

26 July 2011

## Mediwatch Plc

### Interim Results for the six months to 30 April 2011

Mediwatch plc ("Mediwatch", "the Company" or "the Group", AIM: MDW), the innovative urological diagnostic company, has published its interim result for the six months ended 30 April 2011.

#### Highlights

- Increased revenues to £5,095,000 (H1 2010: £4,959,000)
- Maintained EBITDA of £272,000 (H1 2010: £290,000)
- Overheads reduced by 11% compared to H2 2010 as a result of outsourced manufacturing and other cost reduction programmes
- Development programmes reaching completion, reducing the amount of R&D spend
- Commercial launch of PSAwatch underway with the successful transfer of strip production to a new site
- Growth of the Mobilewatch Clinic division in Florida with plans to expand into other states
- Launched Urinewatch system for urinalysis
- Development of new bladder ultrasound platform

Omer Karim, Mediwatch Chairman commented'

"During the first six months the Group has been able to implement cost reduction programmes in production, bring some R&D projects to completion and increase marketing efforts while controlling costs. The Group continues to explore opportunities to build the existing business as well as find additional products to add to its product mix and to broaden its offerings in the service sector."

#### Enquiries

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#### Editors Notes:

Mediwatch plc: Innovative Diagnostic Solutions

Mediwatch is a leader in its field. The Company is continually striving to develop and market faster, simpler and less invasive diagnostic products to save lives and restore quality of life for people with a variety of urological conditions. Founded in 1995, Mediwatch ([www.mediwatch.com](http://www.mediwatch.com)) has developed a range of point-of-care medical equipment for the diagnosis of urological disorders.

The business focuses its design skills towards diagnostic products that can be used across the medical profession.

Mediwatch has established excellent foundations for continued growth building on the

acquisition and integration of a division of Medtronic Inc in 2006, an international distribution network and its research and development programmes.

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## Mediwatch Plc

### Interim Results for the six months to 30 April 2011

#### Overview

While the world economies are in a recovering process the Group is positioning itself in a strong position to pursue its strategy of being a one-stop provider of urological diagnostic equipment, supplies and now services to the international healthcare markets. Having been able to show steady revenue growth, albeit modest growth, over the past several years, Mediwatch has demonstrated its ability to maintain and increase its customer base. The Group has also been able to develop new technologies, add third party products and launch a service business to increase its offering to the global market. These accomplishments are expected to contribute to the Group's growth in the future.

PSAwatch continues to make good progress. Moving to a new manufacturing site has resulted in a stable supply of test strips. Charitable groups are excited about the point-of-care device and are now planning to use PSAwatch as a PSA measuring device in well-man prostate awareness meetings. This is a very positive development for the product line which management expects will see increasing revenues and exposure.

In the US the Mobilewatch Clinic service is gaining traction. Mobilewatch Clinic service offers medical practitioners who may lack the volume of cases or the recurring patient episodes necessary to justify the capital equipment outlay with an outsourced diagnostic testing service without the need to purchase capital equipment. Multiple sites in the base territory of Florida have been established and the utilisation at these sites is increasing. Opportunities have presented themselves in other states in the US which are being pursued. Other countries are being investigated for the expansion of this business model.

#### Trading

In the six month period to 30 April 2011, Group turnover was £5,095,000, (H1 2010: £4,959,000). Revenue remained equally split with almost 50% from the US and 50% from Europe and the rest of world (ROW) as it was in the comparative period last year. The product mix experienced during the first half of the 2011 financial year was also similar to that experienced in the first half of 2010.

The Group achieved an EBITDA of £272,000 for the six months to 30 April 2011 (H1 2010: £290,000). As previously reported, gross margins have come under pressure due to increases in component and manufacturing costs and increased industry competition. This has led to a reduction of gross profits by approximately 1% when compared to the second half of 2010. In a concerted effort to improve margins, management are implementing a number of programmes aimed at reducing manufacturing costs. In addition, the Company has been actively pursuing a strategy of reducing overhead expenses over the last six months with the reported level of overheads 11% below that for the second half of 2010. Management expects these savings to continue throughout the rest of the financial year.

#### UK Operations

Highlights from the UK operations include:

- Implemented a programme to reduce the fixed costs of manufacturing through outsourcing the manufacturing process of several products both in the UK and the US;

- Advancements in the manufacturing process for PSAwatch test strips on the back of moving manufacturing facilities (see Research and Development below);
- Increased sales of Bardscan in H1 of 2011 (£385,000) over H1 2010 (£200,000);
- The UK sales team has significantly increased revenues from urodynamic consumables thus providing a source of consistent revenues to compliment one-off revenues from capital sales; and
- Significant growth in Far East markets occurred in H1 2011.

## US Operations

Highlights from the US operations include:

- Execution and continued efforts to secure purchasing agreements with medical buying groups;
- Development of Mobilewatch Clinic services within Florida along with efforts being made to now expand into additional states; and
- The initiation of a programme to begin outsourced manufacturing of certain products in the US, local to the Mediwatch USA office, in an effort to reduce both manufacturing costs and intercontinental shipping costs.

## Research and development

Expenditure on research and development, including capitalised costs, was £283,000 (H1 2010: £350,000) during the six months to 30 April 2011. Several capital intensive projects are reaching the commercialisation phase, reducing the amount of capital required, generating revenues and close to contributing to profits. These projects include:

- Mobilewatch – investment in the software development is complete as is the initial investment in capital equipment to get the initial phase underway. This division is serving customers, generating revenue and no-longer consuming cash. Management expects this service to be running on a cash and profits generative basis by the year end;
- PSAwatch – production was successfully transferred to a new outsourced production facility in June 2011. The transfer gives the Group the ability to rapidly scale up production as volumes build. Opportunities are being explored for additional cancer markers to be added to the PSAwatch platform to increase the utilisation of the platforms technology. Clinical trials currently underway include studies in France and Germany. Additionally, trials in the UK, US and Australasia are considering PSAwatch for inclusion in their studies which are expected to commence in the near future. Approvals are being sought for marketing PSAwatch in China and Japan. In addition, we are undertaking a feasibility study to explore the possibilities of both reducing the manufacturing costs of the Bioscan reader and increasing the utility of the reader into other applications; and
- Venus – The Venus brand Pelvic Floor Rehabilitation system has now been completed, launched and is being sold in the US. No additional funds were spent on development of this product in the period.

Other ongoing projects include:

- Development of a new lower cost ultrasound platform requiring minimal resources as it leverages software and other technology utilised in existing products;

- Development of a new diagnostic platform that incorporates urodynamics, ARM, pudendal nerve stimulation, ultrasound and uroflowmetry. This new platform will use industry standard information technology including wireless and networking capabilities; and
- Development of a low cost urodynamic system and software package that is portable and easy to use aimed at the Mobilewatch Clinic business.

#### Management and employees

The board would like to take this opportunity to thank all employees for their hard work and contribution in achieving the continuing success of the business. We would also like to congratulate Mark Emberton, non-executive Director on being appointed Professor of Urology for Interventional Oncology at University College London Hospital. Further congratulations to Group CEO and President of MediwatchUSA Inc. Philip Stimpson on being awarded a doctorate degree from Staffordshire University for his contribution to research in medical diagnostics.

As from August the 8<sup>th</sup> Christian Rollins, Finance Director, will be resigning his position to assume a position with a much larger Group in a different market. The Board would like to thank Mr. Rollins for his four and a half years of excellent service, especially his strong contribution towards the transition of the Medtronic Urology division into Mediwatch plc. We wish him every success in the future and with the development of his career. Colm Croskery will replace Mr. Rollins as Group Finance Director. Mr. Croskery (B. Comm, MBA) is a Chartered Accountant with long experience of running large medical companies including his time over the last four years with Mediwatch Plc where he has served as Chief Operating Officer and has been responsible for the daily operations of the Group and the finances of the UK operations.

The Board is taking this opportunity to make the following additional changes within the Group to take advantages of the new direction it intends to take:

- Dr. Marcus Harrison who is currently the Director of Research and Development for Mediwatch Biomedical will be nominated as Chief Operating Officer for the Group. Dr. Harrison holds a Bachelors of Science in Physics, a PhD in Theoretical Physics and has extensive experience in technical, programme and product management positions.
- Brian Hersh has been appointed to Executive Vice President of Mediwatch USA, reporting to the President of US Operations. Mr. Hersh has a degree in Finance, is a candidate for an MBA and brings with him extensive experience in general management, sales & marketing and finance.

These management changes will provide the Group with the infrastructure to progress seamlessly through its growth strategies for the future.

#### Current trading and outlook

Overall the Company's performance for the first half of 2011 was in line with management's expectations. The Board is pleased to have been able to achieve a modest increase in turnover whilst also taking action to reduce overheads and protect profits and cash flows. Development projects are reaching a phase of commercialisation which requires less capital outlay and are closer to contributing to revenue and profits.

Efforts continue in the US to secure additional umbrella purchasing agreements with buying groups. The addition of several new partnerships to the Government Services Agreement obtained in December of 2010 builds on this exciting potential. These relationships are beginning to deliver sales in the current period that are expected to grow in future periods.

With the Chinese market becoming more consumer orientated, Mediwatch is positioning itself to take advantage of this emerging market. To this end, a distributor has been appointed in Beijing and Hong Kong to represent the Group's products, and a specialist company has been appointed to obtain regulatory approvals for this market which will take from 12 to 18 months. Mediwatch is exhibiting at the Chinese urology congress in October 2011 as part of the pre launch preparations.

In addition to the progress made this year with PSAwatch, the development team continues to work to complete projects related to new urodynamics and ultrasound platforms, which will both increase the range of products offered by the Group and ensure the latest technologies are used to keep the Group's products in the forefront of the range offered in its markets.

During the first six months the Group has been able to implement cost reduction programmes in production, bring some R&D projects to completion and increase marketing efforts while controlling costs. The Group continues to explore opportunities to build the existing business as well as find additional products to add to its product mix and broaden its offerings in the service sector. The Board remain focussed on managing costs and generating revenue and profits and is optimistic for the second half of the 2011 financial year.

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Consolidated Income Statement  
for the six months ended 30 April 2011

	Unaudited 30 April 2011	Unaudited 30 April 2010	Audited 31 October 2010
	£000s	£000s	£000s
Revenue	5,095	4,959	10,484
Cost of sales	(3,124)	(2,937)	(6,254)
Gross profit	1,971	2,022	4,230
Other administrative expenses	(1,933)	(1,940)	(4,107)
Other income	52	65	146
Profit / (loss) from operating activities	90	147	269
Net finance expenses	(23)	(17)	(36)
Profit / ( loss ) before taxation	67	130	233
Tax	-	-	(14)
Profit / ( loss ) for the period attributable to the equity shareholders	67	130	219
Earnings per share (p) - basic and diluted	0.05p	0.09p	0.16p

All of the activities of the Group are classified as continuing.

Consolidated Statement of Comprehensive Income  
for the six months ended 30 April 2011

	Unaudited 30 April 2011	Unaudited 30 April 2010	Audited 31 October 2010
	£000s	£000s	£000s
Profit for the year	67	130	219
Other comprehensive income			
Exchange differences on translating foreign operations	(32)	9	(21)
Total comprehensive income for the period	35	139	198

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Consolidated Balance Sheet

at 30 April 2011

	Unaudited 30 April 2011	Unaudited 30 April 2010	Audited 31 October 2010
			£000s
Non current assets			
Property, plant and equipment	575	506	647
Intangible assets	2,043	1,508	1,835
Goodwill	2,256	2,256	2,256
Total non current assets	4,874	4,270	4,738
Current assets			
Inventories	1,642	1,925	1,735
Trade and other receivables	2,013	1,337	1,896
Cash and cash equivalents	262	320	91
Total current assets	3,917	3,582	3,722
Total assets	8,791	7,852	8,460
Current liabilities			
Borrowings	646	587	683
Trade and other payables	2,124	1,585	2,045
Total current liabilities	2,770	2,172	2,728
Non current liabilities			
Borrowings	250	-	-
Total non current liabilities	250	-	-
Total liabilities	3,020	2,172	2,728
Net assets	5,771	5,680	5,732
Capital and reserves			
Share capital	3,834	3,830	3,830
Share premium	6,077	6,077	6,077
Other reserves	7,000	7,000	7,000
Share based payment reserve	2	9	2
Retained earnings	(11,142)	(11,236)	(11,177)
Shareholders funds	5,771	5,680	5,732

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Consolidated statement of changes in equity  
as at 30 April 2011

For the six months ended 30 April 2011

	Share capital	Share premium	Other reserves	Retained earnings	Total equity
	£000s	£000s	£000s	£000s	£000s
At start of period	3,830	6,077	7,002	(11,177)	5,732
Profit for the period	-	-	-	67	67
Shares issued in the period	4	-	-	-	4
Other comprehensive income for the period	-	-	-	(32)	(32)
At end of period	<u>3,834</u>	<u>6,077</u>	<u>7,002</u>	<u>(11,142)</u>	<u>5,771</u>

For the six months ended 30 April 2010

	Share capital	Share premium	Other reserves	Retained earnings	Total equity
	£000s	£000s	£000s	£000s	£000s
At start of period	3,770	5,813	7,006	(11,375)	5,214
Profit for the period	-	-	-	130	130
Shares issued in the period	60	264	-	-	324
Share based payment reserve	-	-	3	-	3
Other comprehensive income for the period	-	-	-	9	9
At end of period	<u>3,830</u>	<u>6,077</u>	<u>7,009</u>	<u>(11,236)</u>	<u>5,680</u>

For the twelve months ended 31 October 2010

	Share capital	Share premium	Other reserves	Retained earnings	Total equity
	£000s	£000s	£000s	£000s	£000s
At start of period	3,770	5,813	7,006	(11,375)	5,214
Profit for the period	-	-	-	219	219
Shares issued in the period (net of costs)	60	264	-	-	324
Share based payment reserve	-	-	(4)	-	(4)
Other comprehensive income for the period	-	-	-	(21)	(21)
At end of period	<u>3,830</u>	<u>6,077</u>	<u>7,002</u>	<u>(11,177)</u>	<u>5,732</u>

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Consolidated Statement of cash flows  
for the six months ended 30 April 2011

	Unaudited 6 Months 30 April 2011 £000s	Unaudited 6 Months 30 April 2010 £000s	Audited 12 Months 31 October 2010 £000s
Cashflow from operating activities			
Profit / (loss) for the period	90	147	269
Adjustments for:			
Depreciation	107	78	184
Amortisation of intangible assets	75	65	130
Gain on disposal of property, plant and equipment	(2)	-	105
Equity settled share based expense	-	3	(4)
Income tax expense	-	-	(14)
Interest expense	(23)	(17)	(36)
	247	276	634
Changes in inventories	93	(282)	(92)
Changes in trade and other receivables	(117)	278	(281)
Changes in trade and other payables	79	(142)	320
	55	(146)	(53)
Net cash movement from operating activities	302	130	581
Cash flow from investing activities			
Proceeds from sales of property, plant and equipment	4	-	-
Purchase of property, plant & equipment	(37)	(57)	(409)
Purchase of intangible fixed assets	(283)	(350)	(742)
Net cash movement used in investing activities	(316)	(407)	(1,151)
Cash flow from financing activities			
Proceeds from issue of equity (net of expenses)	4	324	324
Repayment of borrowings	-	-	(21)
Proceeds from borrowings	250	330	-
Net cash from financing activities	254	654	303
Increase / (decrease) in cash and cash equivalents in the period	240	377	(267)
Opening cash and cash equivalents	(592)	(304)	(304)
Currency exchange difference	(32)	(10)	(21)
Closing cash and cash equivalents	(384)	63	(592)
Analysed as follows:			
cash and cash equivalents per balance sheet	262	320	91
less: bank overdraft	(646)	(257)	(683)
	(384)	63	(592)

## Mediwatch Plc

### 1. BASIS OF PREPARATION OF INTERIM REPORT

As permitted, IAS 34, 'Interim Financial Reporting' has not been applied in this interim report.

The financial information presented in this report has been prepared using accounting policies that will be used in the preparation of the financial statements for the year ending 31 October 2011.

These policies are in accordance with the recognition and measurement principles of International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board as endorsed for use in the European Union, and these principles are disclosed in the Financial Statements for the year ended 31 October 2010.

The financial information in this interim report does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006.

The statutory accounts of Mediwatch plc for the year ended 31 October 2010 have been reported on by the Company's auditors and have been delivered to the Registrar of Companies. The auditor's report was unqualified, did not include a reference to matters which the auditors drew attention by way of emphasis without qualifying their report and did not contain statements under Section 498(2) or 498(3) of the Companies Act 2006.

### 2. SEGMENTAL ANALYSIS

A geographical analysis of the Group's turnover by destination is as follows:

	Six months ended 30 April 2011	Six months ended 30 April 2010	Twelve months ended 31 October 2010
	£000s	£000s	£000s
United Kingdom	795	635	1,344
United States of America	2,515	2,570	5,583
Europe	977	1,096	2,283
Rest of the world	808	658	1,274
Total	5,095	4,959	10,484

The turnover, profit on ordinary activities and net assets of the Group are attributable to one business segment, the supply of primary care products used in the diagnosis of urological disorders and early prostate cancer detection.

### 3. EARNINGS PER SHARE

The calculation of earnings per share for the six months ended 30 April 2011 is based on the profit attributable to equity shareholders of £67,000 (for the six months ended 30 April 2010: £130,000) divided by the weighted average number of shares in issue during the period which was 140,871,032 (2010: 139,713,502)

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4. PRESS RELEASE

Copies of this report will not be mailed out to shareholders but will be available for download from [www.mediwatch.com](http://www.mediwatch.com). If you would like to receive a hard copy of the interim report please contact the Mediwatch offices on +44 (0)1788 547 888 to request a copy.