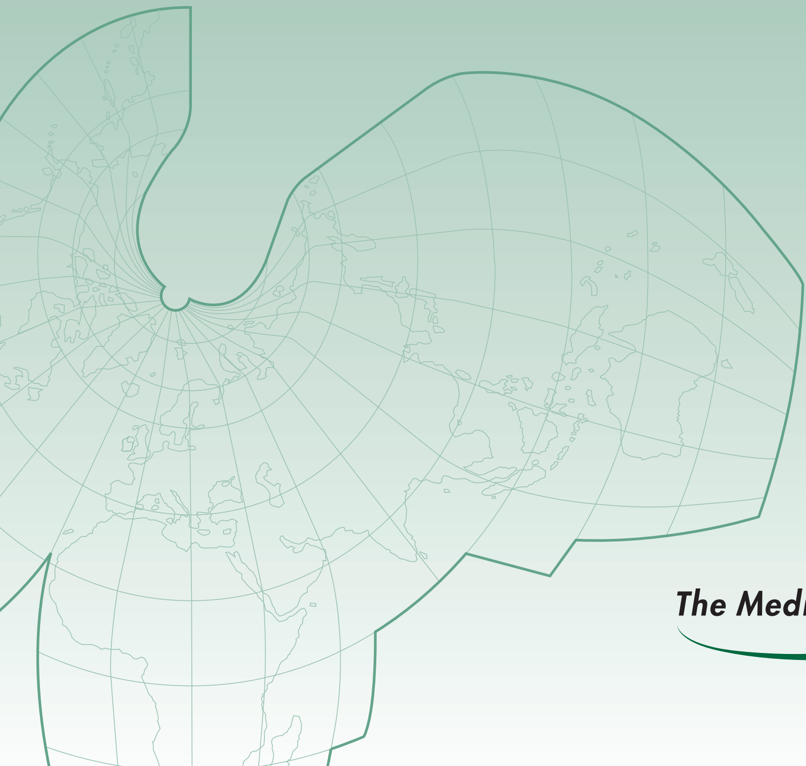
The Medical House PLC

Interim Report 2006

Leaders in Medical Innovation
Orthopaedic and Drug Delivery Systems



The Medical House

Chairman's Statement

The Medical House specialises in the development and manufacture of innovative medical devices.

Our principal operating businesses are:

1. Drug delivery systems: Medical House Products Limited
2. Instruments and implants for the orthopaedic market: Eurocut Limited

We are pleased to report that our drug delivery division continued to progress with further growth in sales revenues and increasing interest in the ASI disposable autoinjector technology. As projected when announcing our 2005 results, the orthopaedic division has faced a challenging period.

Group Financials

The Group is reporting a pre-tax loss, before exceptional items, of £388,000 (2004/5 profit £46,000) on sales which were 35% lower at £2.94M (2004/5: £4.56M).

Orthopaedic Division: Eurocut Limited

Sales in the six months to 31 December 2005 were down to £2.7M (2004: £4.3M).

This was primarily due to the delay experienced by one of our major customers in obtaining US Food & Drug Administration (FDA) approval for a product which accounted for a significant proportion of our sales in the previous period. Profits were also reduced, but the effects of this were mitigated by steps taken to reduce the volumes of work which we sub-contracted to other companies. Consequently, despite a drop of over £1.6M in sales, our orthopaedic division's operating profit fell by only £450,000 to £260,000 (2004: £710,000).

The unwelcome challenging environment for Eurocut has given us the impetus and opportunity to re-focus and, to some extent, re-brand this division. In order to mitigate the effects that a similar situation could have upon us in the future, we have taken a number of steps, summarised as:

1. extending manufacturing capability beyond instrumentation into orthopaedic implants thereby offering our clients a comprehensive solution to their orthopaedic surgical requirements;
2. developing our own range of products, such as disposable instruments, which will not only generate additional sales revenues, but will allow us to maximise utilisation of our manufacturing capacity, even during periods when customers' demands may be variable; and
3. reducing the dependence on any one customer by increasing sales and business development activities with the widest possible range of the world's leading orthopaedic companies, focusing on their early-stage development projects.

Early indications from our hard work on these initiatives are very encouraging. Most significantly, we recently signed a licence agreement with one major orthopaedic company to give them access to our instrument colour-coding system which I alluded to in my statement accompanying the 2004/5 annual results.

Although the short-term outlook remains challenging, we are confident that the downward sales trend will reverse as the instruments required for new product launches absorb our available capacity. In the meantime, we are considering strategic options for this division.

Drug Delivery Division: Medical House Products Limited (MHP)

Sales in the six months to 31 December 2005 grew to £294,000 (2004: £206,000).

This division continues to expand in response to demands from the pharmaceutical industry for innovative drug delivery systems. MHP is fast-gaining a reputation as a company which offer innovative solutions to challenges facing drug companies in the delivery of their injectable drugs. Having a focused team which is dedicated to our drug delivery business, enables us to provide creative and cost-effective systems, as well as rapid

Chairman's Statement continued

commercialisation strategies for our licensees and partners.

We are one of a relatively small number of companies which can offer disposable needle-based autoinjector systems to an industry which increasingly views such systems as an effective means of creating competitive advantage for injectable drugs, by enabling convenient, safe and effective self-injection by patients, whilst also overcoming the aversion that a large proportion of patients feel about needle-based injection. One particular distinguishing feature of our disposable autoinjector is that, with only six plastic components (which is less than half the number used in competitor devices) the ASI offers ease of operation, flexibility in its application and a simple, cost-effective production process.

The advantages of our ASI technology are reflected in the supply agreement which we have recently signed with the Martindale Products and Specials division of Cardinal Health, Inc. This agreement is particularly exciting as it brings the ASI into use earlier than we had originally anticipated, with considerable scope to extend the use of the ASI with this particular partner.

In December 2005, we announced a contract with a European Government Agency to develop an autoinjector for a specific emergency application, with the ASI as the technology platform. This project, in which our client is assuming responsibility for all required capital investment, in addition to payments for the costs of design and development is reliant on the versatility offered by the ASI's simple design. It also represents a further endorsement of the outstanding commercial potential for this technology.

In addition to these exciting commercial developments, we also received confirmation in January 2006 of CE Mark European regulatory approval for the ASI system, facilitating an early market entry with our pharmaceutical company partners.

In protecting the value of our investment in intellectual property, as well as supporting its increasing application, the recent granting of our first patent for the ASI, by the UK patent office, is clearly of considerable significance.

With expectations that existing licensees, Serono and BioPartners, will each launch needle-free systems developed and manufactured by MHP in 2006, sales for this division are projected to grow throughout the calendar year. However, since precise product launch dates are not yet known, it is difficult to predict how much our revenues will benefit in the current financial year.

With the SQ-PEN now being launched into the insulin injection market and available on the NHS Drug Tariff, this division will have several income streams in the form of the ASI autoinjector products, three needle-free systems and further development and licence fees.

This progress is very encouraging and, we believe we are building solid foundations for a company with very exciting prospects.

Outlook

With Eurocut continuing to find the short-term environment challenging, it is difficult to forecast the timing as to when the benefits of all measures we have taken will be received. However, we remain confident of the medium and long term future.

Lastly, I would like to thank all our work force for their considerable efforts and our loyal shareholders for their continued support.

Ian Townsend

Executive Chairman

1 February 2006

Unaudited Consolidated Profit and Loss Account

for the six months ended 31 December 2005

	Six months ended 31 December 2005 £'000	Six months ended 31 December 2004 £'000	Year ended 30 June 2005 £'000
Turnover	**2,935**	4,556	9,050
Cost of Sales	**(1,522)**	(2,737)	(5,535)
Gross Profit	**1,413**	1,819	3,515
Operating Expenses	**(1,748)**	(1,678)	(3,382)
Operating (loss)/profit	**(335)**	141	133
Analysis of Operating (loss)/profit:			
Operating (loss)/profit before exceptional items	**(285)**	141	133
Exceptional items	**(50)**	—	—
	(335)	141	133
Net interest payable	**(103)**	(95)	(175)
(Loss)/profit on ordinary activities before tax	**(438)**	46	(42)
Tax on ordinary activities	**—**	—	(91)
Retained (loss)/profit for the period	**(438)**	46	(133)
(Loss)/profit per ordinary share – basic	**(0.71p)**	0.08p	(0.22p)

Notes

1. The financial information does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The information for the year ended 30 June 2005 has been extracted from the statutory accounts of The Medical House PLC which carried an unqualified audit report and have been delivered to the Registrar of Companies.
2. Taxation has been provided at the estimated effective rate for the period.
3. The calculation of earnings per share is based on the (loss)/profit after taxation and the weighted average number of ordinary shares in issue during the period (six months ended 31 December 2005: 61,457,765 shares, year ended 30 June 2005: 60,166,803 shares, and the six months ended 31 December 2004: 59,626,091 shares).
4. Copies of the report are available to the public at the Company's registered office, 199 Newhall Road, Sheffield S9 2QJ and have been sent to shareholders.
5. Exceptional items in the period to 31 December 2005 were incurred as part of a group reorganisation.

Unaudited Consolidated Balance Sheet
as at 31 December 2005

	31 December 2005 £'000	31 December 2004 £'000	30 June 2005 £'000
Fixed Assets			
Intangible Assets	**1,409**	1,062	1,275
Tangible Assets	**5,408**	4,694	5,420
	6,817	5,756	6,695
Current Assets			
Stock & Work in Progress	**1,831**	1,839	1,548
Debtors	**1,269**	1,243	1,171
	3,100	3,082	2,719
Creditors falling due within one year	**(3,780)**	(3,241)	(2,760)
Net Current Liabilities	**(680)**	(159)	(41)
Total Assets Less Current Liabilities	**6,137**	5,597	6,654
Creditors falling due after one year	**(1,281)**	(1,384)	(1,450)
Provisions for liabilities and charges	**(100)**	—	(100)
Net Assets	**4,756**	4,213	5,104
Capital and Reserves			
Called up share capital	**615**	596	613
Share premium account	**7,521**	6,380	7,433
Other reserves	**487**	487	487
Retained profits	**(3,867)**	(3,250)	(3,429)
Equity shareholders funds	**4,756**	4,213	5,104

Unaudited Consolidated Cash Flow Statement
for the six months ended 31 December 2005

	Six months ended 31 December 2005 £'000	Six months ended 31 December 2004 £'000	Year ended 30 June 2005 £'000
Net Cash (outflow)/inflow from operating activities	**(501)**	341	680
Returns on investment and servicing of finance			
Net cash outflow from returns on investment and servicing of finance	**(103)**	(95)	(175)
Taxation	**—**	—	—
Net cash outflow from capital expenditure	**(266)**	(345)	(813)
Net cash outflow before financing	**(870)**	(99)	(308)
Financing	**(326)**	(347)	152
(Decrease)/Increase in cash in the period	**(1,196)**	(446)	(156)

Reconciliation of Operating (Loss)/Profit to Net Cash (Outflow)/Inflow from Operating Activities

Operating (loss)/profit	**(335)**	141	133
Depreciation on tangible fixed assets	**301**	292	583
(Profit)/loss on sale of tangible fixed assets	**18**	1	16
Amortisation on intangible fixed assets	**—**	40	81
Decrease/(Increase) in stocks	**(283)**	(270)	21
Decrease/(Increase) in debtors	**(98)**	81	153
(Decrease)/Increase in creditors	**(104)**	56	(307)
Net cash (Outflow)/inflow from operating activities	**(501)**	341	680

Reconciliation of Net Cash Movement to Net Debt

(Decrease)/Increase in cash in the period	**(1,196)**	(446)	(156)
Net cash movement from decrease in debt	**416**	347	918
Movement in net debt resulting from cash flow	**(780)**	(99)	762
New finance leases	**(175)**	(556)	(1,374)
Movement in net debt during the year	**(955)**	(655)	(612)
Net debt at beginning of year	**(2,740)**	(2,128)	(2,128)
Net debt at end of period	**(3,695)**	(2,783)	(2,740)

Advisors

Directors
Ian Townsend (Chairman)
Bryan H Bodek LLB (Chief Executive)*
Gerry Kemp (Operations Director)
David Urquhart (Director)
Gary Ogden (Finance Director)
John Pool (Director)*

* non-executive

Company Secretary and Registered Office
Mike Mason
199/201 Newhall Road
Sheffield
S9 2QJ
Company number: 3966085

Nominated Advisor and Brokers
Code Securities Ltd
1 Carey Lane
London
EC2V 8AE

Solicitors
DLA
Fountain Precinct
Sheffield
S1 1RZ

Kuit Steinart Levy
3 St Mary's Parsonage
Manchester
M3 2RD

Registered Auditor
KPMG Audit Plc
Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW

Registrars
Capita IRG Plc
The Registry
34 Beckenham Road
Kent
BR3 4TU

Bankers
Bank of Scotland
Sheffield Business Centre
7 Leopold Street
Sheffield
S1 2FF

Financial Public Relations
Buchanan Communications Ltd
45 Moorfields
London
EC2Y 9AE

Company Website
www.themedicalhouse.co.uk

The Medical House PLC

199/201 Newhall Road
Sheffield S9 2QJ
United Kingdom

t: +44 (0)114 261 9011
f: +44 (0)114 243 1597
Email: info@themedicalhouse.com
www.themedicalhouse.com