547	30,795	481,798
Additions	280,466	445,517	82,232	36,483	844,698
Disposals	-	(12,919)	-	(1,498)	(14,417)
At end of period	376,448	729,072	140,779	65,780	1,312,079
Depreciation					
On merger of subsidiary undertaking	16,469	58,142	19,863	1,991	96,465
Provided for the period	35,737	85,197	23,785	9,461	154,180
Disposals	-	(5,211)	-	(965)	(6,176)
At end of period	52,206	138,126	43,648	10,487	244,469
Net book value					
At 31 December 1994	324,242	590,944	97,131	55,293	1,067,610

The net book value of tangible fixed assets includes an amount of £43,078 in respect of assets held under finance leases and hire purchase contracts. The related depreciation charge for the period was £10,546.

Commitments for capital expenditure	Group 1994 £	Company 1994 £
Authorised by the Board but not contracted for	61,000	-
Authorised by the Board and contracted for	293,715	-

11 Fixed asset investments

Company

	Group undertakings
	£
Cost	
Additions during period and at 31 December 1994	1,670,002

On 30 November 1994, the company acquired 100 per cent of the ordinary shares (and all of the voting rights) of Innovative Technologies Limited in an exchange of shares which resulted in the former shareholders of Innovative Technologies Limited holding the same proportion of the issued share capital of Innovative Technologies Group plc as they held in Innovative Technologies Limited. In connection with the share exchange, Innovative Technologies Group plc issued 16,700,000 ordinary shares of 10p each in exchange for the shares in Innovative Technologies Limited. No share premium has been accounted for on this issue. The acquisition has been accounted for using merger accounting principles.

The following were subsidiary undertakings at the end of the period and have all been included in the consolidated accounts.

Name	Country of incorporation or registration	Proportion of voting rights and ordinary share capital held	Nature of business
Innovative Technologies Limited	England	100 per cent	Development and manufacture of medical products
Flowers Park Limited	England	100 per cent	Dormant

For all undertakings listed above, the country of operation is the same as its country of incorporation or registration.

12 Stocks

	Group 1994 £	Company 1994 £
Raw materials	17,862	-
Work in progress	18,371	-
	36,233	-

There is no material difference between the replacement cost of stock and the amount at which it is stated in the financial statements.

13 Debtors

	Group 1994 £	Company 1994 £
Due within one year		
Trade debtors	132,249	-
Other debtors	137,115	37,092
Prepayments and accrued income	50,010	38,795
	319,374	75,887
Due after more than one year		
Amounts owed by subsidiary undertaking	-	1,091,942

14 Creditors: amounts falling due within one year

	Group 1994 £	Company 1994 £
Trade creditors	256,906	-
Taxation and Social Security	39,488	-
Obligations under finance leases and hire purchase contracts	14,061	-
Accruals and deferred income	414,131	54,039
Other loans	71,050	-
	795,636	54,039

15 Creditors: amounts falling due after more than one year

	Group 1994 £	Company 1994 £
Obligations under finance leases and hire purchase contracts	14,582	-
Accruals and deferred income	13,494	-
	28,076	-

Obligations under finance leases and hire purchase contracts are due as follows:

	£
Within 1-2 years	10,060
Within 2-5 years	4,522
	14,582

16 Deferred taxation

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

	1994	
Group	Unprovided £	Provided in accounts £
Capital allowances	-	93,973
Sundry timing differences	-	(90,457)
Unutilised tax losses	(919,895)	(3,516)
	(919,895)	-

17 **Share capital**

	£
Authorised	
27,500,000 ordinary shares of 10p each	2,750,000
Allotted, called up and fully paid	
20,833,300 ordinary shares of 10p each	2,083,330

The following are changes in the share capital during the period.

i) By a written ordinary resolution of the Company on 30 November 1994 each of the 1000 authorised shares of £1 each in the capital of the Company was subdivided into 10,000 ordinary shares of 10p each.

ii) On 30 November 1994 the nominal capital of the Company was increased by £2,749,000 beyond the registered capital of £1,000 by the creation of 27,490,000 additional ordinary shares of 10p each.

iii) On 30 November 1994 it was resolved that 16,700,000 ordinary shares of 10p each be allotted and credited as fully paid in a share for share exchange with Innovative Technologies Limited.

iv) An allotment of shares was made in connection with the offer to the public (with preferential rights to employees) and the placing with institutional investors of 4,133,300 new 10p ordinary shares at a premium of £1.10 in connection with the admission on the Unlisted Securities Market of the London Stock Exchange.

Executive share option scheme

Options have been granted over the following number of ordinary shares which were outstanding at 31 December 1994:

Number of participants	Date granted	Number of shares	Subscription price	Exercisable between
1	5 December 1994	100,000	£1.20	5 December 1997 to 5 December 2004
19	9 December 1994	329,584	£1.20	9 December 1997 to 9 December 2004

No share options were exercised during the financial period.

18 Reserves

Group	Share premium account £	Other reserve £	Profit and loss account £
Arising on merger of subsidiary undertaking	-	1,531,045	(860,182)
On new share capital subscribed on listing	4,546,630	-	
Loss for the period	-	-	(1,736,046)
Issue expenses	(520,734)	-	-
	4,025,896	1,531,045	(2,596,228)

Company	Share premium account £	Other reserve £	Profit and loss account £
On new share capital subscribed on listing	4,546,630	-	-
Issue expenses	(520,734)	-	-
Profit for the period	-	-	18,644
	4,025,896	-	18,644

19 Reconciliation of movements in shareholders funds

	Group 1994 £	Company 1994 £
(Loss)/profit for the financial period	(1,736,046)	18,644
New share capital subscribed	6,629,960	6,629,960
Issue expenses	(520,734)	(520,734)
Adjustments arising on merger:		
Other reserves	1,531,045	-
Profit and loss account	(860,182)	-
Closing shareholders' funds	5,044,043	6,127,870

20 Commitments under operating leases

As at 31 December 1994, the group had annual commitments under non-cancellable operating leases as set out below:

	1994	
	Land and buildings	Other
	£	£
Operating leases which expire:		
In two to five years	55,000	-

21 Reconciliation of operating loss to net cash outflow from operating activities

	1994
	£
Operating loss	(1,650,480)
Depreciation	154,180
(Increase) in stocks	(36,233)
(Increase) in debtors	(66,369)
Increase in creditors	312,226
Net cash outflow from operating activities	(1,286,676)

22 Analysis of changes in cash and cash equivalents

	Cash at Bank	Overdrafts	Total
	£	£	£
Movements in period			
On merger of subsidiary undertaking	-	(11,193)	(11,193)
Net cash inflow	4,444,538	11,193	4,455,731
Balance at 31 December 1994	4,444,538	-	4,444,538

23 Analysis of changes in financing

	Share capital including premium 1994 £	Loans and finance lease obligations 1994 £
On merger of subsidiary undertaking	37,500	1,197,844
Net cash inflows/(o 'flows) from financing	7,170,022	(631,858)
Inception of finance lease contracts	-	14,800
	7,207,522	580,786
Non-cash transactions:		
Conversion of loans	481,093	(481,093)
Accrued merger expenses	(48,344)	-
Reclassification on merger	(1,531,045)	-
Balance at 31 December 1994	6,109,226	99,693

24 Related Party Transactions

Transactions related to Cedar Investments Limited ("Cedar"):

Since 10 January 1992 Cedar have lent Innovative Technologies Limited ("IT") a sum of £404,275 to finance IT's working capital requirements. The loan carried interest at 1½ times Lloyds Bank plc base rate. On 31 May 1994 £100,725 of the Cedar loan was converted into ordinary shares in IT at £2.50 per share, a further £122,500 of the Cedar loan was also converted into shares at £2.50 per share on 30 June 1994 in IT. At 31 December 1994 £71,050 of the Cedar loan remained outstanding together with accrued interest of £73,573.

The loan and accrued interest were paid in full in January 1995.

Transactions involving Dominion Capital Incorporated ("Dominion"), Advanced Materials Group Incorporated ("AMG"), and Wilshire Technologies Incorporated ("WTI").

Dominion and AMG are substantial shareholders of the Company. Dominion has a common interest in AMG and WTI. S Scott is a director and shareholder of AMG and is a director of IT. M Crow, who was a director and a shareholder of AMG and WTI during part of the period was also a director of IT until 6 July 1994.

On 30 May 1993 WTI entered into an exclusive licence agreement with IT for the supply of polyurethane for its Hydroderm range. During the period IT received £50,925 in licence fees and £7,777 in research fees.

On 20 June 1993 WTI entered into a licence agreement with IT for the supply of polyurethane for its breathable gloves project. During the period IT received £nil in licence fees and £6,666 in research fees.

WTI have entered into an informal arrangement with IT for the provision of a facility within IT's premises for the glove making manufacturing operation. WTI contributed £31,618 to leasehold improvements in relation to this manufacturing facility. The glove making facility is currently being operated by Wilshire Gloves (UK) Limited ("Wilshire Gloves") a wholly owned subsidiary of WTI. IT recharge Wilshire Gloves for the use of the premises and for establishment and administration costs. The total recharged for the period amounted to £64,597. At 31 December 1994, the amount due to IT amounted to £78,292.

On 8 July 1993 AMG entered into an exclusive licence agreement with IT for the supply of breathable polymer for its polymer division. To date IT has received £110,000 in licence fees.

Since 31 August 1993, AMG have provided funds for IT to develop alginate products of £500,000 and further monies of £495,725 to finance IT's working capital requirements. The loans carried interest at 1½ times Lloyds Bank plc base rate. The principal was repaid in December 1994. At 31 December 1994 the accrued interest on the loans amounted to £45,673 and was paid in January 1995.

Transactions with D K Gilding ("DKG") and D J Mitchell ("DJM"):

DKG and DJM jointly loaned IT £77,868, to finance IT's working capital requirements, bearing interest at 1½ times Lloyds Bank base rate. The loan was converted into ordinary shares in IT at a price of £2.50 per share on 31 May 1994. At 31 December 1994 accrued interest amounted to £25,572.

25 Contingent Liabilities

P L Jones ("PLJ"), a former employee of Innovative Technologies Limited, has claimed £133,554 following termination of his employment. The Company's solicitors have advised that the claim appears to be substantially spurious and the sum properly due to PLJ is in the order of £5,000. PLJ is named as one of four inventors in a patent application in respect of one of IT's breast patches and has alleged rights of ownership in that invention, although the basis of his allegation is unclear. Proceedings have been threatened by PLJ but have not been commenced. The Company has been advised by its solicitors that, save as aforesaid, these claims have nuisance value only.

26 Proforma financial information

The company was established with the initial objective of effecting the acquisition of Innovative Technologies Limited on 30 November 1994, as referred to in note 11. A proforma profit and loss account and proforma balance sheet is presented below for the Group on the basis that Innovative Technologies Group plc had been in existence and had owned Innovative Technologies Limited since 1 January 1993.

(a) Proforma consolidated profit and loss account for the year ended 31 December 1994

	1994		1993	
	£	£	£	£
Turnover		33,443		-
Cost of sales		5,743		-
Gross profit		27,700		-
Administrative expenses		1,664,720		1,058,092
		(1,637,020)		(1,058,092)
Other operating income		209,708		749,432
Operating loss		(1,427,312)		(308,660)
Profit on disposal of fixed assets		-		-
Loss on ordinary activities before interest and other income		(1,427,312)		(308,660)
Interest receivable and similar income	30,412		1,700	
Interest payable and similar charges	112,201		95,432	
		(81,789)		(93,732)
Loss on ordinary activities before taxation		(1,509,101)		(402,392)
Taxation		-		-
Retained loss for the year		(1,509,101)		(402,392)

(b) Proforma consolidated balance sheet at 31 December 1994

	1994		1993	
	£	£	£	£
Fixed assets				
Tangible assets		1,067,610		422,381
Current assets				
Stocks	36,233		40,362	
Debtors - due within one year	319,374		181,110	
Cash at bank and in hand	4,444,538		18,413	
	4,800,145		239,885	
Creditors: amounts falling due within one year	795,636		222,566	
Net current assets		4,004,509		17,319
Total assets less current liabilities		5,072,119		439,700
Creditors: amounts falling due after more than one year		28,076		1,401,824
		5,044,043		(962,124)
Capital and reserves				
Called up share capital		2,083,330		1,670,000
Share premium account		4,025,896		-
Other reserve		1,531,045		(1,545,000)
Profit and loss account		(2,596,228)		(1,087,124)
Shareholders' funds		5,044,043		(962,124)

NOTICE IS HEREBY GIVEN that the First Annual General Meeting of the Company will be held at 12 noon on 16 May 1995 at Quinceoy's, London Road, Leftwich, Northwich, Cheshire CW9 8EG for the following purposes:

As ordinary business:

1 To receive the Report of the Directors and the Financial Statements of the Company for the period ended 31 December 1994 (together with the report of the auditors thereon);

2 To appoint BDO Stoy Hayward as auditors and to authorise the Directors to fix their remuneration;

3 To appoint Ronald Dennis Neale Somerville (who having been appointed by the Board during the year retires at this Annual General Meeting) as a Director of the Company;

4 To appoint Walter Everett Christie (who having been appointed by the Board during the year retires at this Annual General Meeting) as a Director of the Company;

5 To appoint Denis Keith Gilding (who having been appointed by the Board during the year retires at this Annual General Meeting) as a Director of the Company;

6 To appoint Diane Juliet Mitchell (who having been appointed by the Board during the year retires at this Annual General Meeting) as a Director of the Company;

7 To appoint David Robert Chellingsworth (who having been appointed by the Board during the year retires at this Annual General Meeting) as a Director of the Company;

8 To appoint John David Berry (who having been appointed by the Board during the year retires at this Annual General Meeting) as a Director of the Company.

As special business:

9 To consider and, if thought fit, to pass the following resolution as a Special Resolution:

THAT the Directors be empowered pursuant to and in accordance with Section 95 of the Companies Act 1985 ("Act") to allot equity securities pursuant to the authority conferred by written resolution of the Company dated 30 November, 1994 as if Section 89(1) of the Act did not (insofar as it would otherwise do) apply to any such allotment, provided that:

i this power shall expire on 15 August 1996 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 offer or agreement as if this power had not expired and provided further that such allotment(s) would have fallen within the limit hereinafter mentioned if made before such expiry;

ii 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 £104,167, 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; and

iii this power shall replace the equivalent power conferred by written resolution of the Company dated 30 November, 1994 which power is hereby revoked.

In this resolution:

(a) words and expressions shall be construed in accordance with Part IV of the Act; and

(b) 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 exclusions 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).

By order of the Board

D R Chellingworth
Secretary

21 March 1995

Registered office:
Road Three
Winsford Industrial Estate
Winsford
Cheshire CW7 3PD

Notes

(A) A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the Company.

(B) A form of proxy is enclosed for the use by members. To be effective, it must be completed and deposited at the offices of the Company's registrars, Independent Registrars Group Limited, Balfour House, 390/398 High Road Ilford, Essex, IG1 1BR not less than 48 hours before the time fixed for the Meeting.

(C) The register of directors' interests in the shares of the Company and a copy of the agreements between the Company and each Director will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays and public holidays excepted) until the date of the Meeting and also on that date and at the place of the Meeting from 11.45 am until the conclusion of the meeting.

INNOVATIVE TECHNOLOGIES GROUP PLC : FORM OF PROXY

Please insert full name(s) and address(es)

I/We...
(BLOCK CAPITALS)
of...
being (a) holder(s) of Ordinary Shares of 10p each of the Company, hereby appoint the chairman of the meeting............................ (see note 8 below)..
of (address(es) or proxy(ies) in (BLOCK CAPITALS) ....
.... to act as my/our proxy(ies) at the First Annual General Meeting of the Company to be held on 16 May 1995, and at any adjournment thereof.

Resolutions		For	Against
Ordinary business			
1	To receive the Reports and 1994 Financial Statements		
2	To appoint auditors		
3	To appoint Ronald Somerville as a Director		
4	To appoint Walter Christie as a Director		
5	To appoint Keith Gilding as a Director		
6	To appoint Diane Mitchell as a Director		
7	To appoint David Chellingsworth as a Director		
8	To appoint John Berry as a Director		
Special Business			
9	To disapply pre-emption rights		

Please indicate with an "X" how you wish your votes to be cast. (See note 7 below)

....
Signature(s)

Dated 1995

Notes:

1 A proxy need not be a member of the Company.

2 A member may appoint more than one proxy to attend on the same occasion. When two or more valid but differing instruments of proxy are delivered in respect of the same share for use at the same meeting and in respect of the same matter, the one which is last validly delivered (regardless of its date or of the date of its execution) shall be treated as replacing and revoking the other or others as regards that share. If the Company is unable to determine which instrument was last validly delivered, none of them shall be treated as valid in respect of that share.

3 In the case of a corporation, this proxy must be given under its common seal or under the hand of some officer or attorney duly authorised in that behalf.

4 To be effective, this form must be lodged at the offices of the Company's registrars, Independent Registrars Group Limited, Balfour House, 390/398 High Road, Ilford, Essex, IG1 1BR not later than 48 hours before the time of the meeting, or any adjournment thereof, together, if appropriate, with the power of attorney or other authority (if any) under which it is signed, or a copy of such authority certified notarially or in some other way approved by the Board.

5 If a poll is not taken forthwith but is taken not more than 48 hours after it was demanded, this form must be delivered at the meeting at which the poll was demanded to the chairman of the meeting or to any Director. If, however, a poll is taken more than 48 hours after it is demanded, this form must be deposited following the procedure set out in Note 4 above after the poll has been demanded and not less than 24 hours before the time appointed for the taking of the poll.

6 Any alterations made to this form should be initialled.

7 Please indicate with an X how you wish your votes to be cast. Unless otherwise instructed, your proxy(ies) will vote or abstain as he, she or they think fit. On any motion to amend any resolution, to propose a new resolution, to adjourn the meeting, or any other motion put to the meeting your proxy(ies) will act at his/her/their discretion.

8 If it is desired to appoint as proxy any person other than the chairman, his/her name and address should be inserted in the relevant place, reference to the chairman deleted and the alteration initialled.

9 The completion and return of this form will not prevent you from attending in person and voting at the meeting should you subsequently decide to do so.